

Systems & Forecasts

Timing the Market Since 1973

Market Update

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525 Northern Blvd. Suite 210, Great Neck, New York 11021
Phone: 516-829-6444
E-mail: marketletter@signalert.com

December 14, 2017: Stocks slip on fears about passing a tax cut

By Bonnie Gortler

The Dow Jones Industrial Average lost -76.77 points or -0.31%. The Standard & Poor's 500 lost -10.84 points or -0.41%. The Nasdaq Composite Index lost 19.27 points or -0.28%. Breadth was negative with -1019 net declines on the NYSE and -1084 net declines on the Nasdaq. Preliminary new highs on the NYSE were 76 and 43 new lows. The Nasdaq had 95 new highs and 67 new lows.

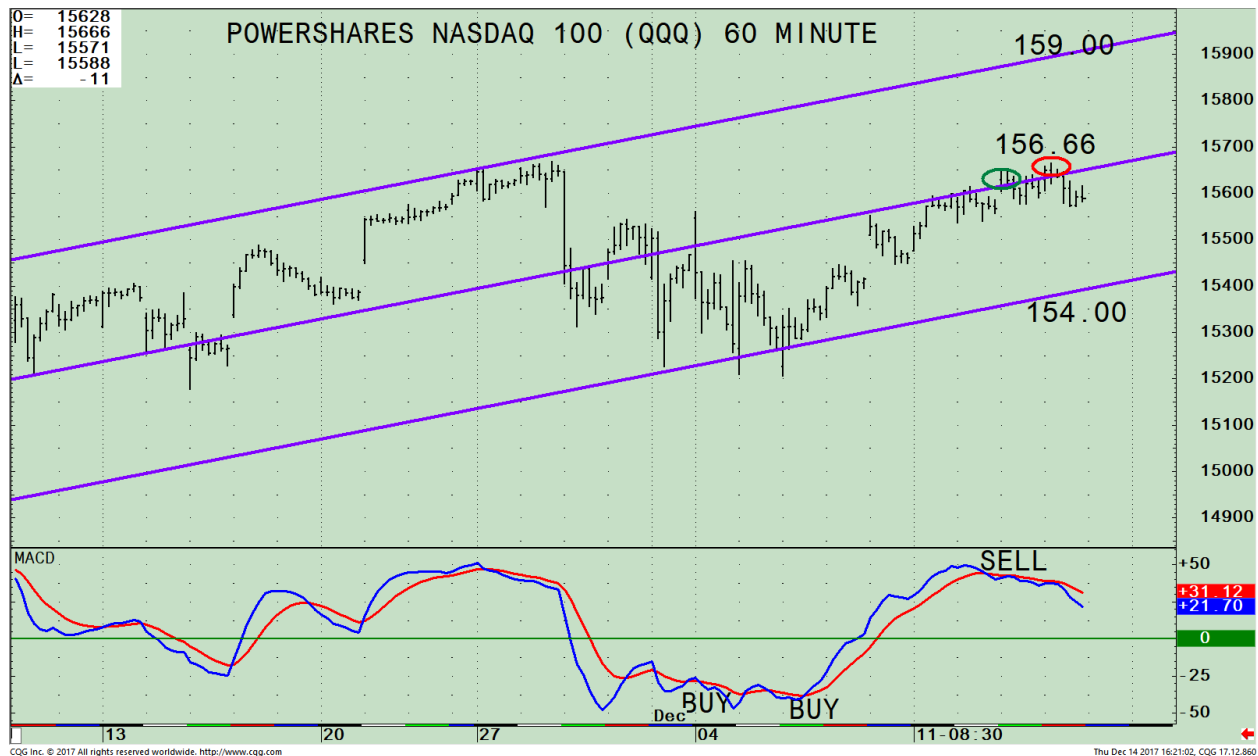
The following ETFs showed gains: Consumer Discretionary (XLY), 20+ Year Treasury Bond ETF (TLT) and Oil (USO).

ETFs that were down: Biotechnology (XBI), Retail (XRT), Telecom (IYZ), Russell 2000 (IWM) and Brazil (EWZ).

U.S. equities fell, with small caps leading the way down. The decline was broad, orderly with no real selling pressure today generating much anxiety amongst traders. Most sectors were down for the day as there is new worry over the passage of the Republican tax package. Technology stocks were relatively stable, with only small losses on the day. It would be bullish if short-term support could hold over the next several days.

See QQQ Chart Below:

The 60-Minute Power Shares Nasdaq 100 Index (QQQ) and 12-26-9 MACD



The top part of the chart shows the Daily Power Shares Nasdaq 100 Index (QQQ) active 60-minute trading channel (purple lines). The upper channel is at 159.00 and the lower channel is at 154.00.

The QQQ opened higher this morning, rising just over last Fridays high. The QQQ finished down +0.11 points or -0.07%, closing at 155.88.

Early this morning, the QQQ rose slightly over the middle channel at 156.66 before retracing during the day below the middle channel and moving sideways. Support is at 154.00. Resistance is at 159.00. A break below 154.00 would imply further short term selling.

The lower portion of the chart is the daily 12-26-9 MACD, a momentum indicator. MACD had repeat buy signals in early December and the QQQ rose in price. Now, MACD has a weakening momentum pattern and is on a sell. MACD is falling, not yet in oversold condition from where a safe buy would be generated. Until the MACD pattern shows a more favorable buying pattern more short term weakness is possible.

To sum up:

The stock market advance stalled today. Market breadth was weak. Small caps were out of favor today leading the decline, while the Nasdaq held up reasonably well. The

short term weakening pattern in the QQQ MACD is somewhat concerning. However, the trend remains up for now. A break below 154.00 would imply further short term selling.

Indicator and portfolio round-up

Our equity timing model remains on its October 31st buy, suggesting further gains in the broad market are likely with risk contained, although I am still uncertain about the technology sector.

10-year Treasury yields are 2.346%. Our investment-grade bond model remains on its April 25 buy. Since that buy signal, the Vanguard Total Bond Market Index Fund (VBMFX) is up 2.30% in total return.

High yield corporate bond funds remain stable, on average 0.2% below their recent highs. The sell stop for Transamerica Aegon High Yield Fund (TDHIX) remains at 9.06. The sell stop for TCW High Yield (TGHNX) remains at 6.21 and the sell stop for Nicholas High Yield (NNHIX) remains at 9.05.

The Growth and Income Portfolio is 70% Equity, and 30% in Bond mutual funds.

The High Income Portfolio is 25% in a mix of preferred stocks and ETFs, and 75% invested in Bond mutual funds.

The next hotline will be written on Monday evening December 18. Thank you for checking in.

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Listed on the next page are Systems and Forecasts current positions and activity.

CURRENT PORTFOLIO POSITIONS

	GROWTH AND INCOME PORTFOLIO:		
	70% EQUITY & 30% INCOME	ALLO	BUY DATE
XLF	Financial Select Sector SPDR ETF	10%	11/1/2017
XLI	Industrial Select Sector SPDR ETF	10%	12/1/2017
XLV	Health Care Select Sector SPDR ETF	10%	12/1/2017
TDHIX	Transamerica High Yield Bond	30%	12/14/2016
SPY	SPDR S&P 500 ETF	10%	11/1/2016
SPY	SPDR S&P 500 ETF- from EEM Covered Call position	10%	12/16/2016
SPY	SPDR S&P 500 ETF	20%	10/31/2017
	TOTAL	100%	
	G&I RECENT ACTIVITY		
XLB	Materials Select Sector SPDR ETF	SELL	12/1/2017
XLY	Consumer Discret Sel Sect SPDR ETF	SELL	12/1/2017
XLI	Industrial Select Sector SPDR ETF	BUY	12/1/2017
XLV	Health Care Select Sector SPDR ETF	BUY	12/1/2017
	HIGH INCOME PORTFOLIO:		
	25%-30% EQUITY & 70%-75% INCOME	ALLO	BUY DATE
PFF	iShares US Preferred Stock ETF	10%	2/28/2017
CYS-B	CYS Investments, 7.50% Series B Cumulative Red. Preferred Stk	5%	8/25/2017
GAB.PG	Gabelli Equity Trust Preferred G	5%	5/5/2014
NLY-PE	Annaly Capital Management Preferred E - formerly Hatteras	5%	5/5/2014
TDHIX	Transamerica High Yield Bond	30%	12/14/2016
TGHNX	TCW High-Yield Bond N	15%	3/14/2016
DLTNX	DoubleLine Total Return Bond N	10%	10/6/2014
NHMAX	Nuveen High Yield Municipal Bond A	10%	6/1/2017
LFRA	Lord Abbett Floating Rate A	10%	12/9/2016
	TOTAL	100%	
	HIGH INCOME RECENT ACTIVITY		
NLY.PA	Annaly Capital Management Preferred A (Called on 8/25/17)	Called	8/25/2017