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Systems & Forecasts

Timing the Market Since 1973

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Systems & Forecasts
U.S. Equity Timing Model

BUY

HOLD

SELL ←

State of the market: Stocks recover from early-October losses and should remain in a holding pattern.

The stock and bond markets have quieted down in the past two weeks after stocks rebounded from their early October losses. For example, the chart below shows that the S&P 500 Index is now retesting its July and September highs in the 3010-3025 range. Concurrently, option implied volatility (VIX, a measure of perceived market risk) dropped sharply from October 8 to 15.

Although anything could happen, with the start of the favorable November-May period around the corner, I expect the index to make a new high or at least hold its ground. Nonetheless, gains are likely to come slowly as stocks are facing economic headwinds. I would be more optimistic, but the market's signals remain mixed even though they are now moving the right direction.

(Continues on page 2.)



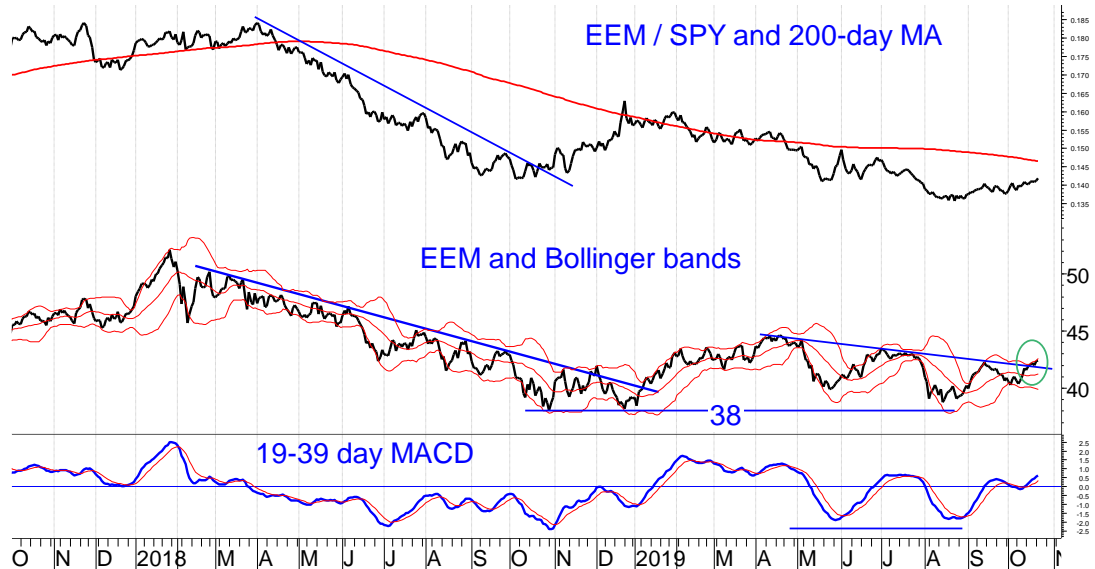
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- Time for a high yield bond reallocation?—page 4
- Breakout in Europe and emerging markets--page 6

State of the Market: Stocks Should Hold Their Ground or Advance

(Continued from page 1.)

One bright spot is the improvement in emerging markets stocks. For example, the iShares MSCI Emerging Market Index ETF (EEM) has just broken a six-month downtrend (circled in the chart below). Both EEM price and its MACD have formed bullish rising double bottoms since September. Note in addition that EEM formed a positive divergence with its MACD in May-August when EEM made a new low in August while MACD bottomed out at a higher level than it had in May. I view emerging markets stocks as a proxy for trade war prospects with China since more than half of its weighting is in Chinese, South Korean or Taiwanese stocks.

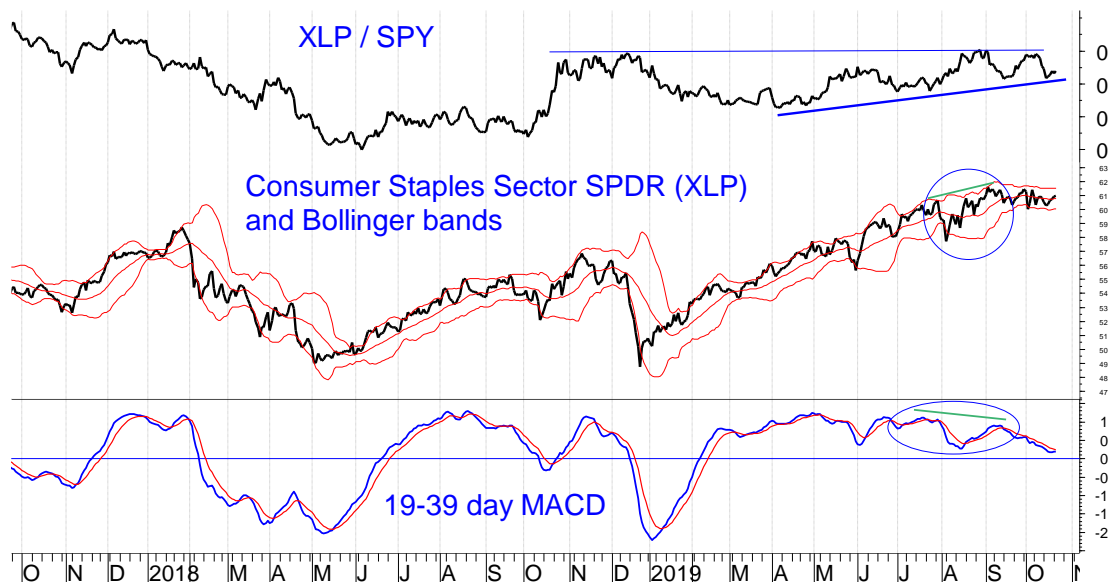


Watch consumer staples (XLP)

The chart to the right shows the Consumer Staples Sector SPDR (XLP, middle) and the XLP / SPY ratio (top), along with the slow (19-39-9 day, bottom) MACD of XLP.

Consumer staples is a defensive sector that usually outperforms in

economically uncertain climates because sales in this sector hold up better when the economy slows. As a result, outperformance by consumer staples stocks (that is, XLP / SPY ratio rising) has often been an overall bearish warning sign for the stock market. XLP has outperformed SPY since April, but that trend may have stopped this month. We will keep an eye on this.



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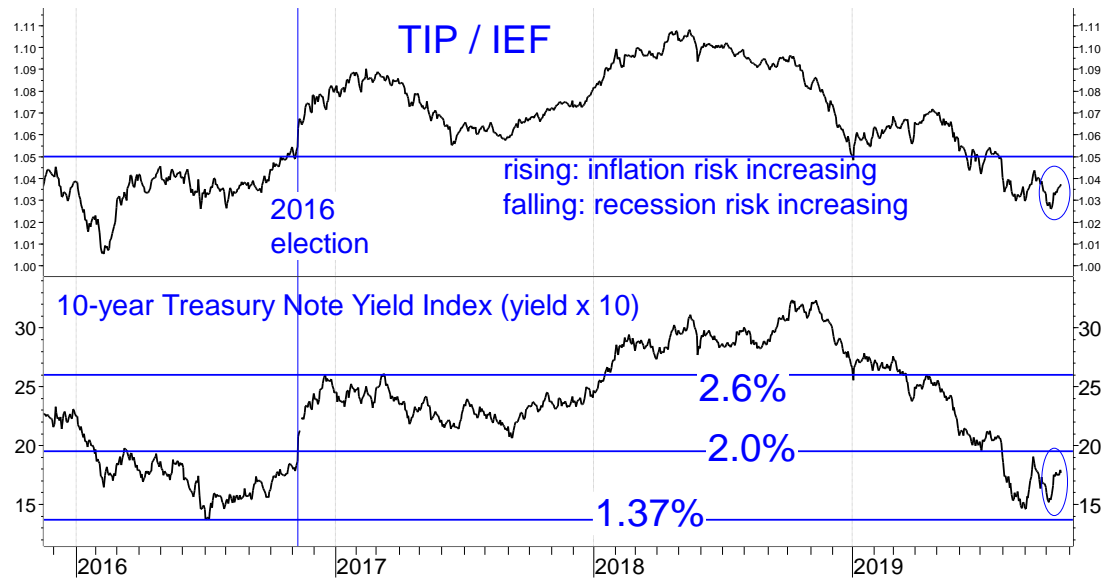
State of the Market: Stocks Should Hold Their Ground or Advance

(Continued from page 2.)

Note that XLP formed a bearish negative divergence with its MACD (higher high in XLP in September than in July, but MACD peaked at a higher level in July than in September). Since then, XLP has moved sideways while the S&P 500 has advanced. That is somewhat bullish overall.

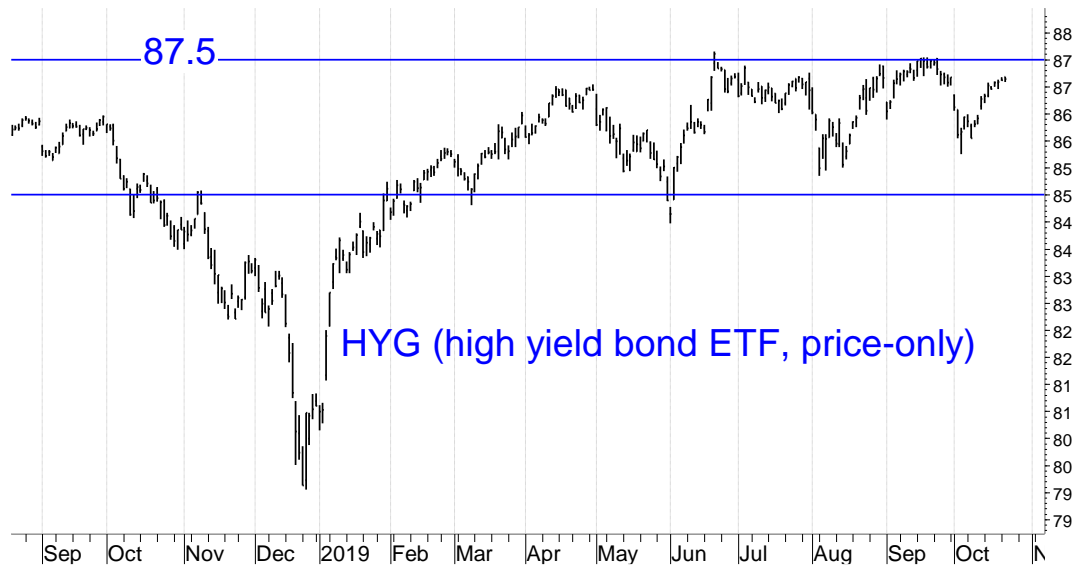
Bond markets are giving mixed signals

The Treasury market is moving in a bullish direction but interest rates and inflation expectations are still consistent with sluggish economic growth. The chart below shows the ratio between ETFs that track Treasury Inflation-Protected Securities (TIP)



and nominal Treasury notes (IEF). When the TIP / IEF ratio is rising it means that investors are willing to pay more for inflation protection. Both the TIP / IEF ratio and 10-year Treasury note yields are recovering from their October lows but are still at the low end of their historical ranges at levels consistent with a sluggish economy.

On the bullish side, high yield bonds are holding steady near the upper end of their recent trading range. (See chart below.) They are doing better than floating rate bond funds, but the latter have at least stopped falling for now.



Implications

Price trends are sideways, but with high yield bonds holding their ground and favorable seasonality almost upon us, downside risk should remain limited and we should see the S&P 500 Index make new highs grudgingly. I expect to get a buy signal on our equity model next week which will lead us to add to positions for clients and for the newsletter portfolio. Don't be impatient about chasing rallies in the absence of fresh buy signals.

Time for High Yield Bond Reallocation?

By Joon Choi

As the Fed reversed its stance from raising to cutting rates, all asset classes are faring well this year. Within the fixed income class, the high yield bonds sector is performing the best; JNK (SPDR Barclay High Yield Bond ETF) is up 13.4% year-to-date. As investors continue to chase higher income and drive down yields, should we be worried? In this article, I will discuss why the high yield sector may be overbought and shorter-term high yield bonds may be a better alternative.

Overview of JNK and SJNK

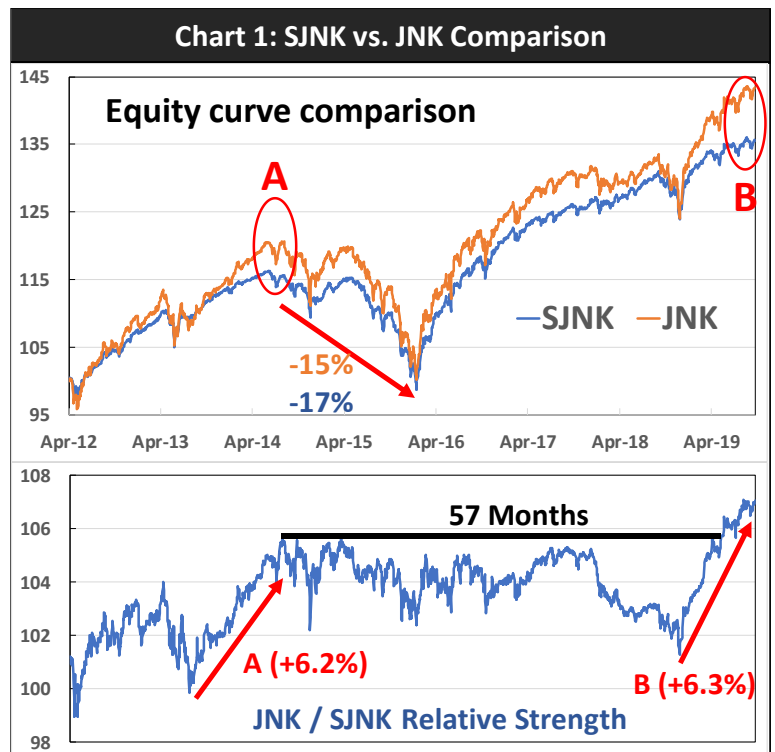
JNK is a high yield bond ETF that was created in December 2007 after the stock market peaked a few months before. It's the second most liquid EFT in the high yield space (HYG has twice the assets but they have performed the same since 2008). SJNK is a shorter-term high yield bond ETF that was launched in March 2012. This ETF's benefit is that it has lower interest rate risk as average maturity of bonds in the portfolio is only about half of JNK's: 3.2 vs. 6 years respectively. Similarly, its duration (a measure of interest rate sensitivity) is 1.6 years compared to 3.1 years for JNK.

Since SJNK's inception, it has trailed JNK's return by 0.9% per year (4.1% vs. 5%) but with one third less volatility (measured by standard deviation). In short, investors are willing to trade off some return for lower volatility when they invest in SJNK over JNK.

JNK overbought vs. SJNK?

Even though JNK has performed well this year, it's currently stuck at the same level for the last 6 weeks. It appears that investors are waiting for more clarity on the Fed's decision later this month and an update on the trade dispute with China. In order to analyze the relative valuations between JNK and SJNK, I divided the former by the later to create a relative strength indicator (RS). As you can see on the bottom half of Chart 1, RS has increased sharply since the stock market lows in late December. In fact, JNK has outperformed SJNK by 6.3% during this period (Point B) which led to a large separation between the two equity curves (top chart).

The last time JNK sharply outperformed SJNK was in 2013-14 when it gained 6.2% more than SJNK; albeit it took few months longer. JNK's equity curve was stretched above SJNK's (Point A), similar to the current situation. This outperformance was followed by a 15-17% correction in the ETFs. It took 57 months for JNK/SJNK relative strength to make new highs. This suggests that SJNK would have been a better investment choice over JNK during the period above since it had same returns but with much less volatility. If history serves as a guide, we may experience a similar path between the two ETFs. My analysis suggests that shorter-dated high yield bonds may offer better value than longer ones.



***As of October 22rd, 2019**

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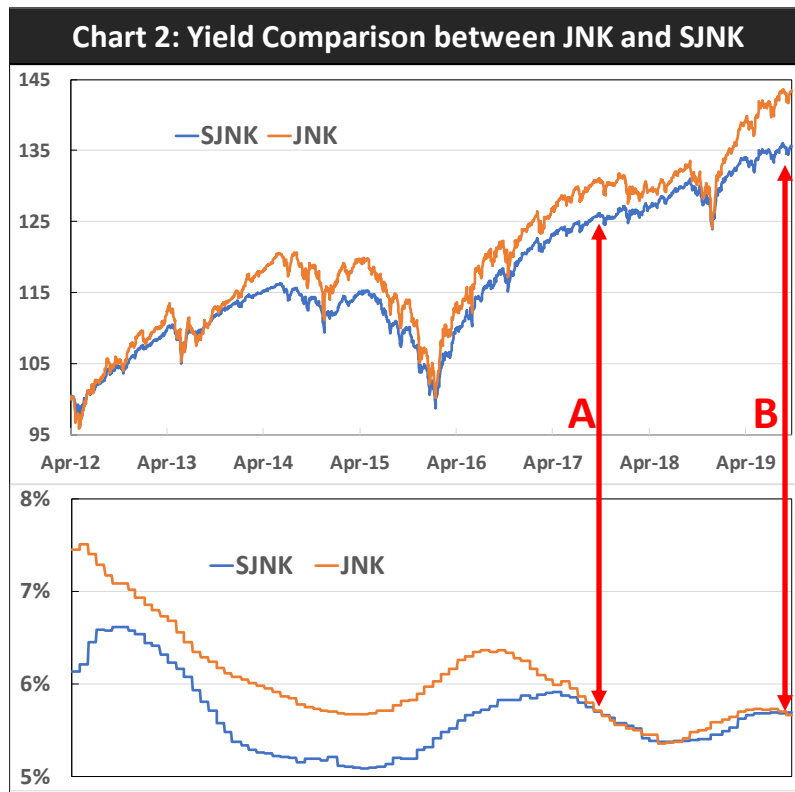
Time for High Yield Bond Reallocation?

(Continued from page 4.)

Digging Deeper

To my surprise, the 30-day SEC yields are similar for JNK and SJNK: 5.26% vs. 5.13% respectively. This means that investors are barely being compensated for holding longer-dated bonds. This phenomenon intrigued me, so I compared the historical yields of these two ETFs. Unfortunately, I could not obtain prior SEC yields; thus, I calculated the 12-month dividend distribution yield (DDY) by adding the trailing twelve-month (TTM) dividends and then divided the total by the average price during the time span.

When I charted the past DDY, I noticed that JNK's 12-month dividend distribution yield was actually lower than SJNK's; 5.67% vs. 5.69% respectively (Chart 2, point B). The only other occasion when JNK distributed less (in %) than SJNK was in 2017 (point A). JNK was flat in the ensuing 14 months whereas, SJNK gained 2%; not much but still better than JNK.



***As of October 22rd, 2019**

Conclusion

Low yields around the world are forcing investors to pile into the U.S. high yield bonds resulting in lower yields. Longer-dated high yield bonds (JNK) seem to be overcrowded as their average dividend distribution yield is lower than that of shorter-dated ones (SJNK). In addition, JNK/SJNK relative strength indicates that JNK may have rallied too much versus SJNK and as a result may underperform SJNK for the foreseeable future. I recommend replacing some of your high yield bond exposure with shorter-term investments such as SJNK. Although this sector seems overbought, high yield bonds are too valuable for an allocation reduction. That's why it is so important to utilize an effective high yield model to improve returns while containing the risk. I have uncovered a few short-duration high yield bond funds that perform better than SJNK on our high yield model and we have begun using these for clients.

Break out in Emerging Markets (EEM) and Europe (IEV)

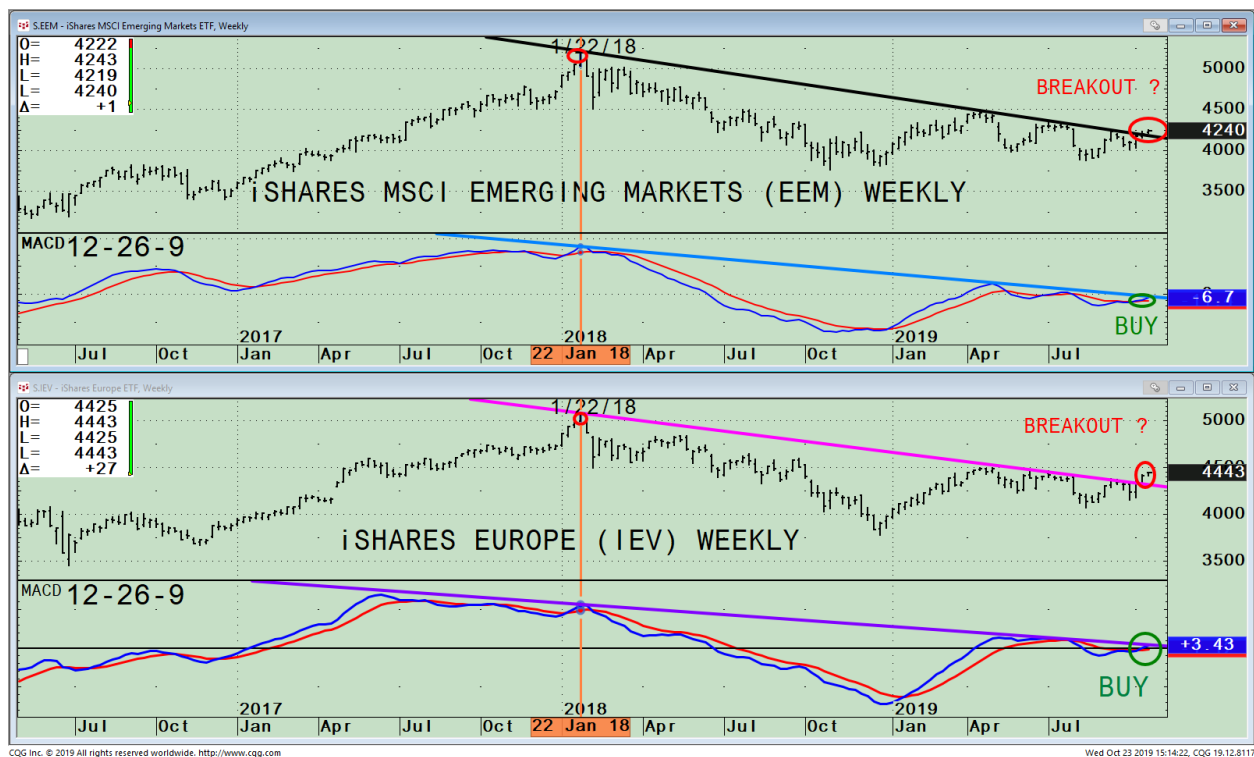
By Bonnie Gortler

The Dow, S&P 500, and Nasdaq have attempted several times to make new highs in September and October. However, when each attempt was made, the rally stalled, resulting in a short-term decline as the averages stayed within a range below their new all-time highs. If October lows are not violated, I am looking for a breakout to occur in the U.S. major averages finishing the year with a strong fourth quarter, historically a favorable seasonal period. A key will be the support of the international markets.

Global markets have been out of favor lagging the U.S. market for many years. However, there appears to be a shift underway as investor interest in foreign assets has increased. It is bullish that the International averages are outperforming the S&P 500 this month. It's possible for this to be the fuel that lifts the U.S. market to new highs and new upside objectives. As of 10/23, Emerging Markets (EEM) is up 3.7%, Europe (IEV) is up 2.7%, and the S&P 500 (SPY) is up 0.8%. There is a lot of room to the upside as both EEM and IEV are more than 12% below their January 2018 highs.

What ETFs to watch?

Figure (top to bottom): iShares (EEM) weekly, 12-26-9 week MACD of EEM, iShares Europe (IEV), 12-26-9 week MACD of IEV



The top portion of the chart is the iShare MSCI Emerging Markets (EEM)¹. EEM is widely held, very liquid, and one of the oldest products on the market giving exposure to stock markets of emerging economies.

The top part of the chart shows the EEM has broken its weekly downtrend (black line) that began from its peak on 1/22/18 (red circle/orange vertical line on top chart). This breakout is bullish for the intermediate-term and is a buying opportunity. It's also bullish the EEM broke its downtrend from 5/17/on the daily chart on 10/17 (as shown

(Continues on page 7.)

Break out in Emerging Markets (EEM) and Europe (IEV)

(Continued from page 6.)

on the EEM chart on page 2) with a favorable momentum pattern. Resistance is at 44.00. Any short-term weakness will likely be contained and staying above support at 40.00.

Below EEM is the 12-26-9 week, MACD of EEM. MACD is a measure of momentum. Last week a new buy signal was generated. If EEM continues to rise, it will break the almost two-year downtrend (blue line), increasing the odds that downside momentum is complete. The next several weeks can make a difference if emerging markets can sustain a rally supporting the U.S. market.

Another international ETF that is showing a breakout to the upside is iShares Europe (IEV). This ETF is focused on the economies of developed Europe, including 350 stocks in more than a dozen different economies.

The third section from the top of the chart on page 6 shows the iShares Europe (IEV)² weekly breaking its downtrend (pink line top chart) from 1/22/18 (vertical orange line), corresponding to the same time the EEM peaked. This breakout is bullish for the intermediate-term and is also a buying opportunity. The IEV broke its downtrend on the daily chart on 10/11 (not shown) a few days before EEM. Resistance is just above at 45.00. Any short-term weakness is likely to be contained near 44.00. A close below 41.00 would negate my positive outlook on IEV.

The bottom section of the chart is the 12-26-9 week, MACD of IEV. MACD gave a new buy and is very close to breaking its downtrend (purple line). An upside penetration would imply downside momentum is complete. I am expecting the downtrend to be broken, confirming the breakout in price over the next few weeks.

Recommendation:

For those of you who are overweight in U.S. equities, or are heavily weighted in a sector, or have extra cash, now would be a suitable time to add a 5% position in Emerging Markets (EEM) and Europe (IEV). Use 40.00 as a stop for EEM and 41.00 as a stop for IEV. This is not an official portfolio recommendation, just a speculative buy.

Summing Up:

It's a bullish sign that international markets are acting well in October, and intermediate-term momentum is improving. Emerging Markets (EEM) and Europe (IEV) have broken their price downtrends and have been gaining relative strength as compared to the S&P 500. From a charting perspective, the intermediate trend is now favorable. This would imply additional gains in the coming weeks. There is a good upside potential in Emerging Markets (EEM) and Europe. Strength in EEM and IEV, is likely to support the U.S market to make new all-time highs sooner rather than later.

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.

¹As of 10/22/19, the top five countries of EEM are China 29%, South Korea 12%, Taiwan 11%, India 8%, and Brazil 7%, totaling 67.%. The top 5 sectors are Financials 21%, Technology 14%, Communications 12%, Consumer Cyclical 11%, and Energy (7%) totaling 65.0%. Source: <https://etfdb.com/etf/EEM/>

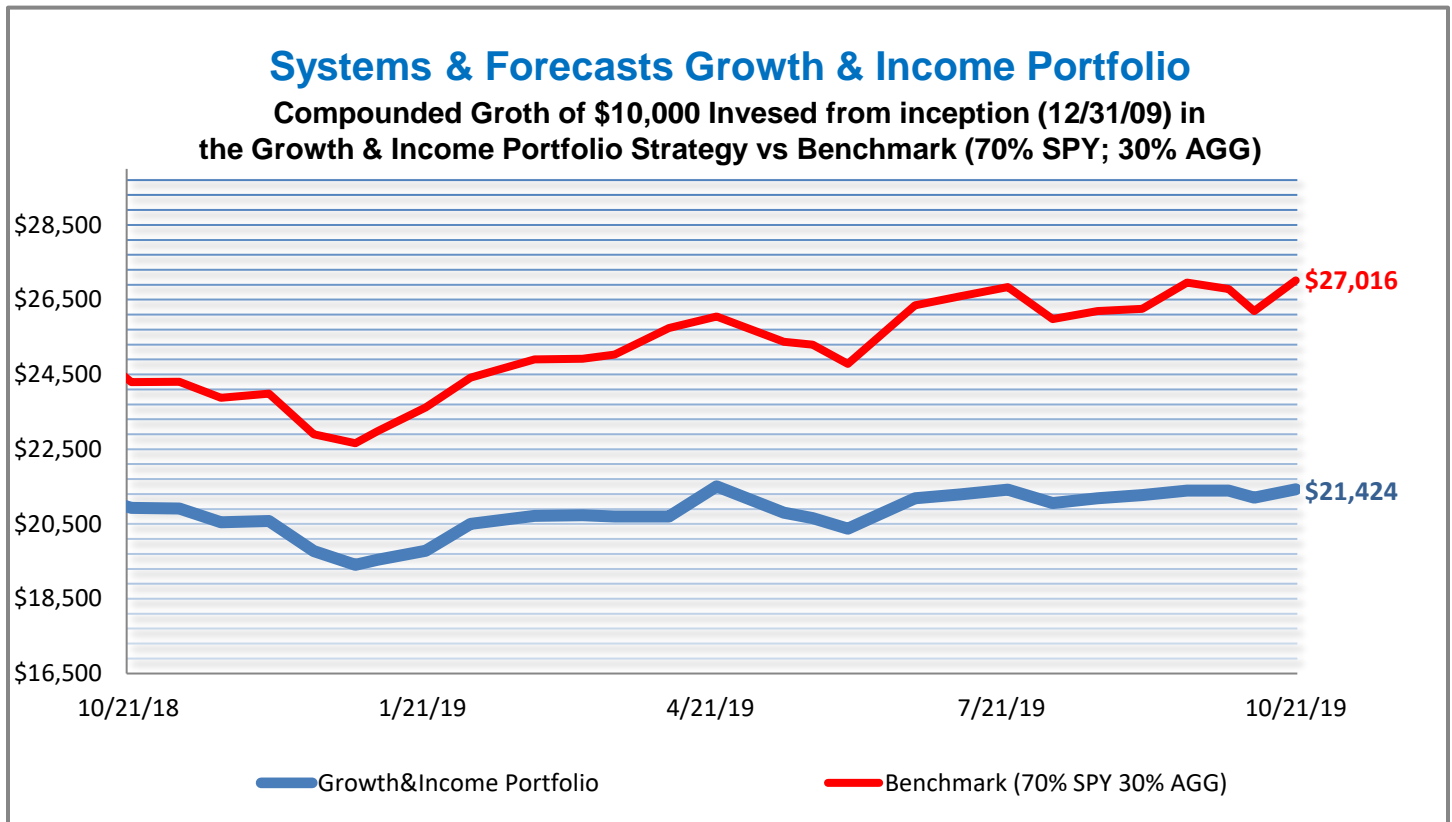
²As of 10/23/19, the top five countries of IEV are United Kingdom 23%, France 16%, Switzerland 15%, Germany 13%, and the Netherlands 9% totaling 76.0%. The top 5 sectors are Financials 17%, Consumer Non-Cyclical 14%, Healthcare 14%, Industrials 13%, and Consumer Cyclical 9% totaling 67.0%. Source: <https://etfdb.com/etf/IEV/>

Systems and Forecasts Growth & Income Portfolio

Symbol	Fund Name	Objective	Allo	Buy Date:	Buy Price:	10/21/19	% G/L *
S&P Sector Rotation							
XLP	Consumer Staples Select Sector SPDR	Materials	10.00%	5/29/2019	\$56.17	\$60.94	9.93% *
MM	Money Market	Money Market	20.00%	5/29/2019	\$1.00	\$1.00	0.00%
Bond Funds:							
TDHIX	Transamerica High Yield Bond I	High Yield Bond	30.00%	1/8/2019	\$8.77	\$9.08	7.87% *
Trading / Covered Call Writing Strategy :				Cost Basis			
SPY	SPDR S&P 500 ETF	Large Blend	10.00%	1/23/2019	\$263.41	\$299.99	15.42% *
SPY	SPDR S&P 500 ETF	Large Blend	10.00%	9/17/2019	\$300.92	\$299.99	0.15% *
MM	Money Market	Money Market	20.00%	8/13/2019	\$1.00	\$1.00	0.00%

* Includes dividends as cash

Growth & Income Portfolio	
G&I YTD Portfolio return as of Oct 21, 2019	10.37%
Benchmark YTD return as of Oct 21, 2019	19.24%
Portfolios do not include money market interest when in cash, sales commissions or expenses.	



Systems and Forecasts High Income Portfolio

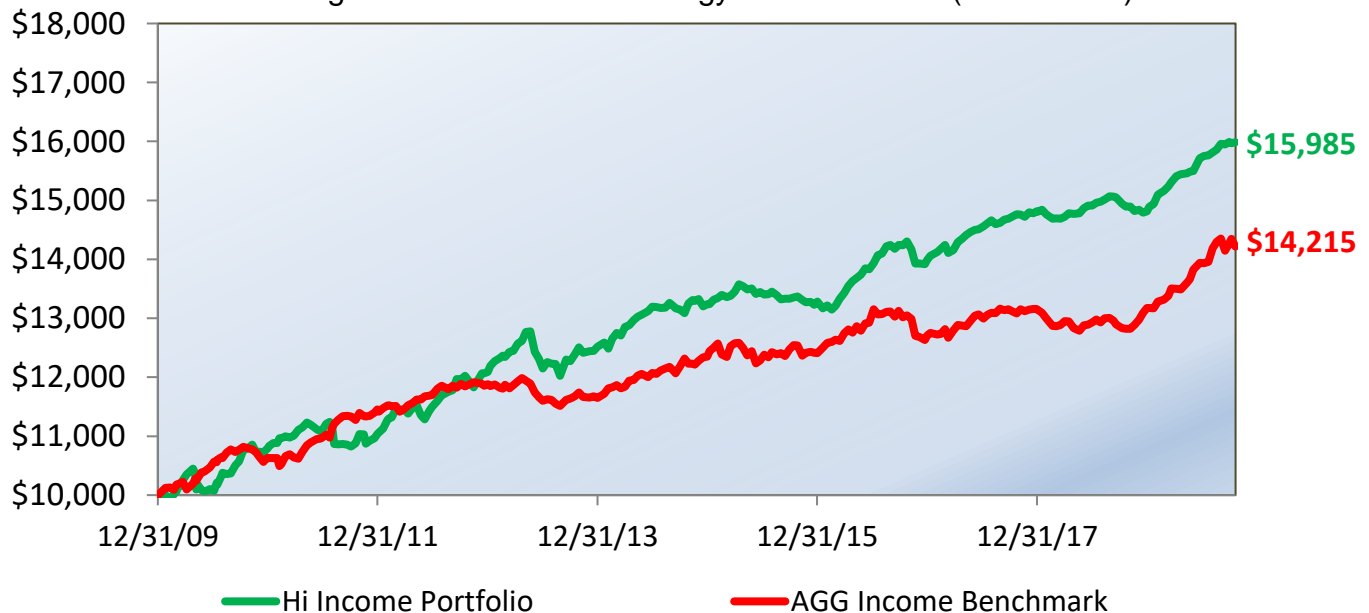
Symbol	Fund Name	Objective	Allo	Buy Date:	Buy Price:	10/21/19	% G/L *
High Dividend Strategy:							
TWO-PE	Two Harbors, 7.50% Ser E Cumulative Red. Pref Stk**	Mortgage REIT Preferred Stk	5.00%	8/25/2017	\$24.95	\$25.39	18.67% *
AGNCN	AGNC Investment Corp.	Mortgage REIT Preferred Stk	5.00%	2/8/2018	\$25.45	\$25.70	13.03% *
GAB-G	Gabelli Equity Trust Preferred G	Preferred Stk	5.00%	5/5/2014	\$23.20	\$25.49	39.50% *
Bond Funds:							
TGHX	TCW High-Yield Bond N	High Yield Bond	15.00%	3/14/2016	\$6.12	\$6.54	22.89% *
TDHIX	Transamerica High Yield Bond I	High Yield Bond	30.00%	1/8/2019	\$8.77	\$9.08	7.87% *
CHIA	Credit Suisse Floating Rate Hi Inc A	Floating Rate	10.00%	1/11/2019	\$9.22	\$6.60	2.24% *
AGG	iShares Core US Aggregate Bond ETF	Intermediate-Term Bond	10.00%	1/2/2019	\$106.57	\$112.49	7.75% *
NHMAX	Nuveen High Yield Municipal Bond A	High Yield Municipal Bond	10.00%	6/1/2017	\$17.07	\$17.93	17.05% *
DLTNX	DoubleLine Total Return Bond N	Intermediate-Term Bond	10.00%	10/6/2014	\$10.97	\$10.73	15.10% *
**CYS-PB CYS Inv, 7.50% Series B Cumulative Red. Pref Stk Merged 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 Oct 21, 2019	7.92%
iShrs Barclays Agg YTD ret. Oct 21, 2019	7.91%
Portfolios do not include money market interest when in cash, sales commissions or expenses.	

Systems & Forecasts High Income Portfolio

Compounded Growth of \$10,000 Invested from inception (12/31/09) in the High Income Portfolio Strategy vs Benchmark (100% AGG)



Indicator Roundup

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

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 10/21/19: Agg Roster -2.6%; Mod Roster +0.4%; S& P 500 +0.03%; VT +0.7%.

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	INR	Market Vectors Indian Ru	Worldwide Bond	9	-19.57	45.95	73.82	63.74
2	PALL	Aberdeen Standard Phys P	Specialty - Precious Metals	9	6.99	16.34	61.71	39.50
3	ITB	iShares US Home Construc	Specialty - Real Estate	7	5.87	16.81	48.18	50.26
4	TAN	Invesco Solar ETF	Specialty - Natural Resources	9	-7.69	2.13	56.73	59.89
5	ZROZ	PIMCO 25 Yr Zero Coupon	Government Bond - Treasury	8	-3.46	9.06	36.93	24.02
6	RING	iShares MSCI Global Gold	Specialty - Precious Metals	9	-6.33	-2.35	39.69	34.33
7	EWZS	iShares MSCI Brazil Smal	Foreign Stock	9	3.10	-4.18	32.96	23.89
8	SMH	VanEck Vectors Semicondu	Specialty - Technology	9	4.57	6.81	33.36	42.52
9	SOXX	iShares PHLX Semiconductor	Specialty - Technology	9	3.85	6.62	34.16	41.79
10	SGDM	Sprott Gold Miners ETF	Specialty - Precious Metals	9	-7.23	-6.04	34.19	29.92
11	GDV	VanEck Vectors Gold Mine	Specialty - Precious Metals	9	-7.35	-5.00	33.51	26.03
12	ICLN	iShares Global Clean Ene	Specialty - Utility	6	-2.64	2.59	35.21	35.16
13	GLTR	Aberdeen Standrd Phys Pr	Specialty - Precious Metals	4	-1.04	6.56	23.66	17.02
14	XSD	SPDR S&P Semiconductor E	Specialty - Technology	9	-0.41	3.25	35.88	42.49
15	ERUS	iShares MSCI Russia Capp	Growth	6	0.75	2.80	27.09	33.16
16	SLV	iShares Silver Trust	Specialty - Precious Metals	8	-2.32	8.17	19.43	13.02
17	DBP	Invesco DB Precious Meta	Specialty - Precious Metals	5	-2.36	4.58	18.78	13.69
18	GDVJ	VanEck Vectors Junior Go	Specialty - Precious Metals	9	-7.59	-8.18	22.95	19.99
19	PBW	Invesco WilderHill Clean	Specialty - Natural Resources	9	-5.38	-1.87	29.15	39.29
20	BRF	VanEck Vectors Brazil Sm	Growth	9	1.08	-6.60	22.13	17.28
21	SIL	GlobalX Silver Miners ET	Specialty - Precious Metals	9	-4.88	-0.63	15.33	14.13
22	XAR	SPDR S&P Aerospace & Def	Specialty - Technology	7	-5.74	-0.84	13.34	31.80
23	SLVP	iShares MSCI Global Silv	Specialty - Precious Metals	9	-7.74	-6.56	12.05	14.89
24	PPLT	Aberdeen Standard Phys P	Specialty - Precious Metals	8	-6.26	4.59	6.14	11.23

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	REZ	iShares Residential Real	Specialty - Real Estate	5	4.10	11.57	35.37	33.68
2	FREL	Fidelity MSCI Real Estat	Specialty - Real Estate	5	2.81	9.96	26.46	30.79
3	ICF	iShares Cohen & Steers R	Specialty - Real Estate	4	2.64	8.44	27.64	29.97
4	GLTR	Aberdeen Standrd Phys Pr	Specialty - Precious Metals	5	-1.04	6.56	23.66	17.02
5	TLT	iShares 20 Year Treasury	Government Bond - Treasury	5	-1.86	6.14	25.38	16.50
6	XLU	Utilities Select Sector	Specialty - Utility	2	0.31	6.95	21.16	23.88
7	VGLT	Vanguard Long-Term Treas	Government Bond - General	5	-2.13	5.57	24.59	15.97
8	UBG	UBS ETRACS CMCI Gold Tot	Specialty - Precious Metals	5	-1.62	3.24	22.41	16.53
9	FUTY	Fidelity MSCI Utilities	Specialty - Utility	4	0.31	6.84	20.49	23.25
10	VPU	Vanguard Utilities ETF	Specialty - Utility	4	0.35	6.77	20.40	23.38
11	BLV	Vanguard Long-Term Bond	Income	4	-1.27	5.16	23.20	18.22
12	IDU	iShares US Utilities ETF	Specialty - Utility	4	0.35	6.61	19.70	22.76
13	SGOL	Aberdeen Standrd Phys Sw	Specialty - Precious Metals	4	-2.17	4.03	20.73	15.52
14	GLD	SPDR Gold	Specialty - Precious Metals	5	-2.21	3.96	20.50	15.29
15	SPLV	Invesco S&P 500 Low Vola	Growth	3	0.64	4.42	21.82	25.94
16	JXI	iShares Global Utilities	Specialty - Utility	3	0.75	5.79	19.79	20.61
17	DBP	Invesco DB Precious Meta	Specialty - Precious Metals	5	-2.36	4.58	18.78	13.69
18	RYU	Invesco SP500 Equal Weig	Specialty - Utility	5	-0.24	5.97	18.53	20.97
19	PHO	Invesco Water Resources	Specialty - Utility	4	0.20	3.18	25.53	30.58
20	KBWP	Invesco KBW Property & C	Growth	4	-1.30	1.92	21.37	29.36
21	PUI	Invesco DWA Utilities Mo	Specialty - Utility	3	-0.33	5.52	18.87	20.83
22	LGLV	SPDR SSGA US LargeCap Lo	Income	4	0.18	2.21	21.42	26.72
23	USMV	iShares Edge MSCI Min Vo	Growth	3	0.40	2.57	18.29	24.27
24	RSXJ	VanEck Vectors Russia Sm	Growth	4	-2.67	-3.42	13.33	24.16

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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