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Systems & Forecasts

Timing the Market Since 1973

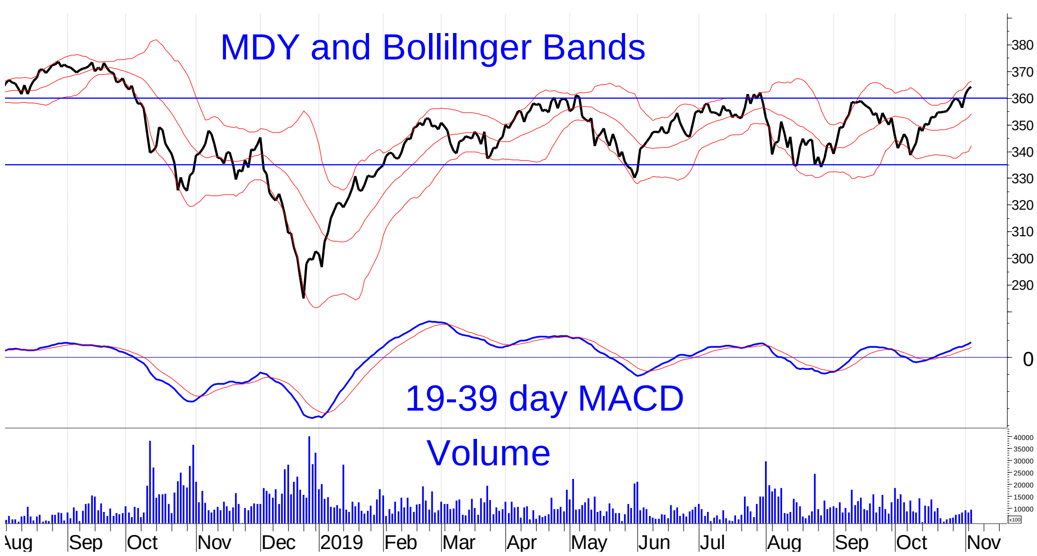
Signalert Asset Management LLC, Publisher • 525 Northern Boulevard • Suite 210 • Great Neck, NY • 11021

Volume 48, Number 2 | *Registered with the S.E.C. as an investment advisor* | November 8, 2019

State of the market: Cautiously optimistic

Stocks opened strongly on Nov. 7 on news that our trade war is de-escalating. Insofar as the emerging trade deal seems to involve both sides backing off from recently imposed tariffs without addressing America's underlying grievances (forced technology transfers, intellectual property protection), this amounts to our giving up. Our turn away from pushing for trade reforms should provide a short-term boost for stocks. However, the real story seems to be an improving outlook for corporate earnings and that should have some lasting bullish significance.

The market advance has been broadening in the past two months. For example, a range of ETFs that had lagged the S&P 500 for the first three quarters of this year are now keeping up or outperforming it. These former laggards include MDY (midcaps), IWM (small-caps), EFA (developed-country foreign stocks) and EEM (emerging markets). On the other hand, the defensive Consumer Staples Sector SPDR (XLP) has lagged the S&P 500 in the past month.



MDY illustrates how much weakness has pervaded the stock market over the past two years beyond the S&P 500. MDY is still slightly below its August 2018 peak. However, on the bullish side, its recent high was confirmed by its MACD and by the NYSE advance-decline line.

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Inside this issue

State of the market: Cautiously optimistic

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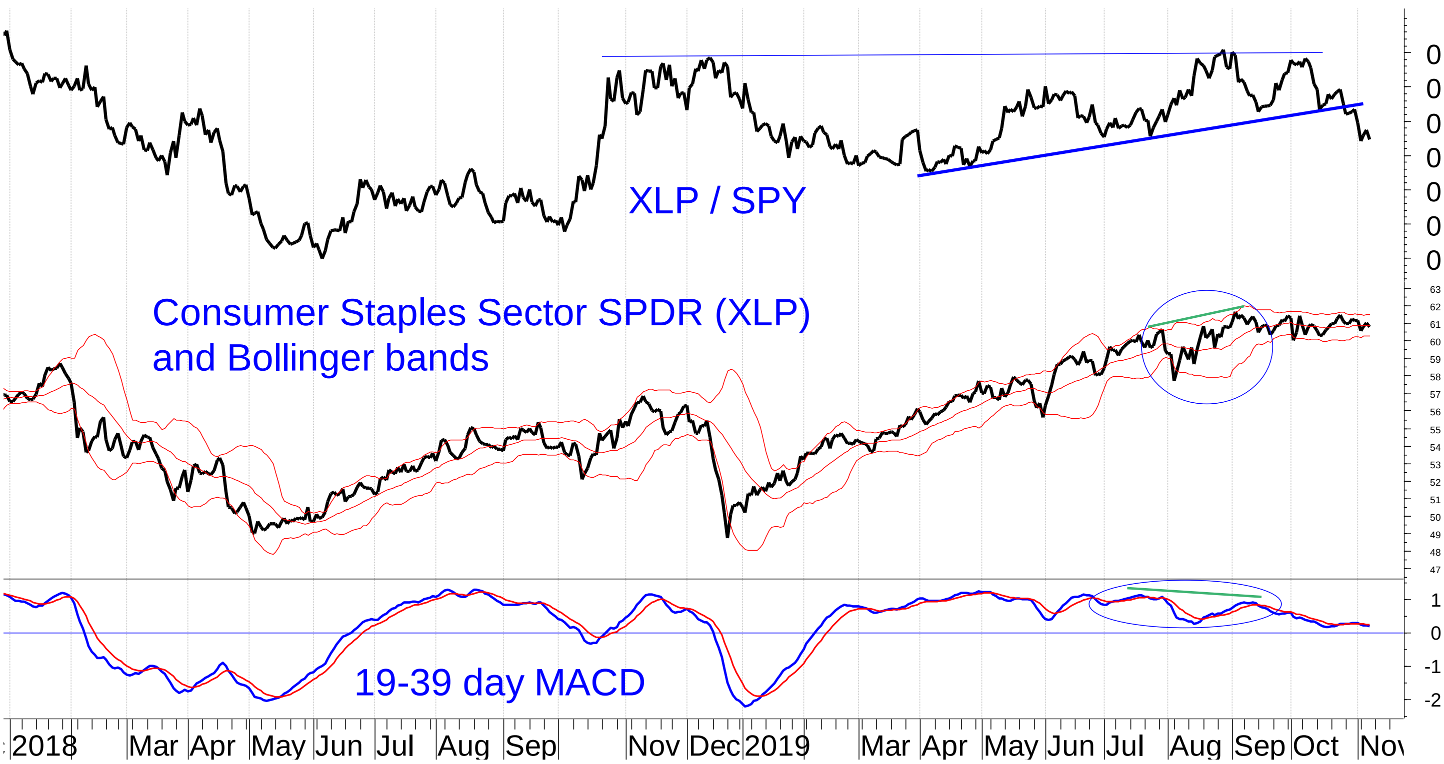
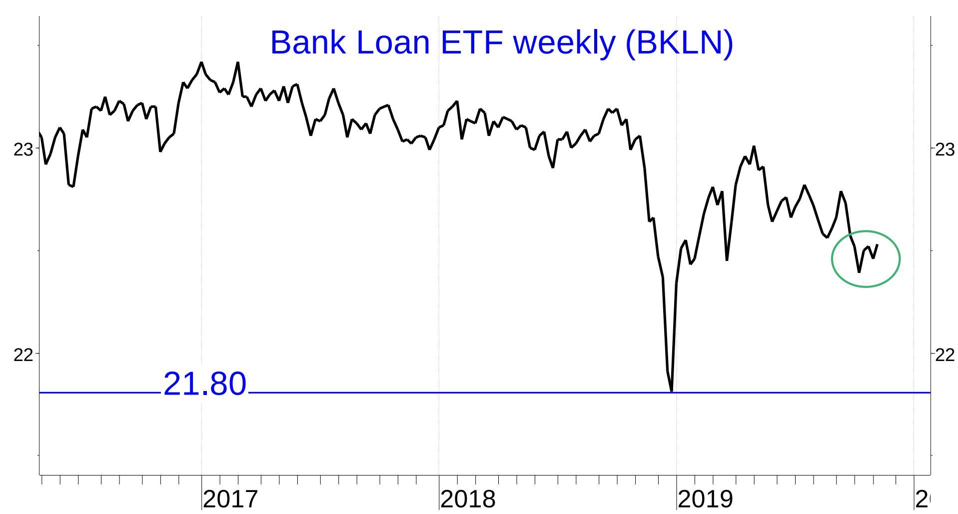
In the last issue I noted that recent relative strength in XLP was a worrisome sign that investors were positioning themselves defensively in preparation for a market pullback. Since then, XLP has moved sideways even as SPY has made new highs. As a result, the XLP / SPY ratio has broken its uptrend, indicating that the move in equities is now "risk on". (See chart below.) For those of our readers who use MACD, note that there was a negative divergence between XLP and its MACD (circled) that presaged the breakdown in relative strength compared to SPY.



Bond market confirms economic optimism

In the Oct. 10 issue, I noted my concern about the breakdown in floating rate loan prices. Since hitting a low on October 10, the floating rate loan ETF (BKLN) has recovered a bit. (Circled in the chart to the right.) I continue to favor corporate high yield bonds over floating rate loans, particularly shorter-term high yield bonds. However, the preliminary stabilization of floating rate loan mutual funds over the past month is a good sign for stocks and below-investment grade bonds overall.



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State of the market: Cautiously optimistic

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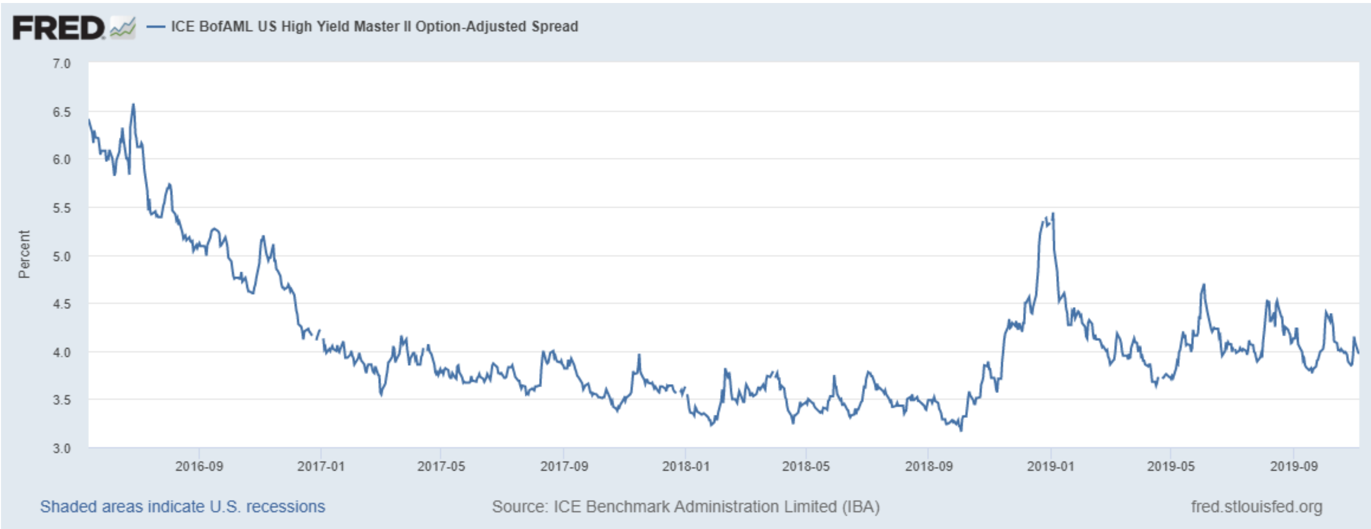
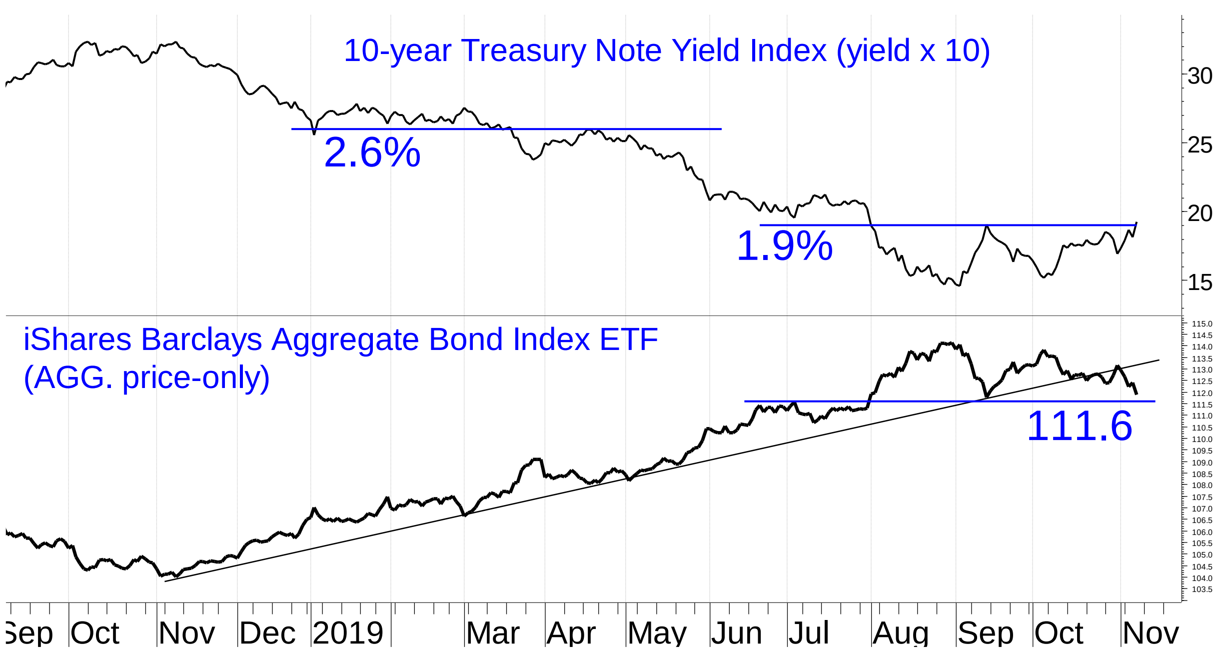


Corporate high yield bond spreads are in a trading range, now around 4%. (See chart above.) This is neither a bargain nor a rip off. Our high yield bond timing models remain on buy signals. This observation, along with the 4% yield spread (near the low end of this year's trading range) suggest sideways price action in corporate high yield bonds in the months to come. Investors should hold their high yield bond allocations in expectation of accumulating interest but little in the way of capital gains.

10-year Treasury note yields have touched 1.9%, the highest in three months. This is a sign of optimism regarding the economy. Concurrently, the iShares Barclays Aggregate Bond Index ETF (AGG) retested its recent support level of 111.6. (See chart below.) It does not appear that investment-grade yields will climb significantly further from here, but the current bond market climate is a refreshing change from the worry that the negative yields we are seeing in Europe will infect our own markets.



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State of the market: Cautiously optimistic

(Continued from page 2.)

These days, the markets turn on a dime so all of these bullish observations do not guarantee a brisk market advance going forward. However, with our U.S. equity model bullish, risk does appear limited and you should look to put your capital to work. Stocks appear near-term overbought to me, so I continue to recommend not chasing rallies but rather, adding on small retracements. I see 302 as the nearest support level for the S&P 500 SPDR (SPY), which is the middle Bollinger band and formerly an area of resistance before the Oct. 28 breakout. Below that, support should lie at 294, but I do not expect SPY to pull back that far.—Marvin Appel

Intermediate Trend Shifts to Positive for the Russell 2000 (IWM)

By Bonnie Gortler

How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case. --Robert G. Allen

Early weakness in October created a short-term oversold condition in several technical indicators. Uncertainty about interest rates, recession risks, and a trade war were major concerns of investors. With investors expecting a decline, short-term sentiment fell to a high level of pessimism. (As a contrary indicator, extreme levels of pessimism are bullish.) What looked like a threatened decline in October never materialized. The major averages held support and successfully tested the lows made in August.

A tradeable rally began in October when the short-term Nasdaq 100 (QQQ) cycle bottomed (see my article in our 10/2/19 newsletter). The Nasdaq rose over the last five weeks, and the S&P 500 had its fourth straight weekly gain. Transportation, financials, internationals, as well as small and mid-cap sectors (which lagged the major averages) joined the advance. This led to the Dow, S&P 500, and Nasdaq breaking out of their trading ranges to the upside, all making new all-time highs in November. Market breadth has improved. It's bullish the NYSE A-D Decline line has confirmed the breakout, achieving a new all-time high.

Despite short-term indicators being extended and short-term sentiment no longer showing signs of pessimism, the rally continues in early November. The rise appears to be broadening. It's positive that momentum indicators are still rising, implying there is more room to the upside. In my experience, the best moves in the market are the ones where there is little or no pull back, and the market goes straight up. Some base building may be needed, and gains may slow somewhat. However, for now, the bulls are clearly in control, and they will be helped by a normally historically favorable seasonal period in the coming months.

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Intermediate Trend Shifts to Positive for the Russell 2000 (IWM)

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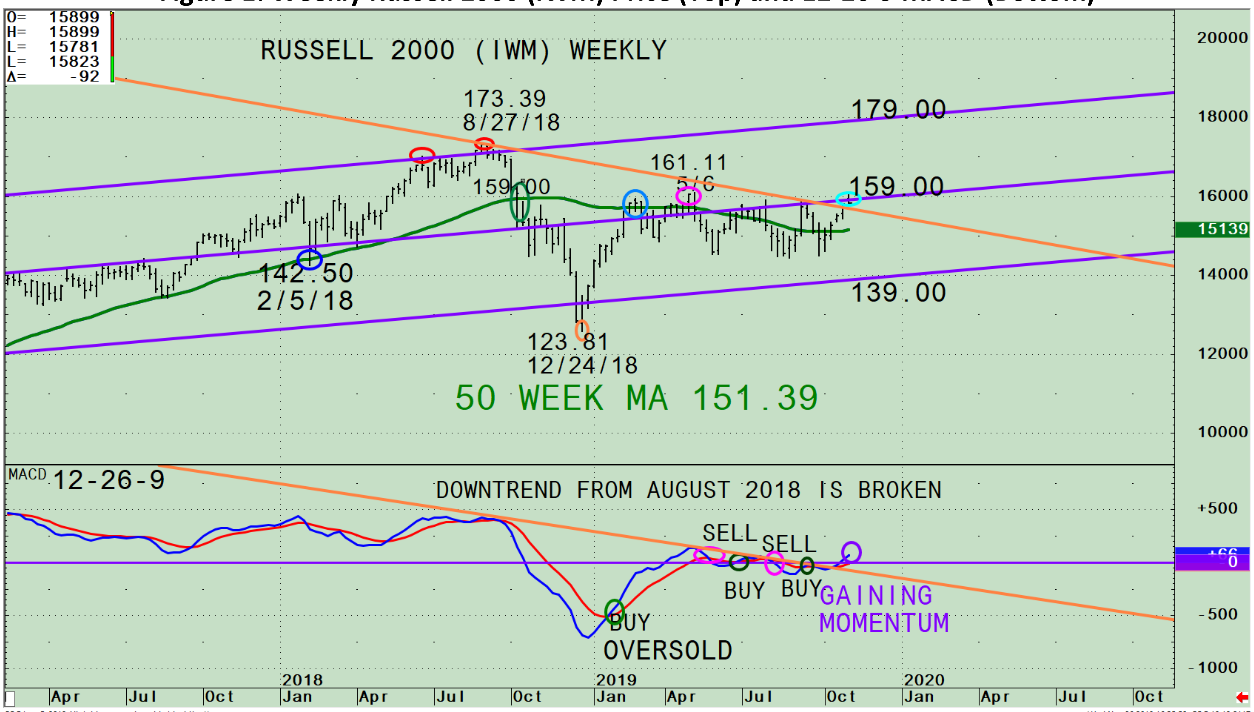
Where do we go from here? Keep an eye on the action in Small Caps

Figure 1: Weekly Russell 2000 (IWM) Price (Top) and 12-26-9 MACD (Bottom)



The top portion of the chart shows the weekly (intermediate-term) Russell 2000 (IWM)[1] and its price channel (purple line) with a 50-week moving average (green line) that traders watch and use to define trends.

Since July 2018, IWM has lagged in terms of relative strength compared to the S&P 500. However, IWM has been gaining strength since 9/30 up more than 9%, a strong thrust to the upside, a positive sign. Even with its gains, IWM remains about 8.25% below its all-time high as of 11/5. IWM hit the upper channel for the second time (red right circle), before peaking on 8/27/18. IWM then weakened in October 2018, falling below the 50-Week Moving Average at 159.00 (green circle). Selling intensified quickly penetrating the lower channel, before finally making a low on 12/24/18 at 125.81.

In January and February 2019, IWM reversed sharply to the upside toward the mid-channel but weakened after making a secondary high on 5/6/19 (pink circle) at 161.11, stalling slightly above the 50 Week Moving Average. Notice how the slope of the 50-Week Moving Average (green line) was falling (weak momentum), in May 2019 compared to how sharply the slope was rising in April – August 2018 (positive momentum). Since May IWM has moved sideways, unable to get through the down trend line (orange line) when IWM rose and began a pattern trading above and below the 50-week Moving Average (green line). On 10/14 IWM, once again penetrated and closed above its 50-week MA of 151.39.

The intermediate trend has shifted to positive. It is bullish IWM has broken the downtrend (light blue circle), and the slope of the 50 Week MA is now rising. IWM closed at 158.23 on 11/6, slightly under the middle channel at 159.00. A weekly close above 159.00 would validate an upside objective to 179.00, the upper channel, another 13.1% higher. Resistance is 161.00, followed by 173.39 (the August high).

(Continues on page 6.)

Intermediate Trend Shifts to Positive for the Russell 2000 (IWM)

(Continued from page 5.)

The lower portion of the chart above is MACD, a technical indicator that measures momentum. MACD remains on a buy after a few quick buys and sells (pink and green circles). The MACD pattern is now favorable, rising from below 0. It is bullish that MACD has broken its downtrend from August 2018 and is gaining momentum confirming, the recent rise in IWM.

Summing Up:

The stock market rally continues in early November and appears to be broadening to out of favor sectors that have not yet made new all-time highs. The weekly chart of the Russell 2000 (IWM) technical pattern is improving, gaining momentum, and has broken its downtrend from August 2018, implying there is more room to the upside. If you have spare cash and don't mind greater risk than investing in the S&P 500, I recommend purchasing IWM when it closes above 159.00 for two days. A close below 151.00 would negate my positive outlook and should be used as a stop.

I would love to hear from you. Please call me at 516-829-6444 or email at bgortler@signalert.com to share your thoughts or ask me any questions you might have.

[1] The iShares Russell 2000 Index ETF (IWM) is made up of companies with a market capitalization of between $300 million and $2 billion. The portfolio top 5 sector holdings as of 8/20/19 are Financials 26.53%, Health Care 15.49%, Industrials 15.28%, Technology 12.93%, and Consumer Cyclicals 12.89% totaling 83.12% (Source: http://www.etf.com/IWM).

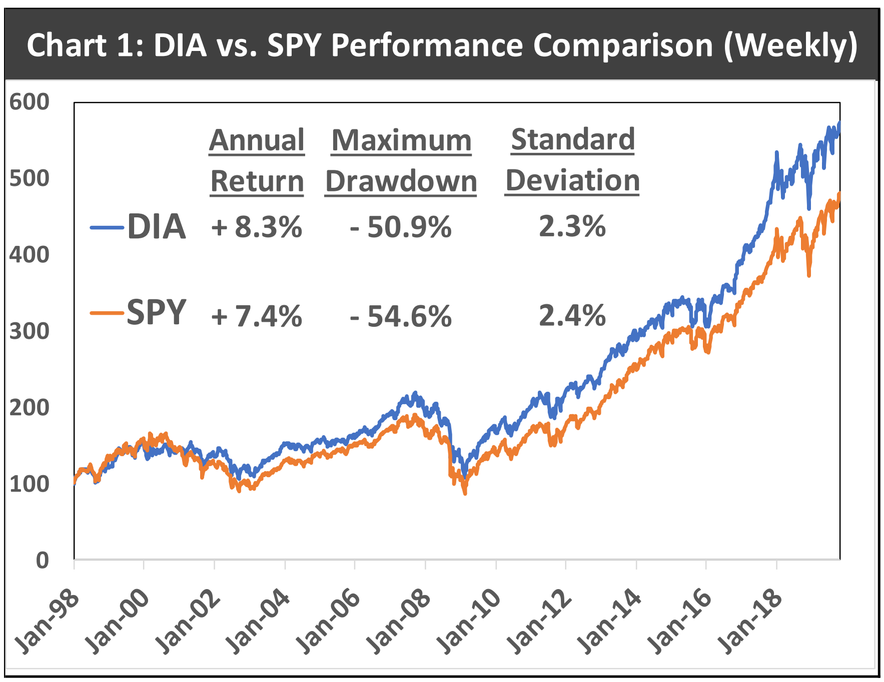
Time to cash in your DIAmonds

By Joon Choi

After Apple (AAPL) replaced AT&T in the Dow Industrial Average (DIA) in March 19th 2015, DIA has outperformed the S&P 500 Index (SPY) in most recent three calendar years; 4.4% in 2016, 6.4% in 2017 and 0.8% in 2018. However, the relative strength is waning this year as DIA is lagging SPY by 4.7%. In this article, I will discuss why the former may continue to lag the latter.

DIA – a better investment choice

Immediately after DIA was launched in January 23rd 1998, it lagged SPY by 16.7% in its first 25 months. But it has since recovered from underperforming to become a better investment choice (Chart 1). DIA has returned 8.3% per year while SPY has trailed behind with 7.4%. In addition, DIA experienced a lower maximum drawdown (50.9% vs. 54.6%) and almost same standard deviation (volatility). In a nutshell, DIA returned an additional 0.9% per year with slightly less risk than SPY.



***As of November 6th, 2019**

Relative Strength Reversal?

Since DIA introduction, DIA / SPY relative strength experienced 8 trend changes greater than 10% performance differences between the two ETFs. For example, after the initial underperformance, DIA outperformed SPY by 24% from March 2000 to July 2002 (Chart 2, next page). Then relative strength switched 6 more times with the most recent example being from August 2015 thru November 2018 (an outperformance by DIA of 19% compared to SPY). It's interesting to note that when the relative strength ratio pulled away from the best-fit trend line (Linear), it eventually snapped back to its trend line, as it did in early 2018 and 2019. The ratio has since begun to pull away once again.

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Time to cash in your DIAmonds

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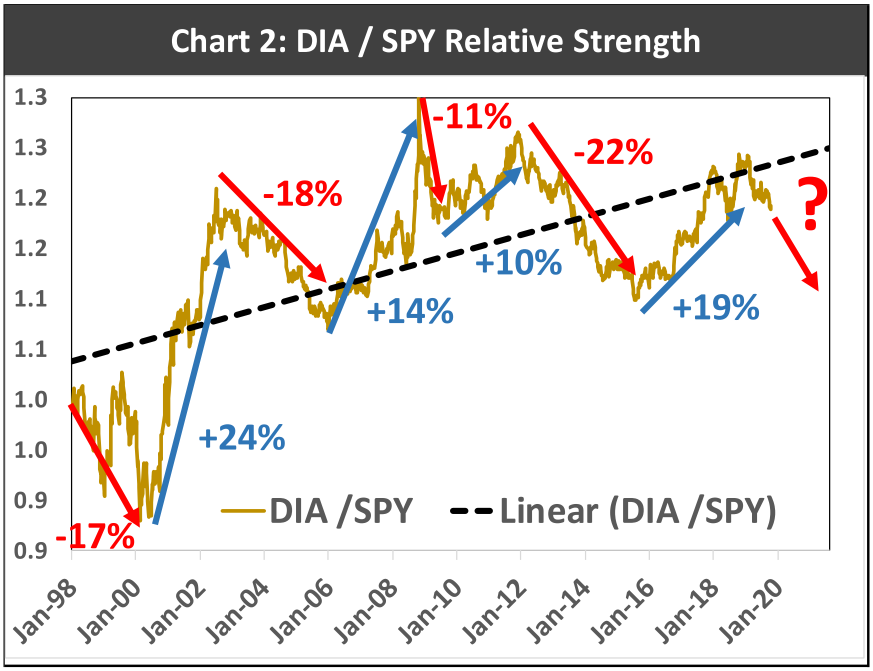


***As of November 6th, 2019**

Conclusion

Matching the long-term track record of the S&P 500 Index may be a hard task for any investor to accomplish, let alone beating the index. However, DIA has managed to beat SPY, on a buy and hold basis, for the past 20+ years. Moreover, switching from one to another ETF when its relative strength is stretched from its best-fit trend line may be a sound strategy. It appears that DIA is in the midst of relative strength trend reversal versus SPY and may continue to do so if history serves as a guide. Therefore, I recommend switching DIA with SPY if you own the position in your portfolio. Also, you might consider the benefit of buying SPY and shorting DIA to institute a market-neutral position.

Systems and Forecasts Growth & Income Portfolio

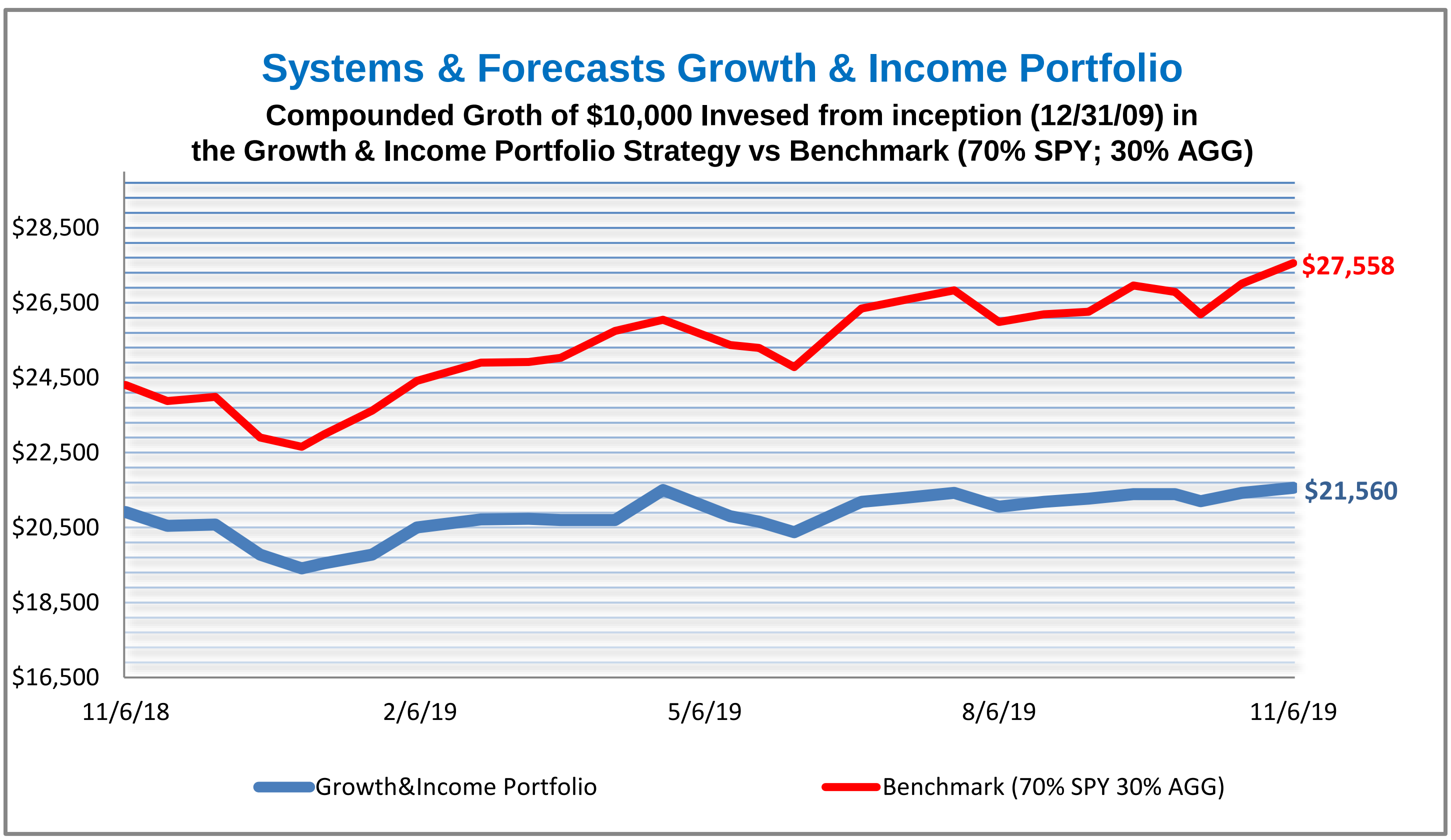
Symbol	Fund Name	Objective	Allo	Buy Date:	Buy Price:	11/6/19	% G/L *	
S&P Sector Rotation								
XLP	Consumer Staples Select Sector SPDR	Materials	10.00%	5/29/2019	$56.17	$61.01	10.05%	*
SPY	SPDR S&P 500 ETF	Large Blend	20.00%	11/1/2019	$306.14	$307.10	0.31%	
Bond Funds:								
TDHIX	Transamerica High Yield Bond I	High Yield Bond	30.00%	1/8/2019	$8.77	$9.09	8.48%	*
Trading / Covered Call Writing Strategy :					Cost Basis			
SPY	SPDR S&P 500 ETF	Large Blend	10.00%	1/23/2019	$263.41	$307.10	18.12%	*
SPY	SPDR S&P 500 ETF	Large Blend	10.00%	9/17/2019	$300.92	$307.10	2.51%	*
SPY	SPDR S&P 500 ETF	Large Blend	20.00%	8/13/2019	$306.14	$307.10	0.31%	

* Includes dividends as cash

Growth & Income Portfolio

G&I YTD Portfolio return as of Nov. 6, 2019	11.23%
Benchmark YTD return as of Nov. 6, 2019	21.63%

Portfolios do not include money market interest when in cash, sales commissions or expenses.



Systems and Forecasts High Income Portfolio

Symbol	Fund Name	Objective	Allo	Buy Date:	Buy Price:	11/6/19	% G/L *	
High Dividend Strategy:								
TWO-PE	Two Harbors,7.50% Ser E Cumulative Red. Prf Stk**	Mortgage REIT Preferred Stk	5.00%	8/25/2017	$24.95	**$25.29**	**18.27%**	*
AGNCN	AGNC Investment Corp.	Mortgage REIT Preferred Stk	5.00%	2/8/2018	$25.45	**$25.86**	**13.66%**	*
GAB-G	Gabelli Equity Trust Preferred G	Preferred Stk	5.00%	5/5/2014	$23.20	**$25.38**	**39.03%**	*
Bond Funds:								
TGHNX	TCW High-Yield Bond N	High Yield Bond	15.00%	3/14/2016	$6.12	**$6.54**	**23.24%**	*
TDHIX	Transamerica High Yield Bond I	High Yield Bond	30.00%	1/8/2019	$8.77	**$9.09**	**8.48%**	*
CHIAX	Credit Suisse Floating Rate Hi Inc A	Floating Rate	10.00%	1/11/2019	$9.22	**$6.59**	**2.51%**	*
AGG	iShares Core US Aggregate Bond ETF	Intermediate-Term Bond	10.00%	1/2/2019	$106.57	**$112.40**	**7.91%**	*
NHMAX	Nuveen High Yield Municipal Bond A	High Yield Municipal Bond	10.00%	6/1/2017	$17.07	**$17.89**	**17.23%**	*
DLTNX	DoubleLine Total Return Bond N	Intermediate-Term Bond	10.00%	10/6/2014	$10.97	**$10.70**	**15.11%**	*

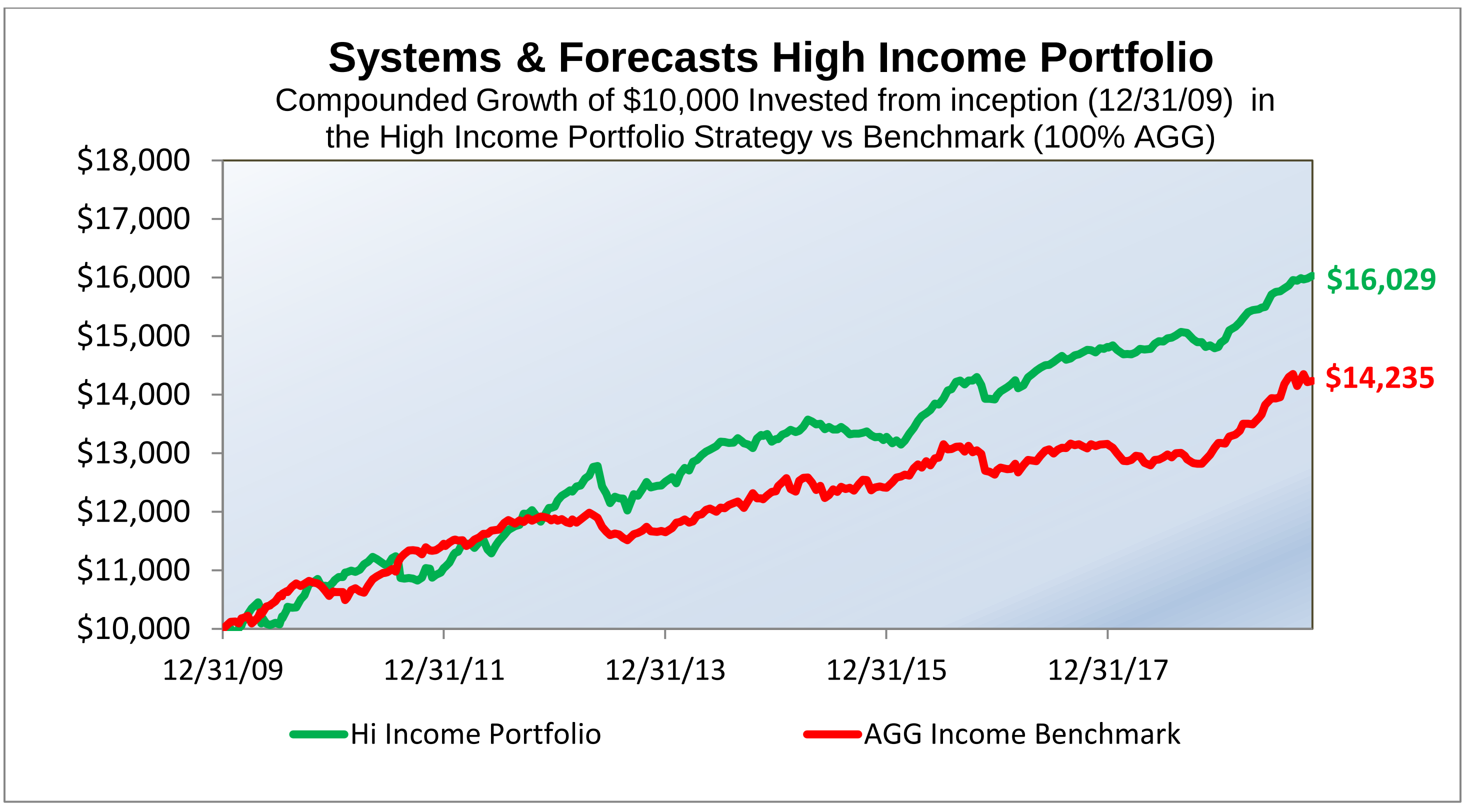
**CYS-PB CYS Inv, 7.50% Series B Cumulative Red. Pref Stk Mergered 7/31/18

* Includes dividends as cash

Recommended mutual funds are available at various brokerage houses at no loads for purchase or redemption. Subscribers are advised to verify arrangements at brokerage houses where they trade. If loads are charged, we advise replacing our portfolio recommendations with other similar funds. We advise all investors to read fund prospectus before purchases.

High Income Portfolio	
Hi Inc Port YTD return as of Nov. 6, 2019	**8.21%**
iShrs Barclays Agg YTD ret. Nov. 6, 2019	**8.06%**

Portfolios do not include money market interest when in cash, sales commissions or expenses.



Indicator Roundup

Relative Strength between S&P 500/Nasdaq favors the Nasdaq.

Corporate Bond Model generated a **Buy** the week ending 12/28/18.

Systems and Forecasts Top Performing ETF's

Performance data appears below for our two rosters of top-performing ETF's. *New rosters were created with data as of **9/17/19***, selected from a universe of approximately 1000 Exchange Traded Funds including all styles and sectors except fixed income. The aggressive roster includes all volatility levels. The moderate roster excludes the most volatile ETF's. Average performance of the rosters from 9**/17/19 through 11/6/19**: Aggressive Roster -.2%; Moderate Roster -0.7%; S& P 500 +2.4%; VT +3.2%.

Aggressive ETF Ranking

Rank	SYMBOL	ETF Name	OBJECTIVE	Risk 9=High Risk	1 Mo % Change	3 Mo % Change	12 Mo % Change	Return Since 12/31/18
1	PALL	Aberdeen Standard Phys P	Specialty - Precious Metals	9	6.87	24.10	59.40	41.60
2	SMH	VanEck Vectors Semicondu	Specialty - Technology	9	9.89	20.13	39.58	51.41
3	SOXX	iShares PHLX Semiconduct	Specialty - Technology	9	9.22	19.42	40.31	50.31
4	ERUS	iShares MSCI Russia Capp	Growth	6	12.80	15.54	33.61	42.90
5	EWZS	iShares MSCI Brazil Smal	Foreign Stock	9	3.88	2.88	30.14	28.03
6	ITB	iShares US Home Construc	Specialty - Real Estate	7	2.48	15.63	38.98	49.06
7	BRF	VanEck Vectors Brazil Sm	Growth	9	2.53	0.62	19.94	21.23
8	XSD	SPDR S&P Semiconductor E	Specialty - Technology	9	7.91	12.53	42.25	51.50
9	SIL	GlobalX Silver Miners ET	Specialty - Precious Metals	9	4.02	5.37	28.45	20.47
10	GLTR	Aberdeen Standrd Phys Pr	Specialty - Precious Metals	4	0.89	5.71	24.37	18.05
11	GDXJ	VanEck Vectors Junior Go	Specialty - Precious Metals	9	0.13	-6.36	37.78	26.70
12	ZROZ	PIMCO 25 Yr Zero Coupon	Government Bond - Treasury	8	-7.55	-0.60	38.77	23.88
13	SLVP	iShares MSCI Global Silv	Specialty - Precious Metals	9	2.64	0.80	27.78	21.87
14	DBP	Invesco DB Precious Meta	Specialty - Precious Metals	5	-0.81	2.06	19.60	14.22
15	PPLT	Aberdeen Standard Phys P	Specialty - Precious Metals	8	5.36	8.89	6.37	16.44
16	RING	iShares MSCI Global Gold	Specialty - Precious Metals	9	-0.84	-2.41	49.10	38.62
17	SLV	iShares Silver Trust	Specialty - Precious Metals	8	0.37	7.09	20.66	13.43
18	SGDM	Sprott Gold Miners ETF	Specialty - Precious Metals	9	-2.18	-5.20	46.31	33.41
19	GDX	VanEck Vectors Gold Mine	Specialty - Precious Metals	9	-2.05	-4.78	41.44	29.45
20	PBW	Invesco WilderHill Clean	Specialty - Natural Resources	9	4.53	2.85	28.44	41.75
21	XAR	SPDR S&P Aerospace & Def	Specialty - Technology	7	3.13	4.26	18.11	37.27
22	ICLN	iShares Global Clean Ene	Specialty - Utility	6	-4.34	0.48	26.12	28.94
23	TAN	Invesco Solar ETF	Specialty - Natural Resources	9	-5.54	-4.74	38.11	50.73
24	INR	Market Vectors Indian Ru	Worldwide Bond	9	-26.75	40.59	67.43	57.72

Moderate Ranking (Excludes ETF's with Volatilities in Bands 6 - 9)

Rank	SYMBOL	ETF Name	OBJECTIVE	Risk 9=High Risk	1 Mo % Change	3 Mo % Change	12 Mo % Change	Return Since 12/31/18
1	PHO	Invesco Water Resources	Specialty - Utility	5	3.22	5.77	24.56	32.43
2	BLV	Vanguard Long-Term Bond	Income	5	-3.27	0.48	24.02	18.23
3	GLTR	Aberdeen Standrd Phys Pr	Specialty - Precious Metals	4	0.89	5.71	24.37	18.05
4	JXI	iShares Global Utilities	Specialty - Utility	5	-1.68	5.14	18.83	18.95
5	SPLV	Invesco S&P 500 Low Vola	Growth	5	-1.03	4.11	19.86	24.66
6	XLU	Utilities Select Sector	Specialty - Utility	2	-2.95	5.52	19.55	21.54
7	LGLV	SPDR SSGA US LargeCap Lo	Income	5	-0.05	3.15	19.92	26.24
8	VGLT	Vanguard Long-Term Treas	Government Bond - General	5	-5.22	-0.79	25.43	15.73
9	TLT	iShares 20 Year Treasury	Government Bond - Treasury	4	-5.32	-0.91	25.85	15.84
10	VPU	Vanguard Utilities ETF	Specialty - Utility	4	-3.03	5.31	18.76	20.92
11	FREL	Fidelity MSCI Real Estat	Specialty - Real Estate	4	-1.29	5.04	20.11	26.57
12	USMV	iShares Edge MSCI Min Vo	Growth	4	-0.73	2.84	16.61	22.99
13	FUTY	Fidelity MSCI Utilities	Specialty - Utility	4	-3.11	5.21	18.56	20.70
14	IDU	iShares US Utilities ETF	Specialty - Utility	5	-3.18	5.12	17.96	20.19
15	SGOL	Aberdeen Standrd Phys Sw	Specialty - Precious Metals	3	-0.92	1.26	21.44	16.19
16	GLD	SPDR Gold	Specialty - Precious Metals	3	-1.02	1.11	21.04	15.84
17	RYU	Invesco SP500 Equal Weig	Specialty - Utility	5	-3.08	4.75	16.59	18.73
18	UBG	UBS ETRACS CMCI Gold Tot	Specialty - Precious Metals	5	-1.37	1.71	20.45	15.97
19	DBP	Invesco DB Precious Meta	Specialty - Precious Metals	4	-0.81	2.06	19.60	14.22
20	RSXJ	VanEck Vectors Russia Sm	Growth	4	4.09	3.07	17.30	26.57
21	PUI	Invesco DWA Utilities Mo	Specialty - Utility	3	-3.74	3.99	17.28	17.96
22	ICF	iShares Cohen & Steers R	Specialty - Real Estate	4	-3.26	2.70	19.44	24.13
23	REZ	iShares Residential Real	Specialty - Real Estate	3	-4.29	3.56	24.97	26.22
24	KBWP	Invesco KBW Property & C	Growth	4	-3.46	0.09	18.19	26.51

Trading fees vary according to brokerage arrangement. Please check the fund prospectus prior to investing in any security.

Dr. Marvin Appel's Upcoming Speaking Engagements

Date:_ January 18, 2020

AAII Los Angeles

Place: Skirball Center

2701 N. Sepulveda Boulevard, Los Angeles

Time: 9:00 AM

Subject: High Income in Turbulent Times

Date:_ February 8, 2020

AAII Silicon Valley

Place: Shoup Park Garden House

400 University Avenue, Los Altos

Time: TBA

Subject: High Income in Turbulent Times

Date:_ March 4, 2020

AAII New York City

Place: St. Jean Baptiste Church

184 East 76th Street, New York City

Time: 6:30-8:15 PM

Subject: High Income in Turbulent Times

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Timing the Market Since 1973

Published by
Signalert Asset Management LLC
Registered Investment Advisors
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