

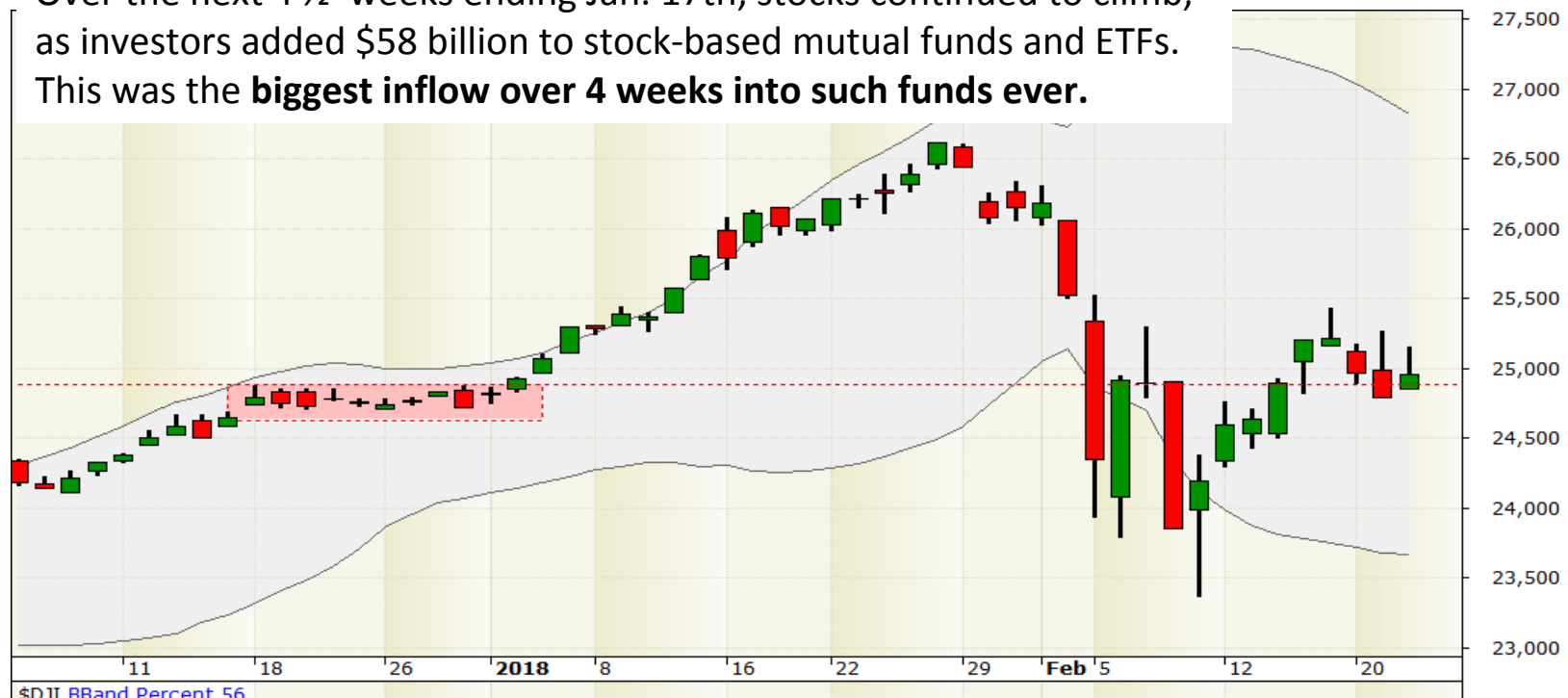


- Markets – What Happened this Month? What's Next
- Interest Rates, Inflation – What to do about Bonds?

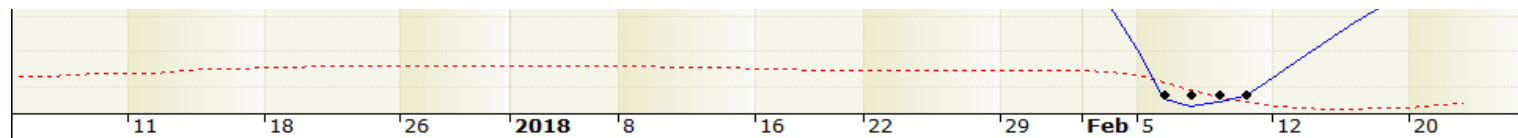
Taking a Ride on the Dow

On Dec. 18th, 2017, stocks in the major indices hit all-time record highs, And then took a breather.

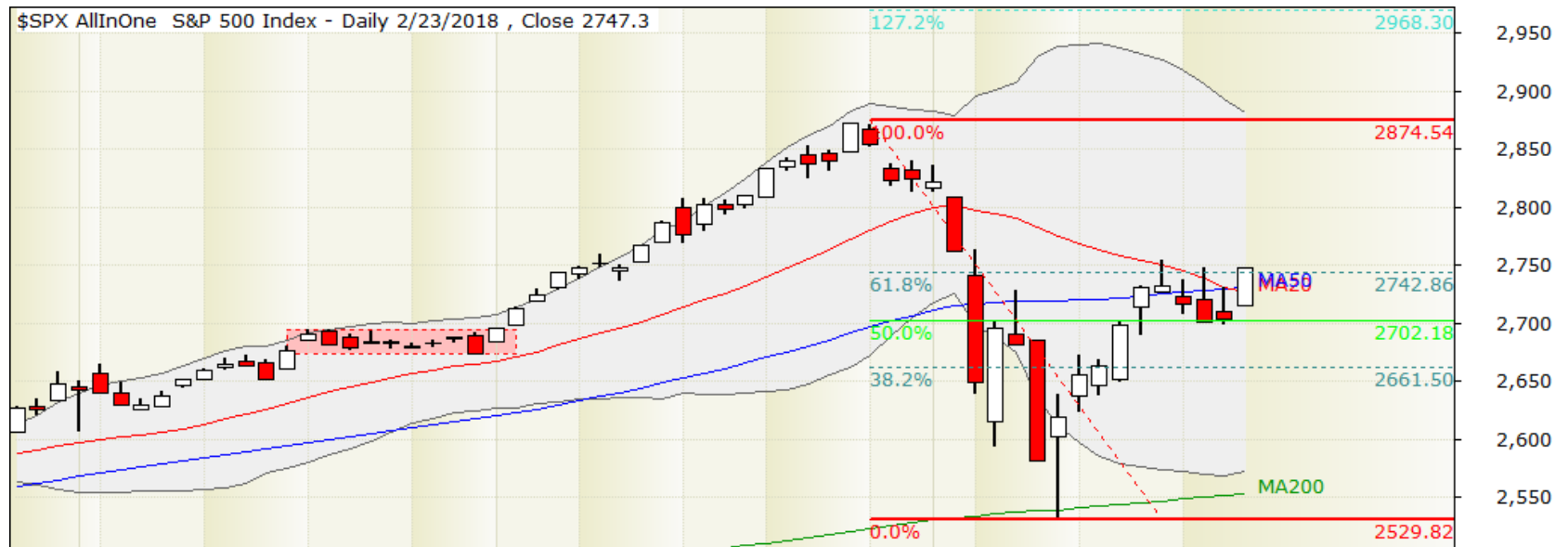
Over the next 4 ½ weeks ending Jan. 17th, stocks continued to climb, as investors added \$58 billion to stock-based mutual funds and ETFs. This was the **biggest inflow over 4 weeks into such funds ever.**



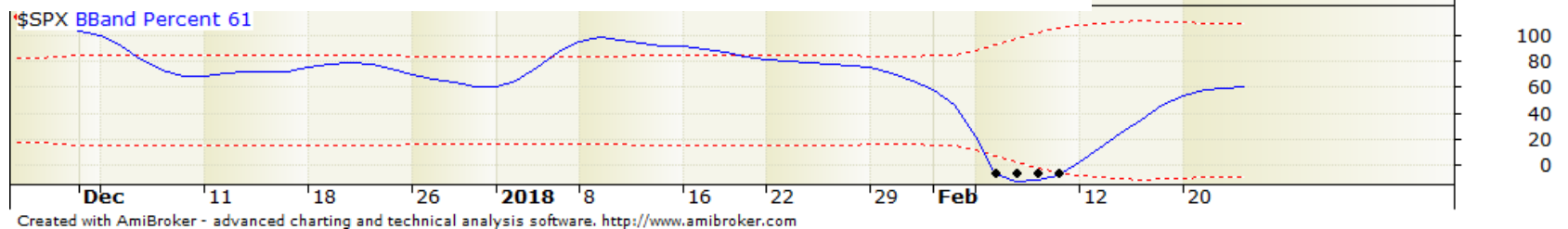
The Dow climbed 1000 points in just 12 days, the fastest ever for such a gain of 7.5%. The rush of cash in Jan, was inspired by a 'fear of missing out'.



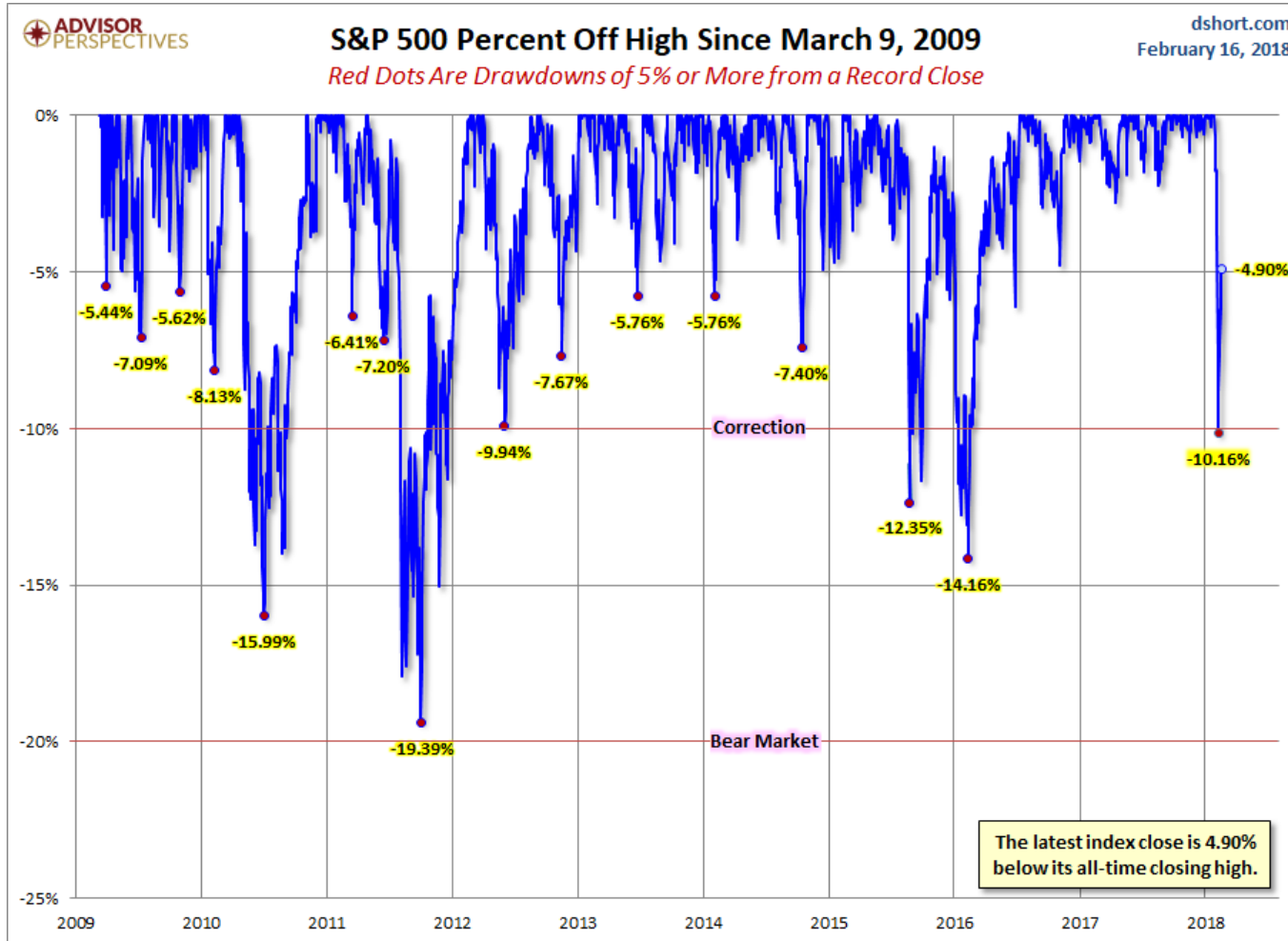
S&P 500 – Took a Hit and Recovered



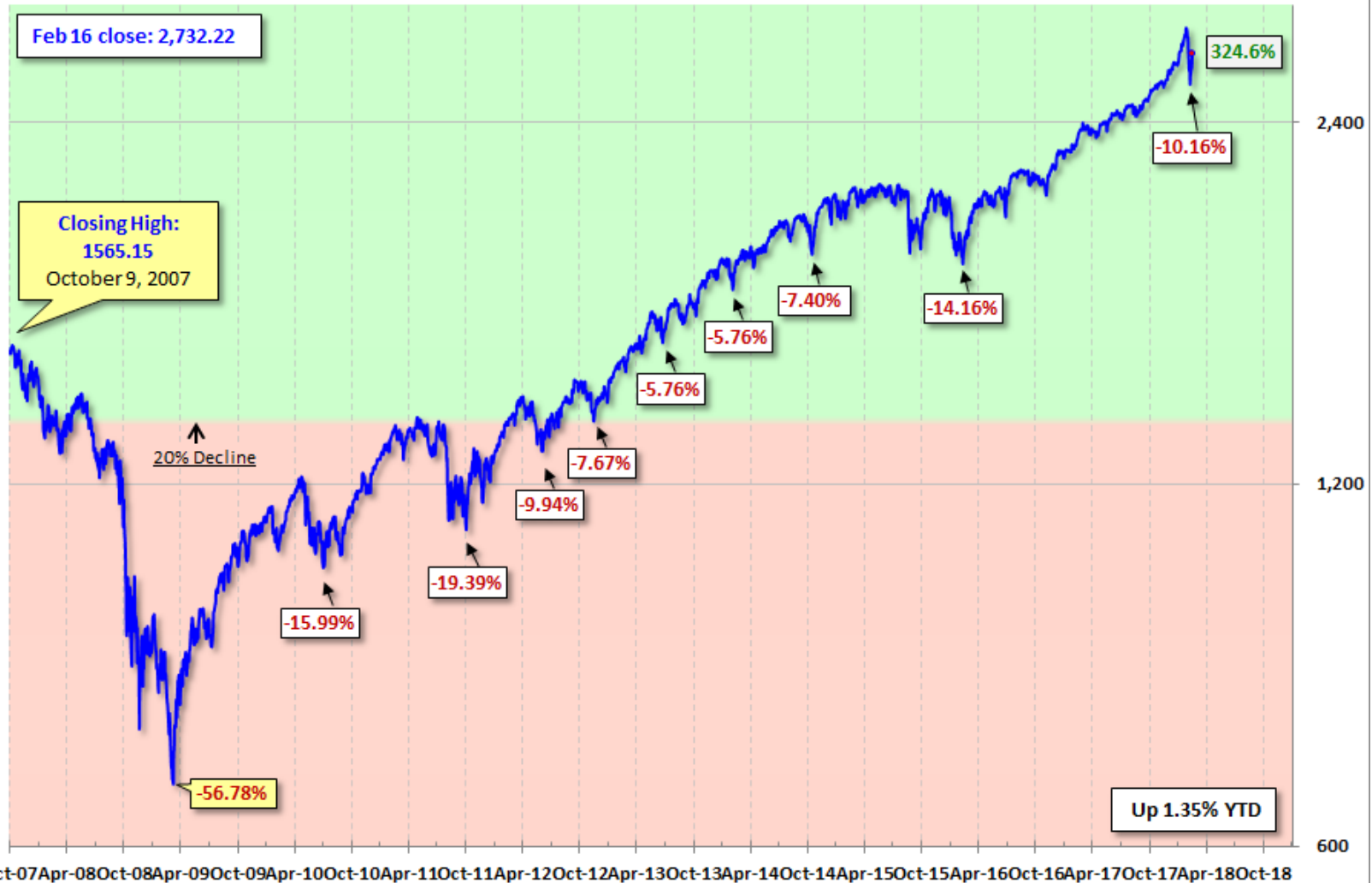
Fibonacci Retracements are ratios used to identify potential reversal levels. Fibonacci Retracements applied after a decline help to forecast the length of a counter-trend bounce. The bounce went up to the 61.8% line – a very typical bounce.



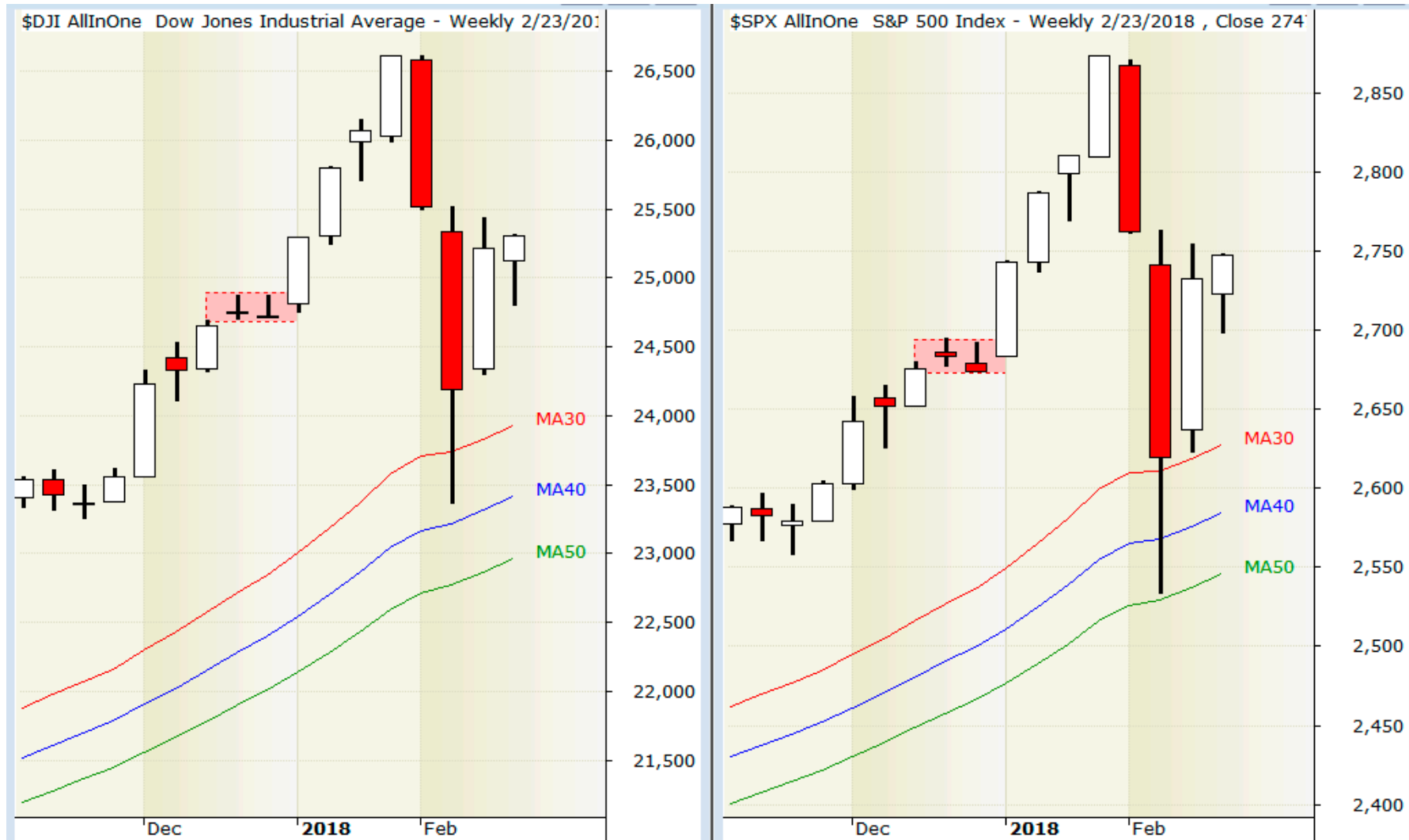
S&P 500 Drawdowns



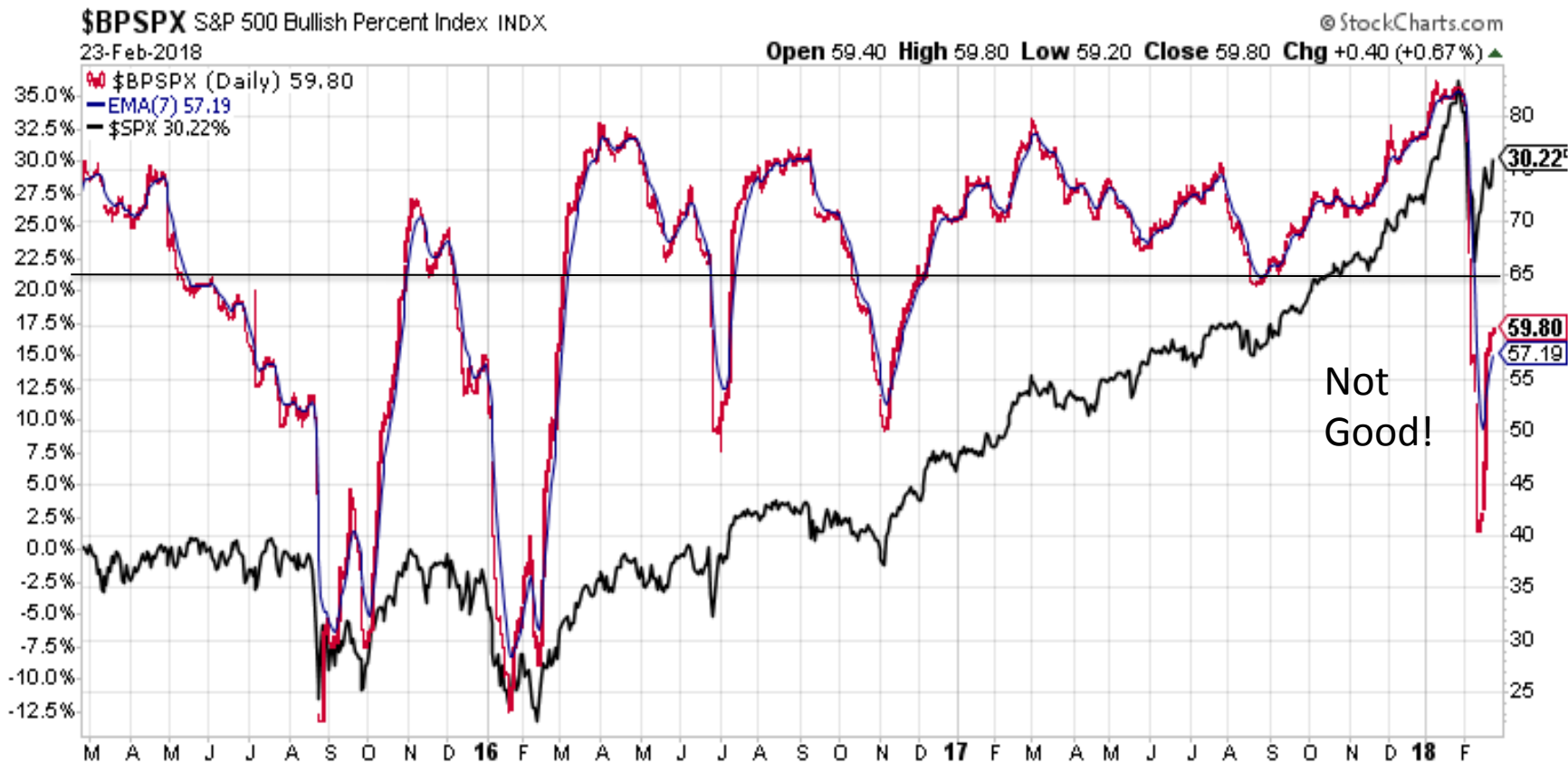
S&P 500 Drawdowns



Dow & SP 500 Weekly – Same Patterns



S&P 500 Bullish Percent



©1999-2018 StockCharts.com All Rights Reserved

If the BPI is above 80, all is well.
 Above 65 probably indicates that a correction is a dip-buying opportunity.
 Below 65 means that there may be a more serious correction coming.

NASDAQ Seeking New Trend

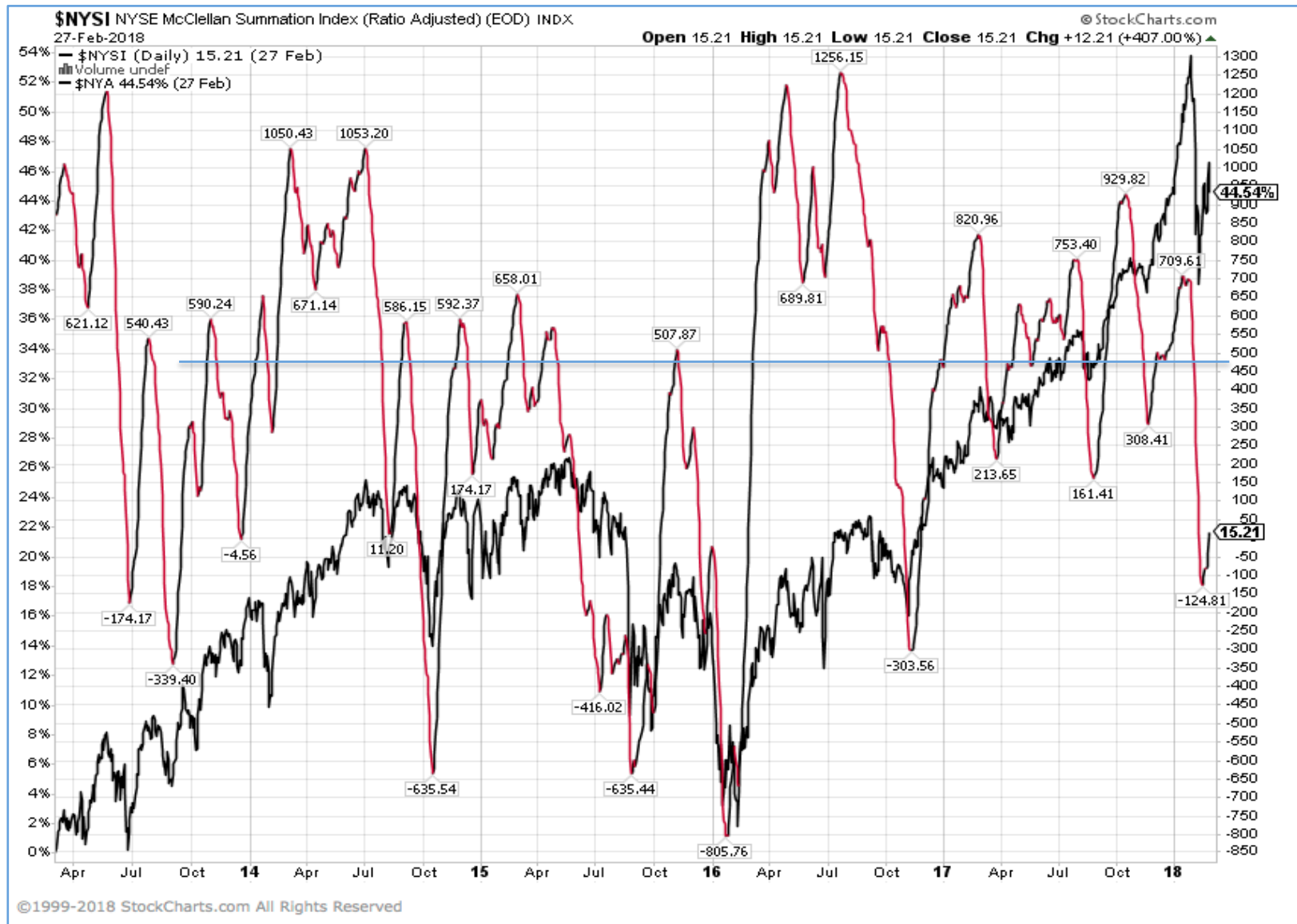


Russell 2000 Seeking New Trend

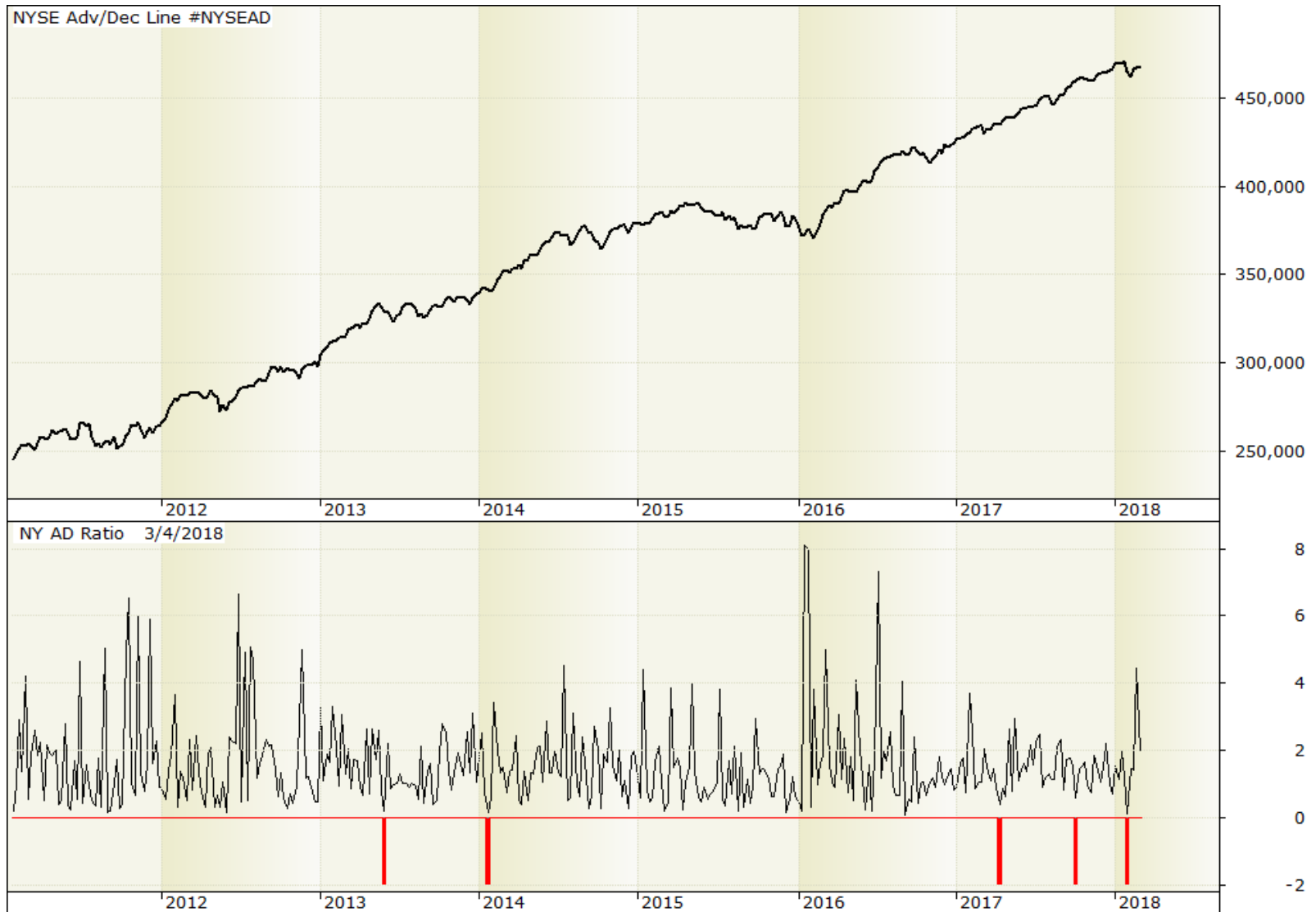


Created with AmiBroker - advanced charting and technical analysis software. <http://www.amibroker.com>
2/26/18 Market Review

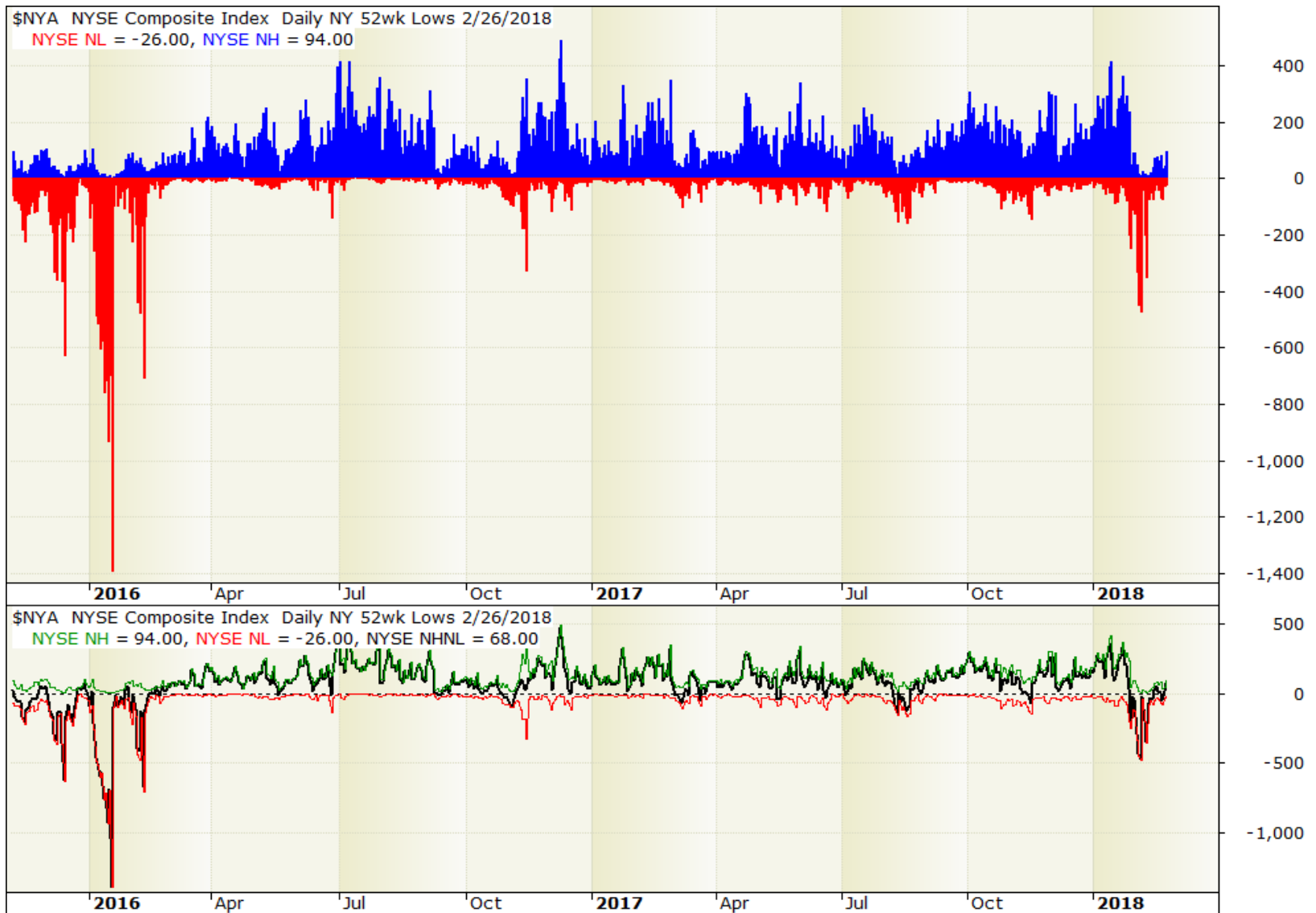
NYSE – Breadth – MCSum Index



NYSE – Breadth – A/D

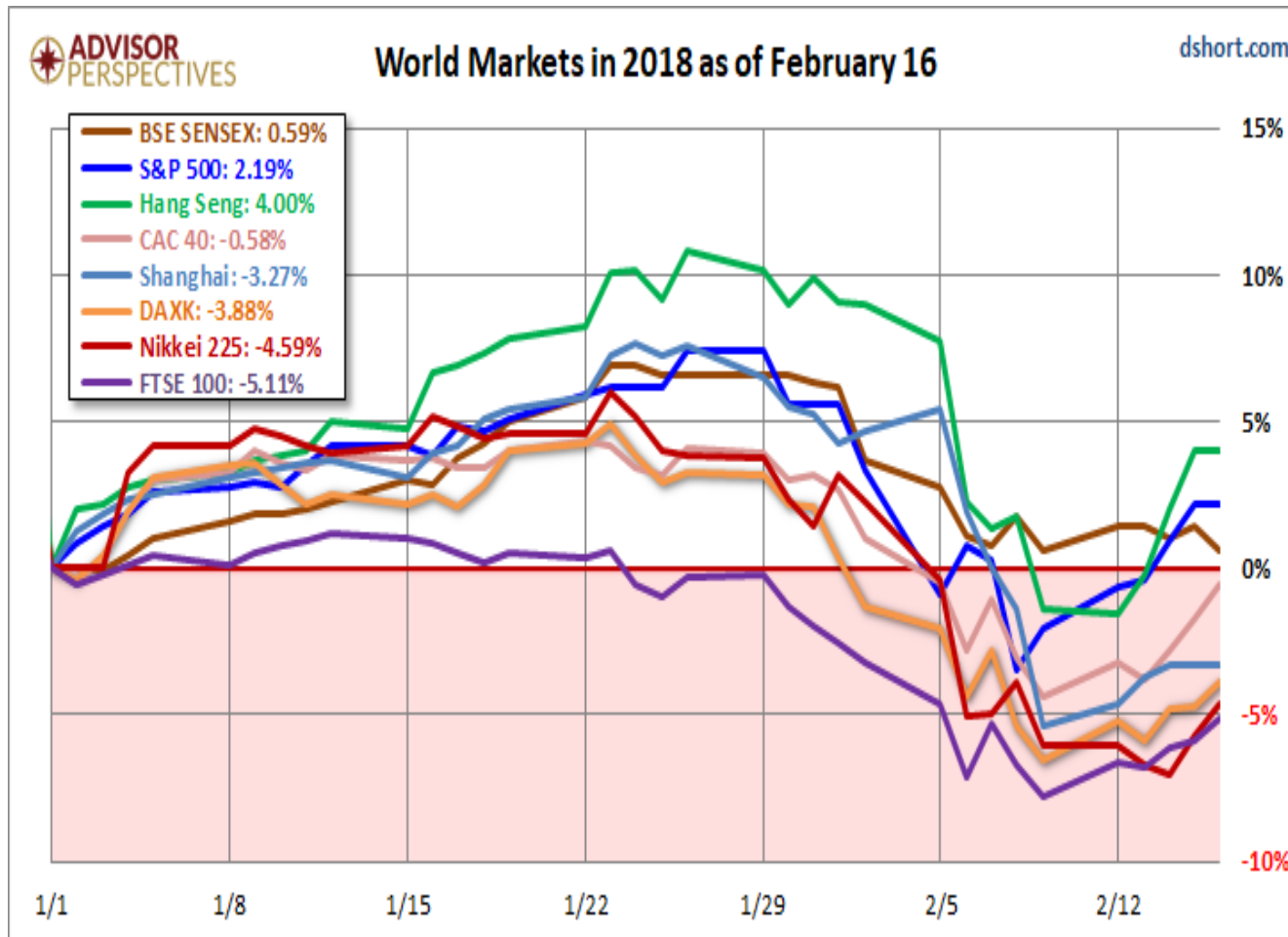


NYSE – Breadth – NHNL



World Markets

All Markets Took a Dip This Month. Hong Kong and US Lead Recovery

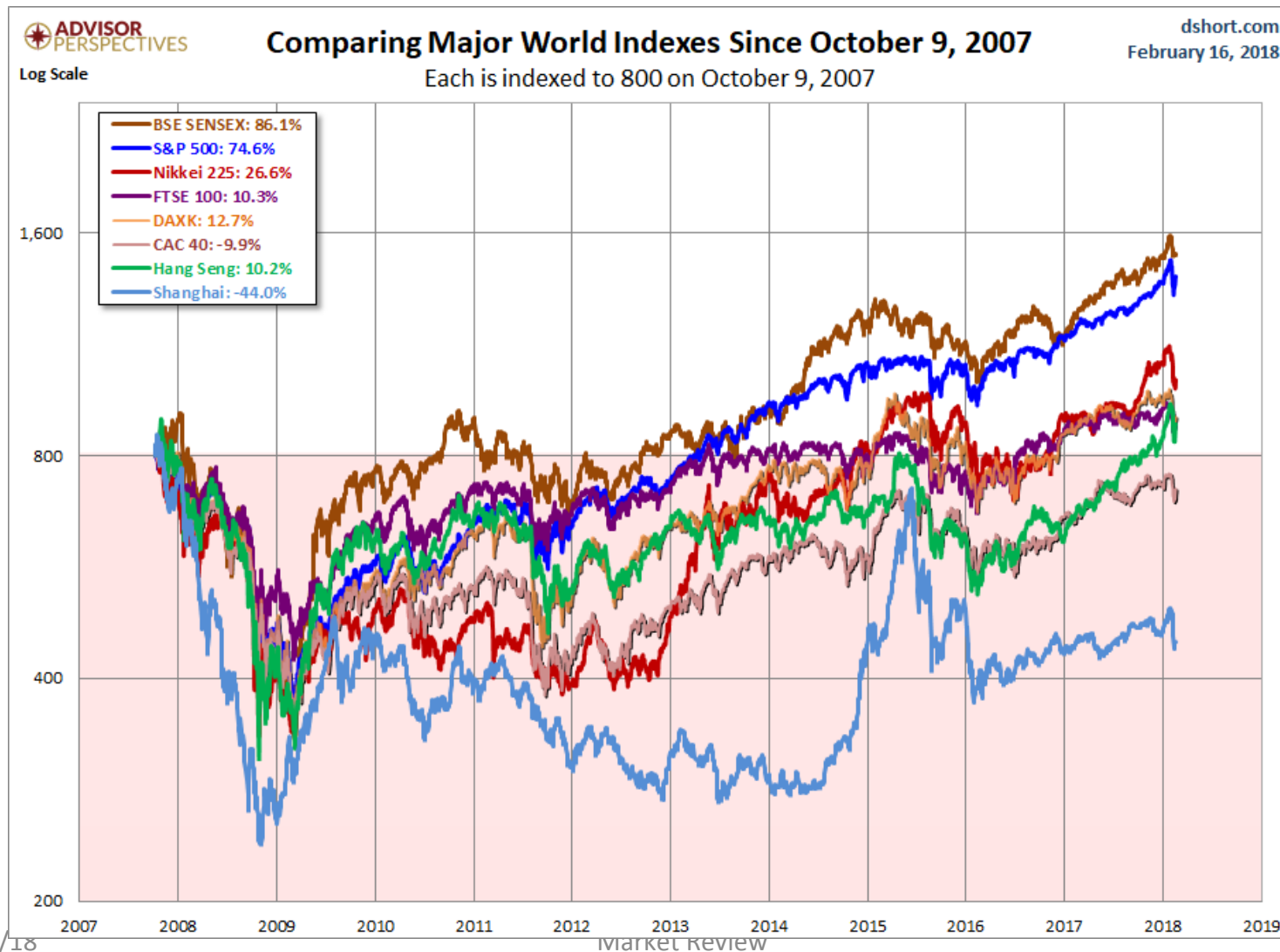


Index	2018 Peak	YTD
Hang Seng	10.81%	4.00%
S&P 500	7.45%	2.19%
BSE SENSEX	6.95%	0.59%
CAC 40	4.32%	-0.58%
Shanghai	7.63%	-3.27%
DAXK	4.96%	-3.88%
Nikkei 225	5.97%	-4.59%
FTSE 100	1.18%	-5.11%

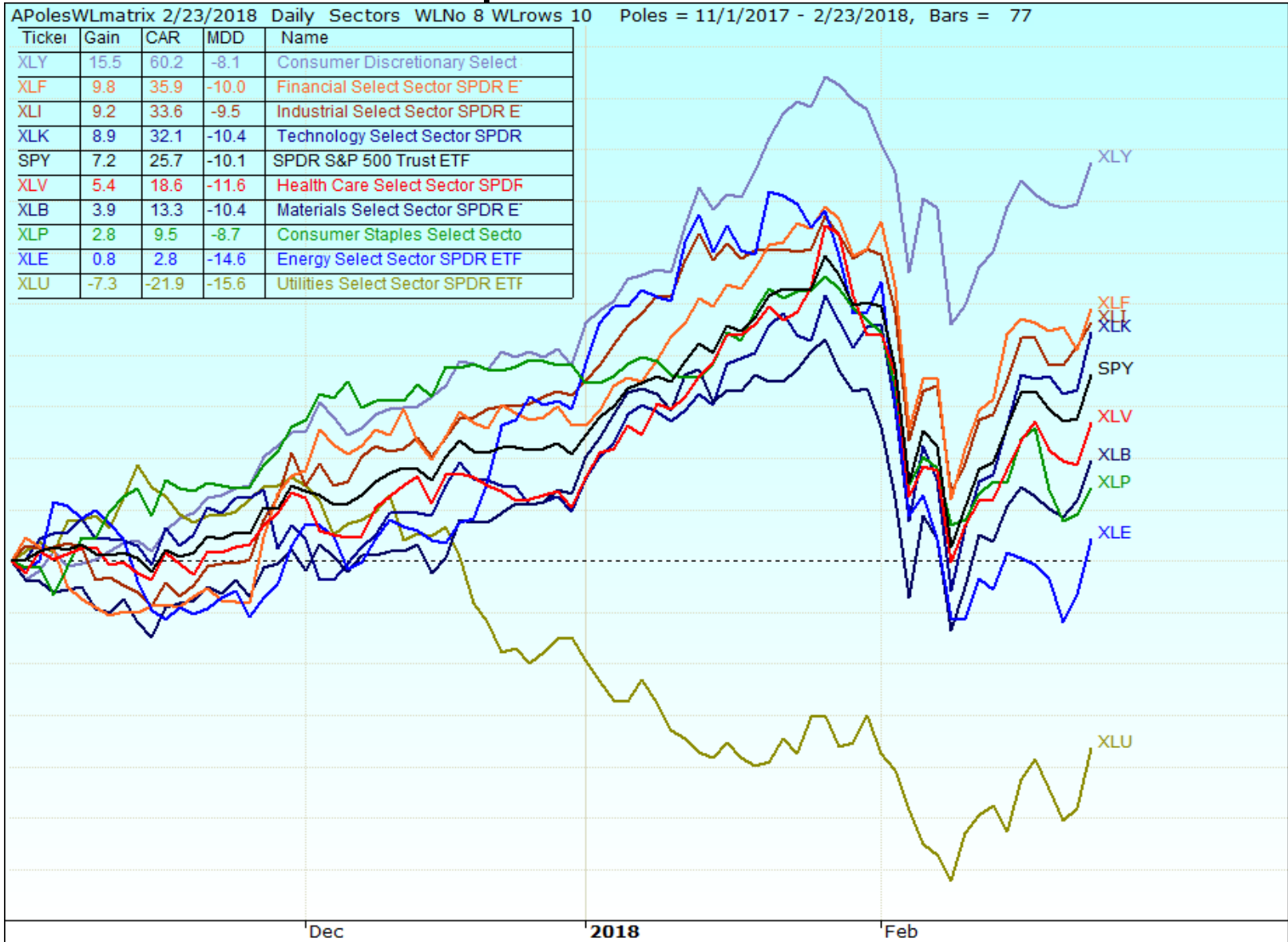
As of Feb 16 2018

World Markets Since 2007

Only India (Bombay Stock Exchanges SENSEX) beat the S&P over past 11 years.

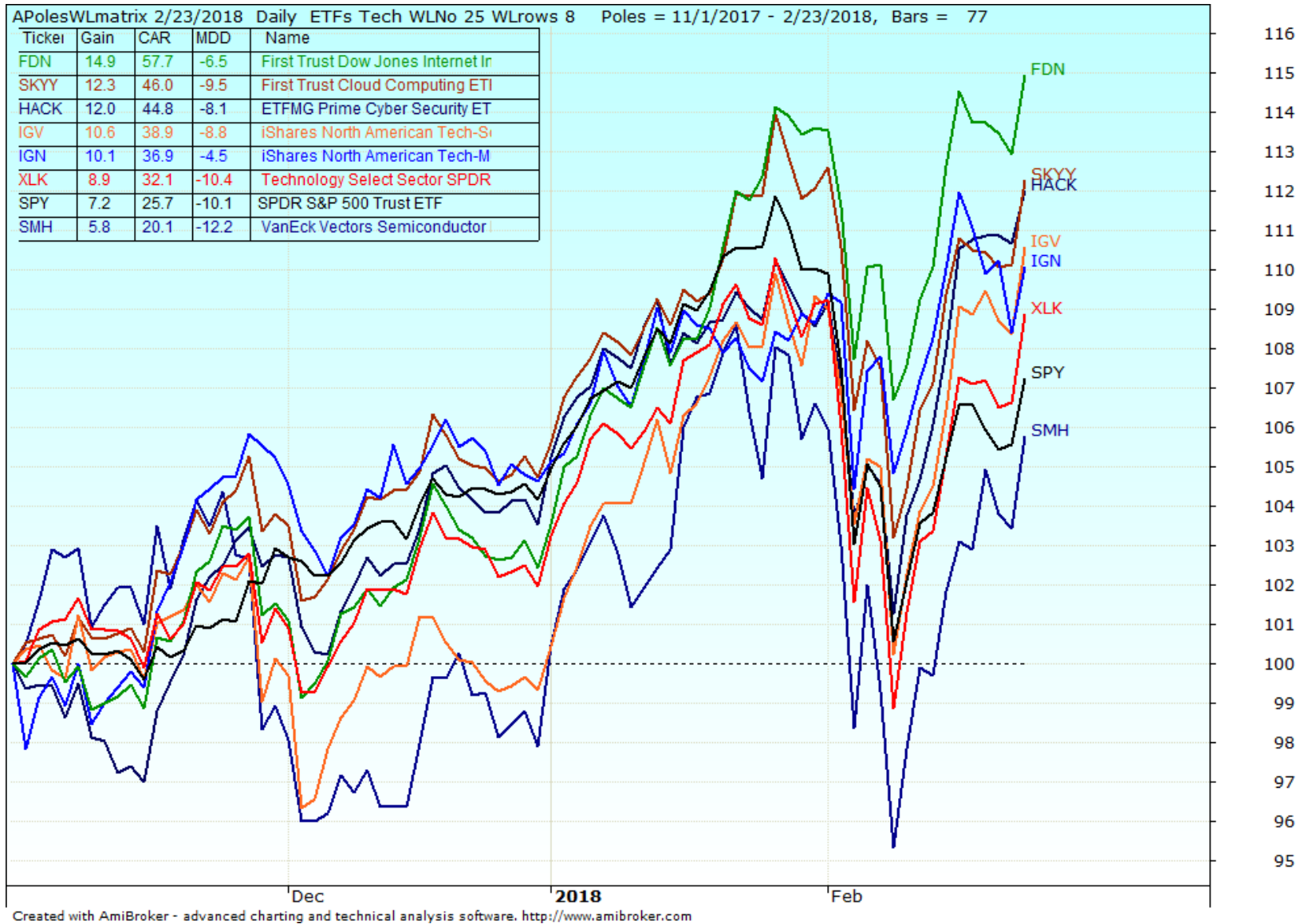


Comparison of Sectors

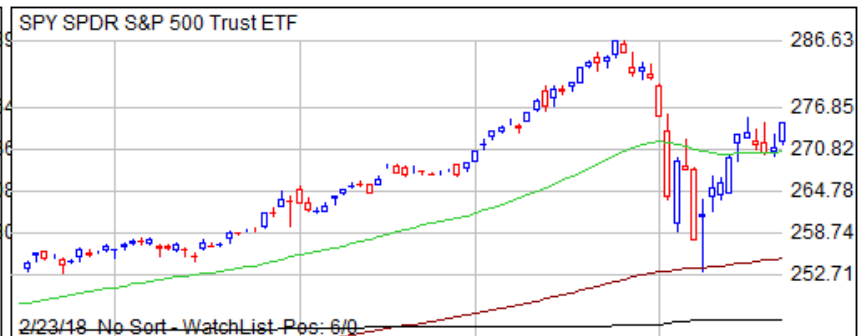
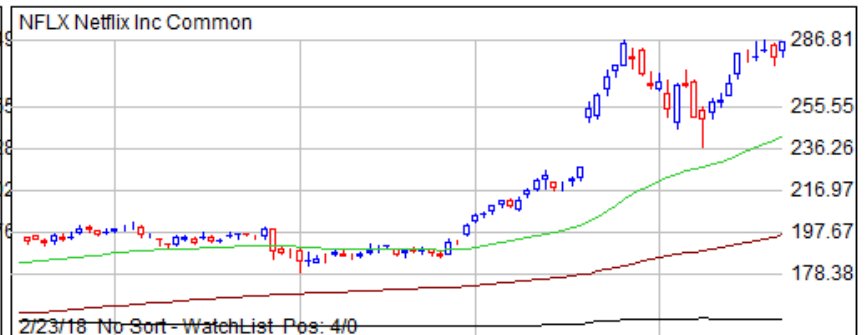


Created with AmiBroker - advanced charting and technical analysis software. <http://www.amibroker.com>

Comparison of Tech ETFs



Comparison of FAANG Stocks



Created with AmiBroker - advanced charting and technical analysis software. <http://www.amibroker.com>

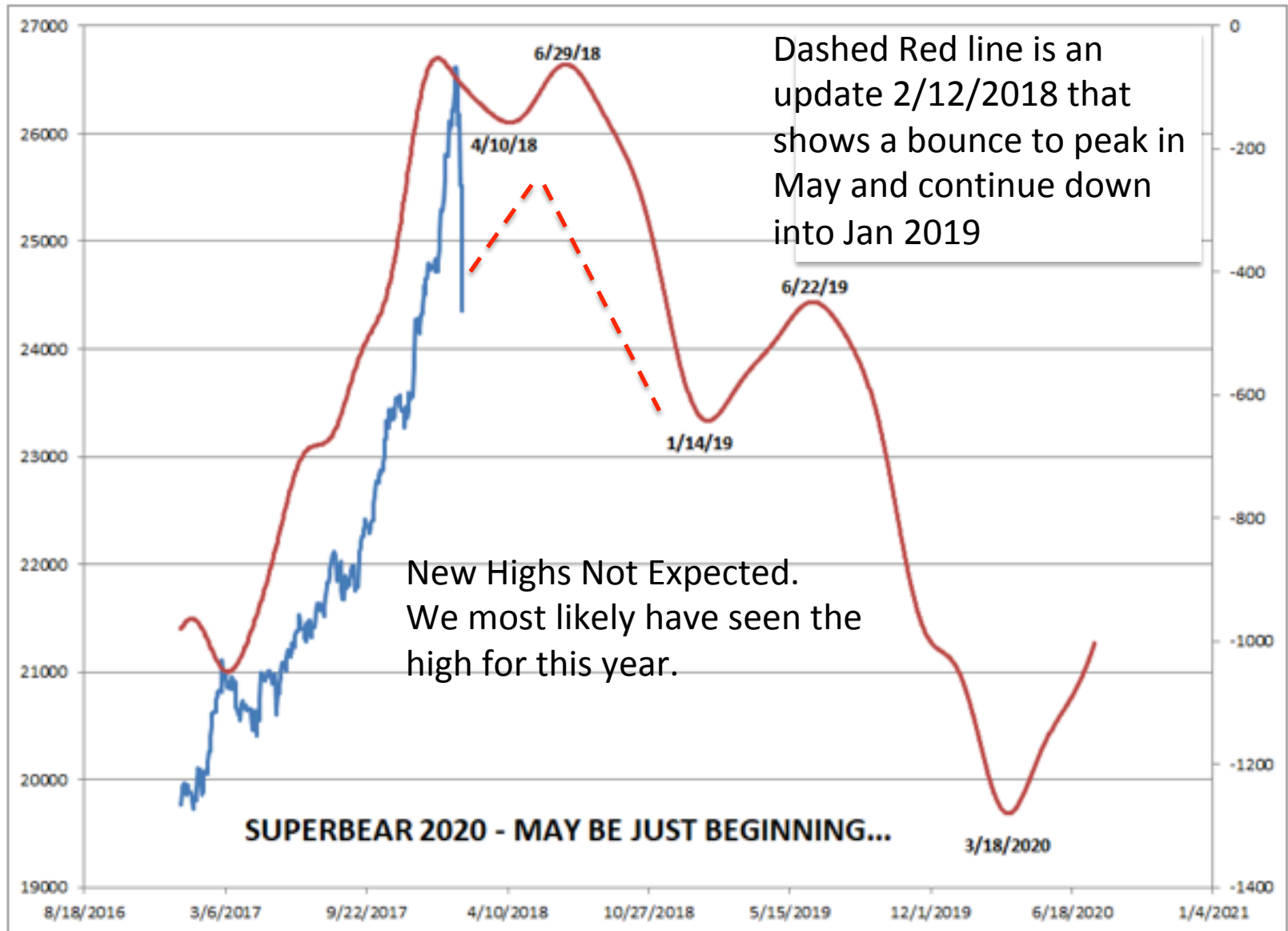
FAANG Composite Performance



Top 20 ETFs (ranked by ETFReplay.com)

Symbol	ETF	ReturnA	ReturnB	Volatility	Rank
XLY	<u>U.S. Consumer Discret Sector SPDR</u>	+12.7%	-1.9%	24.6 %	1
MINT	<u>PIMCO Enhanced Short-Term Bond (0.6yr)</u>	+0.3%	+0.1%	0.5 %	2
SHV	<u>Barclays Short-Term Treasury</u>	+0.2%	+0.1%	0.3 %	3
QQQ	<u>PowerShares Nasdaq-100 Index</u>	+8.4%	-0.1%	30.0 %	4
BKLN	<u>PowerShares S&P-LSTA Senior Loan</u>	+1.4%	+0.1%	3.1 %	5
EWZ	<u>iShares MSCI Brazil Index Fund</u>	+16.8%	-0.2%	33.0 %	6
IVW	<u>iShares S&P 500 Growth Index Fund</u>	+7.8%	-1.2%	28.1 %	7
IAU	<u>iShares COMEX Gold Trust</u>	+3.8%	-1.3%	12.2 %	8
VGT	<u>Vanguard MSCI U.S. Technology</u>	+6.4%	+0.6%	31.3 %	9
XLK	<u>U.S. Technology Sector SPDR</u>	+6.7%	+0.3%	32.4 %	10
GLD	<u>SPDR Gold Shares</u>	+3.8%	-1.4%	11.5 %	11
BNDX	<u>Vanguard Total International Bond</u>	-0.3%	-0.1%	2.2 %	12
SHY	<u>Barclays Low Duration Treasury (2-yr)</u>	-0.4%	-0.1%	1.0 %	13
CSJ	<u>iShares Barclays 1-3 Year Credit (2yr)</u>	-0.4%	-0.3%	0.8 %	14
IWF	<u>iShares Russell 1000 Growth</u>	+7.4%	-1.8%	27.2 %	15
XLI	<u>U.S. Industrials Sector SPDR</u>	+9.5%	-2.6%	27.0 %	16
BSV	<u>Vanguard Short-Tm Bond Mix</u>	-0.6%	-0.2%	1.5 %	17
VCSH	<u>Vanguard Short-Term Inv Grd Bond (2-3yr)</u>	-0.7%	-0.7%	1.2 %	18
VFH	<u>Vanguard MSCI U.S. Financials</u>	+9.7%	-2.6%	28.9 %	19
VUG	<u>Vanguard U.S. LargeCap Growth</u>	+6.6%	-1.9%	27.0 %	20

Looking Ahead



Market Summary

- The Long Term Equity Market has peaked. The 10% correction was over due and not surprising after a parabolic rise that could not go on forever. Bull cycle may be over.
- Now recovering, it is likely to bounce up until May and then continue to drop till Jan 2019, and possibly continue down till 2020.
- Action in bonds have made equity investors nervous.
- Investor caution is appropriate, since turbulation from the 10% correction has not settled out and the market trend & direction has yet to be established.

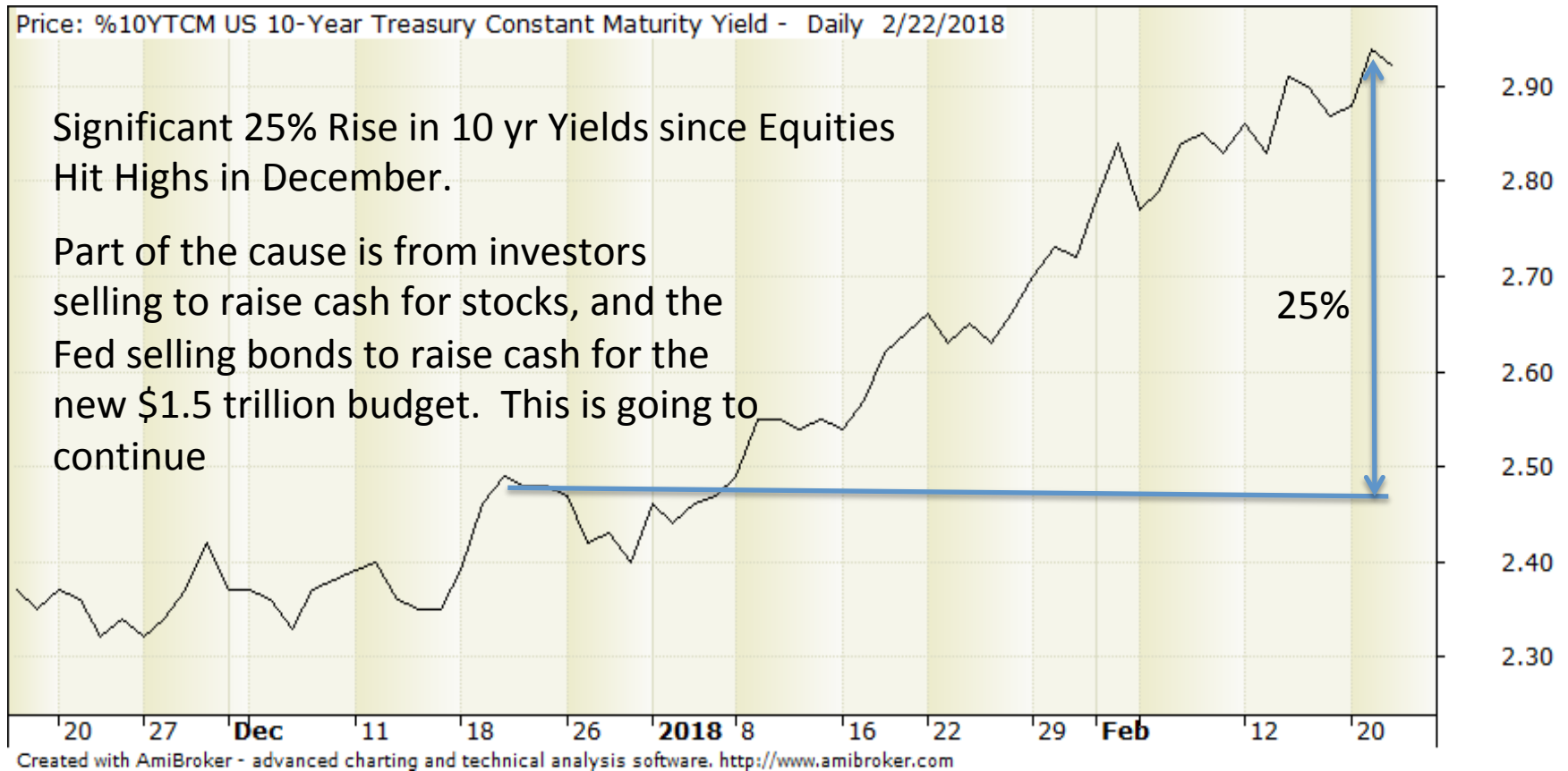
Bonds & Interest Rates versus Stocks

Q: If Equities are entering a Risky Period, Are Bonds a Good “Safe Haven”?

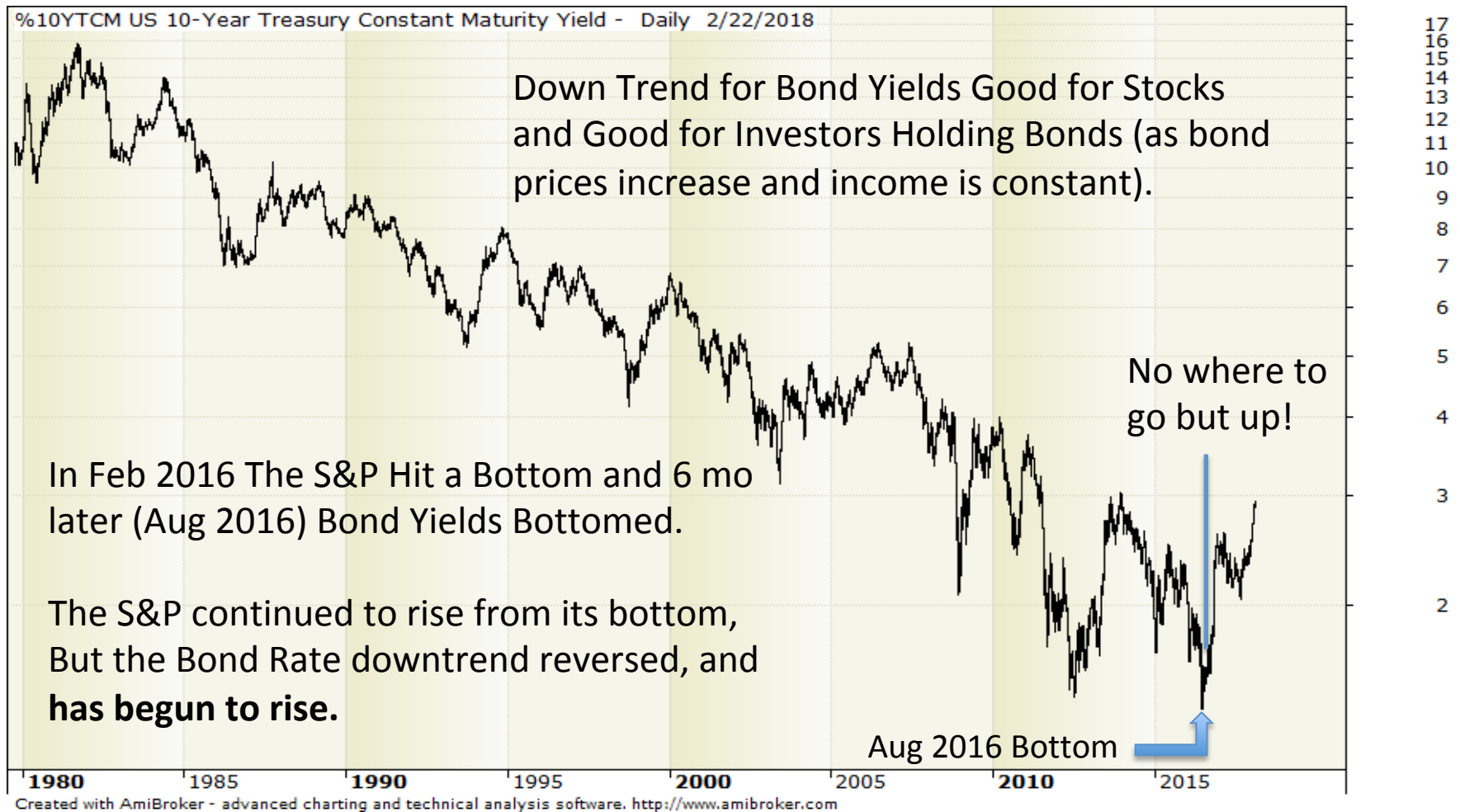
A: Maybe. A Spike over the last 3 weeks in the 10 yr Note made yields look attractive to investors with cash.

Buying Bonds now Risky if Rates are Rising, since once you pay for the bond the price will drop. That's OK if you hold to maturity – but that's tough on a long term bond.

Spike in 10 Year Bond Rates



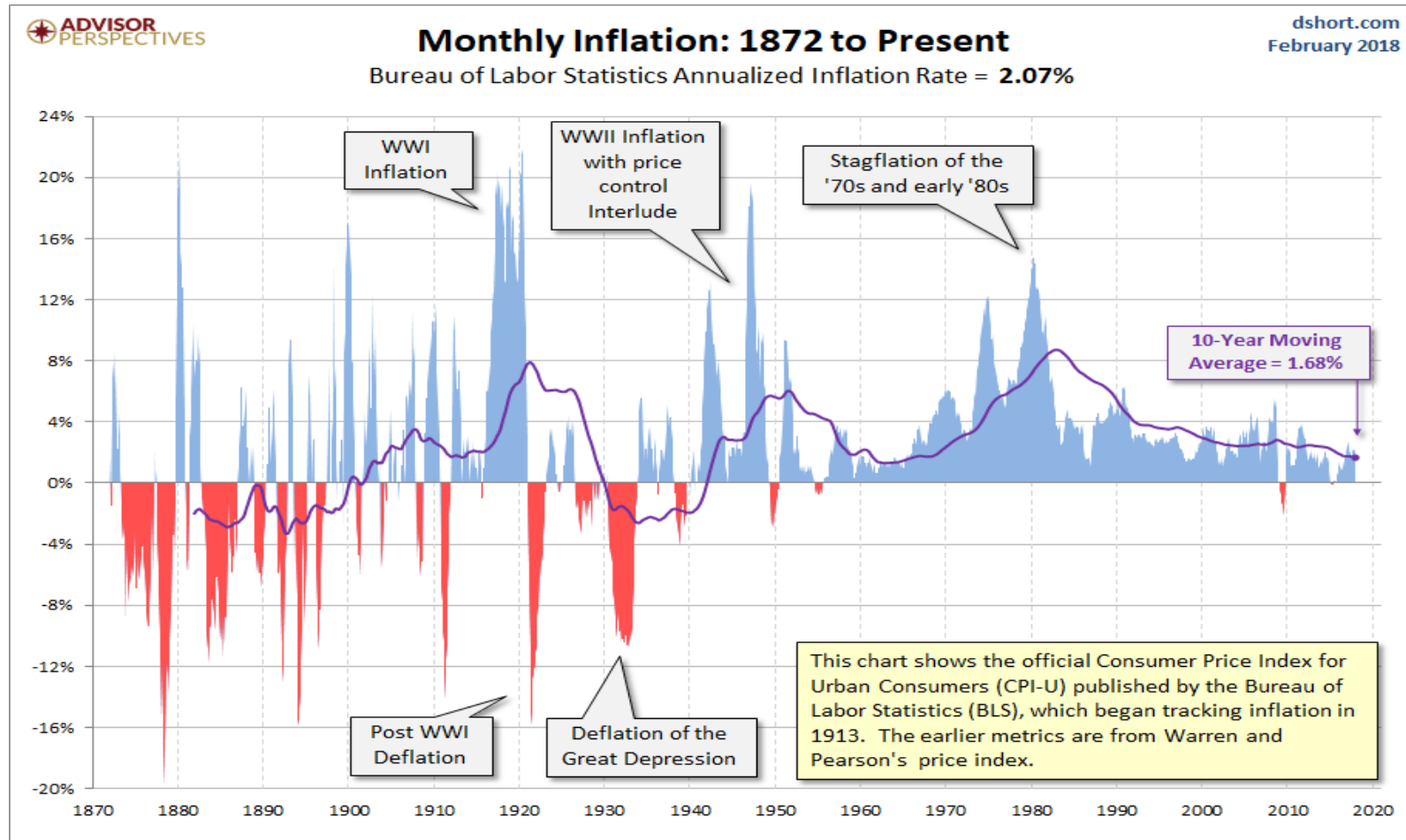
10 Yr Bond Rates Lower for 35 Years



What Do Rising Rates Mean?

- **Buying Bonds now Risky** as rates rise, since once you pay for the bond the price will drop.
- Total Return = Interest + Price Appreciation (which will be negative)
 - Income Investors will suffer in holding bonds or bond funds.
- Borrowing will cost more and Short Term Bonds will no longer get you cheap money for buying stocks or long term bonds.
 - More pressure on Corporate earnings which can affect stock prices.
 - Less leverage and liquidity for the market leads to market sell-offs.
 - Risk of Inflation significantly increases.
- Equity Investors Should Get Concerned When 10 yr Note approaches 3.5%
 - When Bond yields compete with S&P Earnings Yield, the equity markets react. S&P 500 Earnings Yield is at 4.25%. This would change with reduced earnings and lower stock prices.

CPI Shows Inflation Still Low



Consumer Price Index is at a year-over-year inflation rate at 2.07%.
Can become a driving factor as interest rates rise.

If Stocks Rise and Bond Rates Rise?

- Usually when Stocks Rise, Bonds become less attractive and investors sell Bonds, lowering prices (and Bond Rates Rise). This is called the Risk-On/Off ratio
- Risk-On/Off Ratio = Stock Prices / Bond Prices.
 - As Investors switch to Bonds, Ratio Drops, e.g. Risk-Off.
 - When Investors favor Stocks, Risk-On Ratio Increases: Stock prices rise and Bond prices drop (as Bond Rates rise)
- When Stock Prices **Rise** with **Rising Rates**, Risk-On

Stock Prices Rise
Bond Prices drop  **Ratio Goes up Rapidly**

This is what is shown in the next few charts.

Risk-On/Off 18 Years



Risk-On/Off 2 Years



Significance of Risk-On/Off Trends

- Risk-On is an indicator of Investor Sentiment and willingness to take on Risk.
 - Investors Give Up Safety For Returns During Risk-On and Give Up Returns For Safety During Risk-Off.
 - Risk-On is an indication of Investor Optimism.
- Previous Chart shows CHANGE
 - Risk-On environments are accompanied by a combination of expanding corporate earnings, optimistic economic outlook, accommodative central bank policies and speculation.
 - This may be an early signal of change in Investor Sentiment. The Bears may come out of hiding if Rising Rates overpower Stock Prices
 - Only a warning sign for now. Too early until trend established.

Summary & Observations

- The Short Term Trend for Bond Rates is Up
 - While actual data is only for a few week. Need to watch this.
- Investing in a rising rate market is not simple
 - REITS, Preferreds, MLPs are negatively effected
 - Inflation can become an significant issue
- Models of equity prices indicate a down trend in stocks this year.
- A lot of Uncertainty exists until the the correction settles out.
 - Near term trends have yet to be established and confirmed.
 - Concerns about the Tax Cut impact and the Fed's plan for raising rates.

The markets are driven by expectations.

When reality catches up with expectations, there is a strong chance for disappointment.

Floating Interest Rate CEFs an Option

Prices not affected by rising rates since existing loan rates rise with market. This list of CEFs have distributions of above 5%, can be bought at a discount and Total Returns of 5% - 8%

Ticker	Fund Name	NAV	Closing Price	Price Change	Distribution Rate	Distribution Amount	Premium/Dis
ARDC	Ares Dynamic Credit Allocation	\$17.96	\$16.34	\$0.17	7.89%	\$0.1075	-9.02%
BGX	Blackstone/GSO LS Credit Inc.	\$17.28	\$16.00	\$0.08	7.73%	\$0.1030	-7.41%
JRO	Nuveen Floating Rate Inc Opps	\$11.36	\$11.21	\$0.00	7.55%	\$0.0705	-1.32%
JSD	Nuveen Shrt Duration Cred Opps	\$17.62	\$16.88	\$0.03	7.53%	\$0.1060	-4.18%
JFR	Nuveen Floating Rate Income	\$11.46	\$11.03	-\$0.01	7.34%	\$0.0675	-3.75%
JQC	Nuveen Credit Strat. Income	\$9.04	\$8.10	\$0.02	7.04%	\$0.0475	-10.40%
AET	Apollo Senior Floating Rate	\$17.91	\$16.43	\$0.21	7.01%	\$0.0900	-8.26%
TSLE	THL Credit Senior Loan Fund	\$18.58	\$17.02	\$0.00	6.77%	\$0.0960	-8.40%
BSL	Blackstone / GSO Sr Float Term	\$17.79	\$18.10	-\$0.11	6.43%	\$0.0970	1.74%
VTA	Invesco VK Dynamic Cred Opps	\$13.13	\$11.67	\$0.03	6.43%	\$0.0625	-11.12%
PHD	Pioneer Floating Rate Trust	\$12.43	\$11.49	\$0.04	6.27%	\$0.0600	-7.56%
TLI	Western Asset Corporate Loan	\$11.36	\$10.50	\$0.00	6.06%	\$0.0530	-7.57%
EFR	EV Senior Floating Rate	\$15.33	\$14.45	-\$0.03	5.89%	\$0.0730	-5.74%
EFF	EV Floating-Rate Inc Plus Fund	\$18.00	\$16.34	\$0.04	5.64%	\$0.0740	-9.22%
FCT	First Trust Senior FR Inc II	\$14.07	\$12.96	-\$0.03	5.56%	\$0.0600	-7.89%