Asbury Research

How To Navigate A 10-Year Old Bull Market Amid Elevated Geopolitical Risk

Prepared for Interactive Brokers

July 18th, 2019

About Asbury Research

Who We Are

John Kosar, CMT, Chief Market Strategist

John has 40 years of experience and insight in analyzing and forecasting global financial markets. John spent the first half of his career on the trading floor of the Chicago futures exchanges, where he had the opportunity to learn how the US financial markets work from the inside out. This experience, early in his career, became the foundation for his unique analysis, understanding of intermarket relationships, and global perspective. John incorporates a diverse and comprehensive blend of technical and quantitative metrics that tend to be more intuitive and forward-looking than the typical Wall Street approach.

John is a contributor to **Forbes** and is frequently quoted in the financial press in both the US and abroad including **The Wall Street Journal**, **MarketWatch.com**, **Barron's**, **Yahoo! Finance**, **CNBC.com**, and **Reuters**. He can regularly be seen on U.S. financial television including **CNBC**, **Fox Business**, and **Bloomberg**, and is a frequent speaker at financial seminars and events across the country presented by organizations including the **Chartered Financial Analyst (CFA) Society**, the **National Association of Active Investment Managers (NAAIM)**, the **CMT (Chartered Market Technician) Association**, and the **American Association of Individual Investors (AAII)**.

John has been consistently recognized as a top U.S. financial market analyst throughout his career and was awarded the **Chartered Market Technician (CMT)** designation in 1999. John served as Vice President of the CMT Association from 2004 to 2006 and was a member of its Board of Directors from 2002-2006. During his career he has been a trader, analyst, and strategist for Asbury Research, Asbury Investment Management (AIM), Shearson American Express, NatWest Markets, Greenwich Capital Markets, Deutsche Bank, and Bianco Research.

About Asbury Research

What We Do

We utilize decades of investment experience and our own **proprietary models** to provide clients and subscribers with **forward-looking, actionable market intelligence and investment ideas.**

Our approach is purely data driven and focused on finding patterns and signals in contained in our own very large and broad database of market information. These signals, hidden behind the daily talking points we hear about in the financial media, typically lead important changes in the direction of financial asset prices.

Our metrics and methodology help our subscribers become more successful investors by identifying:

- **<u>when</u> it's time to be aggressive and fully invested (Risk On),**
- **<u>when</u> it's time to be defensive and protecting capital (Risk Off),**
- **<u>which</u> sectors and industry groups to buy,**
- **<u>what</u> stocks and ETFs to buy, and**
- **where the best opportunities exist in a broad group of ETFs.**

About Asbury Research

How We Do It

The Metrics We Use To Forecast Financial Asset Prices

- Price, trend, and chart patterns
- Our **Correction Protection Model (CPM**)
- Global intermarket relationships
- Our **Asbury Momentum** & **Asbury Value** stock/ETF selection models
- Our **Asbury 6** key market internals
- Market volatility
- **Investor sentiment**
- Seasonality
- Relative performance
- **Investor asset flows**
- Sector rotation
- Size (Small, Mid, or Large Cap) & Style (Growth or Value)
- **Industry group selection**

US Stock Market

Price & Trend (1): Always Know The Big Picture

At the end of end of 2018, just as many investors were starting to panic, the NYSE Composite (and other key indexes) were testing their secular uptrends.

Since then, NYSE has rebounded by 23% and is now challenging its all-time highs. *Always knowing the big picture is imperative in making good investment decisions.*

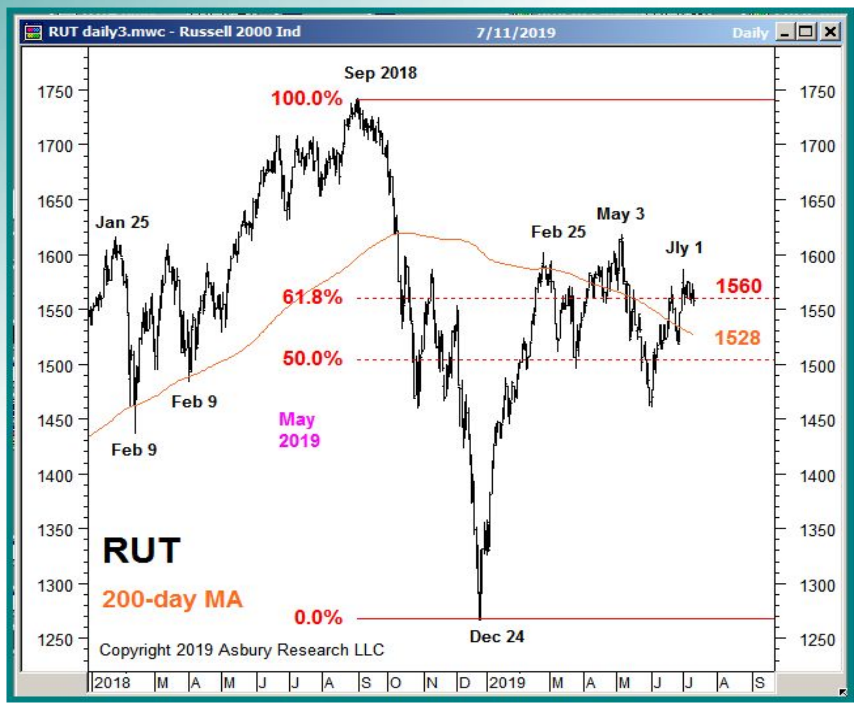
US Stock Market

Price & Trend (2): Know Where Broad Market Support & Resistance Are

This daily chart of SPX shows that, by simply being aware of where some key support and resistance levels are, investors can *add risk* at levels where they have some leverage and *take off risk* at places where bearish reversals are more likely.

US Stock Market

Price & Trend (3): Are The Leaders Leading?

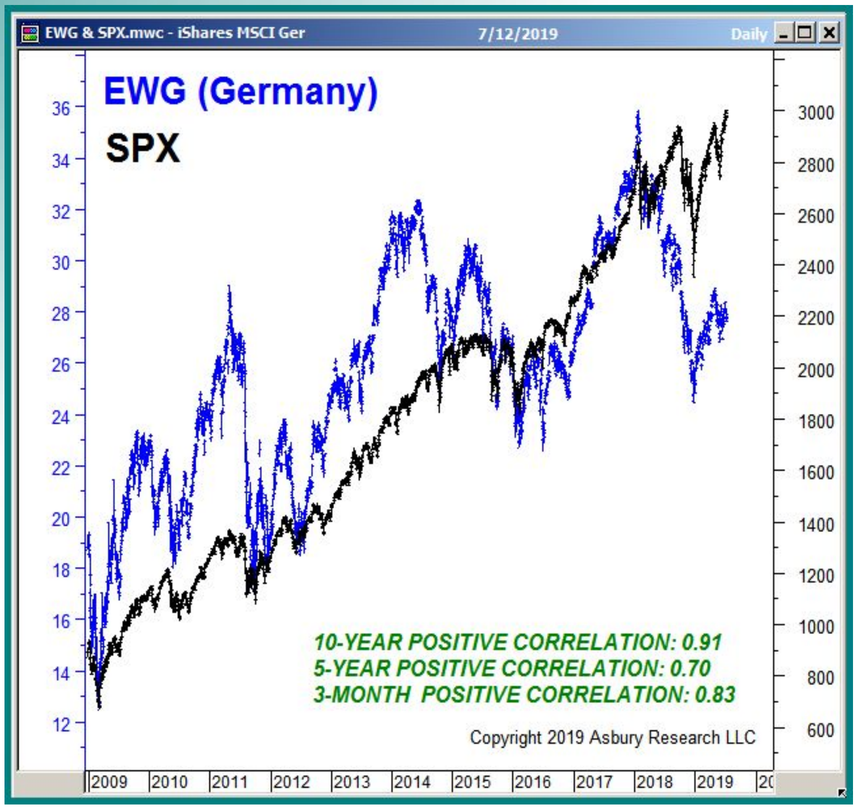


After bottoming with the rest of the market in late 2018, the small cap Russell 2000 has since been unable to rise and remain above major resistance at 1528 to 1560.

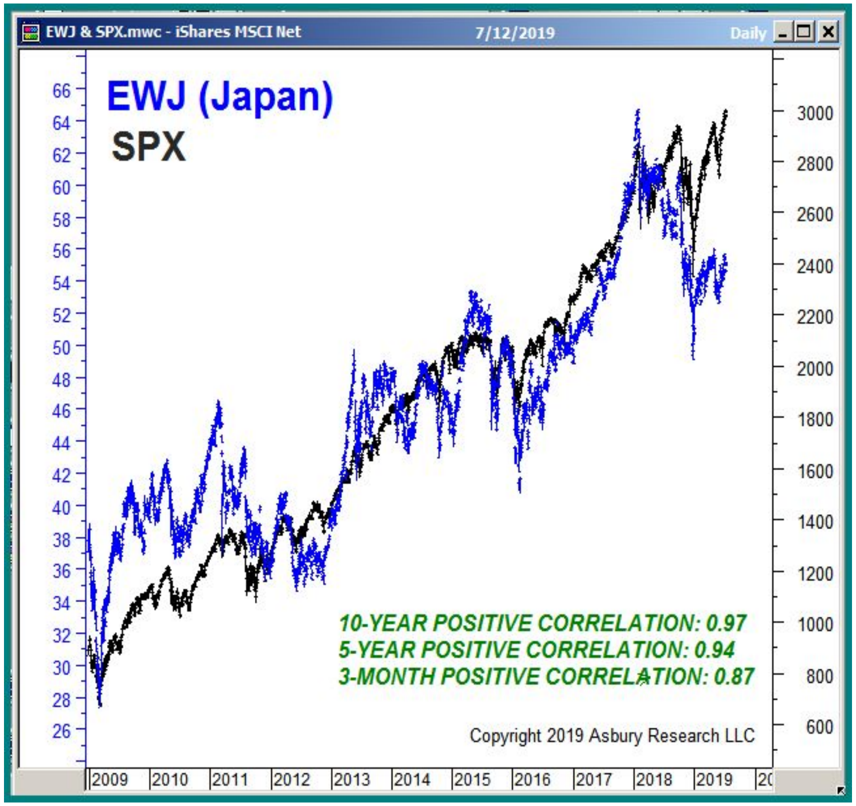
Meanwhile, the tech bellwether NASDAQ Composite is making new all-time highs. *Tech or Small Cap (and preferably both) typically lead a broad market advance.*

Intermarket Relationships

Intermarket Analysis (1): What's The Rest Of The World Doing?



Correlation Coefficient: US vs. Germany

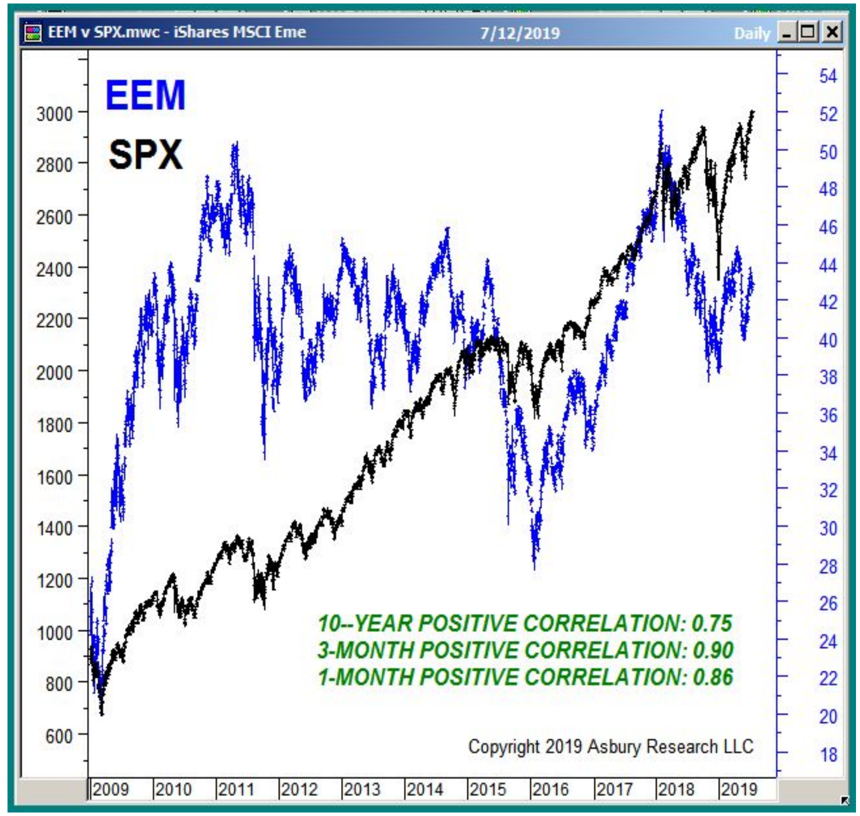


Correlation Coefficient: US vs. Japan

Intermarket Relationships

Intermarket Analysis (2): Which Countries Are Correlated To The US Market?

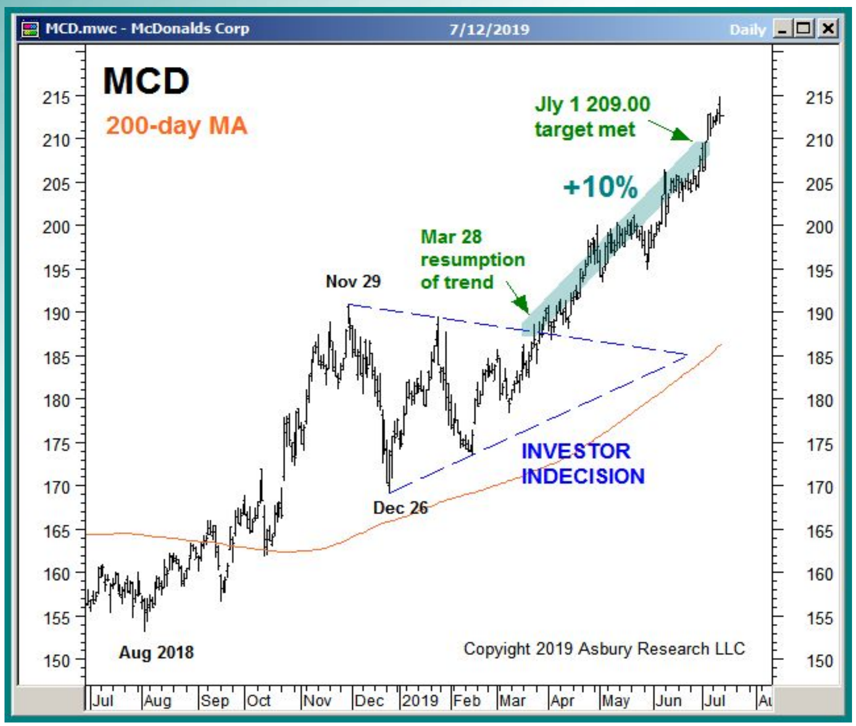
Correlation Coefficient: US vs. China



Correlation Coefficient: US vs. Emerging Markets

Individual Stocks & ETFs

What, When and Where To Buy: (1) Asbury Momentum



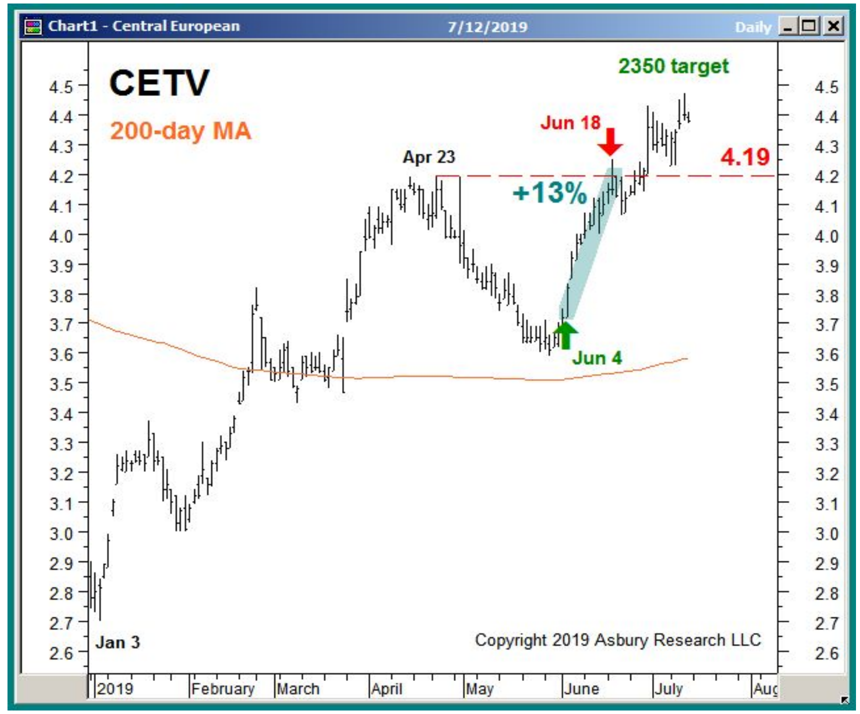
McDonalds Corp's March 28th breakout from investor indecision signaled the resumption of its larger advance and targeted a 10% rise to $209.00.

The Feb 13th breakout from investor indecision in Mondelez International has already triggered an 18% rise and has the potential for further upside.

Individual Stocks & ETFs

What, When and Where To Buy: (2) Asbury Value

Five Below's Mar 21st rebound from major support targeted at least a 15% rise back to the $133.65 Feb 12th high.



Central European Media's Jun 4th rebound from major support targeted at least a 13% rise back to the $4.19 Apr 23rd high.

Market Internals: The Asbury 6

How We Quantify Near Term Market Risk

"ASBURY 6" INTERNAL MARKET METRICS		through 7/12/2019
METRIC	POSITIVE	NEGATIVE
Monthly Rate Of Change: SPX	X	
Rel Performance: SPY vs. JNK	X	
Total Net Assets: SPY	X	
High Yield Corp Bond Spread	X	
On Balance Volume: SPX	X	
Market Breadth: NYSE	X	

The Asbury 6 includes:

•the monthly rate of change in the S&P 500,

•the relative performance of equity prices versus high yield bond prices,

•investor asset flows,

•corporate bond spreads,

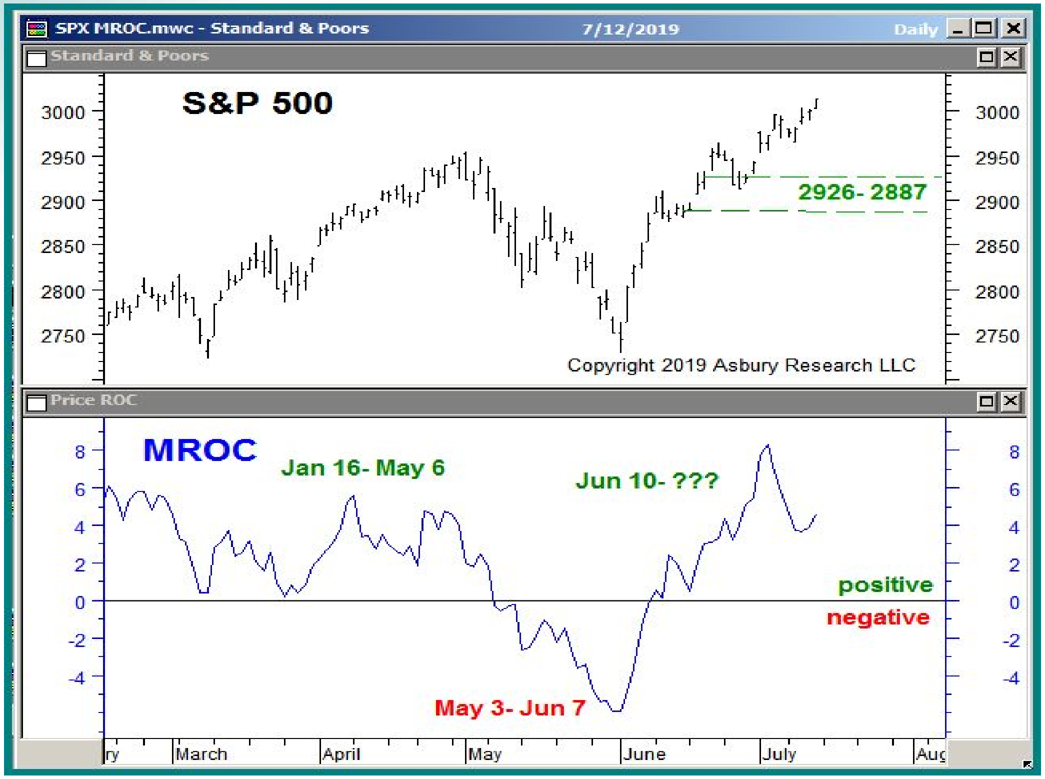
•trading volume, and

•market breadth**.**

When all Asbury 6 are positive, market internals are the most conducive to adding risk to portfolios. Each negative reading adds an additional element of risk to participating in current or new investment ideas. **At least 4 of 6 have been positive since June 7th.**

The Asbury 6

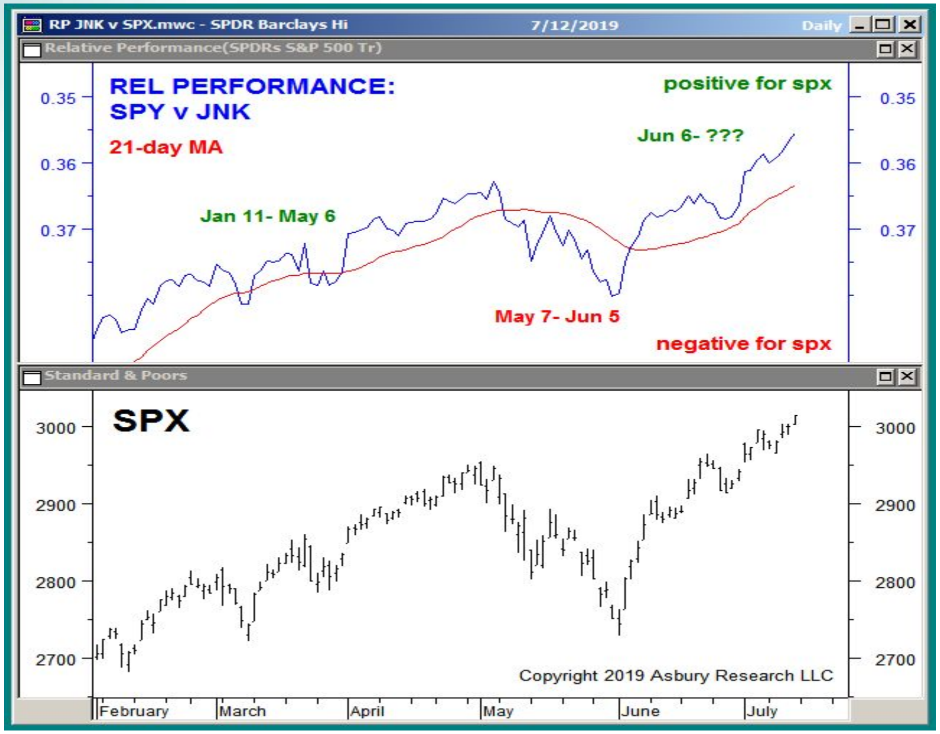
Price Momentum : Near Term Positive



SPX's 1-month rate of change, a *near term* momentum gauge, has been *positive (bullish)* since June 10th and will remain so above 2926 to 2887.

The Asbury 6

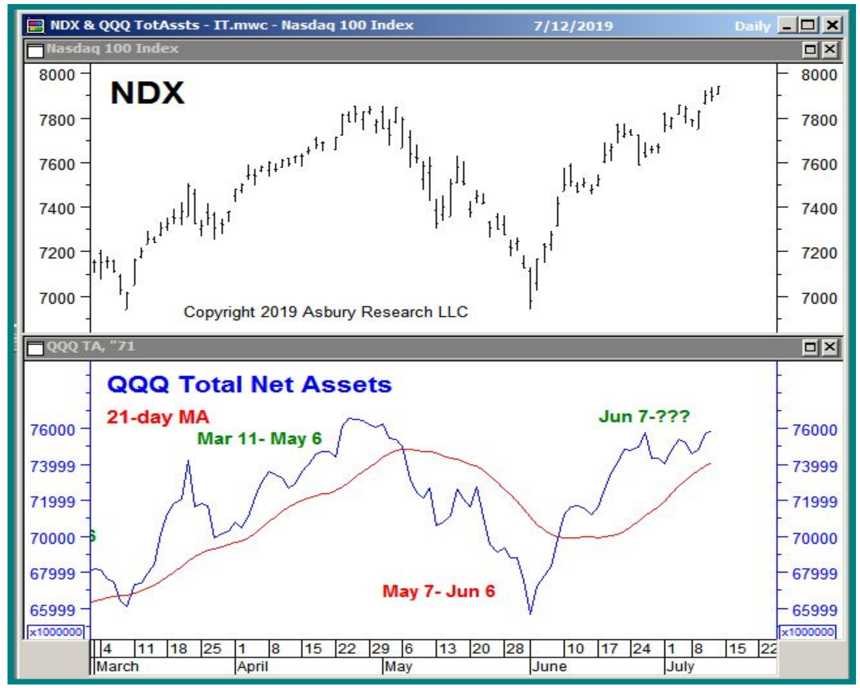
Relative Performance: Near Term Positive



The rightmost green highlights show the S&P 500 (SPY) has been in a trend of *monthly relative outperformance* versus junk bond prices (JNK) since June 6th.
This has historically coincided with near term strength in the S&P 500.

The Asbury 6

ETF Asset Flows: Near Term Positive

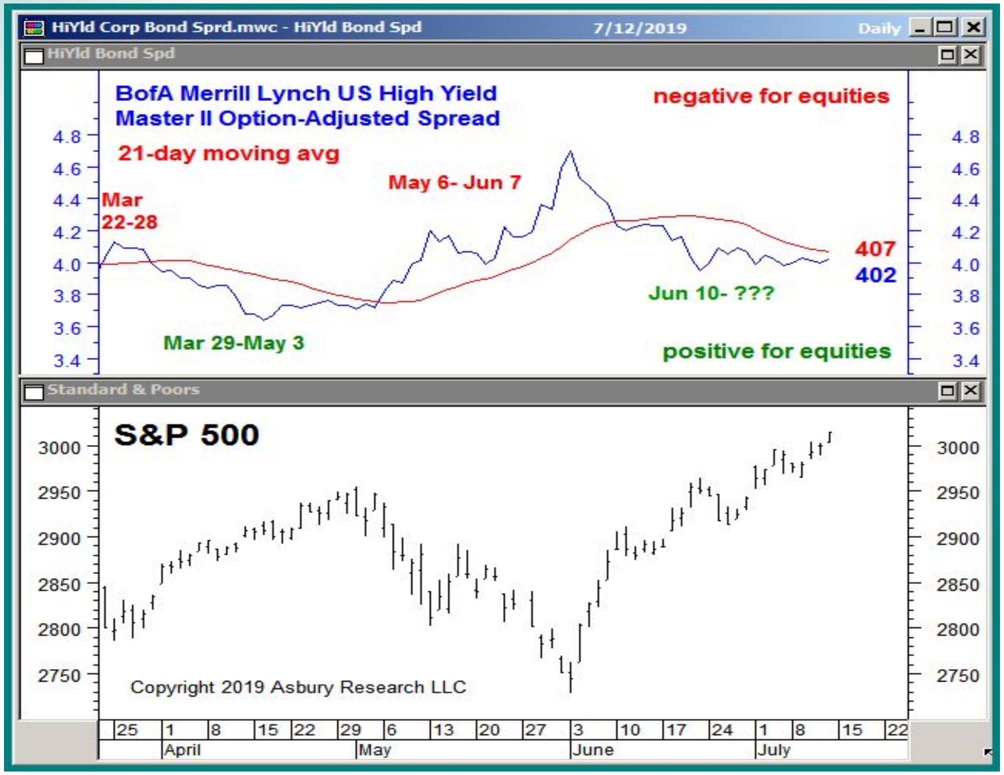


The total net assets invested in the SPDR S&P 500 ETF have been in a trend of *monthly expansion* since June 7th, which is characteristic of near term market advances.

A corroborating trend of *monthly expansion* also exists as of June 7th in the total assets invested in the PowerShares QQQ (which tracks the NASDAQ 100).

The Asbury 6

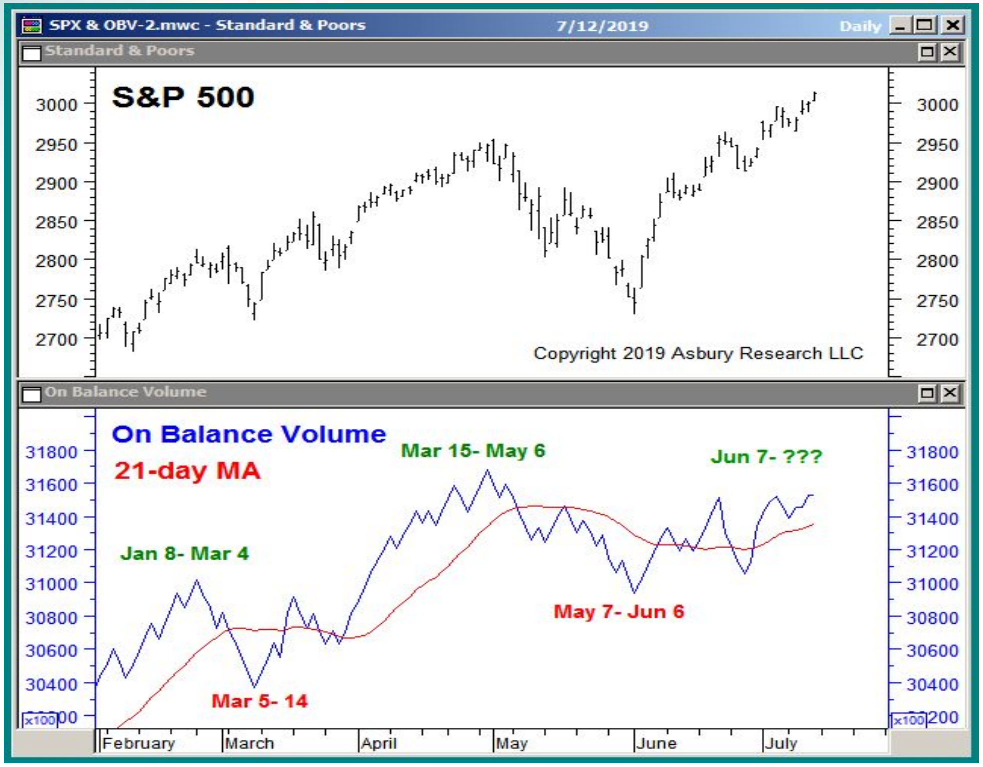
Corporate Bond Spreads: Near Term Positive



High yield corporate bond have been in a trend of *monthly narrowing* since June 10th. Monthly narrowing indicates the bond market is feeling unworried about the economy, which has historically coincided with US stock market advances.

The Asbury 6

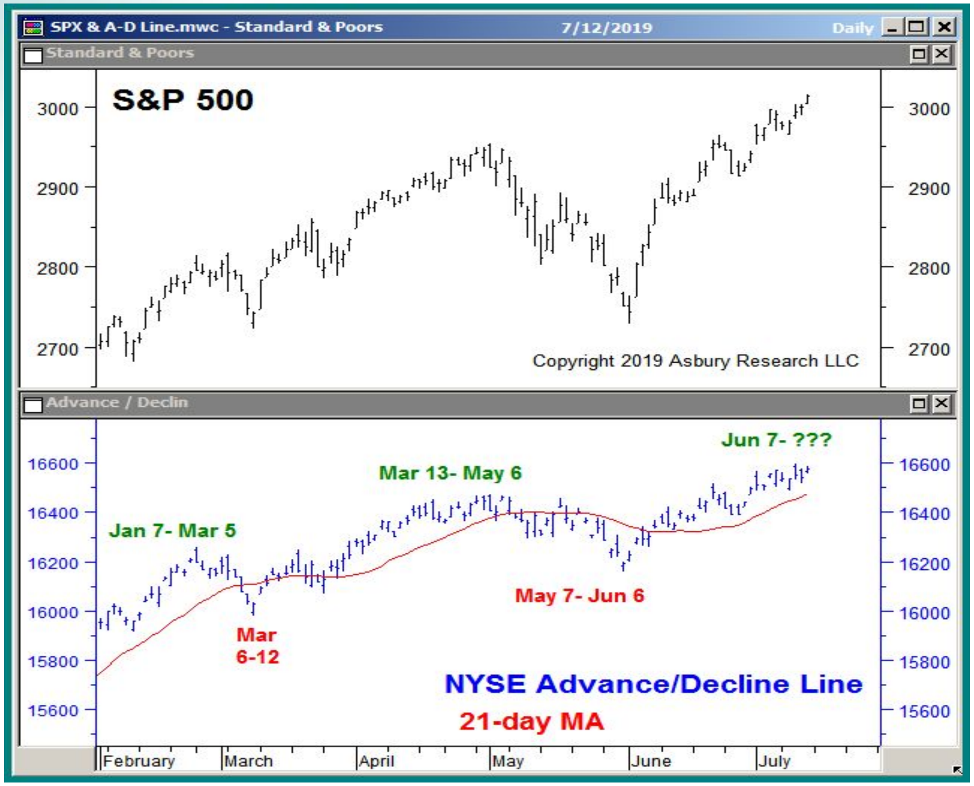
Volume: Near Term Positive



On Balance Volume (OBV) in the S&P 500 rose back above its 21-day moving average on June 7th, indicating a trend of *monthly expansion* that has historically been characteristic of near term broad market advances.

The Asbury 6

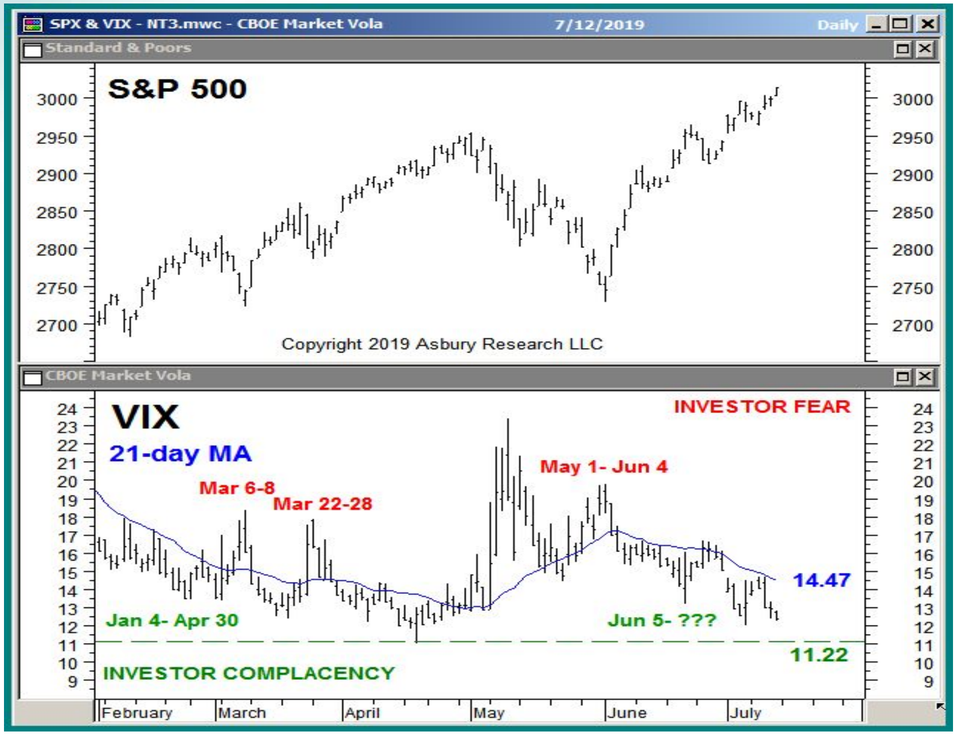
Market Breadth: Near Term Positive



The NYSE Composite's A/D line moved back above its 21-day MA on June 7th, indicating a monthly trend of improving market breadth that has historically coincided with near term broad market advances.

Market Volatility

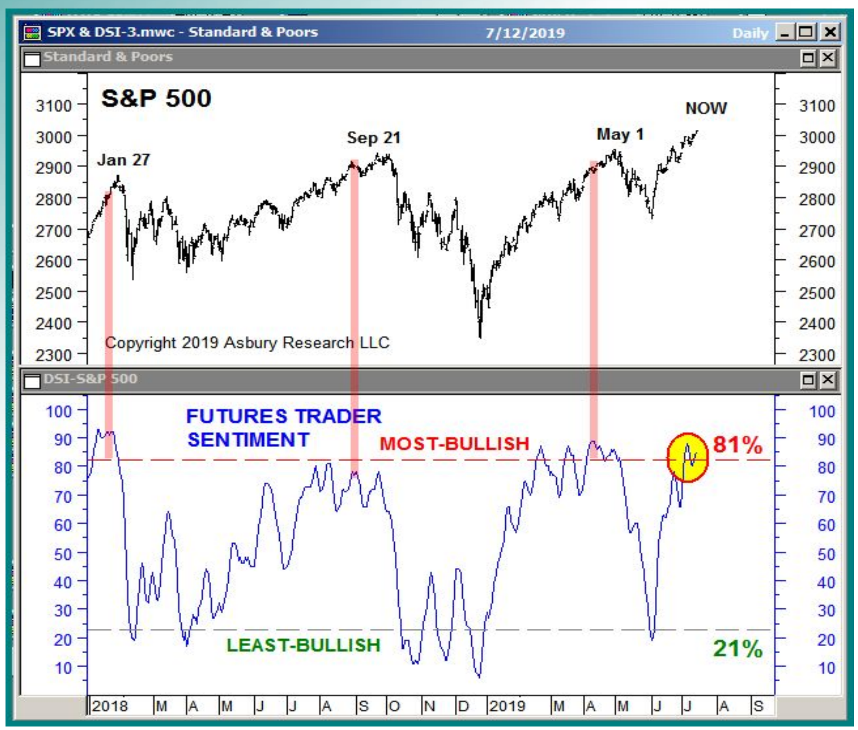
The VIX: Near Term Positive



The CBOE Volatility Index moved below its 21-day moving average on June 5th, indicating a monthly trend of decreasing volatility that has historically coincided with broad market advances. This trend will remain intact below VIX 14.47.

Investor Sentiment

Investor Sentiment: Near Term Negative, Intermediate Term Positive

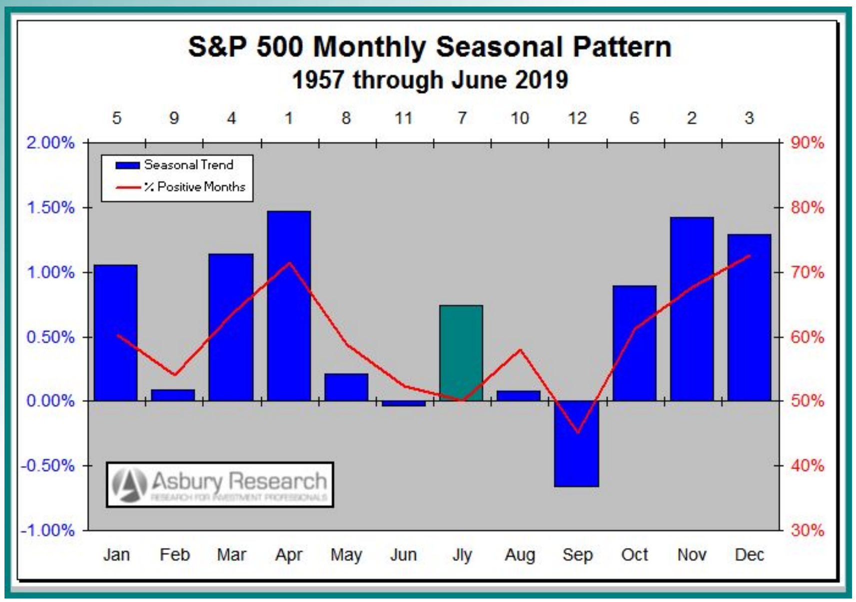


A survey of *near to intermediate term* oriented futures traders is hovering at *most bullish* extremes that have historically coincided with *1-2 month market peaks*.

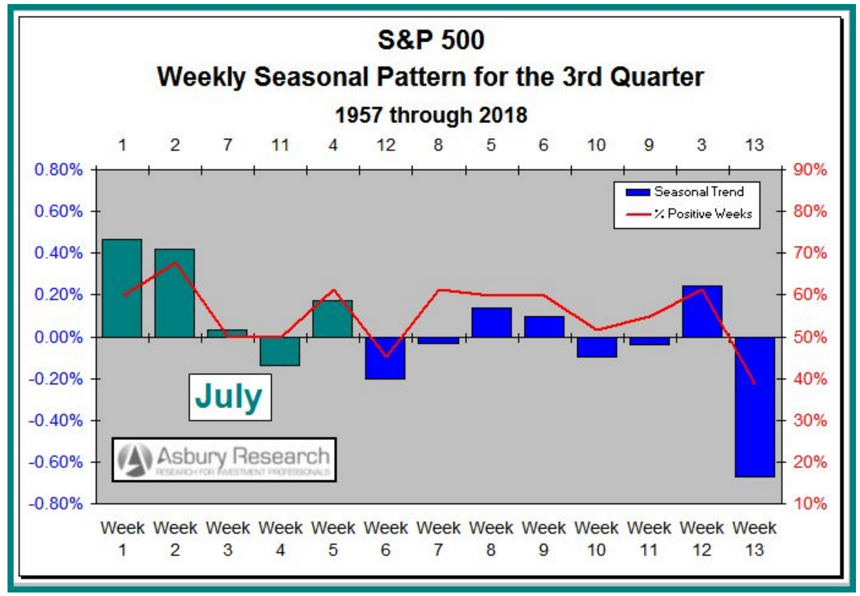
A survey of *intermediate to long term* oriented individual investors is reversing from *least bullish* extremes that have historically led *3-6 month market bottoms*.

Seasonality

Seasonality: Near Term Positive, Intermediate Term Negative



This annual chart shows that July is the 7th seasonally strongest month of the year in the US broad market. Also note that June, August, and September are the three weakest months.



This quarterly chart shows that the two seasonally strongest weeks of the entire 3rd Quarter are the first two weeks of July, after which the seasonal pattern steadily weakens into quarter end.

Size

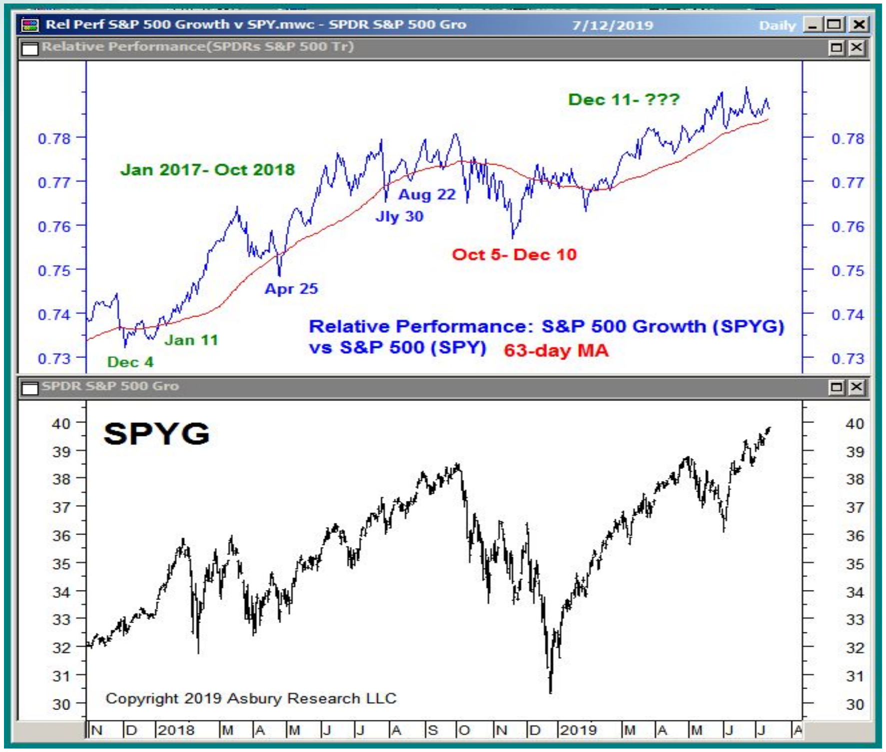
Small, Medium, or Large: Small Cap To Outperform, Large Cap To Underperform

IJR (S&P 600) is hovering at *quarterly oversold extremes* vs. ITOT (S&P 1500) that have historically led *intermediate term relative outperformance by Small Cap.*

Meanwhile, IVV (S&P 500) is hovering at opposite *quarterly overbought extremes* vs. ITOT that have preceded *intermediate term relative underperformance by Large Cap*.

Style

Growth or Value: Growth's 2017 Outperformance Trend Remains Intact



With the exception of a relatively brief period between early October and early December 2018, the S&P 500 Growth ETF (SPYG) has been in a trend of quarterly relative outperformance versus the SPDR S&P 500 ETF (SPY) since January 2017.

US Market Sectors

Near Term Asset Flows: Moving Into Materials & Financials, Out Of Energy

ASBURY RESEARCH: ASSET FLOWS in MARKET SECTOR ETFs				July 8, 2019
Sector (Symbol)	As of 7-3-2019	1 Week Ago	1 Month Ago	3 Months Ago
FINANCIALS (XLF)	18.9%	18.3%	19.3%	18.0%
ENERGY (XLE)	9.3%	9.5%	9.2%	10.7%
TECHNOLOGY (XLK)	16.4%	16.5%	16.5%	16.0%
UTILITIES (XLU)	7.7%	7.7%	7.8%	7.3%
INDUSTRIAL (XLI)	8.0%	8.1%	8.0%	8.4%
CONSUMER STAPLES (XLP)	9.2%	9.4%	9.0%	8.5%
CONSUMER DISCRETIONARY (XLY)	10.6%	10.7%	10.6%	10.3%
HEALTH CARE (XLV)	14.0%	14.2%	14.4%	15.0%
MATERIALS (XLB)	3.3%	3.2%	2.7%	3.4%
REAL ESTATE (XLRE)	2.6%	2.5%	2.5%	2.4%

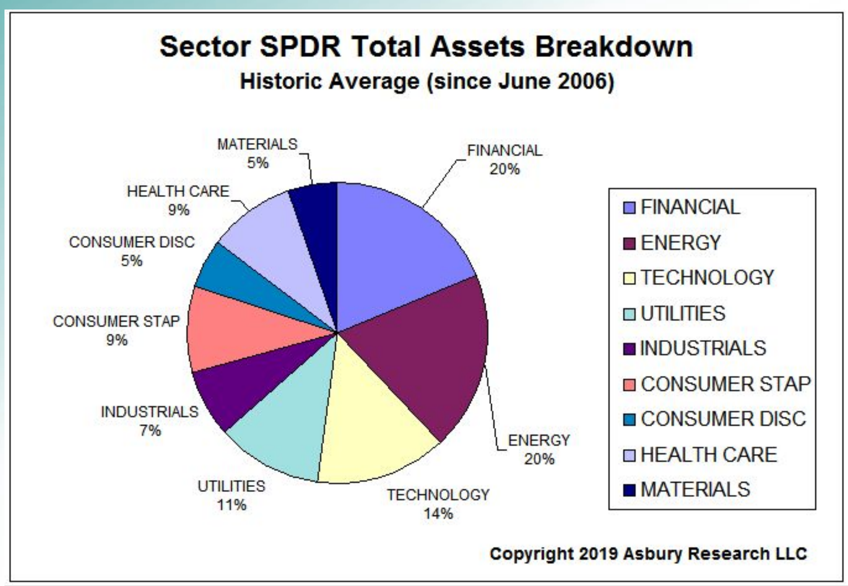
Biggest inflows during period shown   Biggest outflows during period shown

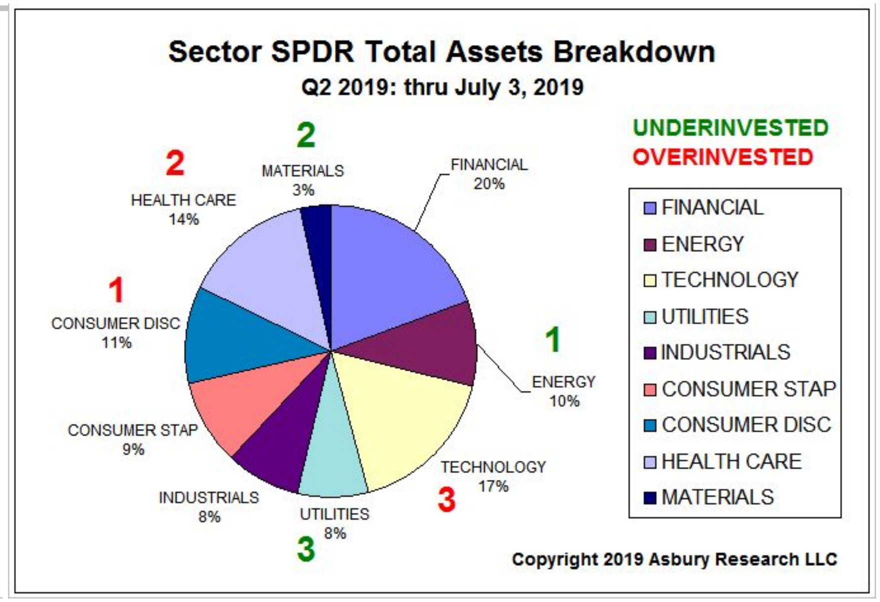
The biggest **<u>inflows</u>** over the past **1 month and 3 month periods** went to **Financials.**

The biggest **<u>outflows</u>** over the past **month** came from **Financials.**
The biggest **<u>outflows</u>** over the past **quarter** came from **Energy.**

US Market Sectors

Historic Asset Flows: **Energy Under-Invested, Consumer Discretionary Over-Invested.**





This chart shows the ***historic*** daily average distribution of assets invested in the original 9 Sector SPDR ETFs since the series began in June 2006.

This chart shows the ***current*** distribution of these assets through July 3rd.
The most *under-invested** sectors are **1) Energy**, **2) Materials**, and **3) Utilities**.

The most *over-invested** sectors are
1) Consumer Discretionary, 2) Health Care, and **3) Technology**.

* relative to historical averages per leftmost chart

US Market Sectors & Industry Groups

Asbury Momentum Model

SECTOR / INDUSTRY SELECTOR: OUTRIGHT PERFORMANCE					June 17, 2019	
Asset	Ticker	Date Initiated	Pos (Neg)	Target	Valid Abv (Belw)	Asbury Performance
SPDR Health Care Equipment ETF	XHE	6/17/2019	Positive	87.25	78.53	NEW
SPDR Health Care Sector ETF	XLV	6/11/2019	Positive	105.00	90.34	0%
Real Estate Sector SPDR ETF	XLRE	5/16/2019	Positive	38.00	36.24	+3%
SPDR KBW Insurance ETF	KIE	4/29/2019	Positive	37.20	32.35	+3%

The following sectors and industry groups have been identified by our Asbury Momentum Model as amid favorable technical / quantitative conditions for upcoming strength / relative outperformance versus the broad market.

Asbury Research

Interactive Brokers is currently offering a 2-month free trial of our investment research. Contact us for further information about our research and money management services.

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