



The Effective Investor

A Synthesis of Key Global Macro Economic, Thematic, and Market Trends
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November 4, 2013

Upcoming Blue Marble Research Events

Podcasts

Markets, Economy, Politics, & Innovation
November: tba

2013/14 Topical & Educational

November 15: NYSSA "Global Infrastructure" conference

December 8 – 10: IMN "Global Indexing & ETF" conference

December 12: CFA Society San Francisco "US Economic Outlook & Beware the Next Black Swan" seminar

February tba: CFA Society Seattle "US Economic Outlook & Beware the Next Black Swan" seminar

2014 Market Forecast

January 7: New York Society of Security Analysts

January 15: CFA Society of South Florida (Boca Raton)

January 16: CFA Society Louisiana (New Orleans)

February 4: CFA Society Phoenix

February 5: CFA Society Tucson

February 11: CFA Tampa Bay

February 13: CFA Society Jacksonville

Global Markets at a Glance: Weekly Change

Week ending November 1, 2013	ETF	Last	Prior Week	Net Change	Pct. Change	Rel. Perf.*
Key Global Equity Markets						
S&P 500		1761.64	1759.77	1.87	0.11%	n/a
Total World Stock Index	VT	57.58	58.00	-0.42	-0.72%	-0.83%
EAFE	EFA	65.56	66.46	-0.90	-1.35%	-1.46%
Emerging Markets	EEM	42.47	42.74	-0.27	-0.63%	-0.74%
Europe 350	IEV	45.64	46.49	-0.85	-1.83%	-1.93%
Emerging Europe	GUR	42.24	43.38	-1.14	-2.63%	-2.73%
Asia Pacific ex-Japan	EPP	49.74	50.15	-0.41	-0.82%	-0.92%
Key Global Markets - Non Equity						
US Treasury 20 year	TLT	106.19	108.29	-2.10	-1.94%	-2.05%
Corporate High Quality	LQD	114.51	115.32	-0.81	-0.70%	-0.81%
Corporate High Yield	HYG	92.82	93.63	-0.81	-0.87%	-0.97%
Dollar Index	UUP	21.75	21.34	0.41	1.92%	1.82%
Gold	GLD	126.95	130.46	-3.51	-2.69%	-2.80%
Commodity Index	DBC	25.43	25.86	-0.43	-1.66%	-1.77%
US Economic Sectors						
Consumer Discretionary	XLY	63.56	63.31	0.25	0.39%	0.29%
Consumer Staples	XLP	42.51	42.02	0.49	1.17%	1.06%
Energy	XLE	86.08	86.60	-0.52	-0.60%	-0.71%
Financials	XLF	20.62	20.86	-0.24	-1.15%	-1.26%
Healthcare	XLV	53.12	52.74	0.38	0.72%	0.61%
Industrials	XLI	48.97	48.76	0.21	0.43%	0.32%
Basic Materials	XLB	43.67	44.24	-0.57	-1.29%	-1.39%
Information Technology	IYV	82.28	82.05	0.23	0.28%	0.17%
Telecommunications	IYZ	29.07	29.15	-0.08	-0.27%	-0.38%
Utilities	XLU	39.06	39.20	-0.14	-0.36%	-0.46%
US Size & Styles						
Mega Cap	OEI	78.74	78.47	0.27	0.34%	0.24%
Mid Cap	MDY	234.73	235.62	-0.89	-0.38%	-0.48%
Small Cap	IUR	102.94	104.61	-1.67	-1.60%	-1.70%
Micro Cap	IWC	69.27	71.17	-1.90	-2.67%	-2.78%
High Beta	SPHB	28.64	28.64	0.00	0.00%	-0.11%
Low Volatility	SPLV	32.68	32.68	0.00	0.00%	-0.11%
Lower Quality "Risk" Trade						
US Small Cap	IUR	102.94	104.61	-1.67	-1.60%	-1.70%
Emerging Europe	GUR	42.24	43.38	-1.14	-2.63%	-2.73%
China Small Cap	HAO	25.83	25.83	0.00	0.00%	-0.11%
Latin America Small Cap	LATM	19.78	20.59	-0.81	-3.93%	-4.04%
India Small Cap	SCIF	27.91	27.55	0.36	1.31%	1.20%
* versus S&P 500						

Equity Markets Scorecard

- Valuation models: -1
- Market Indicators – long term: +1
- Market Indicators – near term: +2
- US Economic Sectors: +2
- US Economic Indicators: +1
- Global Economic Indicators: -2
- Subjective: -1

- Current reading: +2

Key Market Factors

- Valuation: Neutral/Negative
- Corporate Cash Flows/Earnings: Positive
- Corporate Growth Rates: Neutral
- Risk (Uncertainty): Negative
- Financial Markets Liquidity: Positive

Parameters	Implied Equity Exposure
Highly Bullish: +11 to +14	90 to 120%
Bullish: +6 to +10	60 to 90%
Neutral: +5 to -5	50 to 80% current reading
Bearish: -6 to -10	30 to 50%
Highly Bearish: -11 to -14	-30 to +30%

What's Inside This Report

- Observations
- Global Thematic Scan
- Section I: Primary Valuation Models
- Section II: Economic Analysis
- Section III: Market Analysis
- Section IV: US Economic Sectors Analysis

Observations On The Global Economy and Markets

The Fine Art of Investment Sausage Making

The analysis and recommendations made in this and previous reports (as well as blog postings and media appearances) all rest with the hybrid approach taken. It is a blend of fundamental, thematic, and technical (market intel) analysis, with the fundamental and thematic analysis taking the justifiably larger part of the decisions being made with a special and respectful recognition to the role market intel plays.

In this regard, here's what the current picture suggests:

- Fundamental analysis suggests a cautious to very cautious view of the equity markets.
- Thematic analysis has a mixed view with a longer-term degree of high bullishness and shorter term outlook of bearishness.
- Market Intel analysis suggests the market players are still dancing to the music being sounded by central banks.

The blend of the fundamental and thematic analysis produces a worrisome picture whereby that the (necessary) central bank actions are having on the real economy is creating an equally distortion effect on the financial economy. Liquidity is then the common denominator elixir that lubricates one (real economy) and intoxicates the other (financial economy)*.

Since the fundamental and thematic perspective is derived from a top-down, global macro perspective, with a strong nod to those hard to quantify/upstream global macro factors, the conclusion reached is one of great concern for the state of global economy. A global economy that is running on the fumes of artificial stimuli and the distortions produced by central government planning is sure to find itself – in time – with an empty tank of fuel.

But all this must be checked against the message of the market. And that message has been quite constructive. Momentum and divergence indicators being the main ingredients in this investment blender, the story can be summed up in three words – bullish, bullish, bullish.

Investment Strategy Implications

The struggle is to blend the three forces – fundamental, thematic, and technical/market intel – into a longer term, sustainable investment strategy that can stand the test of time.

If one were to put the above into a scenario matrix, the equity exposure might look like this:

- Fundamental 50%
- Thematic 70 to 80%
- Market Intel 100%
- Blended conclusion 75%

Of course, those who function with a very high degree of confidence that one discipline is all that is needed and choose to ignore other disciplines and/or who have decided to rely upon economic downstream results (bottom up investors) and the more traditional approach to macro economic analysis (traditional investor types), will likely reach a different conclusion. Such is the art of investment sausage making.

*This fact coupled with the current market structure produces a stock market that rises with the belief that skill and speed will save the equity market “playas” from the next Black Swan event**.

**Memo to the Nobel prize judges: Please consider someone who does work on the changed market structure and stop rewarding those who propagate fantasy stories of efficient markets.

Global Thematic Scan (GTS)

The main focus of the Global Thematic Scan (GTS) is to capture news, commentaries, and other items of interest that appear in the media and elsewhere that are relevant to the global trends and themes evaluated in this report, on my blogs, and in the media and live events appearances made and, therefore, the investment decision-making process. GTS is an extension of the recently formed New York Society of Security Analysts' Global Thematic Committee, which I chair. **Note: some of the links below may require a subscription.**

This week's Global Thematic Scan excerpts focus on the US economy starting with comments by the FOMC.

1 – FOMC Minutes

Federal Reserve Bank, October 30, 2013

"Taking into account the extent of federal fiscal retrenchment over the past year, the Committee sees the improvement in economic activity and labor market conditions since it began its asset purchase program as consistent with growing underlying strength in the broader economy. However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. Accordingly, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month."

<http://www.federalreserve.gov/newsevents/press/monetary/20131030a.htm>

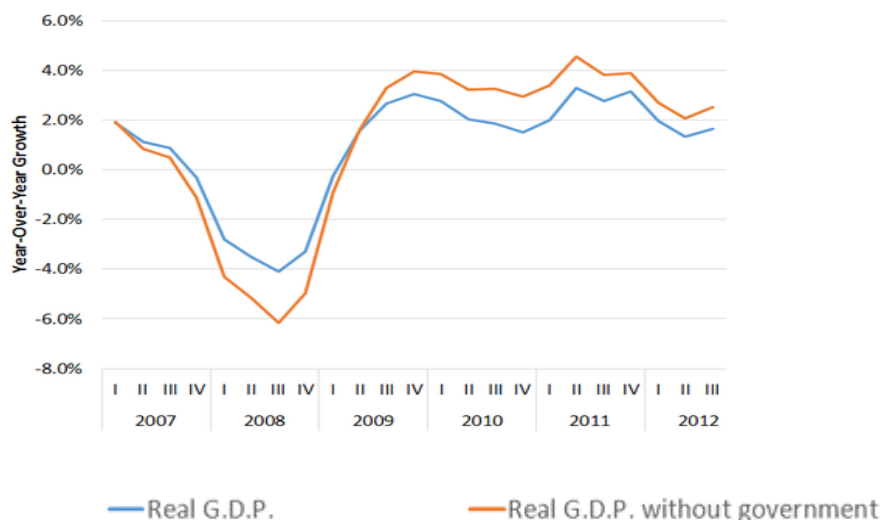
2 – Slower Growth: It's Not Just Government

NY Times Economix, October 31, 2013

Re the above statement by the Federal Reserve... I disagree. The chart below shows year-over-year changes in real growth in gross domestic product for the total economy and minus the government. You can see how the stimulus (increased government spending) helped offset some of the Great Recession back in August 2009. And lately, when you take out the fiscal drag, the private economy is clearly growing faster.

But it too has decelerated, and of course, despite silly declarations to the contrary ("the government doesn't create jobs!" — except that there are currently 22 million government jobs), the two sectors are highly interdependent. And they're both (a) decelerating and (b) growing too slowly."

Two Pictures of Economic Growth



<http://economix.blogs.nytimes.com/2013/10/31/slower-growth-its-not-just-government/?src=recg>

Section I: Primary Valuation Models

Market Derived Models: Fair Value Model, Modified Fed Model

Fair Value Model							
S&P 500							
current level	current p/e	future value	future p/e				
1761.64	16.37	1955.42	16.65				
Fair Value							
S&P 500							
est. level	current p/e	st. future v	future p/e				
1614.15	15.00	1644.02	14.00				
Net							
-147.49	-8.37%	-311.40	-15.92%				
Notes:							
1 - Future value based on historical growth rate for large cap US equities of 11%							
2 - Current p/e ratio derived by dividing current px by approx. S&P Cap IQ consensus estimates for past 12 months of \$105							
3 - Future p/e ratio derived by dividing future value px by approx. S&P Cap IQ consensus estimates for the next 12 months of \$115							

Modified Fed Model						
Current Levels		Analysis				
S&P 500	1761.64	Exp. Return 11% Zone Calculation				
10 Yr. Tsy	2.62%	17.00 Ave. P/E Ratio				
		1955 Ave. S&P 500 price level				
Data as of Nov. 1, 2013		11.00% Ave. potential return				
		5.89% Ave. Earnings Yield				
		2.62% 10 yr US Tsy rate				
		Earnings yield minus 10 yr US Tsy rate				
				3.27%		-0.13%
		S&P 500	EY	10 yr	EY-10 yr	
5 wk trend	25-Oct	1759.77	5.90%	2.50%	3.40%	0.04%
	18-Oct	1744.50	5.95%	2.59%	3.36%	-0.05%
	11-Oct	1704.00	6.09%	2.68%	3.41%	-0.08%
	4-Oct	1690.50	6.14%	2.65%	3.49%	-0.02%
	27-Sep	1691.75	6.13%	2.62%	3.51%	0.18%
The model's math The earnings yield is found by taking the 10 year US Treasury rate then increasing or decreasing it progressively to achieve an 11% average expected return which coincides with the estimated consensus operating earnings for the next 12 months. (The estimated consensus operating earnings for the S&P 500 is \$115.)						
This figure is then subtracted from the current 10 rate to achieve the spread result e.g. The higher the spread, the more bullish the conclusion.						

Comments

The Modified Fed Model produced a slight decline in readings as rates rose while equity prices did as well. This action produced a net reduction in the earnings yield to 10 year US Treasury spread producing a 13 basis point decline to 3.27%. However, 3.27% is still well above the range of what is considered normalcy, which is 2 to 3%. Of course, no account is made for the fact that the Fed's actions distort the spread. And determining where rates should be (sans Fed intervention) is something the market needs to sort out once (if ever?!?) the Fed's intervention reduces (tapering) and ends.

Conclusion

I am certain anyone who has read this report over the past several month knows the drill: One model says overvalued (Fair Value), the other (Modified Fed Model) says not.

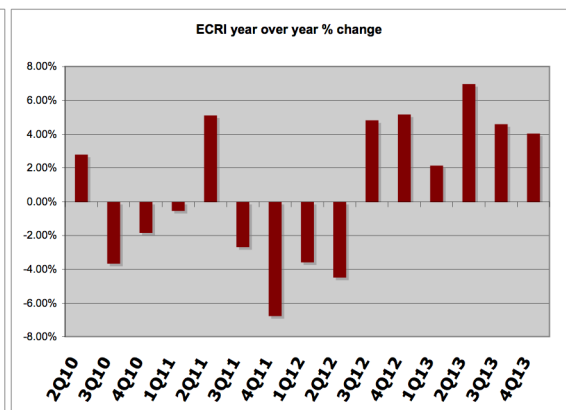
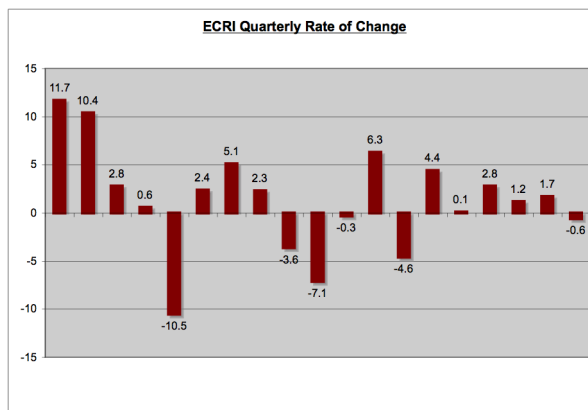
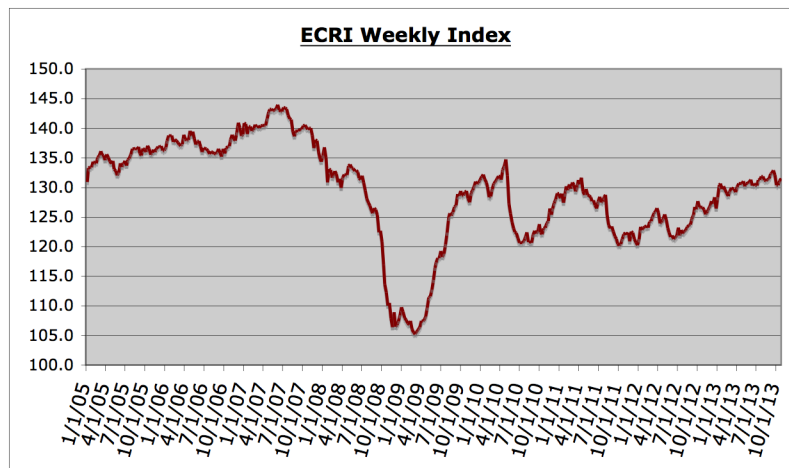
Note: The P/E ratios assigned to the current and future (next twelve months) have been adjusted to reflect the realities of history.

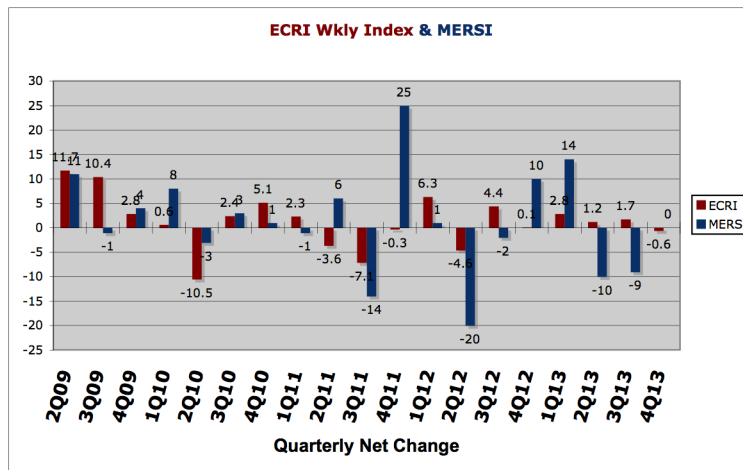
Note: Valuation Model assumptions and other important information can be found at the end of this report.

Section II: Macro Economic Analysis: Pulse of the US Economy

US Economic Week Ahead: November 4 - November 8, 2013				Last Week: October 28 - November 1, 2013					
	Consensus	Consensus Range	Prior		Actual	Consensus	Consensus Range	Prior	Prior Revised
Monday, November 4, 2012				Monday, October 28, 2012					
Factory Orders - M/M change	0.3 %	0.0 % to 2.0 %	-2.4 %	Industrial Production - M/M change	0.6 %	0.4 %	0.1 % to 0.8 %	0.4 %	
Factory Orders - M/M change	1.7 %	0.6 % to 2.5 %	-2.4 %	Capacity Utilization Rate - Level	78.3 %	78.0 %	77.7 % to 78.4 %	77.8 %	77.9 %
				Manufacturing - M/M	0.1 %	0.3 %	0.2 % to 0.4 %	0.7 %	0.5 %
Tuesday, November 5, 2013				Tuesday, October 29, 2013					
ISM Services (non manufacturing)	54.5	52.4 to 56.0	54.4	PPI - M/M change	-0.1 %	0.2 %	-0.2 % to 0.4 %	0.3 %	
Wednesday, November 6, 2013				PPI less food & energy - M/M change					
Leading Economic Indicators - M/M change	0.7 %	0.4 % to 0.8 %	0.7 %	Retail Sales - M/M change	-0.1 %	0.0 %	-0.4 % to 0.5 %	0.2 %	
				Retail Sales less autos - M/M change	0.4 %	0.3 %	0.0 % to 0.9 %	0.1 %	
Thursday, November 7, 2013				Consumer Confidence - Level					
Real GDP - Q/Q change - SAAR	2.0 %	1.5 % to 2.7 %	2.5 %		71.2	75.0	70.0 to 79.0	79.7	80.2
GDP price index - Q/Q change - SAAR	1.4 %	0.9 % to 1.9 %	0.6 %	Wednesday, October 30, 2013					
Consumer Credit - M/M change	\$12.0 B	\$8.7 B to \$16.0 B	\$13.6 B	CPI - M/M change	0.2 %	0.2 %	0.0 % to 0.3 %	0.1 %	
				CPI less food & energy	0.1 %	0.2 %	0.1 % to 0.2 %	0.1 %	
Friday, November 8, 2013				FOMC Meeting Announcement					
Nonfarm Payrolls - M/M change	120,000	-300,000 to 168,000	148,000		0 to 0.25 %	0 to 0.25 %	0 to 0.25 %		
Unemployment Rate - Level	7.3 %	7.2 % to 7.6 %	7.2 %	Thursday, October 31, 2013					
Average Hourly Earnings - M/M change	0.2 %	0.1 % to 0.2 %	0.1 %	No major US economic indicators were reported					
Av Workweek - All Employees	34.5 hrs	34.4 hrs to 34.5 hrs	34.5 hrs	Friday, November 1, 2013					
Private Payrolls - M/M change	128,000	110,000 to 170,000	126,000	ISM Mfg Index - Level	56.4	55.0	52.5 to 57.0	56.2	
Personal Income - M/M change	0.3 %	0.1 % to 0.4 %	0.4 %	PMI Manufacturing Index	51.8			52.8	
Consumer Spending - M/M change	0.2 %	0.1 % to 0.4 %	0.3 %						
PCE Price Index - M/M change	0.1 %	0.1 % to 0.2 %	0.1 %						
Core PCE price index - M/M change	0.1 %	0.1 % to 0.2 %	0.2 %						
Consumer Sentiment (Reuters/U of Mich)	75.0	72.0 to 77.0	73.2						

Macro Economic Reports Surprise Indicator (MERSI) 4Q13: (5 weeks)					
week ending	11/1	10/25	10/18	10/11	10/4
Above Consensus	3	2	0	2	1
At Consensus (or n/a)	6	5	0	7	8
Below Consensus	-3	-4	0	0	-1
Weekly Net	0	-2	0	2	0
Qtrly Cum.	0	0	2	2	0
Note: Judgment is exercised whenever a revised number is meaningfully different from the previously reported data thereby offsetting the current data and potentially altering the final reading.					
Results are considered above/positive or below/negative based on their potential impact to corporate earnings and/or the general economic environment.					
All forecasts are taken as of the start of the week and not adjusted for last minute changes.					





Comments

Note: The data tracked has been expanded to reflect the current state of the US economy. The goal over the next several months will be to expand the indices tracked even further to cover the global economy and key elements of it.

What the data show is the same story unchanged for several years: a US economy hovering just about stall speed. There's enough growth to support both the global economy and corporate profits but not enough to justify the US Federal Reserve from reducing its extraordinary intervention actions.

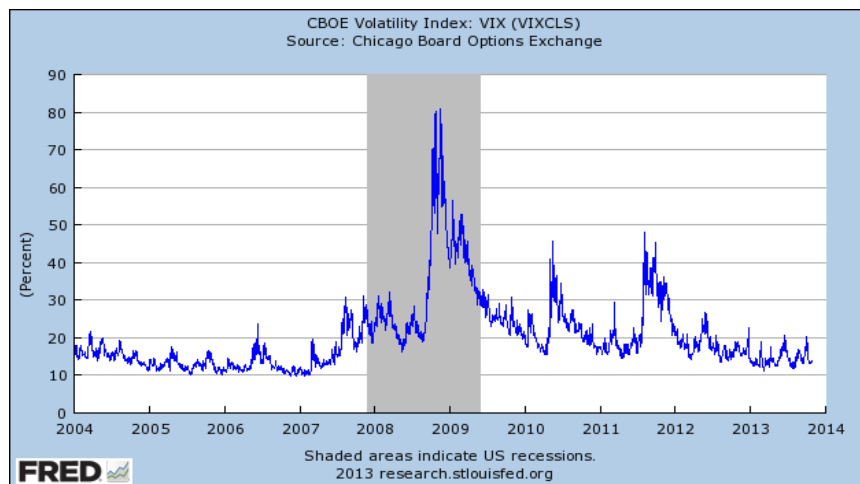
Conclusion

Unchanged. Close to stall speed but not enough to produce a downside alarm.

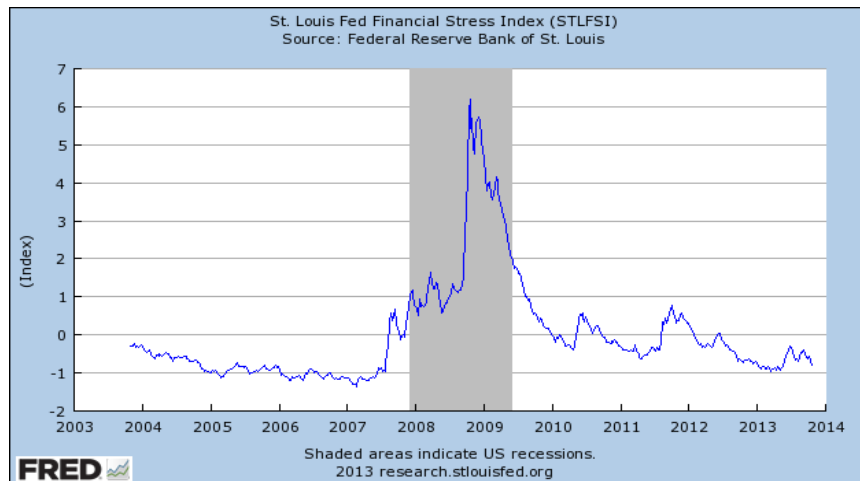
Note the charts on the next page, which reflect the state of the US economy from a financial stress perspective.

The 3 charts on the following page illustrate key aspects of the US economy.

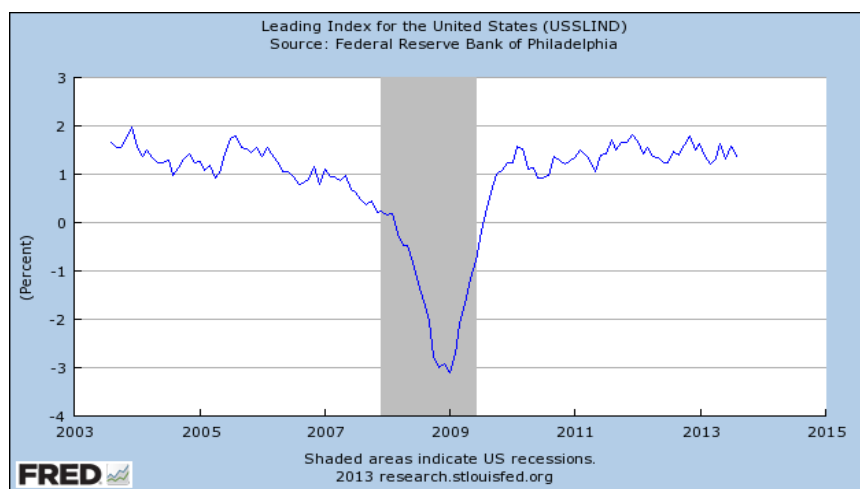
US Economy: Volatility Index



US Economy: Financial Stress



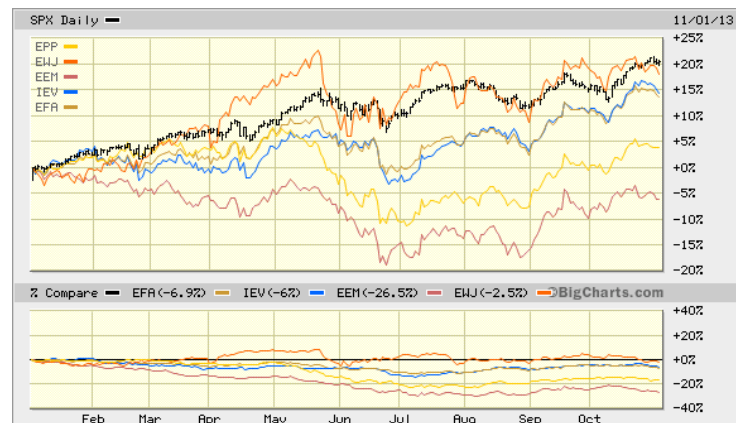
US Economy: Leading Economic Index



Section III: Market Intelligence

week ending November 1, 2013	Index		
Long Term Indicators	SPX	EFA	EEM
Mega Trend	Bullish	Bullish	Neutral
Components			
Price rel to 50 Day MA	Above	Above	Above
Price rel to 200 Day MA	Above	Above	Above
50 Day MA rel To 200 day MA	Above	Above	Above
Slope 50 day MA	Up	Up	Up
Slope 200 day MA	Up	Up	Flat
Intermediate Term Indicators			
MACD	Neutral	Positive	Positive
Directional Movement Index	Positive	Positive	Positive
Short Term Indicators - Daily			
MACD	Positive	Neutral	Negative
Directional Movement Index	Positive	Positive	Negative
10 Day MA rel to 50 Day MA	Above	Above	Above
Notes: MA (moving averages) are exponential moving averages			
Intermediate & Long Term Indicators use weekly price charts, Short Term Indicators use daily price chart			
Scoring: Bullish, etc. = +1; Neutral, etc. = 0; Bearish, etc. = -1			

Relative Performance – key global markets: US (SPX), EAFE (EFA), emerging markets (EEM), Europe 350 (IEV), Japan (EWJ), Asia Pacific ex Japan (EPP)



Comments

Some very modest slippage (emerging markets on a short term basis) in the overall bull case.

Conclusion

Unchanged. Diminishing signs of weakness but not sufficient enough to drive a change in the bullish longer term trends in place. Liquidity – economic and financial markets – remains solidly supportive of the bull case. **However, as will be noted in future reports, liquidity is getting somewhat distorted with dealer inventories and fund flows getting further and further out of alignment.**

The 3 Major Markets over the past 2 years featuring their Mega Trends and intermediate term momentum indicators.

Developed Economies: US Large Cap (S&P 500)



Developed Economies: Non-US Large Cap (EAFE)



Developing Economies: Emerging Markets



Section IV: US Economic Sectors – Data and Analysis

Key Fundamental Data

Quarterly & Annual EPS	2012					2013				
S&P 500 Sector	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3E	Q4E	Year
Consumer Discretionary	4.80	5.30	5.57	6.22	21.93	5.36	6.21	6.26	6.87	24.71
Consumer Staples	5.03	5.54	5.71	6.05	22.33	5.40	5.86	6.02	6.35	23.63
Energy	11.43	11.47	11.57	11.93	46.33	11.68	10.46	10.73	11.60	44.47
Financials	4.70	4.21	4.79	4.38	18.07	5.22	5.34	4.93	5.07	20.56
Health Care	8.78	8.92	8.74	8.26	34.70	9.03	9.21	9.04	8.67	35.95
Industrials	5.56	6.23	5.92	5.68	23.36	5.71	6.28	6.39	6.41	24.79
Information Technology	8.77	8.72	8.20	10.09	35.79	8.77	8.35	8.68	10.71	36.50
Materials	4.46	4.40	3.07	3.00	14.93	4.46	3.94	3.31	3.40	15.11
Telecommunication Services	1.77	1.97	2.02	1.13	6.89	2.08	2.07	2.58	2.03	8.76
Utilities	2.96	2.76	3.99	2.68	12.38	2.99	2.73	4.05	2.53	12.30
S&P 500	25.39	25.69	26.05	26.36	103.47	26.71	26.92	27.22	28.51	109.36
S&P MidCap 400	12.84	13.74	14.13	13.82	54.54	13.29	15.00	16.23	17.37	61.89
S&P SmallCap 600	5.28	5.51	5.58	5.25	21.62	5.81	6.32	7.46	7.80	27.39

Oper. EPS % Changes	S&P 500			S&P MidCap 400			S&P SmallCap 600		
S&P Sectors	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
Consumer Discretionary	7.4	12.7	17.0	23.6	15.0	20.1	8.0	31.3	25.4
Consumer Staples	5.4	5.8	10.2	11.4	0.6	26.5	27.9	6.7	24.0
Energy	(4.9)	(4.0)	12.7	(34.8)	28.7	18.3	(74.4)	289.1	61.3
Financials	14.1	13.8	7.2	35.6	5.5	5.6	42.9	25.2	16.2
Health Care	1.8	3.6	6.9	2.2	32.8	27.8	2.5	6.4	40.8
Industrials	8.7	6.1	9.9	14.3	15.4	16.0	13.4	15.5	15.2
Information Technology	6.1	2.0	11.0	(12.1)	17.2	39.4	(17.5)	59.4	50.7
Materials	(11.8)	1.2	20.1	2.9	14.2	24.5	(8.6)	6.7	54.0
Telecommunication Services	(2.1)	27.1	24.2	(23.7)	(94.1)	715.3	(38.7)	(7.3)	22.3
Utilities	(3.3)	(0.6)	4.5	14.5	5.5	NA	(3.9)	9.9	0.7
S&P Indexes	4.5	5.7	10.8	8.4	13.5	18.9	5.0	26.7	28.3
S&P/Citigroup Growth	2.4	6.5	15.8	5.9	13.6	21.5	3.5	15.7	29.9
S&P/Citigroup Value	(1.0)	14.8	10.0	11.0	13.0	16.7	7.0	38.4	27.1

Key Market Intel Data

		Indicators				Mega Trend components						Indicators					
		Long Term	Price	Price	50 day	Slope of	Slope of	Intermediate Term	Weekly MACD	DMI	Net						
US Economic Sector	ETF	Mega Trend	re to 50 day	re to 200 day	rel to 200 day	50 day	200 day	Weekly MACD	DMI	Net							
Consumer Discretionary	XLY	Bullish	Above	Above	Above	Up	Up	Positive	Positive	2							
Consumer Staples	XLP	Bullish	Above	Above	Above	Up	Up	Neutral	Positive	1							
Energy	XLE	Bullish	Above	Above	Above	Up	Up	Positive	Positive	2							
Financials	XLF	Bullish	Above	Above	Above	Up	Up	Neutral	Positive	1							
Healthcare	XLV	Bullish	Above	Above	Above	Up	Up	Neutral	Positive	1							
Industrials	XLI	Bullish	Above	Above	Above	Up	Up	Positive	Positive	2							
Basic Materials	XLB	Bullish	Above	Above	Above	Up	Up	Positive	Positive	2							
Info Tech	IYW	Bullish	Above	Above	Above	Up	Up	Positive	Positive	2							
Telecom	IYZ	Bullish	Above	Above	Above	Up	Up	Positive	Positive	2							
Utilities	XLU	Neutral	Above	Above	Above	Flat	Flat	Neutral	Positive	1							
Bullish/Above/Positive/Up		9	10	10	10	9	9	6	10			Recent US Equity Mkt Performance					
Neutral/At/Flat		1	0	0	0	1	1	4	0								
Bearish/Below/Negative/Down		0	0	0	0	0	0	0	0								
Net - Week ending November 1		9	10	10	10	9	9	6	10	16		S&P 500	Change	Wkly	Pct.		
												1761.64	1.87				
5 week trend - Net								5 week trend - Net									
25-Oct		9	10	10	10	8	9	5	10	15		1759.77	15.27		0.88%		
18-Oct		9	10	10	9	6	9	1	10	11		1744.50	41.3		2.42%		
11-Oct		9	9	10	9	6	9	-2	6	4		1703.20	12.7		0.75%		
4-Oct		9	5	8	9	6	9	-4	7	3		1690.50	-1.25		-0.07%		
27-Sep		9	4	8	9	6	9	-3	8	4		1691.75	-18.16		-1.06%		

Comments

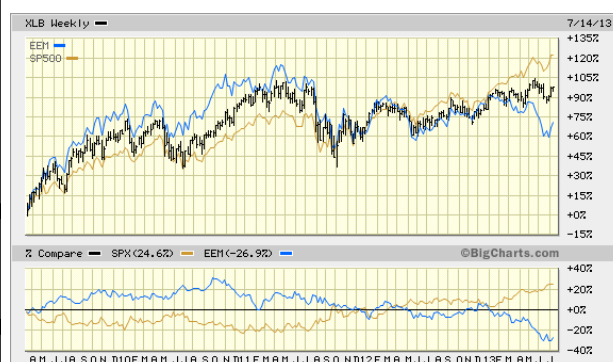
Week in, week out. Same story. No signs of difference from the ten US economic sector indices tracked. All are supportive of the bull case with no signs of divergence from each other or the overall market. The one sign that the above indices and indicators tracked would reveal would be a deterioration of the strength of the current bull run. That does not exist.

Conclusion

Unchanged. The bull has a firm grip on things.

Featured US Economic Sector: Basic Materials (XLB)

Metrics: XLB		Industry Composition and Market Weighting	
# of Industries in sector	15	Basic Materials	3.77%
Current P/E	17.25	Aluminum	0.07%
Rel P/E (to S&P 500)	1.08	Commodity Chemicals	0.17%
Current Yield	2.30%	Construction Materials	0.11%
Est. 3-5 Year EPS Growth	10.64%	Diversified Chemicals	0.82%
PEG ratio	1.62	Diversified Metals & Mining	0.22%
Rel est growth rate	0.87	Fertilizers & Agricultural Chemicals	0.55%
Economic Sensitivity	High	Forest Products	0.02%
Earnings Variability	High	Gold	0.12%
beta	1.2	Industrial Gases	0.36%
Standard Deviation	0.1945	Metal & Glass Containers	0.12%
Rel Std Dev	1.57	Paper Packaging	0.18%
Sharpe Ratio	1.07	Paper Products	0.18%
Market Impact	Low	Precious Metals	0.01%
*P/E, Yield, and beta refer to XLF and are a good representation of the economic sector.		Speciality Chemicals	0.60%
Source: Yahoo!Finance, SPDRS.com.		Steel	0.23%



Comments

The low market impact of this sector (only 3.77% of the total market cap) makes this sector below average importance (low market impact = low portfolio impact). To a large extent, this is a global growth story sector, which is to say that it is an emerging markets story (see second chart above, which shows the sector's ETF performance versus the emerging markets ETF (EEM) and the S&P 500 (SPX), although the recent relative strength versus the emerging markets index could be attributed to the liquidity factors driving US equities as just about anything else. (Which is another way of saying, it's unsustainable.)

Conclusion

This minor market segment has recently shown signs of poor relative market performance since early 2011. A combination of factors seems to be play, with concerns regarding the global growth story being at the top of the list.

In consideration of the fact that the fundamentals of the sector do not make a strong case for the sector (PEG ratio, relative estimated growth rate) and the market intel does not either (standard deviation, beta), it's hard to find reasons to be in this sector to any degree. Accordingly, the analysis suggests an **underweight position** to be appropriate.

Last Week's Portfolio Performance

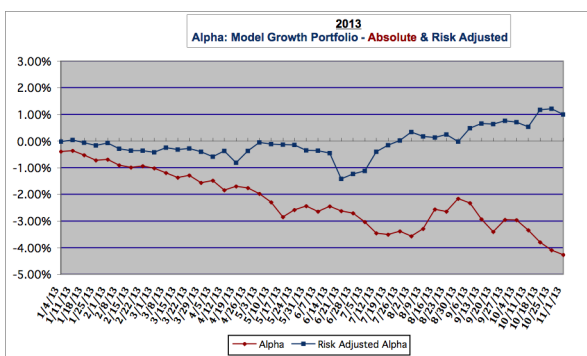
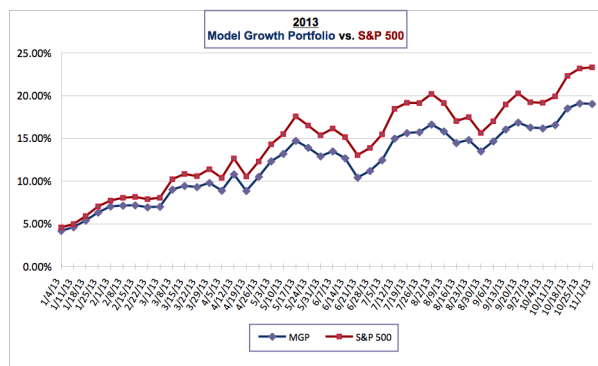
Related Data: Economic Sectors Weightings, Risk Analysis (beta, P/E ratios)

Research. Events. Asset Management.

Performance Data

Year to Date: 2013

Absolute Return Results							Risk Adjusted Return Results						
2013	MGP			S&P 500			Relative Perform.			MGP	Risk Adj	S&P 500	
Period End.	Weekly	QTD	YTD	Weekly	QTD	YTD	Weekly	QTD	YTD	Wkly Ret	beta*	Wkly Ret	alpha
1Q13	n/a	9.80%	9.80%	n/a	11.37%	11.37%	n/a	-1.57%	-1.57%	n/a	n/a	n/a	n/a
2Q13	n/a	1.38%	11.18%	n/a	2.52%	13.89%	n/a	-1.14%	-2.71%	n/a	n/a	n/a	n/a
3Q13	n/a	5.09%	16.27%	n/a	5.33%	19.22%	n/a	-0.24%	-2.95%	n/a	n/a	n/a	n/a
10/4/13	-0.08%	-0.08%	16.19%	-0.07%	-0.07%	19.15%	-0.01%	-0.01%	-2.96%	-0.08%	0.64	-0.13%	-0.06%
10/11/13	0.37%	0.29%	16.56%	0.75%	0.68%	19.90%	-0.38%	-0.39%	-3.34%	0.37%	0.64	0.58%	-0.17%
10/18/13	1.96%	2.25%	18.52%	2.42%	3.10%	22.32%	-0.46%	-0.85%	-3.80%	1.96%	0.64	3.06%	0.42%
10/25/13	0.59%	2.84%	19.11%	0.88%	3.98%	23.20%	-0.29%	-1.14%	-4.09%	0.59%	0.64	0.92%	0.46%
11/1/13	-0.07%	2.77%	19.04%	0.11%	4.09%	23.31%	-0.18%	-1.32%	-4.27%	-0.07%	0.64	-0.11%	0.24%

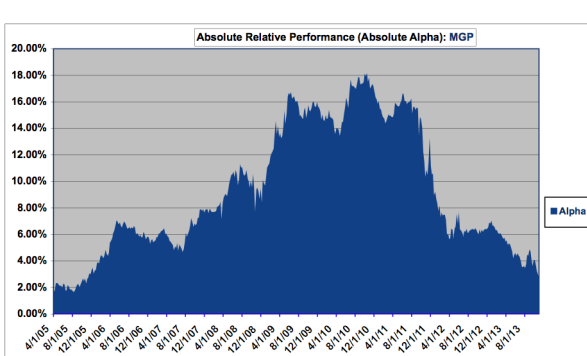
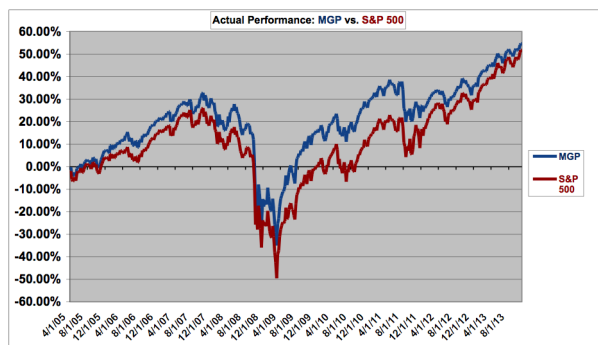


Since Inception (Jan. 2005 to present)

Period	MGP		S&P 500		Relative Perform.		Beat the	Risk Adj Results	Beat the		
Ending	Annual	Cum.	Annual	Cum.	Annual	Cum.	Year	Market?	beta*	YTD	Market?
2005	5.81%	5.81%	2.49%	2.49%	3.32%	3.32%	1	Yes	n/a	n/a	n/a
2006	15.60%	21.41%	13.27%	15.76%	2.33%	5.65%	2	Yes	n/a	n/a	n/a
2007	6.99%	28.40%	5.06%	20.82%	1.93%	7.58%	3	Yes	n/a	n/a	n/a
2008	-37.80%	-9.40%	-40.51%	-19.69%	2.71%	10.29%	4	Yes	n/a	n/a	n/a
2009	25.49%	16.09%	20.73%	1.04%	4.76%	15.05%	5	Yes	n/a	n/a	n/a
2010	14.57%	30.66%	13.55%	14.59%	1.02%	16.07%	6	Yes	n/a	n/a	n/a
2011	-4.92%	25.74%	2.28%	16.87%	-7.20%	8.87%	7	No	n/a	n/a	n/a
2012	9.40%	35.14%	11.57%	28.44%	-2.17%	6.70%	8	No	n/a	n/a	n/a
2013	19.04%	54.18%	23.31%	51.75%	-4.27%	2.43%	9	No	0.64	1.10%	Yes
Average	6.02%	n/a	5.75%	n/a	0.27%	n/a			*beta is the current wgt'd beta for the MGP.		
Performance Analysis											
	MGP		S&P 500		Net						
Avg Annual Ret	6.02%		5.75%		0.27%						
Std Dev	18.59%		18.87%		0.27%						
Sharpe Ratio	2.91		2.74		0.17						
Notes: Cumulative returns are chained linked annually.											

Notes: Cumulative returns are chained linked annually.

Notes: The MGP was created in the spring of 2005. The performance data for it and its benchmark, the S&P 500, is on a price basis only and is the result of chain-linking (stringing together) the weekly performances. The yearly data for the MGP's alpha pre 2013 is unadjusted for risk. If adjusted for risk, the alpha would be substantially higher as the MGP has maintained a below risk exposure throughout its existence. Moreover, if the funds not allocated to equities (e.g. cash) were factored into the equation, the MGP performance data would be meaningfully higher.



MGP Comments

The combination of the 11 basis points underperformance in the Global Consumer Staples coupled with the below average equity exposure conspired to produce a net negative relative performance for the MGP on both an absolute and risk-adjusted basis. Not a big number and certainly nothing to warrant a concern beyond the modest disappointment for one week.

Model Growth Portfolio: Re-balancing

Hard to find a justification to change the below average equity exposure beyond “everybody is playing the game”. When a view blends the fundamental outlook (moderate to strong underweight in equities) with the market intel outlook (fully invested position), the net result is exactly what you might expect – a modest to moderate underweight in equities.

As for the mix of what is recommended, the performance since the last adjustment (July 15) has been good (fine on an absolute return basis, excellent on a risk-adjusted basis).

Accordingly, **no portfolio changes are being recommended at this time.**

Note; Important MGP performance information can be found on the final page of this report.

Section VI: Market Data

All Markets: Weekly Performance – Best to Worst

Global Performers			Prior	Net	Pct.								
Best to Worst	ETF	Last	Week	Change	Change								
1	China - FTSE/Xinhua 25	FXI	37.83	36.43	1.40	3.84%	68	Total World Stock Index	VT	57.58	58.00	-0.42	-0.72%
2	China - S&P	GXC	76.02	74.20	1.82	2.45%	69	Agribusiness	MOO	52.69	53.09	-0.40	-0.75%
3	Ultra Short Basic Materials	SMN	38.98	38.17	0.81	2.12%	70	Asia Pacific ex-Japan	EPP	49.74	50.15	-0.41	-0.82%
4	Inverse Russell 2000	RWM	18.06	17.71	0.35	1.98%	71	High Yield	HYG	92.82	93.63	-0.81	-0.87%
5	Dollar Index	UUP	21.75	21.34	0.41	1.92%	72	Alternative Energy	GEX	55.20	55.71	-0.51	-0.92%
6	China - Real Estate	TAO	21.71	21.34	0.37	1.73%	73	Latin America 40	ILF	39.61	40.00	-0.39	-0.98%
7	Inverse US Treasury	TBF	31.90	31.36	0.54	1.72%	74	Global Utilities	JXI	45.22	45.67	-0.45	-0.99%
8	Solar Energy	KWT	73.36	72.19	1.17	1.62%	75	Global Infrastructure	IGF	39.17	39.59	-0.42	-1.06%
9	India Small Cap	SCIF	27.91	27.55	0.36	1.31%	76	Emerging Latin America	GML	66.00	66.73	-0.73	-1.09%
10	Consumer Staples	XLP	42.51	42.02	0.49	1.17%	77	Financials	XLFI	20.62	20.86	-0.24	-1.15%
11	Steel	SLX	48.50	47.95	0.55	1.15%	78	Emerging Markets Bond	EMB	110.32	111.65	-1.33	-1.19%
12	Hong Kong	EWH	20.54	20.31	0.23	1.13%	79	TIPs	TIP	112.04	113.41	-1.37	-1.21%
13	Copper	JJC	40.47	40.10	0.37	0.92%	80	Regional Banks	IAT	30.91	31.29	-0.38	-1.21%
14	Inverse Small Cap	SBB	15.37	15.23	0.14	0.92%	81	United Kingdom	EWU	20.25	20.50	-0.25	-1.22%
15	BRIC Index	BKF	38.65	38.30	0.35	0.91%	82	Brazil	EWZ	49.62	50.24	-0.62	-1.23%
16	Healthcare Providers	IHF	87.64	87.01	0.63	0.72%	83	Russia	RSX	29.35	29.72	-0.37	-1.24%
17	Healthcare	XLV	53.12	52.74	0.38	0.72%	84	Small Cap Value	IUS	105.53	106.87	-1.34	-1.25%
18	Retailing	XRT	84.55	83.96	0.59	0.70%	85	Networking	IGN	29.75	30.13	-0.38	-1.26%
19	India	PIN	17.35	17.23	0.12	0.70%	86	Global Financials	IXG	54.63	55.34	-0.71	-1.28%
20	Dow Transports	IYT	125.92	125.22	0.70	0.56%	87	Blackrock (asset mgrs)	BLK	303.65	307.61	-3.96	-1.29%
21	Info Tech & Telecom	XLK	33.66	33.50	0.16	0.48%	88	Basic Materials	XLB	43.67	44.24	-0.57	-1.29%
22	Medical Devices	IHI	89.11	88.71	0.40	0.45%	89	Insurance	IAK	44.38	44.96	-0.58	-1.29%
23	Industrials	XLI	48.97	48.76	0.21	0.43%	90	Metals Total Return	RJZ	9.10	9.22	-0.12	-1.30%
24	Aerospace & Defense	ITA	97.45	97.05	0.40	0.41%	91	EAFE	EFA	65.56	66.46	-0.90	-1.35%
25	Consumer Discretionary	XLX	63.56	63.31	0.25	0.39%	92	Japanese Yen	FXY	98.98	100.35	-1.37	-1.37%
26	Metals and Mining	XME	39.82	39.68	0.14	0.35%	93	Coal	KOL	20.04	20.33	-0.29	-1.43%
27	Mega Cap	OEI	78.74	78.47	0.27	0.34%	94	EAFE Growth	EFG	69.45	70.49	-1.04	-1.48%
28	Information Technology	IYW	82.28	82.05	0.23	0.28%	95	Australia	EWA	26.65	27.05	-0.40	-1.48%
29	Large Cap: Dow Industrials	DIA	155.86	155.45	0.41	0.26%	96	Oil & Gas E&P	IEO	82.52	83.77	-1.25	-1.49%
30	Canadian Dollar	FXC	95.37	95.12	0.25	0.26%	97	Spain	EWP	37.46	38.04	-0.58	-1.52%
31	Emerging Asia Pacific	GMF	77.99	77.81	0.18	0.23%	98	Small Cap	IJR	102.94	104.61	-1.67	-1.60%
32	US - S&P 500	SPY	176.21	175.95	0.26	0.15%	99	British Pound	FXB	157.01	159.56	-2.55	-1.60%
33	Preferreds	PGX	13.76	13.74	0.02	0.15%	100	Germany	EWG	29.19	29.68	-0.49	-1.65%
34	Oil Service	OIH	49.44	49.38	0.06	0.12%	101	Commodity Index	DBC	25.43	25.86	-0.43	-1.66%
35	Large Cap Growth	IWG	93.80	93.69	0.11	0.12%	102	Australian Dollar	FXA	94.32	95.99	-1.67	-1.74%
36	S&P 500		1761.64	1759.77	1.87	0.11%	103	Europe 350	IEV	45.64	46.49	-0.85	-1.83%
37	Large Cap Value	IVE	81.98	81.92	0.06	0.07%	104	Emerging Markets Small Cap	EWX	47.28	48.18	-0.90	-1.87%
38	Pharmaceuticals	IHE	109.54	109.47	0.07	0.06%	105	France	EWQ	27.69	28.23	-0.54	-1.91%
39	Water Resources	PHO	24.72	24.71	0.01	0.04%	106	China - Halter USX	PGJ	28.64	29.20	-0.56	-1.92%
40	China Small Cap	HAO	25.83	25.83	0.00	0.00%	107	US Treasury 20 year	TLT	106.19	108.29	-2.10	-1.94%
41	S&P High Beta	SPHB	28.64	28.64	0.00	0.00%	108	Small Cap Growth	IJT	111.67	113.90	-2.23	-1.96%
42	S&P Low Volatility	SPLV	32.68	32.68	0.00	0.00%	109	Private Equity	PSP	12.02	12.27	-0.25	-2.04%
43	Mexico	EWX	65.71	65.72	-0.01	-0.02%	110	Real Estate	VNQ	69.49	71.05	-1.56	-2.20%
44	Mid Cap Growth	IJK	143.89	144.00	-0.11	-0.08%	111	Swiss Franc	FXF	107.43	109.89	-2.46	-2.24%
45	Solar Energy	TAN	37.67	37.70	-0.03	-0.08%	112	Malaysia	EWZ	15.94	16.31	-0.37	-2.27%
46	Oil Equip & Services	IEZ	65.69	65.78	-0.09	-0.14%	113	Euro-Dollar	FXE	133.45	136.58	-3.13	-2.29%
47	Global Consumer Staples	KXI	86.10	86.22	-0.12	-0.14%	114	Real Estate	RWR	76.35	78.15	-1.80	-2.30%
48	Nuclear	NLR	47.15	47.22	-0.07	-0.15%	115	Real Estate	IYR	66.59	68.18	-1.59	-2.33%
49	Korea	EWY	64.35	64.45	-0.10	-0.16%	116	Global Materials	MXI	60.85	62.31	-1.46	-2.34%
50	Canada	EWJ	29.27	29.32	-0.05	-0.17%	117	Agriculture Index	DBA	24.91	25.55	-0.64	-2.50%
51	Media	PBS	24.19	24.24	-0.05	-0.21%	118	Biotech	IBB	206.06	211.51	-5.45	-2.58%
52	Telecommunications	IYZ	29.07	29.15	-0.08	-0.27%	119	Emerging Europe	GUR	42.24	43.38	-1.14	-2.63%
53	Taiwan	EWT	14.41	14.45	-0.04	-0.28%	120	Homebuilders	XHB	30.34	31.17	-0.83	-2.66%
54	Peru	EPW	35.12	35.23	-0.11	-0.31%	121	Micro Cap	IWC	69.27	71.17	-1.90	-2.67%
55	Software	IGV	76.32	76.57	-0.25	-0.33%	122	Gold	GLD	126.95	130.46	-3.51	-2.69%
56	Utilities	XLU	39.06	39.20	-0.14	-0.36%	123	Real Estate	REZ	49.83	51.22	-1.39	-2.71%
57	Mid Cap	MDY	234.73	235.62	-0.89	-0.38%	124	Silver	SLV	21.08	21.71	-0.63	-2.90%
58	Broker Dealers	IAI	34.47	34.61	-0.14	-0.40%	125	Emerging Mid East & Africa	GAF	69.37	71.52	-2.15	-3.01%
59	Singapore	EWS	13.80	13.86	-0.06	-0.43%	126	Chile	ECH	50.02	51.63	-1.61	-3.12%
60	Japan	EWJ	11.78	11.84	-0.06	-0.51%	127	Israel	ISL	15.82	16.34	-0.52	-3.18%
61	Italy	EWI	15.44	15.52	-0.08	-0.52%	128	Swedish Krona	FXS	152.08	157.35	-5.27	-3.35%
62	Mid Cap Value	IJJ	112.52	113.14	-0.62	-0.55%	129	Oil	USO	34.13	35.32	-1.19	-3.37%
63	High Yield	JNK	40.43	40.67	-0.24	-0.59%	130	South Africa	EZA	64.72	67.34	-2.62	-3.89%
64	Energy	XLE	86.08	86.60	-0.52	-0.60%	131	Latin America Small Cap	LATM	19.78	20.59	-0.81	-3.93%
65	Global Wind Energy	FAN	11.19	11.26	-0.07	-0.62%	132	Sweden	EWZ	33.83	35.33	-1.50	-4.25%
66	Emerging Markets	EEM	42.47	42.74	-0.27	-0.63%	133	Brazil Small Cap	BRF	32.16	33.79	-1.63	-4.82%
67	Investment Grade Corp.	LQD	114.51	115.32	-0.81	-0.70%	134	Turkey	TUR	56.55	59.86	-3.31	-5.53%
							135	Natural Gas	UNG	17.45	18.93	-1.48	-7.82%
							136	Gold Miners	GDX	24.08	26.32	-2.24	-8.51%
							137	Indonesia	EIDO	25.01	27.37	-2.36	-8.62%

Comments

The charts on the next page feature 3 interest rate sensitive sectors.

Note: All indices listed above should be assumed to be US unless obviously otherwise. All results are price based only and in US dollars.

Featured Market: Real Estate (XHB)**Featured Market: Global Utilities (JXI)****Featured Market: 30 year US Treasury (TLT)**

Major Global Markets: Year to Date Performance (from Dec. 31, 2012 to present)*

Performance Year to Date (Dec. 31, 2012 - present)						Sorted Rank							
Global Markets	ETF	Current	Dec. 31	net	pct	Global Markets	ETF	Current	Dec. 31	net	pct	alpha	
S&P 500	SPX	1761.64	1426.19	335.45	23.52%	1	S&P 500	SPX	1761.64	1426.19	335.45	23.52%	n/a
EAFE	EFA	65.56	55.73	9.83	17.64%	2	EAFE	EFA	65.56	55.73	9.83	17.64%	-5.88%
Emerging Markets	EEM	42.47	43.17	-0.70	-1.62%	3	Emerging Markets	EEM	42.47	43.17	-0.70	-1.62%	-25.14%
Performance is on a price basis only and is adjusted for dividends and interest earned and paid. Therefore, dividends and interest paid are included. Alpha versus S&P 500													

Performance is on a price basis only and is adjusted for dividends and interest earned and paid. Therefore, dividends and interest paid are included. Alpha versus S&P 500

US Economic Sectors and Styles: Year to Date Performance (from Dec. 31, 2012 to present)*

Performance Year to Date (Dec. 31, 2012 - present)						Sorted Rank							
US Economic Sector	ETF	Current	Dec. 31	net	pct	US Economic Sector	ETF	Current	Dec. 31	net	pct	alpha	
Consumer Discretionary	XLY	63.56	47.15	16.41	34.80%	1	Consumer Discretionary	XLY	63.56	47.15	16.41	34.80%	11.28%
Consumer Staples	XLP	42.51	34.50	8.01	23.22%	2	Healthcare	XLV	53.12	39.53	13.59	34.38%	10.86%
Energy	XLE	86.08	70.76	15.32	21.65%	3	Industrials	XLI	48.97	37.54	11.43	30.45%	6.93%
Financials	XLF	20.62	16.27	4.35	26.74%	4	Financials	XLF	20.62	16.27	4.35	26.74%	3.22%
Healthcare	XLV	53.12	39.53	13.59	34.38%	5	Consumer Staples	XLP	42.51	34.50	8.01	23.22%	-0.30%
Industrials	XLI	48.97	37.54	11.43	30.45%	6	Energy	XLE	86.08	70.76	15.32	21.65%	-1.87%
Basic Materials	XLB	43.67	37.10	6.57	17.71%	7	Telecom	IYZ	29.07	23.90	5.17	21.63%	-1.89%
Info Tech	IYW	82.28	70.31	11.97	17.02%	8	Basic Materials	XLB	43.67	37.10	6.57	17.71%	-5.81%
Telecom	IYZ	29.07	23.90	5.17	21.63%	9	Info Tech	IYW	82.28	70.31	11.97	17.02%	-6.50%
Utilities	XLU	39.06	34.27	4.79	13.98%	10	Utilities	XLU	39.06	34.27	4.79	13.98%	-9.54%
S&P 500	SPX	1761.64	1426.19	335.45	23.52%		S&P 600	IJR	102.94	77.66	25.28	32.55%	9.03%
S&P 400	MDY	234.73	184.61	50.12	27.15%		S&P 400	MDY	234.73	184.61	50.12	27.15%	3.63%
S&P 600	IJR	102.94	77.66	25.28	32.55%		S&P 500	SPX	1761.64	1426.19	335.45	23.52%	n/a

Performance is on a price basis only and is adjusted for dividends and interest earned and paid. Therefore, dividends and interest paid are included. Alpha versus S&P 500

Selected Global Equity Markets: Year to Date Performance (from Dec. 31, 2012 to present)*

Performance Year to Date (Dec. 31, 2012 - present)						Sorted Rank							
Global Markets	ETF	Current	Dec. 31	net	pct		Global Markets	ETF	Current	Dec. 31	net	pct	alpha
S&P 500	SPX	1761.64	1426.19	335.45	23.52%	1	S&P 500	SPX	1761.64	1426.19	335.45	23.52%	n/a
EAFE	EFA	65.56	55.73	9.83	17.64%	2	Japan	EWJ	11.78	9.71	2.07	21.32%	-2.20%
Europe 350	IEV	45.64	38.40	7.24	18.85%	3	Germany	EWG	29.19	24.27	4.92	20.27%	-3.25%
Germany	EWG	29.19	24.27	4.92	20.27%	4	Europe 350	IEV	45.64	38.40	7.24	18.85%	-4.67%
United Kingdom	EWU	20.25	17.68	2.57	14.54%	5	EAFE	EFA	65.56	55.73	9.83	17.64%	-5.88%
Emerging Markets	EEM	42.47	43.17	-0.70	-1.62%	6	United Kingdom	EWU	20.25	17.68	2.57	14.54%	-8.98%
Japan	EWJ	11.78	9.71	2.07	21.32%	7	Asia Pacific ex Japan	EPP	49.74	46.13	3.61	7.83%	-15.69%
Asia Pacific ex Japan	EPP	49.74	46.13	3.61	7.83%	8	Emerging Europe	GUR	42.24	42.90	-0.66	-1.54%	-25.06%
China	FXI	37.83	39.39	-1.56	-3.96%	9	Emerging Markets	EEM	42.47	43.17	-0.70	-1.62%	-25.14%
India	PIN	17.35	18.30	-0.95	-5.19%	10	China	FXI	37.83	39.39	-1.56	-3.96%	-27.48%
Brazil	EWZ	49.62	54.87	-5.25	-9.57%	11	India	PIN	17.35	18.30	-0.95	-5.19%	-28.71%
Emerging Europe	GUR	42.24	42.90	-0.66	-1.54%	12	Brazil	EWZ	49.62	54.87	-5.25	-9.57%	-33.09%

Performance is on a price basis only and is adjusted for dividends and interest earned and paid. Therefore, dividends and interest paid are included. Alpha versus S&P 500

Selected Global Non Equity Markets: Year to Date Performance (from Dec. 31, 2012 to present)*

Performance Year to Date (Dec. 31, 2012 - present)						Sorted Rank								
Global Markets	ETF	Current	Dec. 31	net	pct	Global Markets	ETF	Current	Dec. 31	net	pct	alpha	Yld*	
S&P 500	SPX	1761.64	1426.19	335.45	23.52%	1	S&P 500	SPX	1761.64	1426.19	335.45	23.52%	n/a	2.01%
US Treasury 20 year	TLT	106.19	120.39	-14.20	-11.79%	2	High Yield	JNK	40.43	40.08	0.35	0.87%	-22.65%	6.45%
Inv. Grade Corp.	LQD	114.51	119.87	-5.36	-4.47%	3	Inv. Grade Corp.	LQD	114.51	119.87	-5.36	-4.47%	-27.99%	3.91%
High Yield	JNK	40.43	40.08	0.35	0.87%	4	Commodity Index	DBC	25.43	27.78	-2.35	-8.46%	-31.98%	n/a
Emrg Markets Bond	EMB	110.32	121.48	-11.16	-9.19%	5	Emrg Markets Bond	EMB	110.32	121.48	-11.16	-9.19%	-32.71%	4.60%
Commodity Index	DBC	25.43	27.78	-2.35	-8.46%	6	US Treasury 20 year	TLT	106.19	120.39	-14.20	-11.79%	-35.32%	2.92%
Gold	GLD	126.95	162.02	-35.07	-21.65%	7	Gold	GLD	126.95	162.02	-35.07	-21.65%	-45.17%	n/a

Performance is on a price basis only and is adjusted for dividends and interest earned and paid. Therefore, dividends and interest paid are included. Alpha versus S&P 500

*Yield is on a trailing 12 month basis as of July 30, 2013

*All performance data is on a price basis only and calculated from year-end price.

Global Markets Database: Weekly Results for Global Markets – Developed and Developing

Week ending November 1, 2013	ETF	Last	Prior Week	Net Change	Pct. Change	Rel. Perf.*	3 mo avg Volume	52-Wk Low	52-Wk High	Pct from 52-Wk High	Pct from 52-Wk Low
Global Markets: Regions & Styles											
S&P 500		1761.64	1759.77	1.87	0.11%	n/a	n/a	1343.35	1775.22	-0.76%	31.14%
EAFE	EFA	65.56	66.46	-0.90	-1.35%	-1.46%	15,160,700	51.63	66.96	-2.09%	26.98%
Emerging Markets	EEM	42.47	42.74	-0.27	-0.63%	-0.74%	63,406,300	36.16	45.33	-6.30%	17.46%
EAFE Growth	EFG	69.45	70.49	-1.04	-1.48%	-1.58%	69,989	54.94	70.95	-2.11%	26.41%
Europe 350	IEV	45.64	46.49	-0.85	-1.83%	-1.93%	795,288	35.34	46.57	-2.00%	29.15%
Asia Pacific ex-Japan	EPP	49.74	50.15	-0.41	-0.82%	-0.92%	829,146	42.13	51.65	-3.70%	18.06%
Latin America 40	ILF	39.61	40.00	-0.39	-0.98%	-1.08%	476,928	34.38	46.00	-13.89%	15.21%
Emerging Asia Pacific	GMF	77.99	77.81	0.18	0.23%	0.13%	40,923	67.39	80.93	-3.63%	15.73%
Emerging Mid East & Africa	GAF	69.37	71.52	-2.15	-3.01%	-3.11%	4,914	56.97	74.25	-6.57%	21.77%
Emerging Europe	GUR	42.24	43.38	-1.14	-2.63%	-2.73%	14,974	35.22	45.42	-7.00%	19.93%
Emerging Markets Small Cap	EWX	47.28	48.18	-0.90	-1.87%	-1.97%	77,617	41.88	50.39	-6.17%	12.89%
Global Markets: Eurozone											
Europe 350	IEV	45.64	46.49	-0.85	-1.83%	-1.93%	795,288	35.34	46.57	-2.00%	29.15%
Emerging Europe	GUR	42.24	43.38	-1.14	-2.63%	-2.73%	14,974	35.22	45.42	-7.00%	19.93%
United Kingdom	EWU	20.25	20.50	-0.25	-1.22%	-1.33%	2,310,740	16.64	20.54	-1.44%	21.66%
Germany	EWG	29.19	29.68	-0.49	-1.65%	-1.76%	2,635,720	21.49	29.73	-1.80%	35.85%
France	EWQ	27.69	28.23	-0.54	-1.91%	-2.02%	422,918	20.60	28.35	-2.33%	34.42%
Italy	EWI	15.44	15.52	-0.08	-0.52%	-0.62%	1,361,430	11.54	15.94	-3.11%	33.84%
Spain	EWV	37.46	38.04	-0.58	-1.52%	-1.63%	611,998	26.75	38.96	-3.85%	40.04%
Sweden	EWD	33.83	35.33	-1.50	-4.25%	-4.35%	153,708	26.26	35.70	-5.24%	28.83%
Turkey	TUR	56.55	59.86	-3.31	-5.53%	-5.64%	364,509	47.27	77.40	-26.94%	19.63%
Global Markets: Asia											
Asia Pacific ex-Japan	EPP	49.74	50.15	-0.41	-0.82%	-0.92%	829,146	42.13	51.65	-3.70%	18.06%
Japan	EWJ	11.78	11.84	-0.06	-0.51%	-0.61%	29,410,300	8.75	12.43	-5.23%	34.63%
China - FTSE/Xinhua 25	FXI	37.83	36.43	1.40	3.84%	3.74%	19,034,000	31.35	41.97	-9.86%	20.67%
China - Halter USX	PGJ	28.64	29.20	-0.56	-1.92%	-2.02%	184,497	17.54	31.24	-8.32%	63.28%
China - S&P	GXC	76.02	74.20	1.82	2.45%	2.35%	195,040	60.01	77.90	-2.41%	26.68%
China Small Cap	HAO	25.83	25.83	0.00	0.00%	-0.11%	95,492	21.12	26.70	-3.26%	22.30%
China - Real Estate	TAO	21.71	21.34	0.37	1.73%	1.63%	21,457	18.93	24.24	-10.44%	14.69%
Taiwan	EWT	14.41	14.45	-0.04	-0.28%	-0.38%	6,208,830	12.48	14.77	-2.43%	15.47%
Hong Kong	EWH	20.54	20.31	0.23	1.13%	1.03%	2,977,580	17.81	21.02	-2.28%	15.33%
India	PIN	17.35	17.23	0.12	0.70%	0.59%	1,237,370	13.50	19.66	-11.75%	28.52%
India Small Cap	SCIF	27.91	27.55	0.36	1.31%	1.20%	109,462	22.25	46.60	-40.11%	25.44%
Korea	EWY	64.35	64.45	-0.10	-0.16%	-0.26%	2,459,740	49.56	66.07	-2.60%	29.84%
Australia	EWA	26.65	27.05	-0.40	-1.48%	-1.59%	1,626,410	22.02	28.15	-5.33%	21.03%
Singapore	EWS	13.80	13.86	-0.06	-0.43%	-0.54%	1,423,790	12.26	14.71	-6.19%	12.56%
Malaysia	EWV	15.94	16.31	-0.37	-2.27%	-2.37%	1,697,110	13.78	16.86	-5.46%	15.67%
Indonesia	EIDO	25.01	27.37	-2.36	-8.62%	-8.73%	709,109	21.06	36.48	-31.44%	18.76%
Global Markets: Mid East, Africa											
Emerging Mid East & Africa	GAF	69.37	71.52	-2.15	-3.01%	-3.11%	4,914	56.97	74.25	-6.57%	21.77%
South Africa	EZA	64.72	67.34	-2.62	-3.89%	-4.00%	400,791	53.37	71.72	-9.76%	21.27%
Israel	ISL	15.82	16.34	-0.52	-3.18%	-3.29%	5,558	12.25	16.36	-3.29%	29.16%
Global Markets: Latin America											
Latin America 40	ILF	39.61	40.00	-0.39	-0.98%	-1.08%	476,928	34.38	46.00	-13.89%	15.21%
Emerging Latin America	GML	66.00	66.73	-0.73	-1.09%	-1.20%	5,354	56.59	77.26	-14.57%	16.63%
Latin America Small Cap	LATM	19.78	20.59	-0.81	-3.93%	-4.04%	3,202	18.05	25.69	-23.01%	9.58%
Brazil	EWZ	49.62	50.24	-0.62	-1.23%	-1.34%	16,202,100	40.68	57.76	-14.10%	21.96%
Brazil Small Cap	BRF	32.16	33.79	-1.63	-4.82%	-4.93%	102,735	28.51	44.17	-27.19%	12.80%
Mexico	EWV	65.71	65.72	-0.01	-0.02%	-0.12%	3,124,800	57.69	76.80	-14.44%	13.90%
Chile	ECH	50.02	51.63	-1.61	-3.12%	-3.22%	295,662	45.84	68.02	-26.46%	9.12%
Peru	EPV	35.12	35.23	-0.11	-0.31%	-0.42%	140,682	31.17	48.00	-26.83%	12.67%
Global Markets: North America											
US - S&P 500	SPY	176.21	175.95	0.26	0.15%	0.04%	114,408,000	134.70	177.51	-0.73%	30.82%
Canada	EWK	29.27	29.32	-0.05	-0.17%	-0.28%	1,304,330	25.61	29.57	-1.01%	14.29%
Mexico	EWV	65.71	65.72	-0.01	-0.02%	-0.12%	3,124,800	57.69	76.80	-14.44%	13.90%
Global Markets: BRICs											
BRIC Index	BKF	38.65	38.30	0.35	0.91%	0.81%	90,394	32.62	42.29	-8.61%	18.49%
Brazil	EWZ	49.62	50.24	-0.62	-1.23%	-1.34%	16,202,100	40.68	57.76	-14.10%	21.96%
Russia	RSX	29.35	29.72	-0.37	-1.24%	-1.35%	3,417,960	23.94	31.16	-5.81%	22.60%
India	PIN	17.35	17.23	0.12	0.70%	0.59%	1,237,370	13.50	19.66	-11.75%	28.52%
China - FTSE/Xinhua 25	FXI	37.83	36.43	1.40	3.84%	3.74%	19,034,000	31.35	41.97	-9.86%	20.67%
China - Halter USX	PGJ	28.64	29.20	-0.56	-1.92%	-2.02%	184,497	17.54	31.24	-8.32%	63.28%
China - S&P	GXC	76.02	74.20	1.82	2.45%	2.35%	195,040	60.01	77.90	-2.41%	26.68%
* versus S&P 500											

Global Markets Database: Weekly Results for US Economic Sectors, Industries and Styles

Week ending November 1, 2013	ETF	Last	Prior Week	Net Change	Pct. Change	Rel. Perf.*	3 month Average				
US Econ. Sectors, Selected US and Global Industries							Volume	52-Wk Low	52-Wk High	Pct from 52-Wk High	Pct from 52-Wk Low
Consumer Discretionary	XLY	63.56	63.31	0.25	0.39%	0.29%	5,574,560	44.66	63.81	-0.39%	42.32%
Retailing	XRT	84.55	83.96	0.59	0.70%	0.60%	3,067,220	59.58	85.04	-0.58%	41.91%
Media	PBS	24.19	24.24	-0.05	-0.21%	-0.31%	123,600	15.44	24.66	-1.91%	56.67%
Consumer Staples	XLP	42.51	42.02	0.49	1.17%	1.06%	7,810,160	33.96	42.99	-1.12%	25.18%
Global Consumer Staples	KXI	86.10	86.22	-0.12	-0.14%	-0.25%	53,209	70.97	87.38	-1.46%	21.32%
Energy	XLE	86.08	86.60	-0.52	-0.60%	-0.71%	9,330,590	67.77	87.62	-1.76%	27.02%
Oil Service	OIH	49.44	49.38	0.06	0.12%	0.02%	3,366,080	36.24	50.61	-2.31%	36.42%
Oil Equip & Services	IEZ	65.69	65.78	-0.09	-0.14%	-0.24%	61,562	47.00	67.45	-2.61%	39.77%
Oil & Gas E&P	IEO	82.52	83.77	-1.25	-1.49%	-1.60%	125,155	58.94	84.99	-2.91%	40.01%
Coal	KOL	20.04	20.33	-0.29	-1.43%	-1.53%	102,111	17.16	26.38	-24.03%	16.78%
Nuclear	NLR	47.15	47.22	-0.07	-0.15%	-0.25%	8,825	38.88	47.70	-1.15%	21.27%
Alternative Energy	GEX	55.20	55.71	-0.51	-0.92%	-1.02%	13,354	29.22	58.27	-5.27%	88.90%
Solar Energy	TAN	37.67	37.70	-0.03	-0.08%	-0.19%	439,391	16.77	41.16	8.48%	124.63%
Solar Energy	KWT	73.36	72.19	1.17	1.62%	1.51%	6,655	27.46	76.73	-4.39%	167.15%
Global Wind Energy	FAN	11.19	11.26	-0.07	-0.62%	-0.73%	85,658	6.15	11.60	-3.53%	81.95%
Financials	XLF	20.62	20.86	-0.24	-1.15%	-1.26%	39,036,000	15.06	21.04	-2.00%	36.91%
Global Financials	IXG	54.63	55.34	-0.71	-1.28%	-1.39%	53,143	41.34	56.00	-2.44%	32.16%
Insurance	IAK	44.38	44.96	-0.58	-1.29%	-1.40%	23,258	31.19	45.61	-2.70%	42.28%
Regional Banks	IAT	30.91	31.29	-0.38	-1.21%	-1.32%	176,398	23.02	31.82	-2.86%	34.27%
Broker Dealers	IAI	34.47	34.61	-0.14	-0.40%	-0.51%	59,869	21.26	34.68	-0.61%	62.14%
Private Equity	PSP	12.02	12.27	-0.25	-2.04%	-2.14%	234,768	9.12	12.38	-2.91%	31.80%
Blackrock (asset mgrs)	BLK	303.65	307.61	-3.96	-1.29%	-1.39%	603,269	185.20	311.32	-2.46%	63.96%
Homebuilders	XHB	30.34	31.17	-0.83	-2.66%	-2.77%	6,168,680	24.01	32.69	-7.19%	26.36%
Real Estate	IYR	66.59	68.18	-1.59	-2.33%	-2.44%	11,820,500	60.84	76.21	-12.62%	9.45%
Real Estate	REZ	49.83	51.22	-1.39	-2.71%	-2.82%	62,578	45.83	57.90	-13.94%	8.73%
Real Estate	VNQ	69.49	71.05	-1.56	-2.20%	-2.30%	3,283,280	61.66	78.86	-11.88%	12.70%
Real Estate	RWR	76.35	78.15	-1.80	-2.30%	-2.41%	228,823	68.31	86.63	-11.87%	11.77%
Healthcare	XLV	53.12	52.74	0.38	0.72%	0.61%	5,874,730	38.48	53.50	-0.72%	38.03%
Biotech	IBB	206.06	211.51	-5.45	-2.58%	-2.68%	686,267	125.63	213.78	-3.61%	64.02%
Healthcare Providers	IHF	87.64	87.01	0.63	0.72%	0.62%	41,445	63.67	90.61	-3.28%	37.64%
Medical Devices	IHI	89.11	88.71	0.40	0.45%	0.34%	38,409	64.29	89.88	-0.86%	38.61%
Pharmaceuticals	IHE	109.54	109.47	0.07	0.06%	-0.04%	19,251	82.00	111.00	-1.32%	33.59%
Industrials	XLI	48.97	48.76	0.21	0.43%	0.32%	9,116,480	35.19	49.08	-0.22%	39.16%
Aerospace & Defense	ITA	97.45	97.05	0.40	0.41%	0.31%	39,392	62.68	99.29	-1.85%	55.47%
Global Infrastructure	IGF	39.17	39.59	-0.42	-1.06%	-1.17%	100,755	33.61	39.89	-1.80%	16.54%
Water Resources	PHO	24.72	24.71	0.01	0.04%	-0.07%	83,083	18.76	25.08	-1.44%	31.77%
Dow Transports	IYT	125.92	125.22	0.70	0.56%	0.45%	254,597	85.83	126.96	-0.82%	46.71%
Basic Materials	XLB	43.67	44.24	-0.57	-1.29%	-1.39%	5,330,580	34.44	44.36	-1.56%	26.80%
Global Materials	MXI	60.85	62.31	-1.46	-2.34%	-2.45%	50,889	52.39	64.25	-5.29%	16.15%
Metals and Mining	XME	39.82	39.68	0.14	0.35%	0.25%	2,715,940	31.83	46.98	-15.24%	25.10%
Steel	SLX	48.50	47.95	0.55	1.15%	1.04%	69,838	36.45	51.23	-5.33%	33.06%
Ultra Short Basic Materials	SMN	38.98	38.17	0.81	2.12%	2.02%					
Information Technology	IYW	82.28	82.05	0.23	0.28%	0.17%	336,531	65.94	82.85	-0.69%	24.78%
Software	IGV	76.32	76.57	-0.25	-0.33%	-0.43%	98,682	57.88	78.28	-2.50%	31.86%
Networking	IGN	29.75	30.13	-0.38	-1.26%	-1.37%	60,326	25.27	31.84	-6.56%	17.73%
Telecommunications	IYZ	29.07	29.15	-0.08	-0.27%	-0.38%	335,502	22.52	29.68	-2.06%	29.09%
Info Tech & Telecom	XLK	33.66	33.50	0.16	0.48%	0.37%	6,636,190	27.21	33.92	-0.77%	23.70%
Utilities	XLU	39.06	39.20	-0.14	-0.36%	-0.46%	11,380,700	33.85	41.44	-5.74%	15.39%
Global Utilities	XJI	45.22	45.67	-0.45	-0.99%	-1.09%	48,357	39.37	46.61	-2.98%	14.86%
US Size & Styles											
Mega Cap	OEI	78.74	78.47	0.27	0.34%	0.24%	1,087,420	61.45	79.31	-0.72%	28.14%
Large Cap Value	IVE	81.98	81.92	0.06	0.07%	-0.03%	547,226	62.11	82.71	-0.88%	31.99%
Large Cap Growth	IVW	93.80	93.69	0.11	0.12%	0.01%	457,963	72.30	94.50	-0.74%	29.74%
Large Cap: Dow Industrials	DIA	155.86	155.45	0.41	0.26%	0.16%	6,734,760	124.42	157.06	-0.76%	25.27%
Mid Cap	MDY	234.73	235.62	-0.89	-0.38%	-0.48%	2,826,310	171.53	236.96	-0.94%	36.84%
Mid Cap Value	IJJ	112.52	113.14	-0.62	-0.55%	-0.65%	107,754	80.63	113.82	-1.14%	39.55%
Mid Cap Growth	IJK	143.89	144.00	-0.11	-0.08%	-0.18%	134,332	107.03	145.24	-0.93%	34.44%
Small Cap	IJR	102.94	104.61	-1.67	-1.60%	-1.70%	885,286	70.94	105.27	-2.21%	45.11%
Small Cap Value	IUS	105.53	106.87	-1.34	-1.25%	-1.36%	120,389	72.86	107.49	-1.82%	44.84%
Small Cap Growth	IJT	111.67	113.90	-2.23	-1.96%	-2.06%	202,251	76.87	114.70	-2.64%	45.27%
Inverse Russell 2000	RWM	18.06	17.71	0.35	1.98%	1.87%	1,468,030	17.61	27.24	-33.70%	2.56%
Inverse Small Cap	SBB	15.37	15.23	0.14	0.92%	0.81%	42,363	15.06	23.46	-34.47%	2.08%
Micro Cap	IWC	69.27	71.17	-1.90	-2.67%	-2.78%	136,115	46.91	71.51	-3.13%	47.67%
* versus S&P 500											

Global Markets Database: Weekly Results for Commodities, Metals, Fixed Income, Currencies

Week ending November 1, 2013	ETF	Last	Prior Week	Net Change	Pct. Change	Rel. Perf.*	3 mo avg Volume	52-wk Low	52-wk High	Pct from 52 wk high	Pct from 52 wk low
Commodities, Metals (incl. Gold Miners)											
Commodity Index	DBC	25.43	25.86	-0.43	-1.66%	n/a	2,296,690	25.09	28.73	-11.49%	1.36%
Agriculture Index	DBA	24.91	25.55	-0.64	-2.50%	-2.61%	582,228	24.36	29.17	-14.60%	2.26%
Agribusiness	MOO	52.69	53.09	-0.40	-0.75%	-0.86%	286,909	48.75	56.55	-6.83%	8.08%
Oil	USO	34.13	35.32	-1.19	-3.37%	-3.48%	6,288,920	30.79	39.54	-13.68%	10.84%
Natural Gas	UNG	17.45	18.93	-1.48	-7.82%	-7.92%	4,246,760	16.59	24.09	-27.56%	5.18%
Gold	GLD	126.95	130.46	-3.51	-2.69%	-2.80%	9,244,900	114.68	170.01	-25.33%	10.70%
Gold Miners	GDV	24.08	26.32	-2.24	-8.51%	-8.62%	44,412,000	22.21	51.82	-53.53%	8.42%
Silver	SLV	21.08	21.71	-0.63	-2.90%	-3.01%	10,317,100	17.75	33.31	-36.72%	18.76%
Copper	JJC	40.47	40.10	0.37	0.92%	0.82%	41,980	36.87	47.80	-15.33%	9.76%
Metals Total Return	RJZ	9.10	9.22	-0.12	-1.30%	-1.41%	10,555	8.51	11.16	-18.46%	6.93%
* versus Commodity Index											
Fixed Income											
US Treasury 20 year	TLT	106.19	108.29	-2.10	-1.94%	n/a	8,568,550	102.11	127.19	-16.51%	4.00%
Inverse US Treasury	TBF	31.90	31.36	0.54	1.72%	1.62%	978,995	28.14	33.63	-5.14%	13.36%
TIPs	TIP	112.04	113.41	-1.37	-1.21%	-1.31%	661,586	108.63	123.44	-9.24%	3.14%
Investment Grade Corp.	LQD	114.51	115.32	-0.81	-0.70%	-0.81%	1,954,150	110.73	122.57	-6.58%	3.41%
High Yield	JNK	40.43	40.67	-0.24	-0.59%	-0.70%	4,740,710	38.21	41.95	-3.62%	5.81%
High Yield	HYG	92.82	93.63	-0.81	-0.87%	-0.97%	4,115,890	88.27	96.30	-3.61%	5.15%
Preferreds	PGX	13.76	13.74	0.02	0.15%	0.04%	1,032,370	12.76	15.12	-8.99%	7.84%
Emerging Markets Bond	EMB	110.32	111.65	-1.33	-1.19%	-1.30%	642,271	101.20	124.43	-11.34%	9.01%
* versus US Treasury 20 year											
Currencies											
Dollar Index	UUP	21.75	21.34	0.41	1.92%	n/a	1,105,900	21.32	22.98	-5.35%	2.02%
Euro-Dollar	FXE	133.45	136.58	-3.13	-2.29%	-2.40%	324,774	125.92	136.71	-2.38%	5.98%
Japanese Yen	FXJ	98.98	100.35	-1.37	-1.37%	-1.47%	249,109	94.38	123.76	-20.02%	4.87%
Swiss Franc	FXF	107.43	109.89	-2.46	-2.24%	-2.34%	21,625	99.80	110.16	-2.48%	7.65%
Australian Dollar	FXA	94.32	95.99	-1.67	-1.74%	-1.85%	158,678	88.73	106.03	-11.04%	6.30%
British Pound	FXB	157.01	159.56	-2.55	-1.60%	-1.70%	17,420	146.26	161.32	-2.67%	7.35%
Canadian Dollar	FXC	95.37	95.12	0.25	0.26%	0.16%	39,642	93.78	101.29	-5.85%	1.69%
Swedish Krona	FXS	152.08	157.35	-5.27	-3.35%	-3.46%	2,518	145.82	158.38	-3.98%	4.29%
* versus US Dollar (UUP)											

Key Assumptions and Methodologies

As always: Investors are advised to take in to consideration the volatile nature of the markets. Accordingly, any portfolio adjustments should be exercised with the greatest of care. This report is limited to a once per week publishing schedule. However, investors are not so restricted enabling entry and exit points that, if properly implemented (e.g., sell into rallies during the first wave of a bear), should result in better performance results.

Pick your spots to ease in and out of positions. Exploit the situation to the best of your ability. Be practical with your tactical.

Essential to all analytical tools are the key assumptions that underlie them and the methodologies employed. The following describes the major key assumptions to the analytical tools and the methodologies employed in this report.

Macro Economic Analysis (MERSI – Macro Economic Reports Surprise Indicator)

Earnings (cash flows) are one of the key fundamental-analysis inputs upon which valuation (and therefore investment) decisions are made. The fundamental premise of the MERSI is that, in the aggregate, current earnings expectations incorporate the consensus view. Therefore, whenever macro economic reports come in above or below consensus expectations, economists might change their outlook and/or earnings come in above or below expectations, which in turn will likely cause individual company analysts to adjust that macro economic component of their industry and company forecasts thereby resulting in higher or lower earnings forecasted and/or higher or lower expected growth rates. Since this process occurs with a meaningful lag, **investors can gain a competitive advantage by anticipating changes to earnings and/or growth rate forecasts** as the above or below consensus reports are filtered into the forecasts.

Valuation Models

The Market Derived models – DCF and Modified Fed – both use the market's present price and attempt to derive what the fundamentals would have to be in order to match the market's current price level.

Note: Because the equity markets are a discounting mechanism and assuming that they are somewhat efficient, the Market Centric approach employed by the following two valuation models starts with what the market says is fair value – which is its current price. From this investors then ask the following questions, "Does the data and implied conclusions fit the overall analysis? What does the market say the fair value should be? Do I agree with that conclusion?" By starting with the market, this process is, in effect, a form of reverse engineering the valuation process.

About the models: The **Best Fit Market Model** takes a direct and simple approach to determining valuation – take the current price level of the S&P 500 and match it against operating earnings and P/E levels (both current and future). The **Modified Fed Model** is a bit more complex in that it looks at the interplay between price, earnings, and interest rates.

Modified Fed Model Key Assumptions:

- 1 - Equity Markets adhere to the weak form of the Efficient Market Hypothesis and are generally efficient. Therefore, on any given day the market values itself based on its historical expected return of 11% (average of 10% and 12%).
- 2 - Risk is dynamic and changes according to credit spreads, volatility, and investor sentiment.
- 3 - Markets are dynamic and in a constant state of change. Valuation levels are, therefore, calculated daily to reflect this state of constant change.
- 4 - Changes in interest rates effect valuation levels, which are reflected above in the form of the average P/E ratio.
- 5 - Light Blue shaded areas signify zones approximating a 12% expected/required return for large cap stocks.

Market Intelligence: Key Assumptions and Rules

Long Term Indicator: Mega Trend				Near Term Indicators			
* Price relative to the 50 and 200 day moving averages				Momentum & MACD			
* 50 day moving average relative to the 200 day moving average				* Momentum confirmation/non-confirmation			
* Slope of the 50 moving average and 200 day moving average				* MACD moving averages crossover			
* Direction Guide: Deteriorating = 50 day downwardly sloped, 200 day flat to downwardly sloped; Intact = 50 and 200 day upwardly sloped or flat to upwardly sloped.							
* Direction Guide: Improving = 50 day upwardly sloped, 200 day flat to upwardly sloped.							
Mega Trend Moving Averages Principle				Short Term Indicator: Slow Stochastic			
* Price relative to its 50 and 200 day exponential moving averages.				* Overbought >80, Oversold <20			
* 50 day moving average relative to its 200 day exponential moving average.				*Data source: Yahoo Finance. Note: Percent from moving averages may differ from that sourced from BigCharts.com, which is the primary source in the analysis portion above.			
* Slope of the 50 moving average and 200 day exponential moving average.							
Usefulness of indicators							
Mega Trend helps identify the longer term direction. Both near and short term indicators help with timing							

Methodologies

Combining both fundamental and technical analysis, the report seeks to capitalize on the benefits each discipline provides.

Using its GEM (government, economy, and the markets) and Global Thematic analysis, the report is a weekly examination of the key macro trends and themes impacting the investment markets. The research methodology provides a comprehensive approach to investment strategy by incorporating the critical variables within each area of analysis.

The purpose of the report is to provide insights to investors and other interest parties. The investment goals of the insights are: Earn a positive return, Minimize risk, Outperform the market.

The *Sectors and Styles Strategy Report* predominantly employs ETFs (Exchange Traded Funds) in its Model Growth Portfolio (MGP), as they provide the sectors and styles exposure needed to build a cost-effective diversified portfolio.

About “The Effective Investor Report”

The Effective Investor Report is a weekly investment strategy perspective produced by Blue Marble Research and part of the **Blue Marble Research Advisory Service**.

The Effective Investor Report is designed to provide investors with a guide toward sound investment strategies. Published 48 times a year, **The Effective Investor Report** is available on an annual subscription basis of \$250 per year.

The information found within this report was prepared from data we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of available data. Such information and any views or opinions expressed herein are not to be considered as an offer to sell or a solicitation of an offer to buy securities of the sectors or styles covered by this report. Opinions expressed are subject to change without notice. Past results are no indication of future results. *The portfolio recommendations contained in this report are meant as an investment guide. All investors are advised to consult their financial advisors when making investment decisions.* Some of the sectors and styles mentioned in this report are the recipients of trends and themes that might vary from those noted in this report.

Vincent Catalano certifies that all of the views expressed in this research report accurately reflect his personal views regarding any and all of the subject securities or issuers. *Neither Vincent Catalano nor any member of his family hold positions listed in the Model Growth Portfolio. Accounts managed by Blue Marble Research Advisory typically do hold most to all of the positions listed in the Model Growth Portfolio.* Information regarding the portfolio management services of Blue Marble Research Advisory is available upon request. Some of the data used in this report come from various sources including but not limited to the Wall Street Journal On-line, Big Charts, Standard and Poors, and Finance.Yahoo.com.

Note: The Model Growth Portfolio (MGP) and the S&P 500 performance data are reflected on a price change basis only. Dividends and their reinvestment are not factored into the returns. Asset allocation decisions and their effects are not factored into the returns. Returns are calculated on weekly chain-linked basis and may differ from the returns calculated using other methods. Market weightings are adjusted when portfolio changes are made. Transaction expenses and other fees are not included in the return results.

Special Note re alpha: Throughout its existence, the MGP has always maintained a below average risk level. The alpha listed is not a risk adjusted number but the absolute return difference between the MGP and the S&P 500. If the MGP reflected its true risk, the MGP alpha would be considerably higher than noted.



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