THE RIGHT ADVICE AT THE RIGHT TIME DEPEND ON IT

The Peter Dag Portfolio STRATEGY AND MANAGEMENT

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Investment trends

Fig. 1. The S&P 500 declined -29.1% since mid-February. The decline has been vicious and painful. In just a few weeks the market erased all the gains it achieved since mid-2017 – three years of gains.

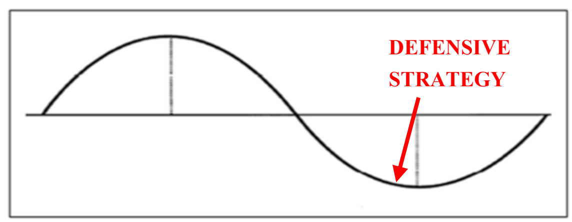
Fig. 2. The transportation stocks (ETF: IYT) plunged -38.4% since their peak a few weeks ago. The record-breaking decline of this sector is predicting continued business weakness.

Fig. 3. Financial stocks (ETF: XLF), also declined sharply in response to weaker business conditions ahead. They lunged -38.4% since mid-February. These trends confirm a defensive strategy has been and remains the most appropriate at this stage of the business cycle.

Portfolio Strategy

Observations. Many years ago, the idea was sold the world is one big happy family. The EU zone was created. In the US, think tanks expounded the idea production should be exported from the US to lower cost countries. Outsourcing improved profitability. Domestic workers, we were told, would have time to work on more sophisticated and higher paying jobs. What happened? Workers were not retrained. An invisible virus destroyed the concept of globalization by redirecting supply chains. The EU, meanwhile, is a desperate mess. The point? Globalization has been a disaster for consumers and producers alike.

MARKET TRENDS



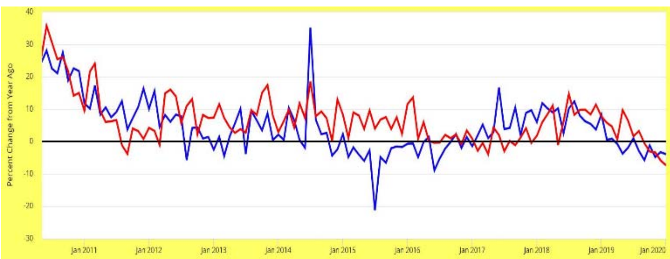
The stock market. The long-term fundamental outlook – defensive. Our real time business cycle indicator has been telling us to be defensive since 2018. It directed us to implement a strategy discussed in detail in my February video "*Managing Risk …Now*" available on our website. A weakening economy favors defensive sectors and bonds. As the economy slows down credit risk rises and earnings also slow down. The markets are facing a slow growth economy not likely to turn around soon. In such environment a defensive strategy is the only winning approach with bonds still being the star performers.

Long-term technical model – Bearish.
Near-term technical indicators – Bearish.
Seasonality – Bullish from October to April.
Sentiment – Negative – which is bullish.

Strategy. The market is very oversold. Our shopping list includes **AMZN**, **AAPL**, **V**, and **MSFT**. Bonds, meanwhile, are acting as we expected and are protecting our portfolio from market volatility.

The US economy. +2.9% - this is the solid growth estimated by the model of the Atlanta Fed. Consumer

sentiment has declined because of the health issues facing the country but is still at high levels. Construction spending - total (red) and non-residential - is trending solidly up (see above graphs). Auto sales are at high levels but showing no growth. Housing starts are strong thanks to lower mortgage rates. Manufacturing is contracting with growth in manufacturing employment



in a downtrend. Job openings keep declining in a worrisome way. Durable goods orders – total and consumer – are weak (see above chart). The good news is the inventory-to-sales ratio shows visible signs of declining. Manufacturing will have to ramp-up production to replenish inventories. As during the financial crisis of 2008-2009, the government is ready to flood the economy - businesses and consumers – with an enormous amount of money. The Fed is aggressive in trying to solve liquidity issues in the money markets. This injection of liquidity will eventually do its expected job of stimulating the economy.

Commodities & Gold. Commodities have been in a downtrend since the business cycle started to slow down. Despite its recent strength, gold has underperformed the S&P 500 and long-term Treasury bonds since 2011.

Inflation. Consumer and producer prices rose +2.3% y/y and +1.21% y/y respectively. Inflation is not a problem.

Short-term interest rates. Short-term interest rates dropped to 0.0%. This is bad news for savers and a great opportunity for large investors to buy businesses.

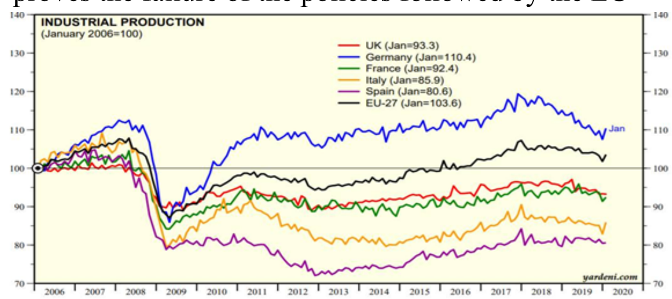
Bond yields. Yields are close to a peak.

Bottom line. The economy is slowing down with underlying signs of strength. The fiscal and monetary stimulus set the foundation for stronger economic growth expected at the end of the current health crisis.

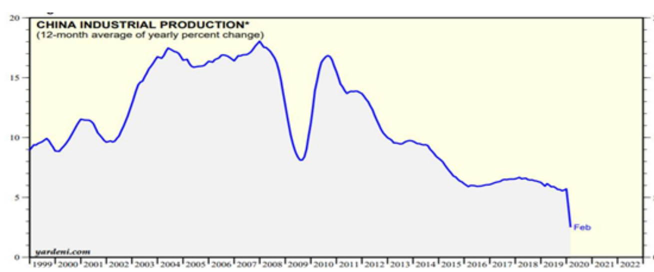
Global trends. The global economy has stalled with industrial production showing no growth (see chart below). Compared to the problems faced by the rest of

the world, the US is doing very well.

In Europe, only Germany shows growth in production since 2006 (see chart below). All the other countries experience output contraction. This protracted weakness proves the failure of the policies followed by the EU



leaders. Because of the health problems faced by the EU, they have decided to close their borders. It is quite possible this is the market response to an irresponsible policy to open their borders to everybody for years. Lack of common sense creates huge issues.



China, the origin of the global health mess, is also being seriously penalized by the coronavirus (see above chart).

The bottom line is the global economy is facing severe challenges in the areas of health, finance, and the economy. The markets are reflecting these uncertainties with historical volatility. It suggests constant vigilance and a defensive strategy.

Global equity markets. Underperforming the US market.

Global bond yields. Volatile, reflecting credit issues.

The Dollar. The Dollar remains strong, due to the strength of our economic and political institutions relative to those of the rest of the world.

Dag's Exclusive Model Portfolios

Objective of our portfolios: minimize risk and volatility while achieving attractive returns.

Managed Equity Portfolio. As of 3/17/2020 the market was down -21.7% since the beginning of the year. This model portfolio was up +1.2% in the same period. Our conservative strategy has greatly reduced the volatility of the portfolio. We have sold **HD** because of its poor relative strength performance. We are planning to invest the cash in our account when our indicators suggest the market is close to a turning point.

Symbol	Description	Shares	Price as of 3/17/2020	Most Recent Value	Change since last purchase	Change since last purchase	Allocation %	Dividend Yield
AWK	AMERICAN WATER WORKS	140.4451	$130.03	$18,262.08	($167.46)	-0.91%	4.99%	1.60%
AAPL	APPLE INC	46.6382	$251.79	$11,743.03	$446.84	3.96%	3.21%	1.10%
ATO	ATMOS ENERGY CORP	134.7982	$99.94	$13,471.73	$143.78	1.08%	3.68%	2.30%
BDX	BECTON DICKINSON&CO	40.0000	$241.19	$9,647.60	($1,263.03)	-11.58%	2.64%	1.30%
DHR	DANAHER CORP	45.1255	$135.56	$6,117.21	($656.41)	-9.69%	1.67%	0.50%
HD	HOME DEPOT INC	0.0000	$168.09	$0.00	N/A	N/A	0.00%	2.90%
ITW	ILLINOIS TOOL WORKS	25.9290	$156.43	$4,056.08	($568.67)	-12.30%	1.11%	2.70%
MSFT	MICROSOFT CORP	47.2219	$144.94	$6,844.34	($469.25)	-6.42%	1.87%	1.30%
V	VISA INC CLASS A	69.8839	$159.45	$11,143.25	($1,410.16)	-11.23%	3.04%	0.70%
TLT	20+ T. BND ETF	676.9681	$162.18	$109,790.69	$18,922.82	20.82%	29.99%	2.00%
	Cash & Cash Investments			$174,998.37			47.80%	
	Account Total			**$366,074.38**	**$14,978.46**	**8.51%**		

The above portfolio may not reflect current recommendations or actions. Past performance is no guarantee of future results.

ETF Portfolio No. 1. Change. 16.6% in TLT. 83.4% in cash.
ETF Portfolio No. 2. Change. 16.6% in XLK. 83.4% in cash.
Fidelity Mutual Fund Portfolio. Change. 16.6% in each: FTBFX, FSCSX. 66.8% in cash.
Vanguard Mutual Fund Portfolio. Change. 20% in VUSTX. 80% in cash.
Vanguard ETF Portfolio. Change. 100% in cash.
SPY-XLU. Change. 100% in cash.
SPY-TLT-XLU. Change. 25% in TLT. 75% in cash.

PORTFOLIOS (Equal weight)	$10,000 APPRECIATION	SINCE 2008 (%) CAGR	MAX DRWDNS	STD DEV	WORST YEAR	SINCE 1/2019 CAGR (%)
ETF Portfoliio No. 1 - Timing	$22,453	6.9	-7.4	6.9	-4.5	**8.9**
ETF Portfoliio No.2 - Timing	$30,776	9.7	-10.9	9.9	-8.6	**4.9**
Fidelity - Timing	$22,345	6.8	-7.6	7.6	-7.5	**8.3**
Vanguard Mut. Funds - Timing	$20,712	6.2	-7.3	6.8	-5.0	**3.9**
Vanguard ETFs - Timing	$20,682	6.2	-10.5	8.0	-8.5	**2.5**
SPY - XLU - Timing (50-50)	$26,445	8.3	-8.9	8.4	-8.2	**9.6**
SPY-TLT-XLU -Timing (50-25-25)	$26,321	8.3	-7.7	6.5	-5.4	**12.2**
Long-term Technical Model	$28,590	9.0	-15.3	9.9	8.0	**1.6**
S&P 500 - Buy & hold	$25,934	8.2	-48.2	14.9	-36.8	**17.6**

The performance parameters of each portfolio are: the compound annual return (CAGR), volatility (STD DEV), the amount gained or lost in the worst year, and the greatest loss suffered by the portfolio (MAX DRWDNS).

CAGR is the rate at which an investment would have grown if it had increased at a steady rate.

The performance data in the table have been updated as of the end of **February** and will be updated again at the end of **March.**

Note – The major overwhelming advantage of our timing models is that they considerably reduce the volatility of the portfolios (STD DEV) and the size of the losses (MAX DRWDNS and WORST YEAR) compared to the buy-and-hold strategy for the S&P 500. They offer an unbiased and quite successful risk management tool.

Relative strength analysis

The table below shows the 30 stocks in the Dow Jones Industrial Average and 30 ETFs. They are ranked by price action and relative strength – near term and long term. The most attractive investments are those displaying rising price and rising strength relative to the S&P 500. **UP** means price and relative strength are rising. **DOWN** means price and relative strength are declining.

DOW JONES 30 STOCKS

	Symbol	Name	S-T TREND	L-T TREND
XXX	AAPL	Apple	UP	UP
	AXP	American Express	DOWN	DOWN
	BA	The Boeing Comp.	DOWN	DOWN
	CAT	Caterpillar	DOWN	DOWN
	CSCO	Cisco	DOWN	DOWN
	CVX	Chevron	DOWN	DOWN
	DIS	Walt Disney	DOWN	DOWN
	DOW	Dow	DOWN	DOWN
	GS	Goldman Sachs	DOWN	DOWN
	HD	Home Depot	UP	UP
	IBM	Intl. Business Machine	DOWN	DOWN
	INTC	Intel	UP	UP
	JNJ	Johnson & Johnson	UP	DOWN
	JPM	JPMorgan	DOWN	UP
	KO	Coca-Cola	UP	DOWN
	MCD	McDonald's	DOWN	DOWN
	MMM	3M	DOWN	DOWN
	MRK	Merck	UP	DOWN
XXX	MSFT	Microsoft	UP	UP
	NKE	Nike	DOWN	UP
	PFE	Pfizer	DOWN	DOWN
	PG	Procter & Gamble	UP	UP
	TRV	Travelers	DOWN	DOWN
	UNH	United-Health Group	UP	UP
	UTX	United Technologies	DOWN	DOWN
XXX	V	Visa	UP	UP
	VZ	Verizon	UP	DOWN
	WBA	Walgreens	DOWN	DOWN
	WMT	Wal-Mart	UP	UP
	XOM	Exxon Mobil	DOWN	DOWN

MAJOR ETF SECTORS

Symbol	ETF Name	S-T TREND	L-T TREND	
DBC	Commodity Index	DOWN	DOWN	
EEM	Emerging Markets	DOWN	DOWN	
GLD	Gold	UP	UP	
GXC	China	UP	DOWN	
IEV	Europe	DOWN	DOWN	
IHE	Pharmaceuticals	UP	DOWN	
IYT	Transportation	DOWN	DOWN	
JNK	High-yield corp bonds	UP	DOWN	
KIE	Insurance	DOWN	DOWN	
KRE	Regional Banking	DOWN	DOWN	
PPA	Aerospace	DOWN	DOWN	
SDY	S&P Dividend	DOWN	DOWN	
SMH	Semiconductors	UP	UP	
SPLV	S&P 500 Low Volatility	UP	DOWN	
VEA	Developed Markets ex-US	DOWN	DOWN	
VNQ	REITs	DOWN	DOWN	
VUG	Vanguard growth	UP	UP	
XHB	Homebuilders	DOWN	DOWN	
XLB	Materials	DOWN	DOWN	
XLC	Comunication services	UP	UP	
XLE	Energy	DOWN	DOWN	
XLF	Financials	DOWN	DOWN	
XLI	Industrials	DOWN	DOWN	
XLK	Technology	UP	UP	XXX
XLP	Consumer Staples	UP	UP	XXX
XLU	Utilities	UP	UP	XXX
XLV	Health Care	UP	UP	
XLY	Consumer Discretionary	DOWN	DOWN	
XME	Metals & Mining	DOWN	DOWN	
XRT	Retail	DOWN	DOWN	

Investment implications of the above table

1. Price momentum – rising prices are more likely to continue to go up than decline.
2. Relative strength momentum – rising relative strength is likely to continue to increase because it is a function of the degree of success or failure of a company.

It is simply amazing how the strongest stocks remain the best performing even in a vicious down market as we have been experiencing. This is the main reason we are going to be active buyers of **AAPL**, **MSFT**, **V**, and **AMZN** as soon as the market gives signs of stabilizing. They are likely to be superb performers in the next bull market. The particularly attractive stocks and ETFs have been flagged with "**XXX**".

Editor. Since 1977.

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***Market Update:* Sunday, March 29, 2020**
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THE FRAMEWORK OF OUR INVESTMENT STRATEGY

Financial history repeats itself. Why not take advantage of it!

The following information and charts closely reflect the approach to managing portfolios and portfolio risk discussed in Dr. George Dagnino's books *Profiting in Bull or Bear Markets* (McGraw-Hill Education) available also in Mandarin, *Easy Ways to Beat the Market with ETFs* and *Investing Wisely - It is Easier Than You Think.*

THE US BUSINESS CYCLE

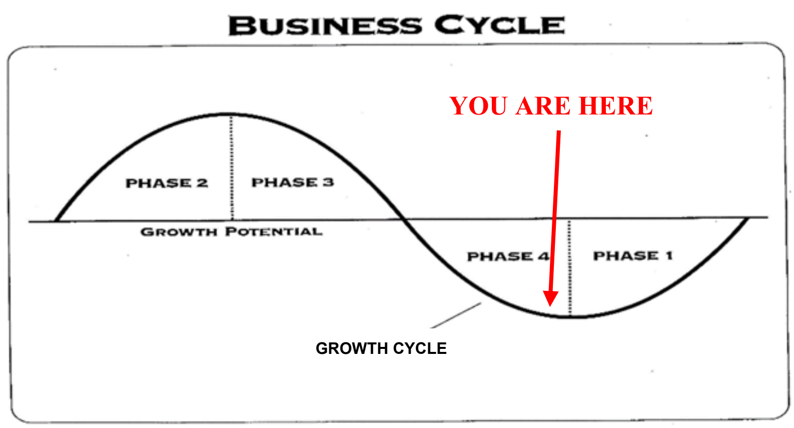


Fig. 4. The business cycle is in Phase 4. In this phase the economy keeps slowing down. Short-term interest rates, bond yields and inflation decline. Housing and auto sectors are weak. Earnings growth declines and credit risk rises. The stock market is more volatile.

1. **Autos and housing** (see Fig. 5). Firm.
2. **Capital expenditures** (see Fig. 6). Anemic.
3. **Manufacturing employment** (see Fig. 7). Weak.
4. **Inventories (**see Fig. 8). Bullish.
5. **Commodities** (see Fig. 9). Weak. Gold is sinking.
6. **Inflation** (see Fig. 10). Stable.
7. **Interest rates** (see Fig. 11). Yields close to a top.
8. **The Dollar** (see Fig. 12). Firm.
9. **Stock market - long-term** (see Fig. 13, 14). Cautious.
10. **Stock market - near-term** (see Fig. 15). Down.
11. **Foreign markets** (see Fig. 16 to Fig. 19). Stalled and underperforming the US market.

The investment environment – The Fed is aggressively increasing liquidity in the system to improve its functioning. The outcome is short-term interest rates are back down to zero percent. Congress is ready to aggressively help consumers and small and large companies with generous funding. Inventories are at low levels. The US economy is doing particularly well especially when compared to the rest of the world. The conditions are being set for a resumption of the bull market and growth in business activity. It will take time and patience.
PS. In the second edition of each month we typically show the leading indicators of the OECD. They announced these data will not be published in March but will be available again in April.

Autos and housing – holding up

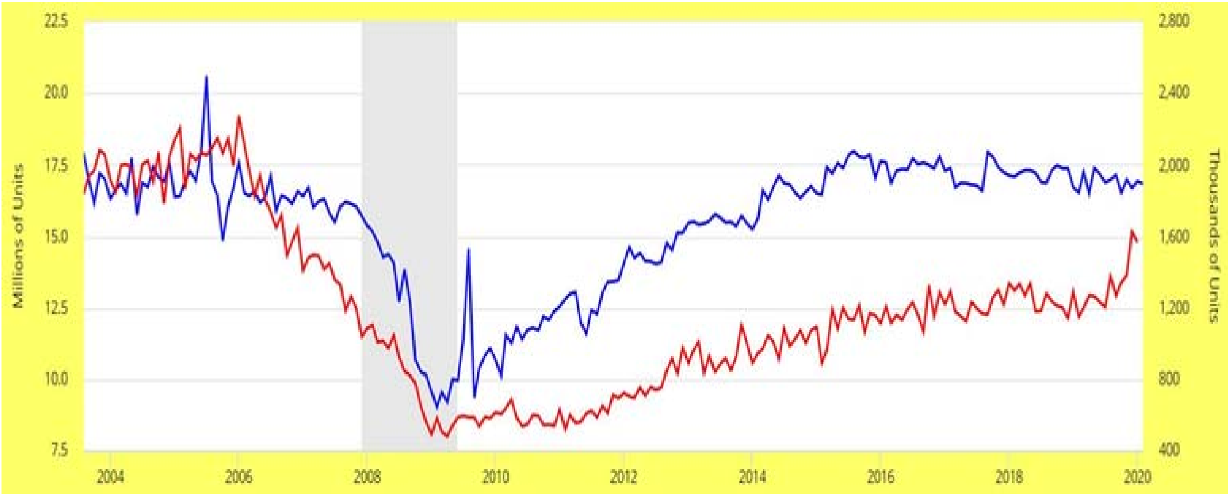


Fig. 5. **Auto sales (blue, left) are holding up at high levels. Housing starts (red, right) are strong thanks to lower long-term interest rates. These graphs are still showing an economy on a sound footing.**

Capital expenditures and production – anemic

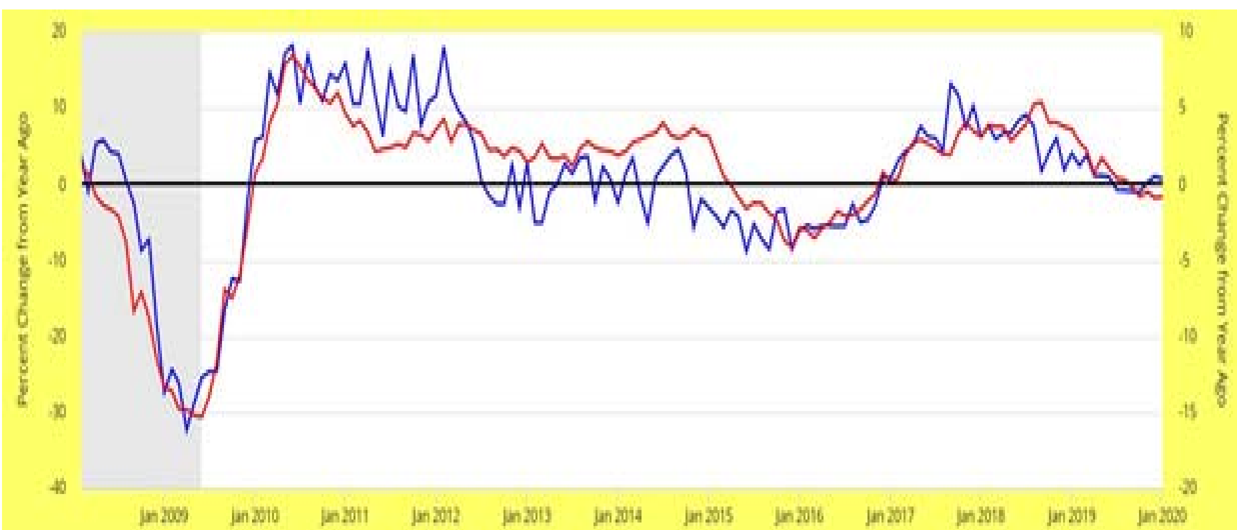


Fig. 6. **Growth in capital expenditures (blue) and industrial production (red) is close to 0.0%. It reflects a struggling manufacturing sector.**

Manufacturing employment - weak

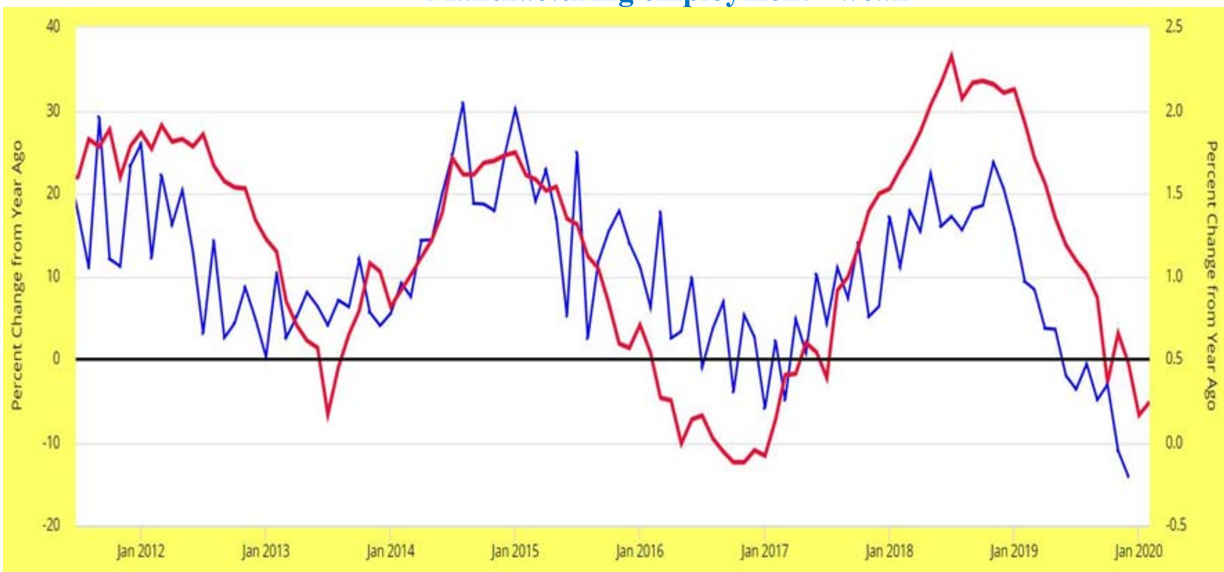


Fig. 7. The growth of manufacturing employment (red, right) shows very clearly the pattern of the business cycle. The decline of this graph shows the economy remains in a slowdown pattern – which is still justifying a defensive strategy. The contraction in job openings (blue, left) points to slow growth in employment.

Inventories – bullish

Fig. 8. The decline in the inventory/sales ratio reflects an increase in sales relative to inventories. It means manufacturing will be forced to increase production to replenish inventories. We should see employment in manufacturing increasing in the not-so-distant future. It is interesting to note the stock market bottomed in 2016 when the I/S ratio peaked.

Commodities – weak

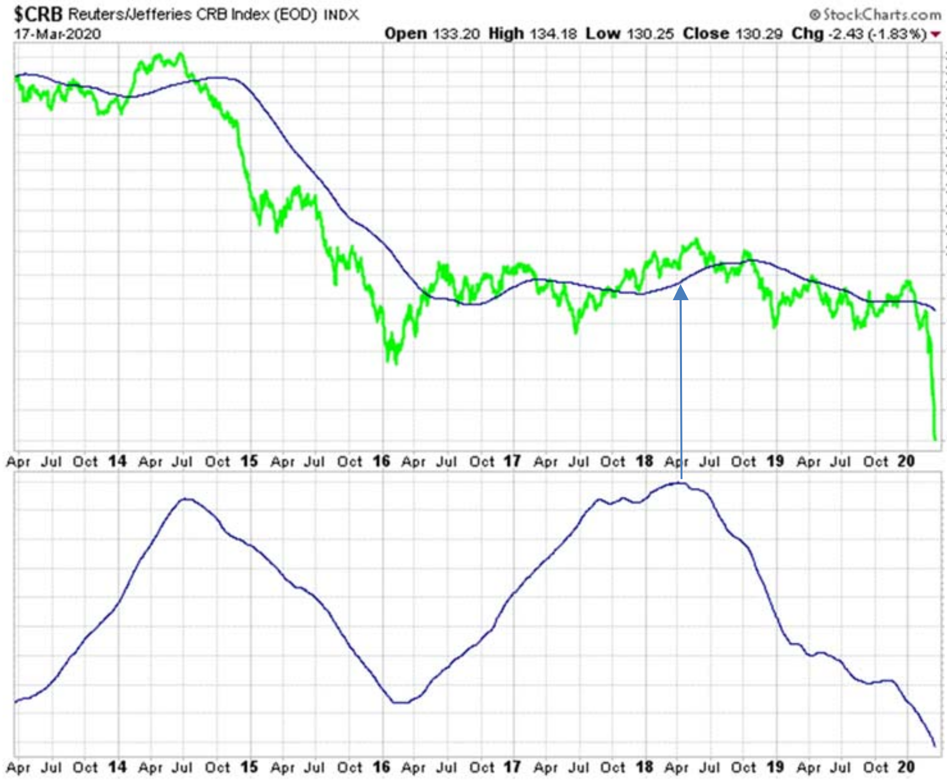


Fig. 9. The CRB commodity index follows closely our real-time business cycle indicator (lower panel). It will decline as long as the business cycle is weakening.

Inflation – rising

Fig. 10. Consumer (red) and producer (green) prices rose +2.3% y/y and +1.21% y/y. Our leading indicator of inflation (blue) reflects rising inflation pressures.

Bond prices – in uptrend

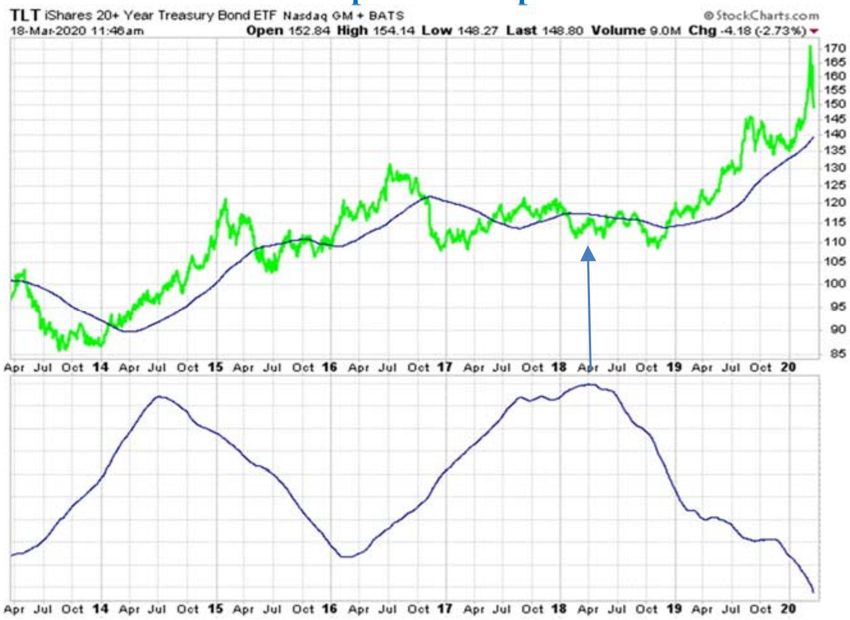


Fig. 11. The price of long-term Treasury bonds (ETF: TLT) remains in an uptrend as long as TLT rises above its 200-day moving average and our real-time business cycle indicator declines, reflecting a weakening economy.

Dollar – firm

Fig. 12. The Dollar (upper panel) will stay strong as long as the US and global economy weaken. It will decline when our real-time business cycle indicator (lower panel) rises, reflecting a strengthening economy.

GLOBAL STOCK MARKETS

US long-term outlook: defensive – but bullish signs are beginning to appear
Liquidity (see Fig. 13). Positive signs.
Spreads (see Fig. 14). Positive trends.

US near-term technical outlook: down
Momentum (see Fig. 15). Down.

Foreign markets (Fig. 16, Fig. 17, Fig. 18, Fig. 19): They have stalled and keep underperforming the US stock market. Note how the main turning points remain the same among all equity markets. The Chinese market has outperformed the S&P 500 since early February.

Liquidity – rising sharply

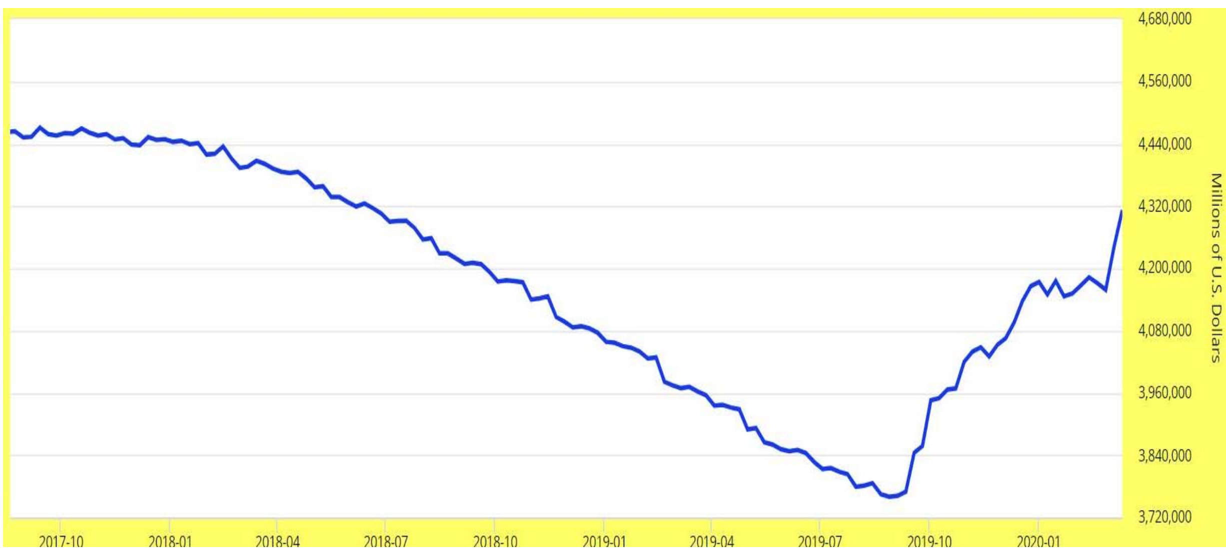
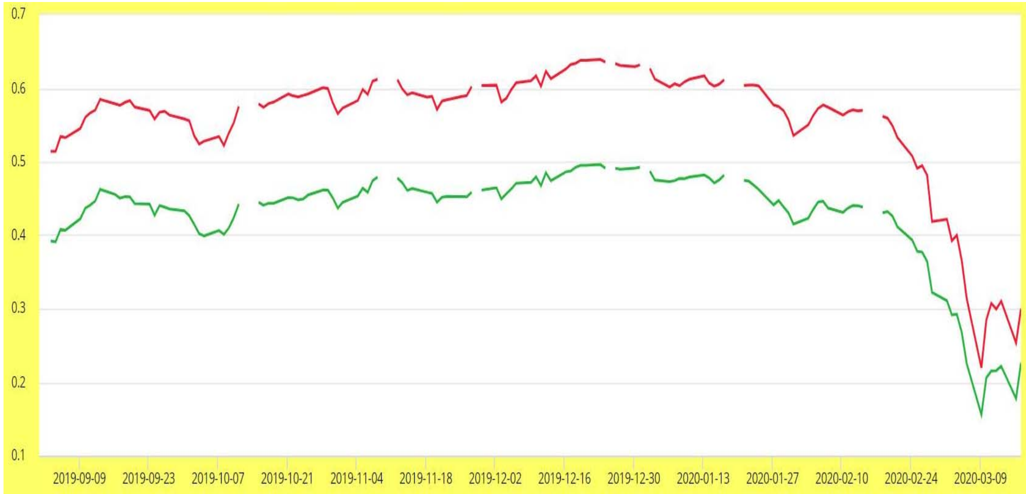


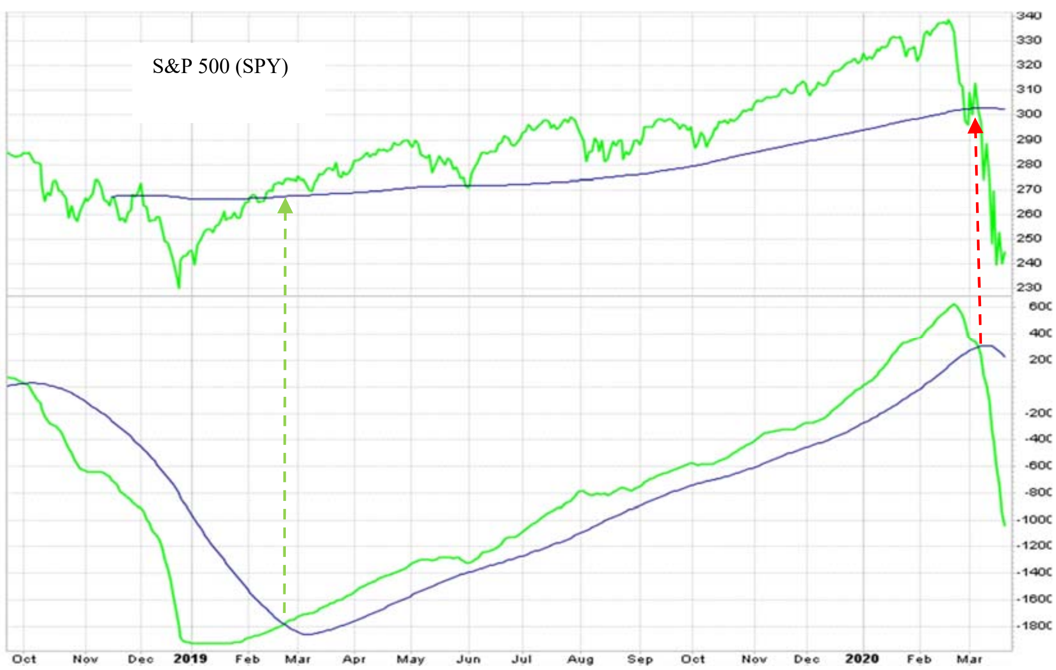
Fig. 13. Liquidity has been rising sharply since mid-February. This huge injection of money will eventually support a strong move on the upside in equity prices.

Bond spreads (inverted) – bullish



<u>Fig. 14.</u> Bond spreads (inverted in the chart) -- a measure of credit risk – has stabilized. This is very good news because it shows the positive market response to the action of the Fed. This is a bullish development.

Near-term momentum - bearish



<u>Fig. 15.</u> This indicator (lower panel) suggests the bottom will take place when 1) the green line turns up and 2) the green line rises above the blue line. In the meantime, it pays to be defensive.

ALL WORLD MARKET INDEX EX-US (VEU)

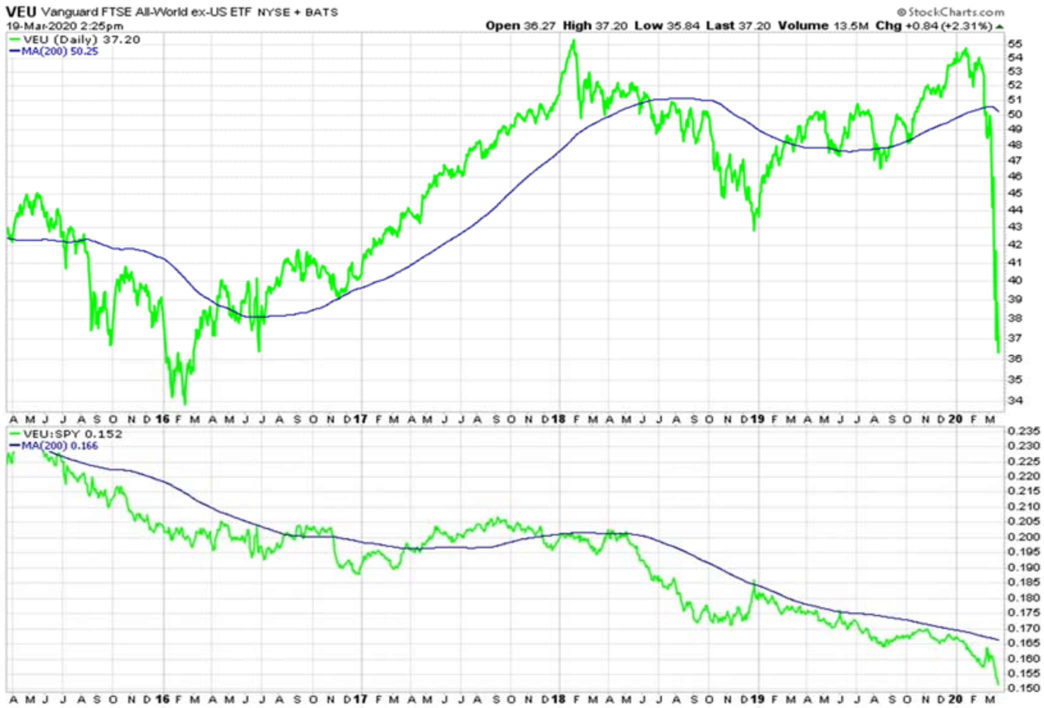


Fig. 16. The "rest of the world" market has stalled and is underperforming the US market. The graphs in the lower panel show the strength of the world market relative to the S&P 500. Note how all the equity markets have perfectly synchronized turning points at major tops and bottoms.

EUROPE (IEV)

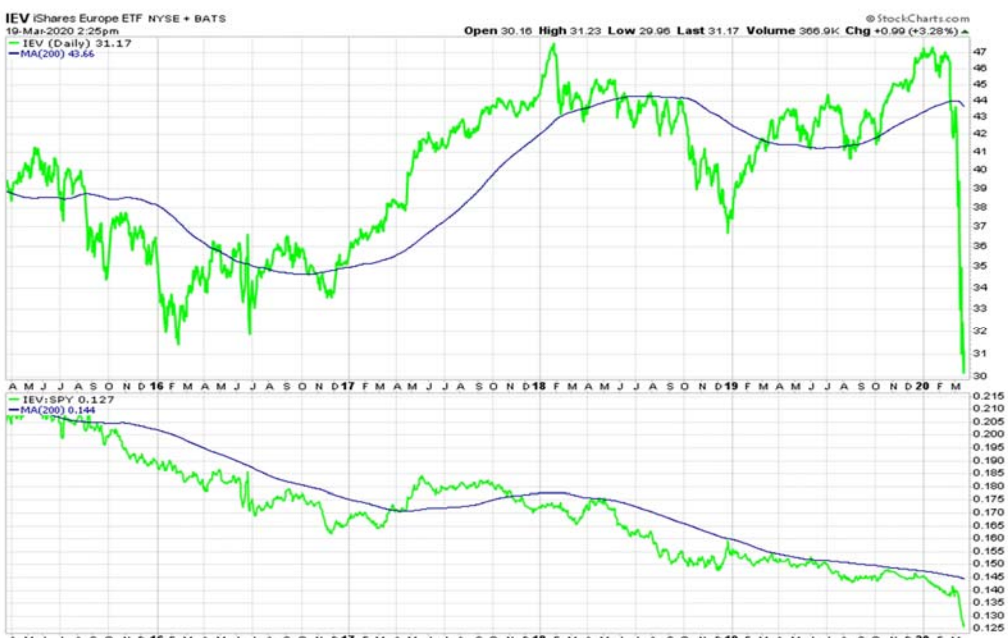


Fig. 17. The European market has stalled and is underperforming the US market. The graphs in the lower panel show the strength of the European market relative to the S&P 500.

CHINA (GXC)

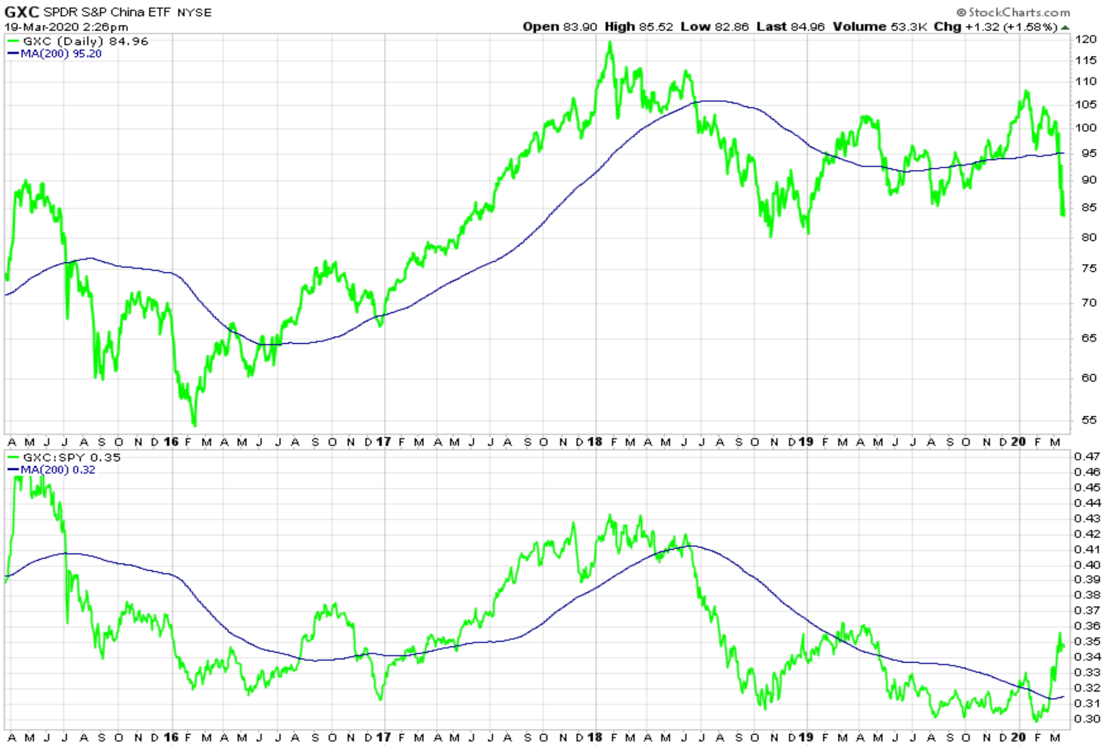


Fig. 18. The Chinese market has stalled like all other global markets. Its performance, however, has outperformed the S&P 500 since early February (see lower panel) – probably thanks to their progress in fighting the Covid-19 virus.

EMERGING MARKETS (EEM)

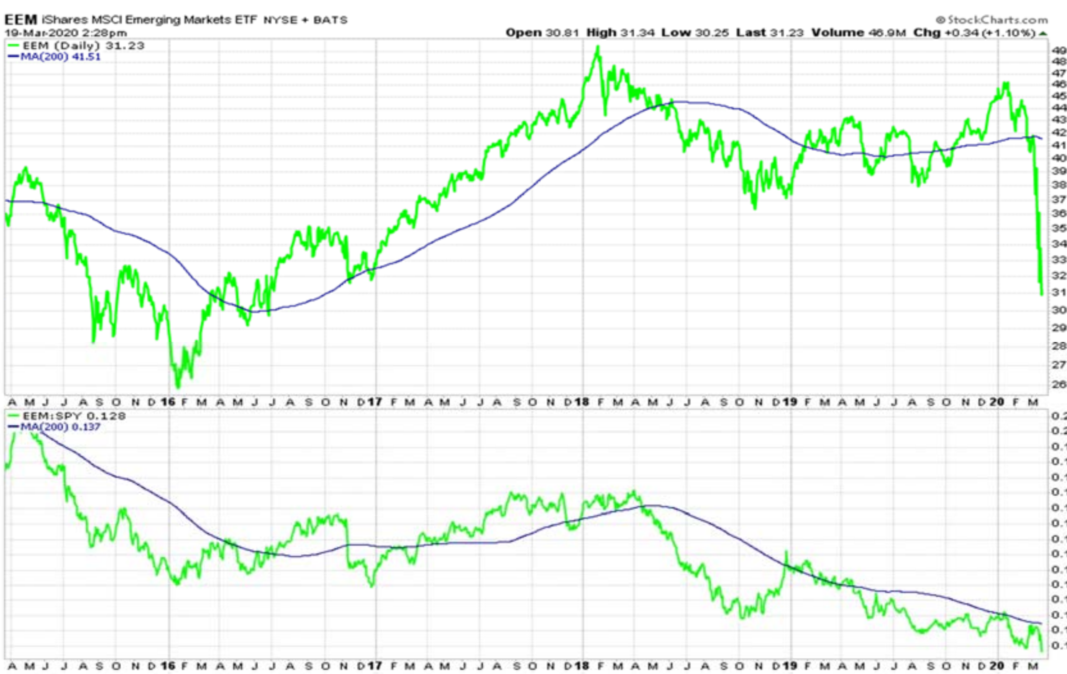


Fig. 19. The emerging markets have stalled and are underperforming the US market. The graphs in the lower panel show the strength of the emerging markets relative to the S&P 500.

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