INVESTMENT FRAMEWORK

MARKET SENTIMENT
Are asset classes in positive or negative trends? How are asset classes trending relative to each other?

FEDERAL RESERVE ACTIVITY
Expansionary or Restrictive?

VALUATIONS
How expensive are assets? Where do they stand relative to historical prices?

ECONOMIC ACTIVITY
Is the economy growing or shrinking?
Behavioral finance is the study of the influence of psychology on our decision making regarding investments, budgeting, and other financial aspects of our lives.

The final behavioral tool we have tested over the last few months is Syntoniq. This tool was by far the most scientific and the most complex. The cornerstone of their process is the my3B Advisor system. This system is a trademarked, custom-developed psychological assessment tool designed specifically for financial advisors to use with their clients. After the clients take a long questionnaire, the advisor will get a very detailed report that educates them on the biases, behaviors, and blind spots that may be affecting their client’s investment decisions. The system’s output is impressive – it will generate a more detailed, advisor friendly report as well as a client friendly deliverable. In addition, Syntoniq will provide extensive training and resources on how to complete the process and how to present the results to your clients.

Syntoniq works very closely with financial companies and individuals in improving their product and process, and they are always using new scientific methods to analyze the data. Although this tool takes longer to learn and may take time to implement into your business, it is by far the most robust and has strong academics backing its process. This tool would be a good fit for a financial advisor who exercises a disciplined approach to financial planning, who has a more rules based system in selecting investments, and who believes behavioral management adds value to their relationships.

Syntoniq provides a lot of free resources and educational tools on their website. They also provide advisors with a 30 day free trial. We encourage you to learn more by visiting their website.
**Economic Activity**
- The ECRI Weekly leading index moved up to 144.8 from 144.4 last week. Year-over-year it is down -0.2%.
- Existing home sales were down -2.2% last month.
- Durable goods orders dropped -1.1%.
- New Home Sales were down -0.7%.

**Equity Markets**
- Equity markets were higher last week, with the S&P 500 (IVV) breaking to new highs.
- The Vanguard global stock market index (VT) was up 1.31% last week.
- Energy was the top industry group (XLE).
- High beta and value led the pack from a factor perspective. High beta (SPHB) finished higher by 3.06% and value (VLUE) closed up 2.69%.

**Intermarket**
- Lumber moved to a new positive trend against gold, closing higher by over 5%. It broke above its 40-week moving average.
- Small caps gained against large caps.
- Stocks moved higher against bonds and gold (VT/IEF, VT/GLD).
- High yield bonds were higher against long-term Treasuries.

**Fixed Income, Commodities, Currencies**
- 10-year U.S. Treasury yields increased 4 basis points.
- High yield bonds were the top performing bond market segment, closing at a new all time high (JNK).
- Crude oil (West Texas) closed higher by over 5% last week.
- The CRB commodity index finished up 1.49%.
- The U.S. dollar closed up 0.61%, reclaiming its 40-week moving average.
- Bitcoin closed up 4.75% for the week.

**Markets were once again stronger last week.** The S&P 500 and Nasdaq 100 ETFs (IVV & QQQ) broke to new all-time weekly highs. That is certainly not bearish. Internals are diverging (making lower highs) and we still do not have an all-clear signal from intermarket relationships. However, the market action is encouraging. Especially considering that international markets have shown leadership recently. Offensive sectors and factors showed leadership over defensive sectors and factors. We are watching for breakouts and continued leadership that could point to an accelerating economic environment.
Chart of the Week: Corporate profits as a percentage of GDP have been slowing for years now. A breakdown below the recent lows could indicate that an economic contraction is closer than we realize. Right now, the data is suggestive of a continued slowdown.
Durable goods orders dropped -1.1% month-over-month. Troubles at GM and Boeing probably did not help the headline number.
New single family homes sold were down -0.7% last month. The trend is still positive in this data set however.
Core Capex Orders are pointing to a continued slowdown in economic growth in the U.S. This is contrary to the optimism seen by market participants.

Shaded regions denote U.S. recessions
Source: Gluskin Sheff, Haver Analytics

Core Capex Orders - YoY % Change (3-Month MA)
Stocks were stronger last week, led by transports (IYT) and the Nasdaq 100 (QQQ). Volatility moved significantly lower and the VIX closed below 13.

### MARKET SUMMARY

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Energy (XLE) led all industry groups, closing higher by 4.37%. Technology was also stronger on the week, gaining 2.48% and breaking to new all-time highs. Real estate (XLRE) lagged, dropping -1.05%.
High beta led all factors (SPHB), followed closely by value (VLUE). Low volatility and dividend growth were relatively weak with the low vol factor ETF (SPLV) closing lower by -0.22% and the dividend growth ETF finishing flat (VIG).
U.S. 10-year yields finished higher by 4 basis points, knocking down Treasury bonds. High yield bonds broke to new all-time highs (JNK) closing up 0.36%.
The CRB index finished up 1.49% last week. Lumber led all commodities, closing higher by over 6%. Crude oil was a close second moving up over 5%. Agricultural products were the laggards, closing lower by -1.22%.
Bitcoin closed up 4.75% last week. The U.S. Dollar moved higher by 0.61%. The Yen was also stronger against the Euro and Australian Dollar. Defensive currencies moved higher in conjunction with a risk-on equities environment. Interesting breakdown in correlation.
International Developed markets (EFA) moved higher by another 1.13% last week and have clearly broken out to new intermediate-term highs. EFA has further to climb before confirming the breakout by the S&P 500.
The S&P 500 (IVV) broke to new all-time highs last week, gaining 1.24%. The S&P 500 has continued to march higher this year, despite a broad economic slowdown and likely earnings recession. The resiliency of U.S. stocks in the face of economic uncertainty has been impressive.
The Nasdaq 100 ETF (QQQ) also broke to a new all-time high. It remains above its rising 40-week moving average and is confirming the move higher in the S&P 500.
The VIX was smashed lower last week, breaking below 13. If the VIX breaks below 12, it would indicate that the market is entering a lower volatility regime and could signal a continued upward move in stocks. Furthermore, it could suggest an economic acceleration is on the horizon.
Utilities dropped against financials last week and the ratio (XLU/XLF) is approaching its 200 day moving average. A breakdown in this relationship would suggest higher interest rates and potentially higher economic growth is on the horizon. Currently the trend is still in favor of utilities.
Retail moved higher against the broad market last week (XRT/SPY). This ratio is close to testing its falling 200-day moving average. A break above could suggest a move higher in cyclical sectors and factors. However, the trend remains negative currently.
Low volatility stocks (SPLV) dropped against high beta equities (SPHB) by over 3% last week. The ratio of SPLV to SPHB remains in a positive trend. A breakdown below the 200-day moving average by this ratio would suggest that an offensive rotation is probable. Also, this could indicate that growth expectations are picking up, which would be encouraging. Right now, the trend is still in favor of low volatility stocks.
U.S. 10-year Treasury note yields moved higher by 4 basis points last week. The benchmark yield is now at 1.80, still lower than the recent high of 1.90% reached in September. The trend is still negative for Treasury yields as they are well-below their falling 40 week moving average.
High yield bonds (JNK) broke to new all-time highs and remain in a positive price trend. They are above their rising 40-week moving average. This is encouraging from a risk-taking standpoint.
Credit spreads between CCC high yield bonds and Treasuries remain elevated at 10.58%. This suggests that credit risk is still on the rise despite the move higher in high yield bond ETFs. A breakout to the upside in spreads could indicate that risk-off sentiment is accelerating in the fixed income world. We want to see credit spreads moving lower in confirmation of U.S. stocks.
Lumber is back above its 40-week moving average relative to gold. The ratio has successfully held support and moved back to a positive trend. This is indicative of positive risk sentiment and improving economic conditions. This ratio is confirming the move higher in stocks and lower in volatility. We hope this ratio can continue to march higher.
Global stocks moved higher against bonds last week and the ratio (VT/IEF) broke above its 40-week moving average. We would like to see this ratio confirm the move higher in equities by breaking to new highs. Currently, that is not the case and this ratio is making a series of lower highs since peaking in early 2018.
Stocks gained against gold last week as well (VT/GLD), however the ratio remains below its 40-week moving average. This ratio is also negatively diverging from the price trend of global stocks. This ratio is making a series of lower highs and lower lows while the broad market is making higher highs and higher lows.
With the S&P 500 at all-time highs, it would be nice if measures of market internals were also reaching all-time highs. However, that is not currently the case. All measures of market internals for the S&P 500 are making lower highs while the price index is making higher highs. The divergence has been present for the bulk of 2019. Are market internals suggesting that the move higher in the S&P 500 is one giant headfake?
**The Good:**
- The S&P 500 and Nasdaq 100 ETFs (IVV & QQQ) broke to new highs.
- High yield bonds broke to new all-time highs (JNK).
- International stocks led domestic (VEU/VTI).
- Cyclical sectors and factors showed leadership.
- The lumber to gold ratio is back above its 40-week moving average.

**The Bad:**
- Market sentiment is negative, as the risk-free asset is outperforming both international and domestic equities as well as high yield bonds in a majority of time frames.
- The Yen and dollar remain in a positive trend relative to risk-on currencies (i.e. Euro).
- Measures of market internals are negatively diverging from price.

**The Ugly:**
- The 4-week moving average of the ECRI WLI is still negative year-over-year.
- Small caps are in a negative long-term trend against large caps.
- Defensive factors remain stronger than offensive factors.

**Underweights:**
- Credit, Growth, Cycicals, Small Caps, Developed markets, private equity, venture capital, private credit.

**Overweights:**
- Treasuries, Low Volatility, Utilities, REITs, Technology, Consumer Staples, Dividend Growth, High Quality, long-short hedge funds, CTAs, global macro, private real estate.
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