The Q3 2019 Mark(et) Rush Report

By

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Preface

It is once again time for my quarterly market review when I examine world events and attempt to understand their implications on the markets. This is my time to reflect on current events, my portfolio performance, event scenarios, and their subsequent consequences on world equity markets and my investment strategies.

It is my goal in life to have my money working for me instead of me working for my money.

Please keep in mind that I am an *amateur* investor, and this document is a *hobby* for me. Any thoughts and concepts should be treated as such. Please consult a professional financial advisor before you make any investment decisions regarding your investment ideas, goals, and strategies. Continue reading this document at your own risk…

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In plain English, I am NOT giving you investment, tax, or legal advice.

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Chapter 1
Considerations

Market Issues

The market has been remarkedly stable for the past few months; it has had many opportunities to panic but did not. The noteworthy positive development has been significantly lower interest rates across the globe.

Issues:

- Potential Presidental impeachment
- Brexit
- Federal Reserve needed intervein in the Repo market
- Trade with disputes with… well, everyone
- Continued slow global/US growth
- Yield curve
- Weakness in Europe
- A potential war with Iran
- Seasonality
- 2020 Election

The market risks are very high; the rewards are low…

Presidential Impeachment

As far as the potential impeachment, based on the last impeachment, the process takes about a 4-months from beginning to end. I can tell you the outcome here, and now, the President will be found not guilty by the Senate because you need 67 of 100 senators to convict a President. A majority of senators are Republicans, and they want to keep their job. If a Senator's district supports Trump and that Senator vote against him, that Senator will get destroyed in the primary. The most likely outcome of this process will be a rise in the enthusiasm of Trump supporters and may slightly increase red county turnout in the 2020 election. On election day, the impeachment and trial will be more than 6 months old… a distant memory of a non-event even though both parties will attempt to play it up to their low attention span base at election time.

Personally, I don't like the process since it seeks to override the wishes of the electorate, especially when the impeachment is going to be within a year of an election. Elections and the 25th Amendment are far more efficient tools in removing a President.

This is a non-event unless you own shares in the news media stocks since they will sell more ads for that 4-month period.

Brexit

Brexit, the **Br**itish **exit** from the European Union common market. This could be the most important event over the next months, assuming there isn't another delay; it could cause a significant disruption of the world's 5th largest economy or about 2.25% of world GDP.

There will, at least temporarily, confusion and supply chain disruptions. The market hates uncertainty, and the no-deal exit will likely cause 2-3 months of unintended consequences. Most economists expect a UK recession to quickly follow Brexit and probably a decrease in GDP in the rest of Europe, the brunt of the economic damage will be in the UK.

It looks like there will be another extension request on Oct 19, 2019, to delay the exit until January 31st, 2020 but there is a chance it won't occur and a chance that the EU will turn it down.

Unless Brexit is delayed again (likely), this is a sell signal.

The Repo Market, what is it, and why do I care?

Repo is short for a repurchase agreement; it is where institutional players go to get a short term loan by posting securities, usually US Treasuries or mortgage securities to receive cash. It's kind of like a Wall Street pawnshop, you go in and use bonds as collateral to get cash, you pay back the loan plus interest and get your instrument back. Usually, these loans are overnight, and this market is very large, typically around $3 trillion in transactions per day.

During the week of Sept. 16, a lot of cash flowed out of the repo market just as more securities were flowing in; suddenly there wasn't enough cash for those who needed it. That mismatch drove overnight repo rates to 10% on Sept. 17, up from about 2% the week before.

The Fed has injected hundreds of billions of dollars into this market, and it seems like it has returned to normal. This is probably a one-off blip, but it is disconcerting that it got so out of control. Worth watching…

To be watched for now.

Trade War (updated)

China and Trump are playing a dangerous game; China has a debt problem that is being masked by their decades of strong economic growth, and President Trump isn't the type to give up even if you give him everything he asks for in the "negotiations." I believe China will attempt to ride it out for 12 more months hoping for a different policy from some future administration. Impeachment likely strengthens China's resolve.

Even if Trump "wins" the trade war it may cause the Chinese economy to roll over, and that would take the entire global economy down with it, including the United States. At this point, the trade war is likely to have permanently damaged China's economy; even if they caved and all tariffs were lifted, China's economy may still rollover.

The trade war could end poorly for everyone involved and even those who are not involved in the trade war. The stock market would likely drop another 10-30% from here if China's economy stumbled.

Chinese investments should be heavily vetted with prejudice for now, but their market valuations are getting interesting on a long-term potential growth and valuation metric if looking out 10-30 years.

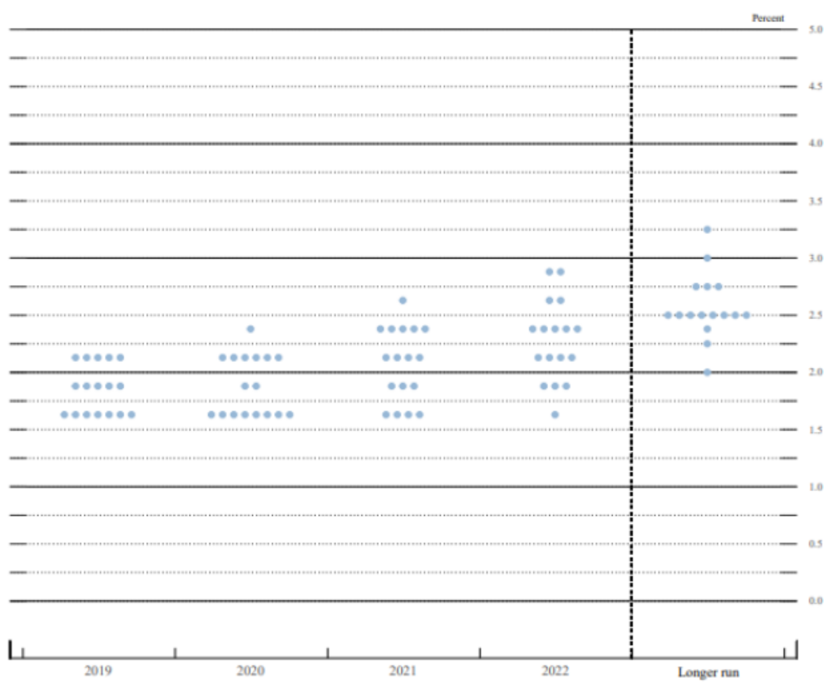
The China trade war will not likely be resolved until early 2021

<u>Federal Reserve (updated)</u>

At the beginning of the year, I was expecting two rate hikes for this year, but so far, we have had two rate cuts by the Federal Reserve. This was a radical shift down in rate expectations for 2019 and 2020. The lower Fed rate expectations are based on, the weaker world and US economy. They also lowered their US GDP expectations for 2019 reduced to 2.0% down from 2.5% at the beginning of the year.

Along with the US Federal Reserve, the European Central Bank (ECB) is also taking a softer stance on interest rates. Italy and Germany are toying with a recession and dare I even bring up the Brexit debacle. Japan is also in the monetary easing game.

Below are the latest Federal Reserve expectations where interest will be in the future. In the past few meetings, the Fed keeps lowering their expectations while the bond market sees continued weakness ahead.



Global Central banks are accommodative.

Interest Rates

The yield on the 10-year Treasuries has dropped drastically over the preceding year. The yield reached just shy of 3.25% in Q4 '18 and has plummeted to 1.7% now. That is nearly a 40% drop in the payout for those who are invested in those instruments. Should have the stock market sold off on with the trade war, slowing economy, Iranian war drums beating? Yes!! But the stock market earnings, for now, are stable and producing almost 5.5% in earnings while paying out dividends of ~1.9% of the current price. The market would be significantly lower if it wasn't for Federal Reserve actions.

The interest rate policy is supportive of the market.

2020 Elections

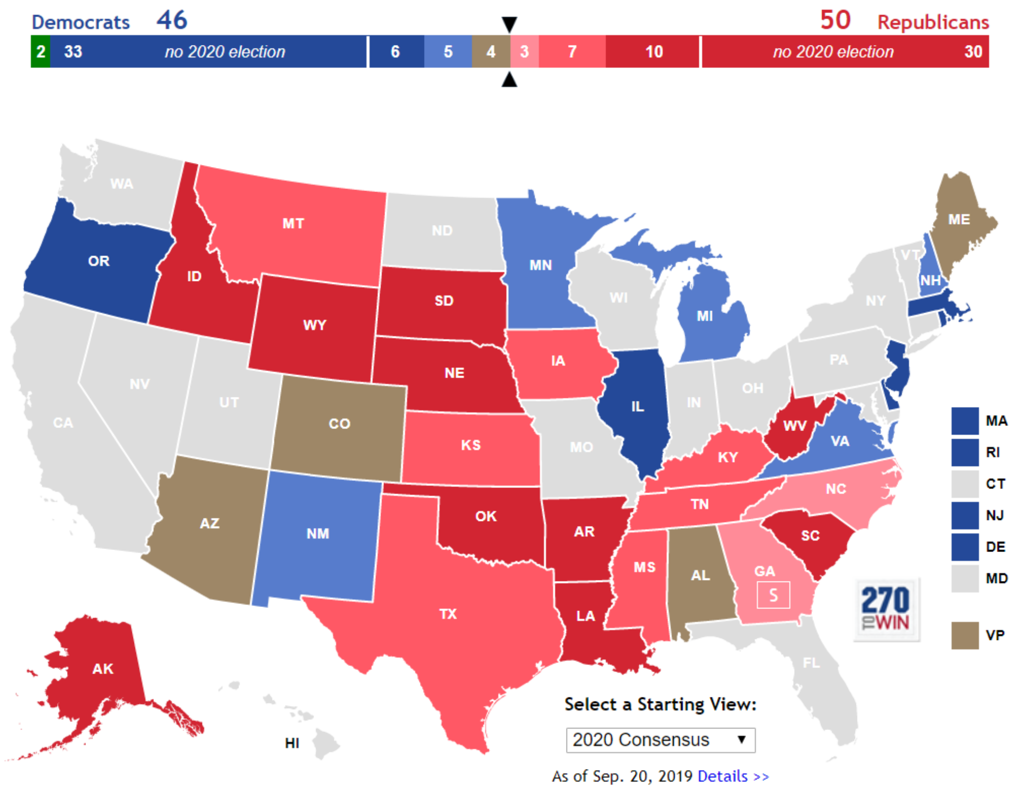
This section is about making money, not politics. I loathe both political parties; my only goal is to make enough money to pay my bills, it's not to validate any whimsical political rationalizations. I strive to be correct in politics, not politically correct.

The most important thing to watch in the 2020 election, as far as investments are concerned, is the Senate race. The Democrats want to reverse the corporate tax cut; this has increased earnings and therefore, the value of corporations by roughly 20%. Unless the Senate changes hands, the corporate tax cuts cannot be rescinded until at least 2022. If the Senate flips, I'd expect a 20% drop in the stock market from the long-term trend line. As the election approaches, the odds of that occurring will be factored in. Keep in mind the market will be factoring the odds in advance. A quick dirty method of estimating market impact, if the market believes that there is a 25% chance of a senate flip, you'd expect to see the market sell-off to roughly 5% below its long-term trend. It would fall an additional 15% after the election if the Senate changed hands, or rebound 5% if it did not.

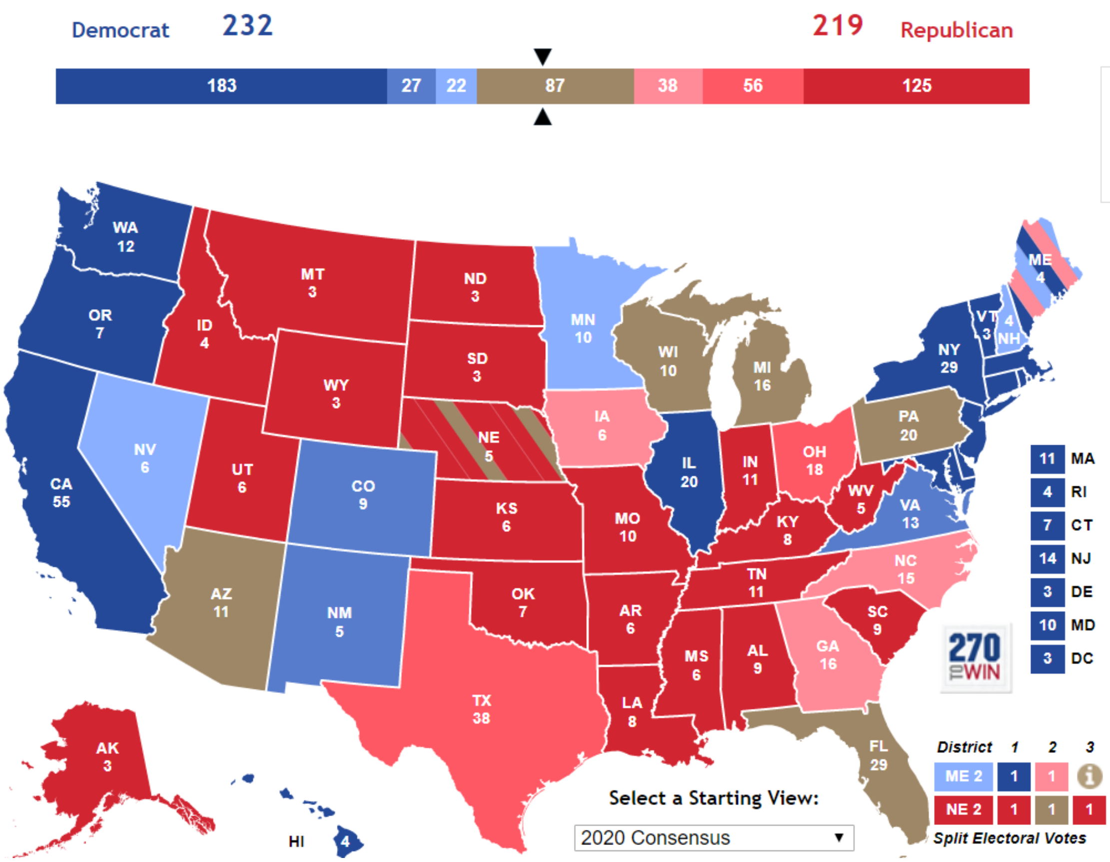
The second thing that may spook the market is if Elizabeth Warren wins the Democratic Primary. She is no friend to capital, so the market would be worried that she may come into power and full use the power of the President to wage war on wall street and investments would be the collateral damage. I believe the market is more or less ambivalent to Trump versus Biden. If it looked like a Republican Senate and a Biden Presidency going into the election, I'd buy the dips. I'd also buy the dips if it was likely a Trump Presidency and Republican Senate. I would *sell everything* into a likely Democratic-controlled Senate.

My prediction is if the economy rebounds, President Trump "may" get reelected. If the economy continues to be softer, and that is my expectation, he will lose the election. It is the economy stupid. Impeachment is likely a slight positive for the President since it will energize his base.

2020 Senate Race



2020 Presidential Race



The Presidential election will be decided by 5 states; the rest of us can stay home.

Chapter 2
The Fundamentals

Economic Projections

It is time to look at the economy and give my "opinion" based on absolutely nothing other than my limited understanding of how the world works. Headline predictions are made at the beginning of the year and may have changed materially since then.

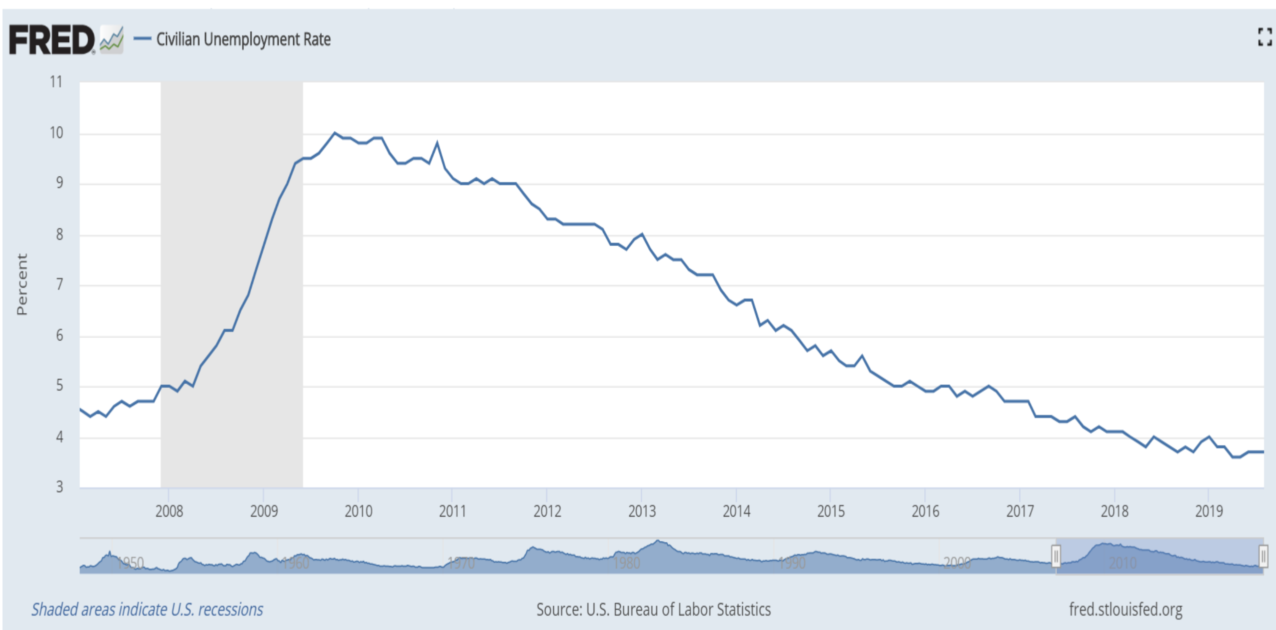
US Gross National Product (GDP) Growth < +2.8% for 2019

GDP growth estimates have been lowered substantially in the past 6 months. Expectations are now in the 2.0 % range.

The US economic growth expectations have fallen substantially

Unemployment will stay below 3.9% in all of 2019

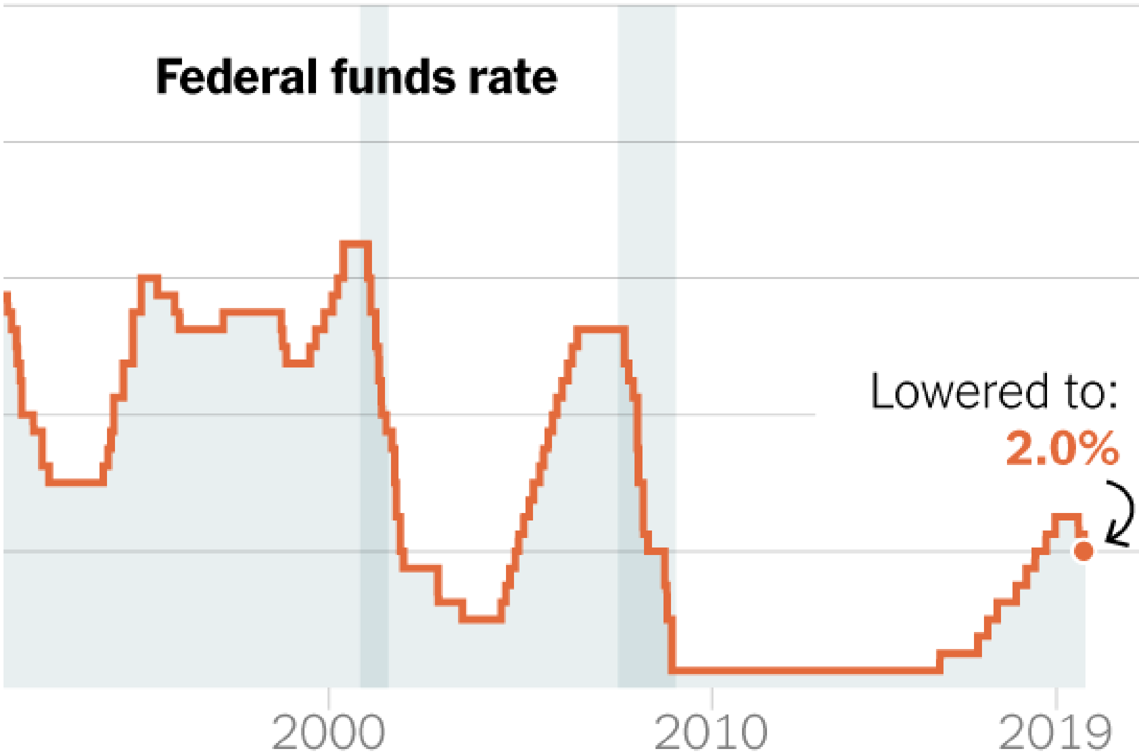
The latest number (August) was 3.7 %.



Unemployment is still low…

Federal Reserve rates will be = 3.0% by the end of 2019

I was expecting 2 Fed hikes this year, which is the same as the Fed was indicating. However, I was expecting three rate hikes if the economy hits 3.2% GDP growth and only one if it goes below 2.4%. Given the revision downward to 2.0% growth for this year, the Federal Reserve has put a halt to rate increases. The current rate is 2.5%.



Lower rates are good for the market

Inflation > 2.5% in 2019

Inflation is at 1.75%

Currently, we are not experiencing excessive inflation/deflation

S&P 500 index >2700 by the end of 2019

We closed the quarter at 2,976.74 on the S&P 500 index. Slower economic growth is putting downward pressure on the market, but this is being offset by softer monetary policy, for now. The S&P 500 earnings outlook has fallen from ~$173 at the beginning of this year to ~$164 currently, a decline of 5.5% from earlier projections. Earnings are to increase from $164 for 2019 to $182 for 2020, giving us an 11% earnings tailwind. The S&P 500 ended last year at 2506.85 and is now up 18.7% this year.

2020 earnings are expected to rise by 11% next year.

Real Estate Average Home <222.8k in 2019

The 30-year mortgage rate is currently 3.70% down from 4.41% at the end of 2018. The 2018 housing prices ended the year at $222.8k vs. $229.6k now an increase of 3.1% so far for this year.

It wouldn't take much to reverse the market or make it stagnant for a significant number of years. I expect less appreciation in the upper end of the housing market due to property tax deduction limits. I believe the rising home prices in the mid to low end are also coming to an end. Lower rates may give the housing market one more push up.

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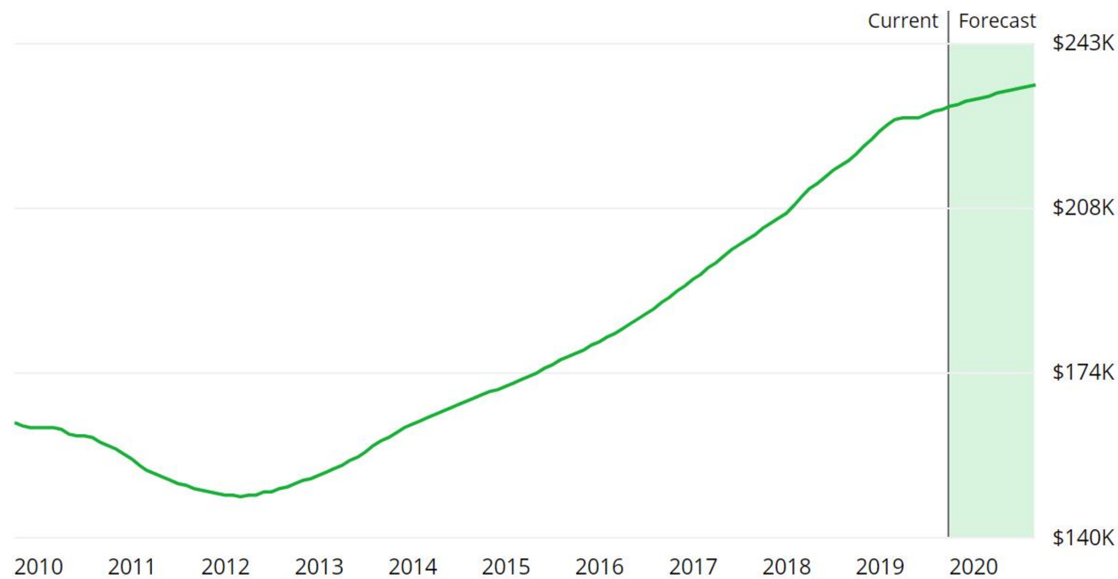
National Home Values



National Average Mortgage Rates

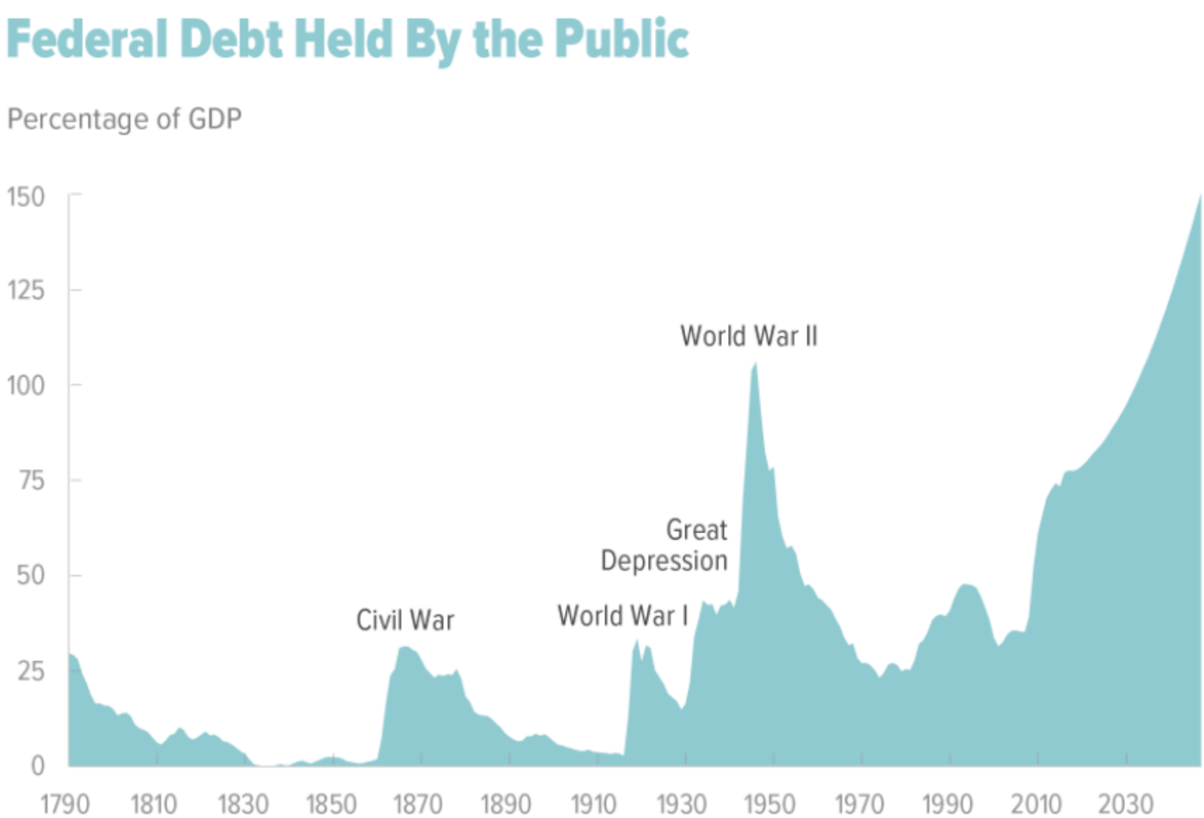
Mortgage rates are falling and should help support housing, therefore, the market

>1 Trillion Dollars budget deficit for FY 2019

I am keeping this signal to negative again due to tax cuts and other expected spending.... In the short run, I hope the economy does better than the experts expect, therefore bringing in more government revenue than they expected. Longer-term, we are well on the path of a debt spiral. As interest rates go up, more and more of the budget will be consumed by servicing the $21 Trillion in debt. Our only possible hope at this point is to grow our way out of it, and that is becoming more and more improbable.

Here are the top four expenditures and expenditure per employed person in the US per year. The total for just these four items comes to $21,882 per employed person per year.

1) Medicare and Medicaid	$995.75 billion ($8,024/employed person)
2) Social Security	$884.47 billion ($7,130/employed person)
3) Defense	$583.33 billion ($4,704/employed person)
4) Federal pensions	$253.73 billion ($2,024/employed person)



The debt spiral has begun, it is likely unstoppable at this point.

Chapter 3
The Technical Indicators

Technical analysis is the attempt to forecast the future direction of prices through the study of past market data. I use Barchart (http://www.barchart.com/) to come up with a final "objective" opinion of an investment. Its primary ability (flaw) is that it tries to predict the future by interpolating from past performance. One phrase does come to mind, "Past performance is not an indication of future results," although this is precisely what these calculations try to do.

Model Portfolio and other technical indicators (+100% = strong buy; -100% = strong sell)

US ETFs	12/31/18	6/30/19	9/30/19	Link
SPY	-72%	+72%	+88%	http://www.barchart.com/opinions/etf/SPY
QQQ	-88%	+56%	+64%	http://www.barchart.com/opinions/etf/QQQ
IWM	-72%	+32%	+8%	http://www.barchart.com/opinions/etf/IWM
International				
EFA	-88%	+32%	+72%	http://www.barchart.com/opinions/etf/EFA
EEM	-72%	+40%	-40%	http://www.barchart.com/opinions/etf/EEM

Bonds	12/31/18	6/30/19	9/30/19	Link
TLT	+64%	+88%	+88%	http://www.barchart.com/opinions/etf/TLT
SHY	+100%	+96%	+72%	http://www.barchart.com/opinions/etf/SHY
Gold/Oil/Dollar Index/Euro/Yen				
GLD	+96%	+96%	+64%	http://www.barchart.com/opinions/etf/GLD
USO	-88%	+16%	-32%	http://www.barchart.com/opinions/etf/USO
UUP	-48%	-65%	+100%	http://www.barchart.com/opinions/etf/UUP
FXE	+24%	+80%	-100%	http://www.barchart.com/opinions/etf/FXE
FXY	+72%	+72%	+24%	http://www.barchart.com/opinions/etf/FXY
Volatility Index (+ is bad for the market)				
VIX index	+48%	0%	0%	http://www.barchart.com/opinions/stocks/$VIX

Volatility

Volatility Chart (market fear index)

The Volatility Index (VIX) can be thought of as the level of "fear" in the S&P 500 stock index, but it is used as a proxy for the general U.S. stock market. A lower VIX indicates a lower level of fear in the market, and more moderate fear generally means more confidence, therefore, higher prices. A higher VIX shows more fear and declining prices.

When the Vix is above 16, I consider that a warning, when Vix is above 18, I find that to be a sell signal. We have had a sustained high VIX (>18) during the last quarter of 2018 and a few in May and September. The Vix has returned to a no man's land area again.

Vix is flashing warning signals

TED Spread…

The US Treasury vs. Eurodollar (TED) spread is like a "bond market fear index," when it is higher; it is bad for markets. It has become benign again.

The Treasury Eurodollar is stable, and this is good for investments.

Yield Curve (US 10-year yield less the 2-year yield spread)

Usually the longer the term of a bond the more the tendency for the interest rate is to be higher than a shorter-term rate; in our case, I would usually expect the interest rate of the 10-year U.S. Treasury to be higher than the 2-year Treasury.

Ten-Year minus Two-Year US Treasury Interest Rate

In the above chart, you can see the rate difference going from -2% (2-year rate higher than the 10-year rate by 2%) to almost +3%. The grey area in the chart is when a recession has occurred. Notice that *before* a recession the "Tens minus twos" went negative. There are a big chicken and egg debate on what causes what when it comes to yield curves and recessions, but it does seem to have substantial predictive power.

If you have ever thought "I wish I could get a 12 month heads up on the next major market sell-off", stop wishing and pay attention to this indicator.

Currently, the Tens minus Twos are at 0.05%; this indicator is flashing a recession warning.

European Bond Yields

The German 10-year bond has dropped from 0.20% at the beginning of the year and at -0.57%, that is not a typo; the rates are negative ½%. This shows up people are rushing into "safety." How bad does it have to be if you are willing to *pay* 0.5% loan money to the German government for the next 10 years???

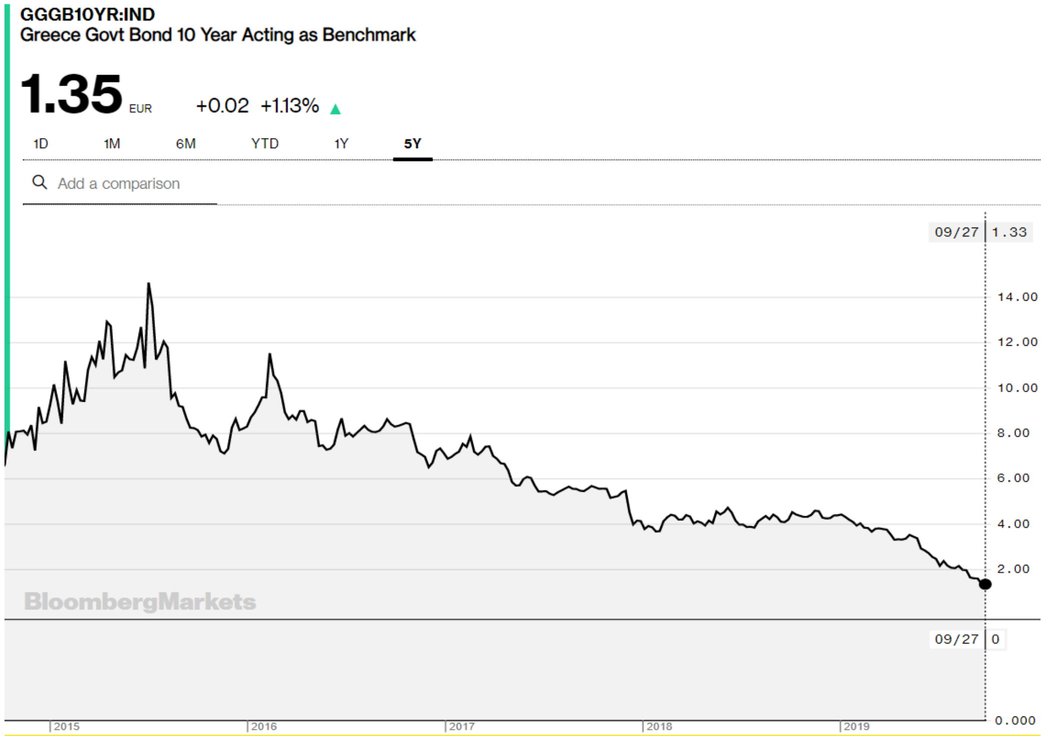
German 10 Year Bond Yield

People are PAYING 0.33% a year to loan Germany money… The only logical reason for doing this is that the expectation of the bonds increasing (rate falling) further.

This is crazy… and not a good omen

The 10-year Greek rates spiked to around 15% a few years ago was down to 4.40% in December and 2.45% in the last report. It has dropped to 1.35% for this report, this is too low, way too low in my opinion for the risks that are involved, but its trend is likely going lower. I need to find a way to short Greek bonds for the long haul.

Greek 10 Year Bond Yield



All the European rates have plummeted in recent months. Overall the various bonds are ***very*** worrisome at this point. It points toward another round of potential recession, at least in Europe.

Technical Summary…

All stock indicators are a buy, except for emerging markets, and all bonds are a screaming buy. Nearly everything is pointing to "risk-on" for now, but the bond markets point to EXTREAM caution.

Nearly all asset technical indicators have a positive bias.
Bonds say Extreme danger.

Chapter 4
Mark's Model ETF Portfolios (MMP)

Asset reallocation

I have constructed four portfolios, each with varying levels of riskiness from lower to higher risk just by using a combination of 12 (or less) Exchange Traded Funds. The results (next page) include fund fees but not broker transactions or money manager fees.

U.S. large-company funds:	**Stock Market Symbol**
S&P 500 fund	**SPY**
Nasdaq 100 (Tech) fund	**QQQ**
Dow Jones Industrial Average fund	**DIA**
Vanguard value fund	**VTV**
U.S. small-company fund:	
Russell 2000 small US company fund	**IWM**
International company funds:	
Europe, Australasia, and Far East	**EFA**
Emerging Markets Fund	**EEM**
Fixed Income (Bond) funds:	
20+ Year U.S. Treasury Bonds	**TLT**
7-10 Year U.S. Treasury Bonds	**IEF**
U.S. Aggregate Corporate Bonds	**AGG**
Investment Grade Corporate Bonds	**LQD**
Short bond term fund (cash):	
iShares 1-3 Year U.S. Treasury Bonds	**SHY**

Allocation of Portfolio by Risk Level

	Low	Balanced	Growth	Aggressive
SPY	5%	7.5%	10%	7.5%
QQQQ	5%	7.5%	10%	7.5%
DIA	5%	7.5%	10%	7.5%
VTV	5%	7.5%	10%	7.5%
IWM	10%	10%	20%	30%
EFA	5%	10%	15%	20%
EEM:	5%	10%	15%	20%
TLT	12.5%	8.75%	2.5%	0%
IEF	12.5%	8.75%	2.5%	0%
AGG	12.5%	8.75%	2.5%	0%
LQD	12.5%	8.75%	2.5%	0%
SHY	10%	5%	0%	0%

Model Portfolio Results

Name	Symbol	12/31/18 Price	9/30/19 Price	Yield Rate (Est.)	2019 Gain w/ Dividend
S&P 500 fund	SPY	$249.92	$296.85	1.81%	20.40%
Nasdaq 100 (Tech) fund	QQQ	$154.26	$188.81	0.79%	23.13%
Dow Jones Industrial Average fund	DIA	$233.20	$269.13	1.69%	16.87%
Vanguard value fund	VTV	$97.95	$111.62	2.49%	16.09%
Russell 2000 small US company fund	IWM	$133.90	$151.36	1.31%	14.15%
Europe, Australasia and Far East fund	EFA	$58.78	$65.21	2.81%	13.28%
Emerging Markets fund	EEM	$39.06	$40.85	1.01%	5.38%
20+ Year U.S. Treasury Bond fund	TLT	$121.51	$143.08	1.97%	19.50%
7-10 Year U.S. Treasury Bond fund	IEF	$104.20	$112.47	1.94%	9.51%
U.S. Aggregate Corporate Bond fund	AGG	$106.49	$113.17	2.45%	8.23%
Investment Grade Corporate Bonds	LQD	$112.82	$127.48	2.86%	15.43%
1-3 Year U.S. Treasury Bond fund	SHY	$83.62	$84.82	1.96%	2.93%

RESULTS	Risk Adverse	Balanced	Growth	Aggressive
’19 Return	**13.05%**	**13.77%**	**14.59%**	**13.71%**
’18 Return	-3.6%	-5.29%	-7.97%	-10.06%
’17 Return	12.10%	16.88%	22.60%	24.16%
’16 Return	6.92%	8.34%	11.58%	12.73%
’15 Return	-0.91%	-1.48%	-2.47%	-3.96%
’14 Return	9.16%	8.31%	6.71%	4.25%
’13 Return	8.34%	13.31%	22.72%	24.75%
’12 Return	8.97%	11.56%	15.30%	16.86%
’11 Return	7.02%	3.30%	-2.52%	-6.51%
’10 Return	11.17%	12.45%	15.53%	16.91%
’09 Return	11.14%	19.65%	31.48%	36.54%
’08 Return	-8.18%	-18.66%	-33.90%	-39.60%
’07 Return	7.82%	9.40%	10.04%	10.45%
’06 Return	9.72%	13.63%	19.09%	21.83%
’05 Return	5.49%	7.55%	9.73%	11.77%
Average annual return	**7.13%**	**7.43%**	**8.68%**	**8.68%**

Many pension funds and endowments would have paid handsomely for this kind of performance. Yet, here they are offered up to anyone…. for free.

Chapter 5
The Plan

Every trader reserves the right to make a more intelligent decision today than he made yesterday. - Sheldon Natenberg

The Good

- The world GDP growth is positive but slowing to 1.7% growth in 2020
- New regulations on US businesses have stopped
- Despite slower economic growth, corporations' earnings are holding up
- Interest rates are low, and the Fed has a looser bias
- Low corporate taxes
- Relatively low energy prices
- Innovations and new efficiencies are creating new real wealth daily
- The return of TINA "there is no alternative" for stocks

The Bad

- Counterproductive US leadership
- Impeachment
- Elizabeth Warren potentially winning Democratic nomination
- Trade wars
- Chinese debt
- European slowdown
- Brexit
- The Fed had to cut rates
- The need for the FED to intervein in the Repo market
- 2020 Election uncertainly

The Ugly

- Policies based on mercantile economics
- The potential for futures policies based on redistribution and not production
- Governance that doesn't understand the basics of wealth creation
- Unknown unknowns, the kind that blindsides you at 4 p.m. on some idle Tuesday

I reduced my positions 2 weeks ago due to warnings from my algorithm. One would expect that a weaker economy and escalating trade tensions in China would have a more negative impact on the market. But global bond yields have been falling precipitously for the past several months. I suspect a lot of money flowed out of bonds into various stock markets around the world chasing what little return they could get elsewhere despite the elevated risks. Taken in isolation, the stock market should be lower, but we are in another round of TINA - "there is no alternative."

If you absolutely need to generate income, you can't do that by buying German Bonds since that would get you negative income… You could buy US Treasuries, but they are low, positive but low (~1.7%). If you need income, such as a pension fund, endowments, retirees, or some random bloke that writes a newsletter once a quarter for free, you don't have the luxury of destroying your capital waiting for bonds to give you a decent return. At these rates, if you wanted a 100k retirement income you would need almost 6 million dollars to make that work with US 10-year bonds. The current yield on the S&P 500 is only 1.9%, but we do expect them to earn around 6% in total return next year. With that kind of yield you could reduce your capital needs from $6 million at 1.7% to only needing $1.65 million with that total stock market return of 6%. Sometimes it's worth rolling the dice if you don't have the extra $4 million laying around, and that is what is currently supporting the stock market.

The problem with this is once all that money has rolled out of bonds, the stock market has to stand on its own, and investors are skittish. A weaker economy may turn that $1.65 million into $1.25 million and that intrinsic income may fall from 6% to 4% making you come up $400 thousand or so short for the next year to generate that $75k in incremental returns. Most people won't want to risk $400k to try to make $75k even if it is an 80% chance to payout. Mathematically, this scenario about an even bet, and that's why the market is where it is.

If rates go down the market will get more support and tend to go up
If the economy goes down, the market will falter
If uncertainty increases significantly, that even bet for higher return gets abandoned…

I need to watch rates globally, I need to watch the economy/earnings like a hawk, and most importantly, I need to watch the herd to anticipate if they will bolt…

Almost in any longer-term strategy, holding stocks for the next few years is probably a better alternative than bonds. If the economy falters rates will fall, and this will bring this equation back into equilibrium, preventing a stock market apocalypse. What isn't always in equilibrium are the emotional humans reading their quarterly 401(k) report. We have a lot of stuff out there that could make the humans panic; the calm investors will seize the opportunities presented.

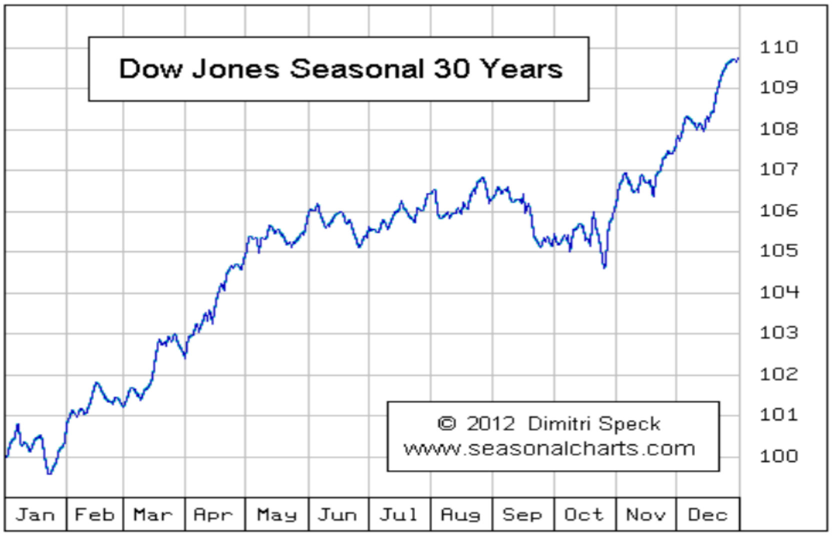
I am positioning myself for panic in the next 2-3 months on par with last year. I believe it will be a buying opportunity; also, I expect another round of turbulence next summer going into the 2020 US election.

Stock Market Cycles

Historically the stock market typically has sell-off around this time of year. I have reduced my portfolio according, but I'm not going to get much more aggressive in my selling until more signs of a weakening market.

I didn't go short, but my portfolio has an abundance of cash, I am currently about 65% cash down from ~25% cash a few weeks ago.

I still think the market is ripe for a correction soon, but I am aware of the possibility of the market going significantly higher due to meager bond yields.



We are in the sell-off time of year; the market tends to go down the first half of Q4 and go up in the last half of Q4.

The Plan (subject to change without notification):

The global economy is weakening and trending softer. Corporate earnings have stagnated. Europe is weakening; China has problems. The overriding theme is the economy is weaker; this is being offset by accommodative monetary policy and the TINA effect.

Now the problem is the market seems stable despite all the headwinds and worries, when and if the market does decide to sell off, it will be quick and brutal.

Short term I am negative, and I expect the market to go up, medium-term (3-6 months) I expect the market to hit new highs or about 3150. Longer-term, I have no idea; it will depend on the economy and how the election is shaping up.

To-Do List

There is money to be made, possibly as much as another 10-20% over the next 6-9 months if the undulations are correctly played. I am currently only about 65% invested. I am getting money ready to buy a possible 10-15% dip. A return to normal will likely give me a 5%-10% gain in the next few months.

My remaining parts of my portfolio are in high yield with mostly more stable names. I kind of ignore the market with these stocks because I'm only interested in the dividends and if these instruments hold up ok when rates drop due to their bond-like behavior.

Buy

- RDS-A
- Down 10% calls and selling up 5% calls with Nov/Dec duration
- VXX call time spreads

Add costless collar where available on remaining stocks
Add stop losses for remaining stocks

Watch

- Continue to watch for expansion of Mr. Trump's trade war
- Watch for the 10's minus 2's becoming negative
- Home sales/auto sales
- US GDP
- Keep watch on the polls of Elizabeth Warren
- Keep an eye on the upcoming earnings; they are especially critical this time

My short Signals (subject to change without notification):

- Vix above 20
- UD GDP growth below 1.8%
- US 10-year above 2.0%

My reentry/buy points

- Vix above 30
- UD GDP growth below 1.6%
- US 10-year below 1.3%

<u>How I can be wrong</u>

Here are a few points to consider that could make the market go up despite what I see.

The effect of easy money may outstrip a softer economy, forcing current bondholders to buy stocks no matter the risks. If bonds fall radically from here, the stock market is a buy

Any or all of these items in Chapter 1 could resolve itself positively and create a favorable market. The expectations are low; any positive signs in the economy or easier monetary policies will cause the market to go up. Obviously, the reverse is true also. Bond yields move slowly, and the stock market moves fast. Good news will cause stocks to come up quickly while bond yields will increase more reluctantly.

Final Thoughts

This is the conclusion of my report!! I hope to get my next report out on January 6th, 2020. At that time, I will once again attempt to entertain you with my updates, opinions, reflections, lousy grammar, and exceptionally bad poofreading. 😉 - Mark Rush

Appendix 1
Value Stocks

Here is a quick list of some stocks that I follow that I think are cheap. I also show the expected earnings yield for this year, what it's expected to earn in '20 versus its current stock price (i.e., return on investment), and for those who prefer P/E ratios, I have included those also.

Stock	Symbol	Dividend Yield	Earnings Yield (Earnings/Price)	Forward ('20) P/E
General Motors	GM	4.1%	17.4%	5.7
Vale	VALE	-	15.6%	6.4
China Petroleum	SNP	9.5%	13.0%	7.7
Micron Technology	MU	-	12.4%	8.0
Goldman Sachs	GS	2.4%	12.2%	8.2
Citigroup	C	2.9%	12.2%	8.2
Morgan Stanley	MS	3.3%	12.2%	8.2
Eni S.p.A.	E	6.2%	11.3%	8.8
Citizens Financial Group	CFG	4.1%	11.2%	8.9
Valero Energy	VLO	4.3%	11.2%	8.9
Gilead Sciences	GILD	4.0%	11.0%	9.1
Altria Group	MO	8.4%	11.0%	9.1
TOTAL S.A.	TOT	5.6%	10.4%	9.6
Royal Dutch Shell	RDS-A	6.4%	10.2%	9.8
Toll Brothers	TOL	1.1%	9.9%	10.1
International Paper	IP	4.8%	9.8%	10.2
AT&T	T	5.5%	9.6%	10.5
Seagate Technology	STX	4.7%	9.4%	10.7
Alibaba	BABA	-	5.2%	19.2
Google	GOOG	-	4.6%	21.8
Amazon	AMZN		1.9%	52.3

As the market goes up, this list gets shorter…

Appendix 2
High Yield

Here is a shortlist of a few of the high yield investments that I follow along with the current market yield. I made significant changes to the list this time around. With the market selloff, I was able to replace several items with safer alternatives. High yield is a precarious investment by nature.

Stock	Symbol	Yield	Structure
New York Mortgage Trust	NYMT*	13.2%	REIT
Annaly Capital Management	NLY*	11.2%	REIT
GEO Group (Private Jails)	GEO	11.2%	REIT
MPLX LP	MPLX	9.6%	LP
China Petroleum	SNP	9.5%	Corp
Calamos Convertible Income	CHI*	9.2%	Bond
Invesco KBW High Dividend	KBWD*	9.0%	ETF
Credit Suisse High Yield	DHY	8.9%	Bond
PennyMac Mortgage	PMT	8.4%	REIT
Altria Group	MO	8.4%	Corp
Solar Capital Limited	SLRC	7.9%	LP
VanEck Mortgage REIT	MORT*	7.7%	REIT ETF
Global X SuperDividend	DIV*	7.6%	ETF
Blackstone Mortgage Trust	BXMT	6.9%	REIT
Royal Dutch Shell	RDS-A^	6.4%	Corp
Barclay's High Yield Bond	JNK	5.6%	Bond
iShares Preferred	PFF	5.6%	Bond
AT&T	T^	5.4%	Corp
PowerShares Preferred	PGF	5.3%	Bond

* are stocks that I own at the time of this publication.
^ indicates a qualified dividend and may give you a lower tax rate on dividends

Most of these investments are not regular stocks and typically don't qualify for special tax treatment under U.S. capital gains rules. Most of these investments are a Trust, Real Estate Investment Trust (REIT), Bond fund, Master Limited Liability Partnership (LLP), Master Limited Liability Partnership (MLP), or other tax landmines. Be sure you and your investment (tax) advisor knows what you may be getting into before investing and getting a crazy high tax bill at the end of the year. I put these instruments in my IRA rollover to avoid most of these tax headaches, but even that potentially creates some tax burden.

Appendix 3
Country ETFs

Economic Growth (GDP) Forecast by Country for 2019

India	7.2%	Australia	2.9%	Canada	2.2%	Greece	2.2%
China	6.3%	South Korea	2.7%	Germany	1.6%	European Union	1.7%
Vietnam	6.2%	Chile	3.7%	Mexico	2.5%	Italy	0.9%
Indonesia	5.2%	Spain	2.2%	Russia	1.5%	United Kingdom	1.4%
Israel	3.5%	Brazil	2.1%	France	1.6%	Japan	0.9%
Turkey	3.5%	**United States**	**2.7%**	Switzerland	1.5%	South Africa	1.6%

The yields shown below are 2018 *trailing* dividend payouts divided by the 2018 closing price per Yahoo Finance. Dividend payouts may change significantly as well as market prices since 2018. I only update this section at the beginning of each year.

Country Based ETFs and 2018 trailing yields and market return

Country	ETF symbol	2018 Dividend Yield	2018 Market Return
Australia	EWA	4.8%	-8.5%
Brazil	EWZ	2.4%	0%
Canada	EWC	2.2%	-9.4%
Chile	ECH	2.2%	-15.9%
China	FXI	3.6%	-7.8%
EU	VGK	3.7%	-10.6%
France	EWQ	2.6%	-8.2%
Germany	EWG	3.1%	-16.8%
Greece	GREK	2.9%	-27.0%
India	IPI	0.9%	-7.4%
Indonesia	EIDO	1.9%	-11.4%
Israel	ISRA	1.5%	5.3%
Italy	EWI	3.9%	-14.2%
Japan	EWJ	1.5%	-6.9%
Mexico	EWW	2.7%	-17.1%
Russia	RSX	4.4%	-3.6%
South Africa	EZA	2.8%	-23.3%
South Korea	EWY	3.6%	-19.1%
Spain	EWP	3.7%	-11.7%
Sweden	EWD	6.1%	-10.0%
Switzerland	EWL	2.4%	-4.3%
Turkey	TUR	4.0%	-37.6%
UK	EWU	4.7%	-10.2%
USA	SPY	1.8%	4.6%

The big winner was Israel with a small +5.3% gain last year. Most of the international ETFs got hammered in the previous year.

Appendix 4
My Current Portfolio Holdings

I have an overall portfolio gain of ~30%% so far this year. I am roughly 65% cash equivalent.

Trading Portfolio (Taxed) - Options, short positions, short-term trades

Cash
PCG* - Long Pacific Gas and Electric call spreads
SLV* - Long Silver calls spreads
TSLA*- Long Tesla call spreads and put spreads
USO* - Short via put spreads
^VIX* - long Vix call spreads

IRAs (Tax-deferred) - Income and high yield

Cash
ARCC – ARES Capital
BX – Blackstone Group
CCOR – Cambria Core Equity ETF
CG – Carlyle Group
CHI – Convertible Bond Fund
KBWD – High Dividend ETF
MORT – Mortgage REIT ETF
NYMT – New York Mortgage REIT
SPXS – 3x Short S&P 500 ETF

* Denotes options positions