Ned Davis Research Group

MARKET DIGEST

FOLLOW US:

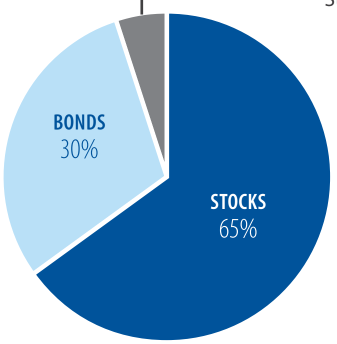
NOVEMBER 2017

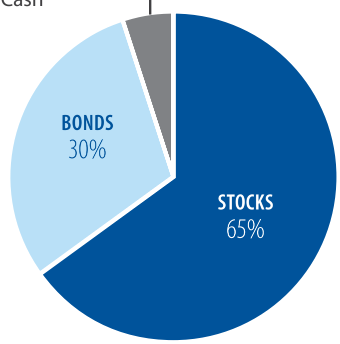
Amy Lubas, CFA Advisory Strategist
Tony Welch, CFA, CMT ETF Strategist

GLOBAL ASSET ALLOCATION

U.S. ASSET ALLOCATION

OW	UW
Stocks	Bonds, Cash

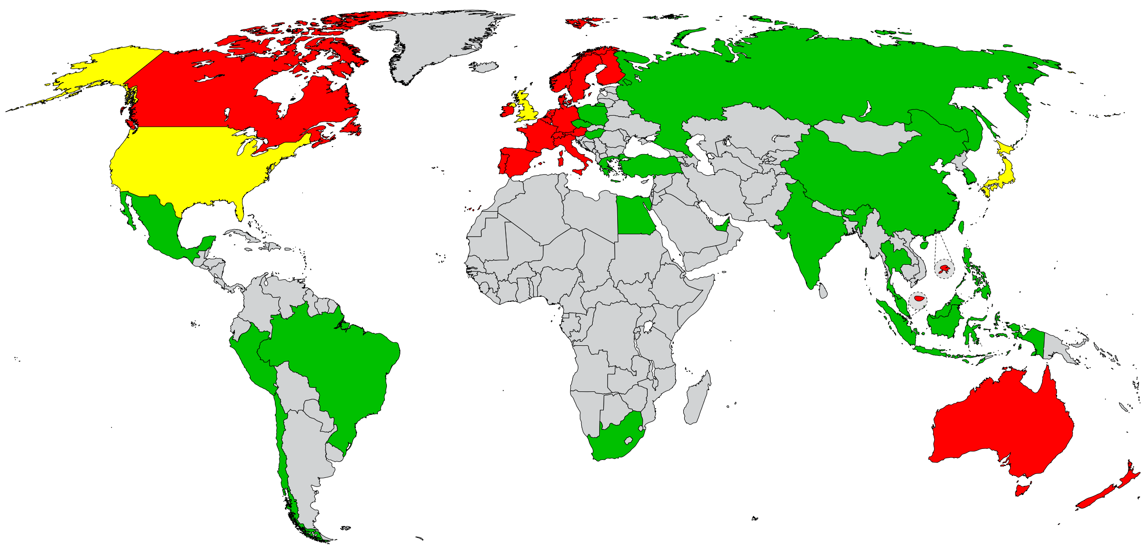




Baseline allocation is 55% Stocks, 35% Bonds, and 10% Cash. This is considered a conservative portfolio allocation for investors who are not risk-tolerant. (This should be used for illustrative purposes only.) See Glossary for more information on Asset Allocation.

Yearend Rally

REGIONAL



	U.S.	Europe ex. U.K.	Emerging Markets	U.K.	Japan	Pacific ex. Japan	Canada
NDR Allocation:	55.0	12.0	16.0	6.0	8.0	3.0	0.0
Benchmark Weight:	53.1	14.9	11.1	5.9	7.8	4.0	3.2

ECONOMY AND BONDS

- **Global Economy:** Expect moderate economic growth of 3.4%, with acceleration from both developed and emerging economies.
- **U.S. Economy:** Expect moderate economic growth of 2.3-2.5% and inflation of 2.0%.
- **Bonds:** 95% duration.

S&P 500 Sector	Current View	Effective Date
Energy	Overweight	2017-09-21
Information Technology	Overweight	2017-09-21
Consumer Staples	Marketweight	2017-09-21
Financials	Marketweight	2017-09-21
Health Care	Marketweight	2017-09-21
Industrials	Marketweight	2017-06-02
Materials	Marketweight	2017-09-21
Real Estate	Marketweight	2017-02-16
Utilities	Marketweight	2017-09-21
Consumer Discretionary	Underweight	2017-09-21
Telecom Services	Underweight	2017-06-02

Source: S&P Dow Jones Indices and Current View: Ned Davis Research, Inc.

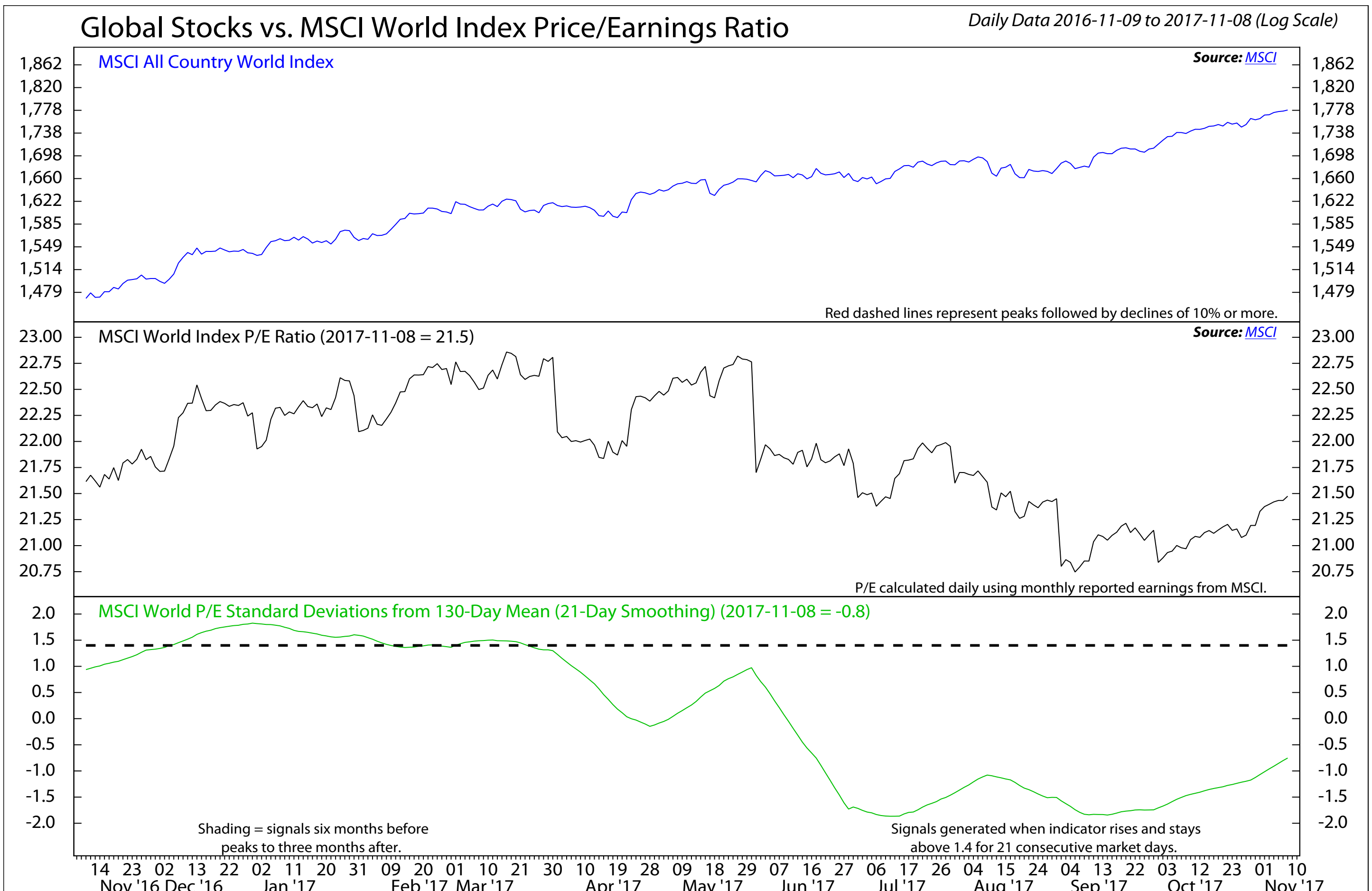
GLOBAL OUTLOOK

BEWARE OF SHIFTING EARNINGS SENTIMENT

Global equities have been reaching record highs at the same time that P/E ratios have reached new lows. A rare phenomenon, the chart below shows a series of lower highs and lower lows in the P/E, and higher highs and higher lows in the price, easing valuation worries. **Even with equities reaching record highs, the E has risen faster than the P**. And this has promoted levels of earnings optimism that are driving this earnings-driven bull market. But it has raised the question of whether investors have gotten too complacent about the earnings outlook, leaving the market vulnerable to potential earnings disappointments. This represents a market threat, especially now that the P/E is rising again.

In contrast to recent years, forward earnings growth is running far below trailing earnings growth globally. The year-to-year change of the ACWI's estimated forward earnings growth is now 10 percentage points below the year-to-year change of the trailing earnings growth. If the trailing earnings growth slows down to the extent projected by the forward earnings growth, a downtrend will become evident next year.

Among the indices in our seven-way global equity allocation framework, all seven have rising positive earnings growth that exceeds the forward growth, while the forward growth has turned slightly negative for the ACWI and is now decisively negative for Pacific ex. Japan (-2%) and the U.K (-6%). The spread between the trailing growth and forward growth is especially pronounced for the U.K. (36 percentage points) and Europe ex. U.K. (25 percentage points). While earnings have been coming through, the risk is that the positive numbers have **fueled complacency**, leaving the market vulnerable should earnings slow down to an even greater extent than the current forward growth rates suggest.



Arrows = Signal Dates
Signals active for 130 trading days (six months). Indicator must fall back below key level before a new signal can be generated.

Analysis Start Date	Number of Corrections	Number of Signal Matches	Signal Accuracy (%)	Number of Signals	Signal Hit Rate (%)
1970-08-27	19	13	68.4	30	43.3

Signal Accuracy = # of Matches/ # of Corrections   Signal Hit Rate = # of Matches/ # of Signals

ITOP_F

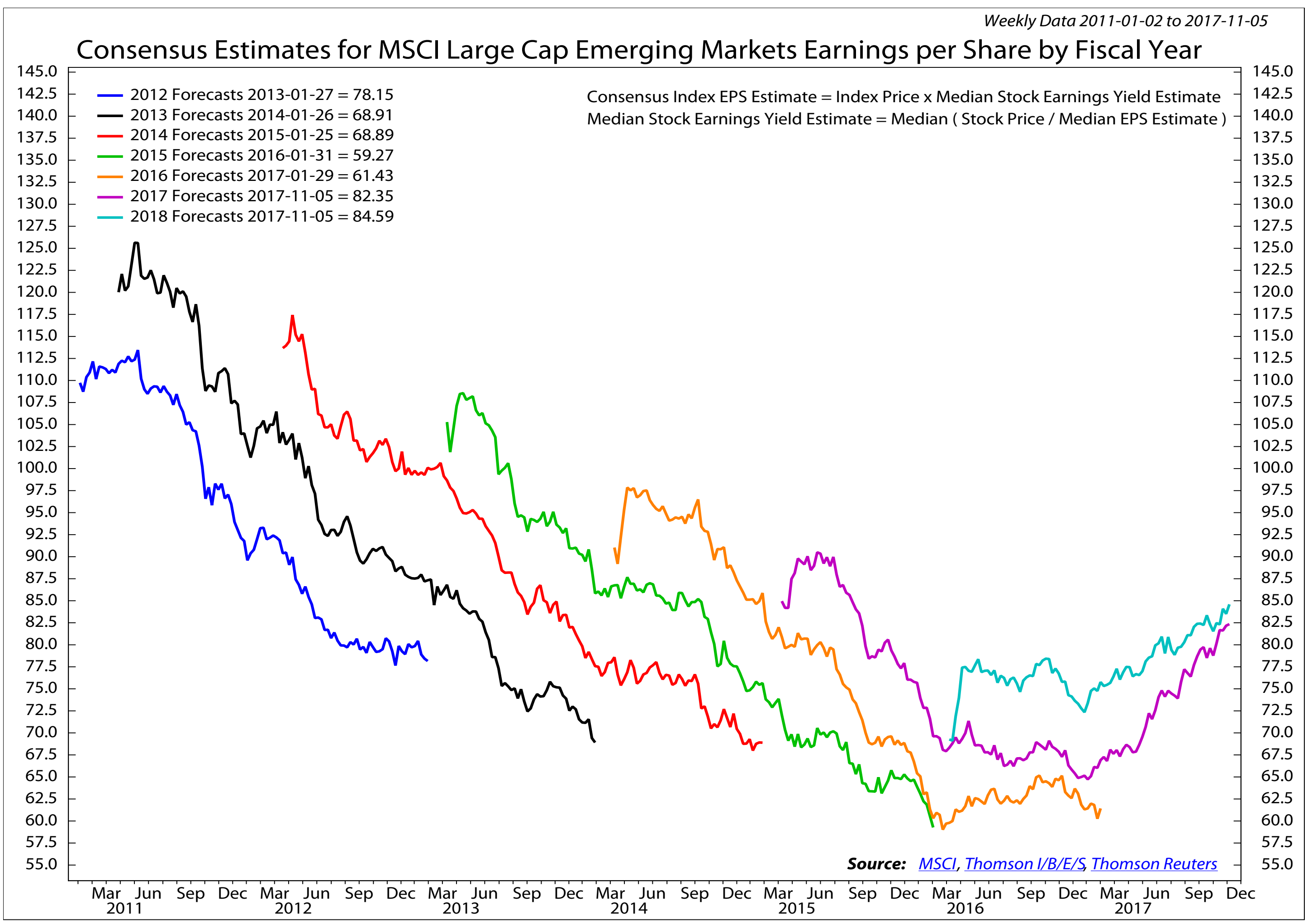
KEEPING AN EYE ON EARNINGS REVISIONS

We are also keeping in mind that the percentages of companies with positive earnings revisions are still high for the ACWI and all seven regional indices. But we also recognize that the percentages have been receding for the ACWI and all seven regions.

Emerging Markets have maintained the highest earnings revisions rate, while the U.K. has had the lowest. The EM Index also has the second highest **earnings yield** (6.3%) based on top-down numbers while the median earnings yield of the **index constituents** ranks highest (6.1%). The U.S. (4.8%) and the U.K. (4.2%) have the lowest earnings yields based on the top-down number while Canada (4.8%) and the U.S. (4.3%) have the lowest earnings yields based on index constituents. Now that valuations are worsening again with positive revisions receding, the risk is that the market will question whether the valuations are justified or should be brought down, this time driven by a falling P rather than a rising E.

Normally as the forward earnings estimate approaches the earnings release data, the estimate has declined. That was the case for estimates ahead of the earnings for fiscal years 2012 through 2016. The pattern has been different for 2016 and especially 2017, as the estimates have tended to rise heading into the release date. Analysts have been increasingly confident that the earnings will come through, and have been able to raise estimates. But as suggested by the contrast between the trailing and forward earnings growth addressed earlier, the risk is that a drop in earnings optimism will send multiples lower in an environment of slowing earnings growth.

While the estimates for the Emerging Markets Index show analysts continuing to upgrade ahead of releases (below), the estimates for the Europe ex. U.K. Index indicates that analysts are already becoming more cautious about the prospects for the index's earnings to come through. Together with the wide spread between trailing and forward earnings growth noted earlier, the implication is that **increased earnings pessimism represents a headwind for the Europe ex. U.K. Index, on which we remain underweight. Yet the relative optimism toward emerging market earnings represent a tailwind**, with a relatively high percentage of positive revisions among emerging market stocks and relatively attractive valuations based on the top-down earnings yields and the median earnings yield among index constituents.



INF17_41B_C

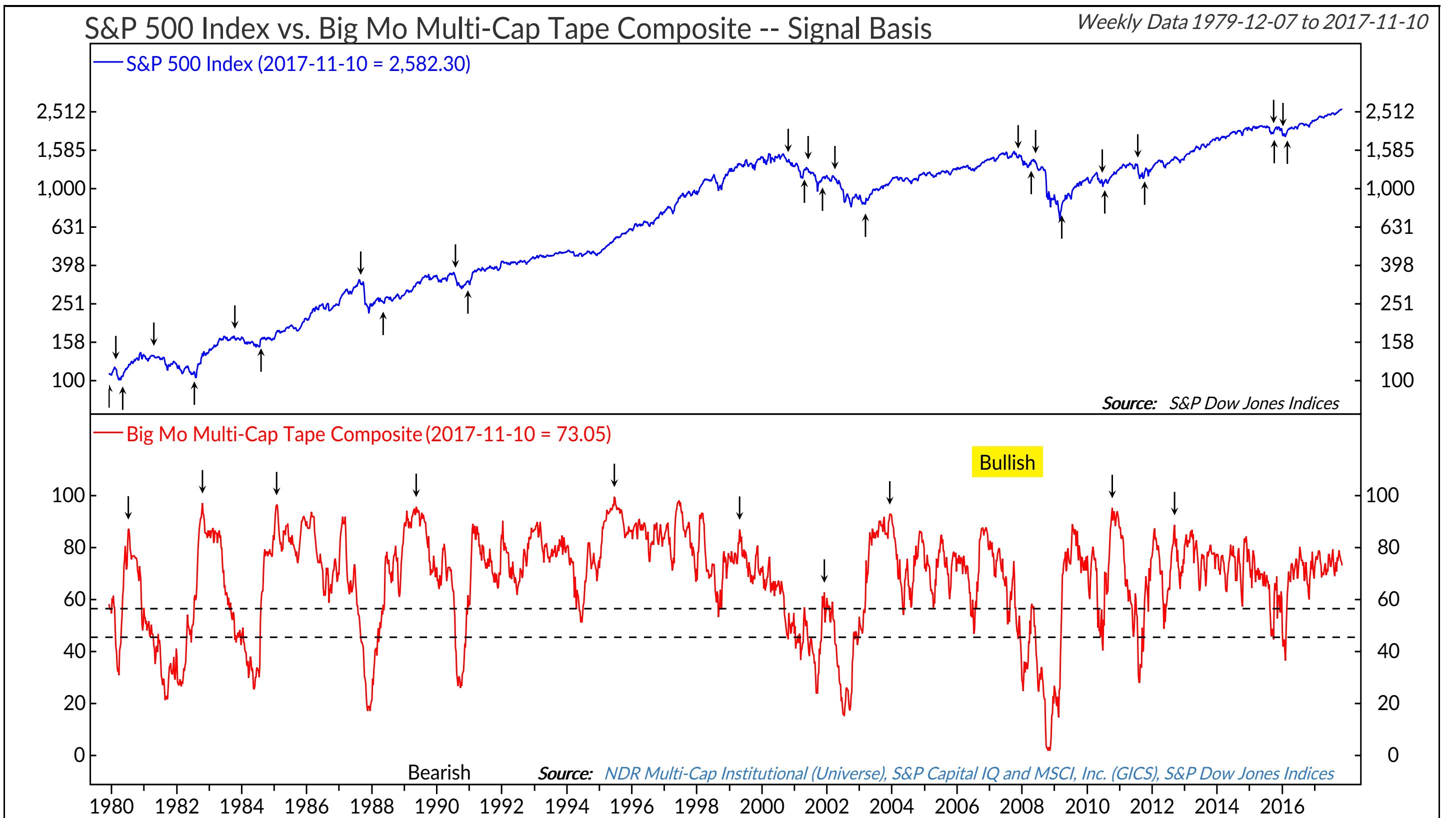
U.S. MARKET

TECHNICAL DIVERGENCES? TOO SOON, BUT WATCH

As popular averages made new highs in October, some beginning signs of narrowing leadership emerged. Since the NDR Multi-Cap Advance/Decline Line hit a record on October 20, the S&P 500 Index has made three additional records that were unconfirmed by the A/D Line. On October 30, the percent of stocks at 30-day new highs fell to 8% despite the S&P 500 being -0.1% from a record high.

Technical divergences develop periodically, and many clear up by themselves. The 30-day new high indicator that uses a 200-day moving average shows that the market is modestly overbought, but recent activity has not been enough to turn the indicator bearish. Big Mo Tape, which measures the percent of industries in uptrends, is a long-term breadth gauge (below). It has slipped from 78.9% in early October to 73%, still well above 45.5% bearish threshold.

All technical divergences start from somewhere, so the mini divergences in recent weeks warrant attention. Plus, with the prospects for slower earnings growth in 2018, a less friendly Fed in the coming months, and continued pockets of optimism, further technical deterioration could be enough to tip the balance to less a less bullish outlook for U.S. equities. But for now, technical divergences are minor enough for us to remain constructive.



Buy signals are generated when the Composite crosses above 56.5 and sell (or switch) signals occur when the Composite crosses below 45.5.

Buy = Long S&P 500
Sell = Short S&P 500
Neutral = Long Treasury Bills
Down Arrows = Sell in Long/Short or Neutral in Long Only

Arrows in bottom clip show peaks in Big Mo during NDR-defined bull markets. All precede market peaks.

Strategy Performance
Long/Short: 1979-12-07 to 2017-11-10

Signals	% Gain/ Annum	% Profitable	% Gain/ Trade	Trades/ Annum	% of Time
All	16.7	79.3	29.6	0.8	100.0
Buy	16.3	80.0	48.5	0.4	81.9
Sell	18.7	78.6	9.4	0.4	18.1
Buy/Hold	8.7	--	--	--	--

Last Signal: Buy (2016-03-04 = 1999.99)

Strategy Performance
Long Only: 1979-12-07 to 2017-11-10

Signals	% Gain/ Annum	% Profitable	% Gain/ Trade	Trades/ Annum	% of Time
All	14.4	89.7	26.6	0.8	100.0
Buy	16.3	80.0	48.5	0.4	81.9
Neutral	6.1	100.0	3.0	0.4	18.1
Buy/Hold	8.7	--	--	--	--

Last Signal: Buy (2016-03-04 = 1999.99)

DAVIS250A

TAX REFORM – TAKE TWO

Our prior analysis walked through the impact of a tax cut on S&P 500 EPS. A cut to the 20% proposal would boost S&P 500 EPS by 7.2%, ceteris paribus. The current effective tax rate of 25.4% is nearly 10% below the stated rate of 35%, so a stated rate of 20% could mean that the effective rate is less than 20%. At a 15% effective rate, S&P 500 after-tax EPS would be 13.9% higher.

INTEREST EXPENSE NON-ISSUE…

Expensing interest before taxes has reduced the cost of debt, and in some economists' eyes, encouraged excessive leverage. The House plan states that interest costs above 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA) will be taxed. Real Estate and Utilities are excluded. Below is a back-of-the-envelope analysis of the impact of interest expense. With the caveat that the final form of the bill may include amendments that change the interest impact significantly, we calculated interest expense for S&P 500 companies excluding the Real Estate and Utilities sectors. Nearly 91% of current interest expense falls below the 30% of EBITDA threshold for S&P 500 companies ex. Real Estate and Utilities. Based on the four quarters ending 2Q17, the interest expense change lowers after-tax earnings by -0.5%, ceteris paribus (second column). The third and fourth columns apply 20% and 15% effective tax rates, respectively. Applying the lower tax rates and interest provision, after-tax earnings could increase from 6.9% (20% effective rate) to 13.6% (15% effective rate). Our cursory analysis suggests that interest expense should not put much of a dent in the positive impact of tax cuts for the S&P 500 earnings.

BACK-OF-THE-ENVELOPE ANALYSIS: TAXING INTEREST EXPENSE

Line Item	Current (25.4% ETR, Int 100% Deductible	Proposal (25.4% ETR, Interest Taxed >30% EBITDA	Proposal (20% Tax Rate, Interest Taxed >30% EBITDA	Proposal (15% Tax Rate, Interest Taxed >30% EBITDA
Operating Income After Depreciation (millions $)	1,638,552.98	1,638,552.98	1,638,552.98	1,638,552.98
Interest Expense (Pretax, millions $)	-210,878.35	-194,394.59	-194,394.59	-194,394.59
Non-Operating Income & Special Items* (millions $)	-58,762.59	-58,762.59	-58,762.59	-58,762.59
Pretax Income (millions $)	1,368,912.04	1,385,395.80	1,385,395.80	1,385,395.80
Effective Tax Rate (%)	25.4	25.4	20.0	15.0
Income Taxes (millions $)	-347,162.64	-351,890.53	-277,079.16	-207,809.37
After-tax Income (millions $)	1,021,749.40	1,033,505.26	1,108,316.64	1,177,586.43
Interest Expense (After-tax, millions $)	0.00	-16,483.76	-16,483.76	-16,483.76
Income After Taxes & Interest (millions $)	1,021,749.40	1,017,021.51	1,091,832.88	1,161,102.67
% Change to After Tax & Interest Income	0.0	-0.5	6.9	13.6

*Notes: ETR = effective tax rate. Real Estate and Utilities interest remains pretax. *Includes rounding of $5.5b for companies that do not report non-operating or special items. Source: S&P Capital IQ. Data through 6/30/2017*

Ned Davis Research Group *T_SSF17_22.1*

...BUT OVERSEAS TAXES COULD BE

Another major provision in the House plan is a 12% tax on overseas profits. Currently, profits earned overseas are not taxed until they are repatriated. Why pay 35%, when you can borrow for less than 5%?

Companies are not required to report overseas profits under GAAP. Of the companies that do, 45% of their pretax income comes from overseas. With only 71% of the S&P 500's market cap reporting overseas profits, making assumptions on the other 29% leaves too big of a margin of error. Instead, the table below looks at current and proposed tax rates for a company based on its overseas profit percentage.

The current system means that the higher the percentage of profits from overseas, the lower the effective tax rate. Under the House proposal, a 100% domestic company would see its tax rate lowered by 15% points. As overseas profits increase, the gap shrinks. At around 55%, the benefit of the lower tax rate disappears. Companies that get well over half of their profits from overseas could see their effective tax rates rise.

Even more so than the interest expense study, the table below is back-of-the-envelope analysis. The House plan includes several provisions to try to avoid evasion. For example, the 12% tax is on liquid profits. Overseas income invested into illiquid assets will be taxed at 5%. In addition, firms can wait up to eight years to repatriate, leaving room for accountants to minimize taxes paid. The bottom line is that the proposed taxes on overseas profits could reduce the tax benefit for multinationals significantly.

On the plus side, repatriation could lead to more buybacks, dividends, and M&A, which have been major drivers of shareholder value this cycle. Capital spending, something that has been lacking, could finally increase in earnest.

BACK-OF-THE-ENVELOPE TAX ANALYSIS: LOWER RATE VS. OVERSEAS TAXES

% Profits from Overseas	Old Effective Tax Rate (%)	New Effective Tax Rate (%)	% Pt Change
0	35.0	20.0	15.0
10	31.5	19.2	12.3
20	28.0	18.4	9.6
30	24.5	17.6	6.9
40	21.0	16.8	4.2
45	19.3	16.4	2.9
50	17.5	16.0	1.5
55	15.8	15.6	BREAK-EVEN AROUND 55% OVERSEAS PROFITS 0.1
60	14.0	15.2	-1.2
70	10.5	14.4	-3.9
80	7.0	13.6	-6.6
90	3.5	12.8	-9.3
100	0.0	12.0	-12.0

Notes: Old Effective Tax Rate = 35% for domestic profits. Assumes 0% for foreign profits. New Effective Tax Rate = 20% for domestic profits and 12% for foreign profits.

Ned Davis Research Group *T_SSF17_22.2*

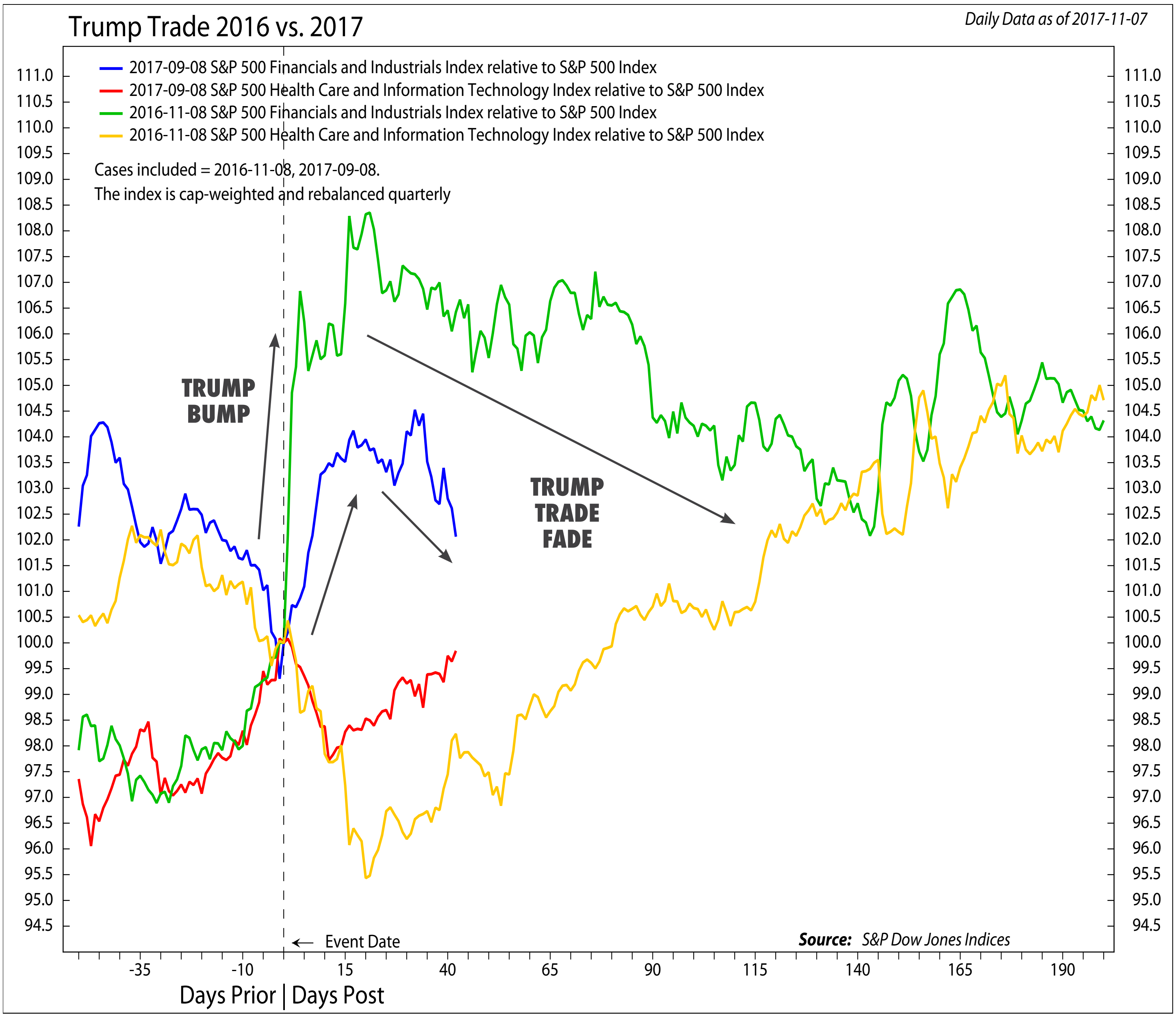
SECTORS AND INDUSTRIES

TRUMP TRADE FADE?

Last month, we talked about how similar September's sector returns were to the month after the presidential election, as both periods reflected what could be called the "Trump Trade." This month, we watched closely for follow through on that trade because we suspected we could follow the same pattern of early 2017 when the Trump Trade faded.

The market can get excited about the possible fiscal stimulus like tax reform but then the reality of the **legislation process** and how long it takes to pass a bill, sets in. It took nearly **six months** after Trump took office to put the new Health Care bill up for vote in the Senate. After the Trump Trade moves in November and December of 2016, the next six months were spent reversing much of those relative gains/losses.

To help identify if we are following the same pattern, we created chart UIP514 (below). Two sectors we expect to show leadership as part of the Trump Trade, Financials and Industrials, are more Value-oriented, while expected Trump Trade expected laggards, Technology and Health Care, are more Growth-oriented. Technology and Health Care are the sectors with the largest percent of foreign profits and do not stand to benefit as much from a lower domestic corporate tax rate.



UIP514

A closer look at the Financials-Industrials relative strength (prior page, blue line) reveals that it was mainly Industrials weakness that caused the downtrend. And even within Industrials, roughly 150 basis points of Industrials' 200 basis points of underperformance was attributable to one company, GE, which declined 16.6% in October.

Financials strength uptrend did continue into October, with the sector outperforming by just over 200 basis month-to-date through October 26. However, relative strength peaked on October 26, along with the **10-year Treasury yield**. Since that peak, the 10-year yield has backed off 14 basis points. Although a relatively small pull back, it was meaningful in that we view the 2.4% to 2.45% range as a key **technical resistance** level. We want to see the 10-year yield break through that resistance before **upgrading Banks** to overweight and adding to our Financials allocation.

The table below shows the rate of change for sector relative returns from September to October. Notice that the pick-up in the Technology-Health Care relative strength (prior page, red line) trend in October was clearly driven by Technology's 530 basis points of outperformance since Health Care underperformed by 300 basis points in the month.

In conclusion, we believe we could continue to **give back** some of the September "Trump Bump" while we wait for tax reform legislation to get hammered out, possibly over the next six months. Financials-Industrials relative strength resuming an uptrend and the 10-year yield breaking above 2.45% would be taken as strong indications the Trump Trade is back on. For now, we are content having Technology and Energy as our largest overweights.

S&P 500 SECTOR RELATIVE RETURNS - SEPTEMBER & OCTOBER

S&P 500 Sector	--------- % Relative Return --------- September	October	Growth Rate Change (Oct - Sep)
Telecom Services	1.6	-10.7	-12.2
Energy	7.7	-2.9	-10.6
Industrials	**1.9**	**-2.0**	**-3.9**
Financials	**3.1**	**0.6**	**-2.5**
Health Care	**-1.1**	**-3.0**	**-1.9**
Consumer Staples	-3.0	-3.7	-0.7
Materials	1.4	1.6	0.2
Consumer Discretionary	-1.2	-0.2	1.0
Real Estate	-3.7	-1.5	2.2
Utilities	-4.8	1.6	6.5
Technology	**-1.3**	**5.3**	**6.7**

Relative return is the price return of the S&P 500 sector index / S&P 500 Index. Source: Dow Jones Indices.

Ned Davis Research, Inc. *T_IF17_32.1*

GLOBAL ECONOMY

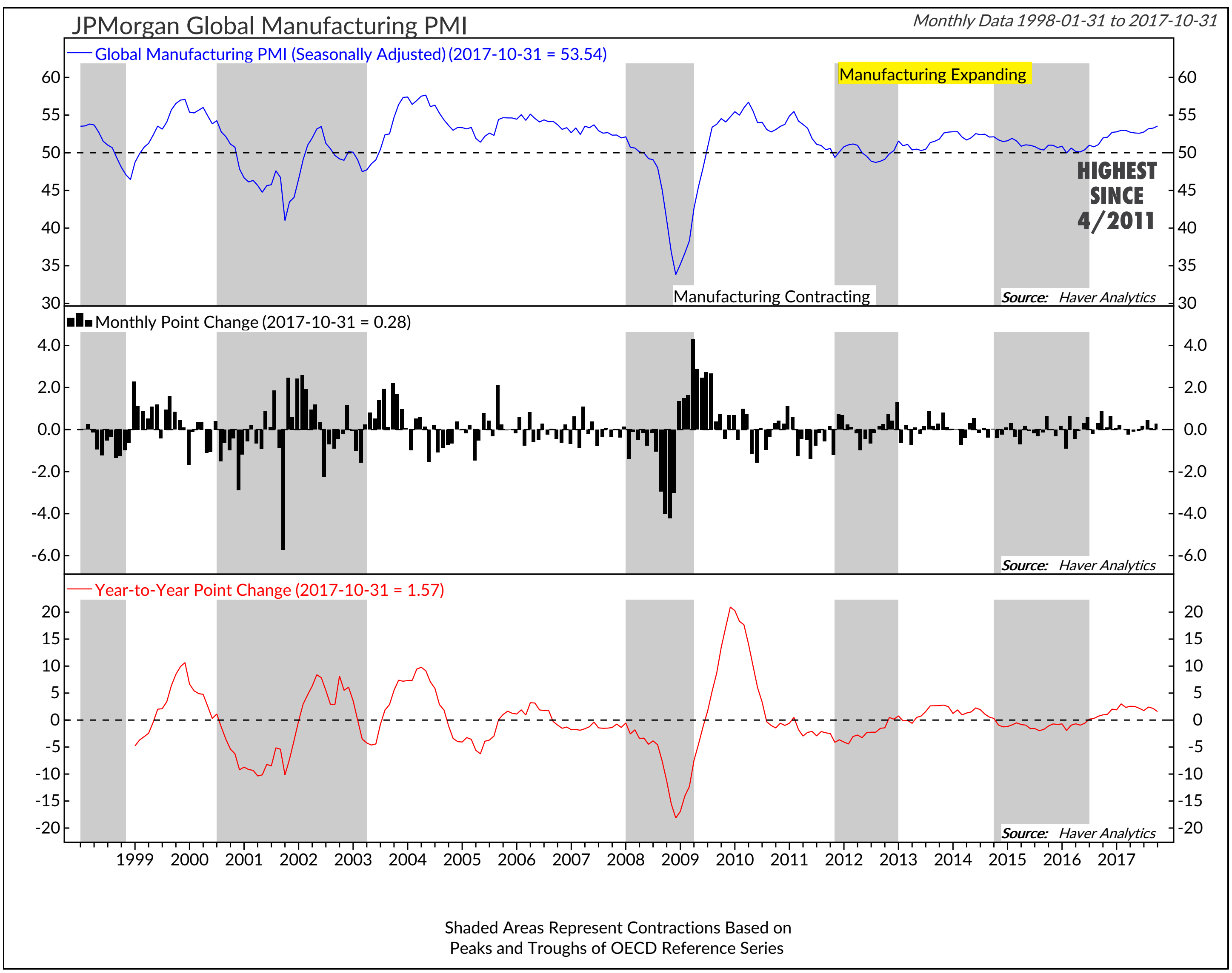
STRONGEST AND BROADEST GROWTH SINCE 2011

October proved to be another robust month in the global economy, as the global manufacturing PMI climbed 0.2 points to 53.5 (chart below). It was its fourth straight monthly gain, and to its highest level since April 2011.

Except for the output index, which was little changed, most component and individual indexes improved. Both new orders and new export orders accelerated, with the former reaching its highest level since January 2014. Employment expanded at its fastest pace since May 2011, while backlogs climbed to a six-and-a-half year high.

With the manufacturing PMI now at over a **six-year high**, is it possible that the PMI has reached its peak, and what would that mean for the outlook? The PMI could still have more room to go. In the 2013-2014 global expansion, the PMI peaked at just 52.8. But in all the prior cycles, the index had topped out at around 57, which is over three points higher than where it is now. Additionally, a peak in the PMI did not necessarily mean that global recession was imminent. In fact, the PMI has topped a median **14 months** before the beginning of global recession.

Growth trends remained very broad-based among countries in October, a sign of a strong and healthy expansion, although slightly less so than in the prior month. The share of individual-country PMIs in expansion territory slipped to 91%, down from a near-decade high of 94% in the prior month. Even if September marked the peak in breadth, looking at the past three expansions, this hasn't implied that recession is coming anytime soon. Recession has come a median **nine months** after breadth has topped.



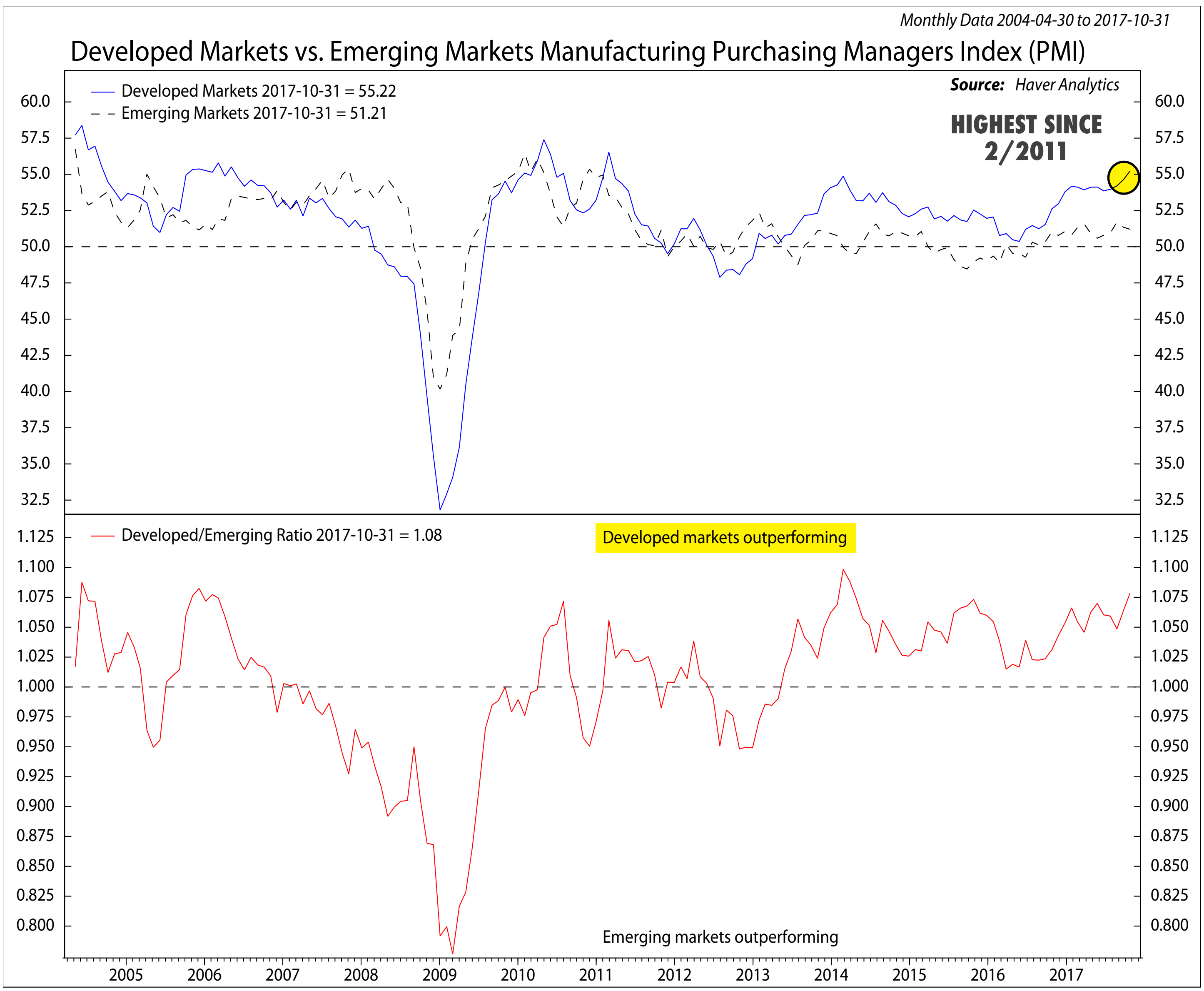
IE250

As has been the trend since 2013, **developed economies** continued to outperform emerging markets. Notably, the developed-market manufacturing PMI climbed to its highest level since February 2011 (chart below). The emerging market index edged down slightly, but remained in expansion territory for a 16th straight month.

Developed Europe continued to dominate the top of the PMI rank, led by Switzerland, Germany, the Netherlands, Denmark, Austria, and Sweden, with their PMIs all exceeding 59. The eurozone's index, which has increased for 13 of the past 14 months, climbed to 58.5, its highest level since February 2011. The gain was broad-based, as every single country in the zone was in expansion territory for a fifth straight month, the longest winning streak in a decade! The U.K. also fared well, with its PMI rising 0.3 points to 56.3, which is well above its long-term average of 51.7.

The outlook among all other major developed economies was constructive. The U.S.'s Markit PMI jumped 1.6 points to 54.6, a nine-month high. Japan's index was little changed at 52.8, but held in expansion territory for a 14th month, the most consecutive gains in over seven years. The PMI for Canada slipped 0.6 points, but to a still-elevated 54.3.

All four BRIC economies expanded, albeit barely. China's Markit PMI held at 51.0, which, perhaps surprising to some, is in line with its long-term average. India's index, however, slipped 0.9 points, down six of the past seven months, to 50.3. Manufacturers continued to note that demand has dampened due to the introduction of the goods and services tax last July. The PMI for Russia, while in its 15th straight month of expansion, is down significantly from its January peak. But Brazil's index jumped to 51.2, its second-highest level since March 2013, as uncertainty over whether President Temer would serve his full term dissipated.



IE258

U.S. ECONOMY AND FIXED INCOME

REDUCED DURATION

On October 17, we reduced our bond exposure to 95% after having been at 100% of benchmark duration for five months. The 10-year Treasury yield is close to where it was back then. With inflation continuing to disappear, why did we take this step now?

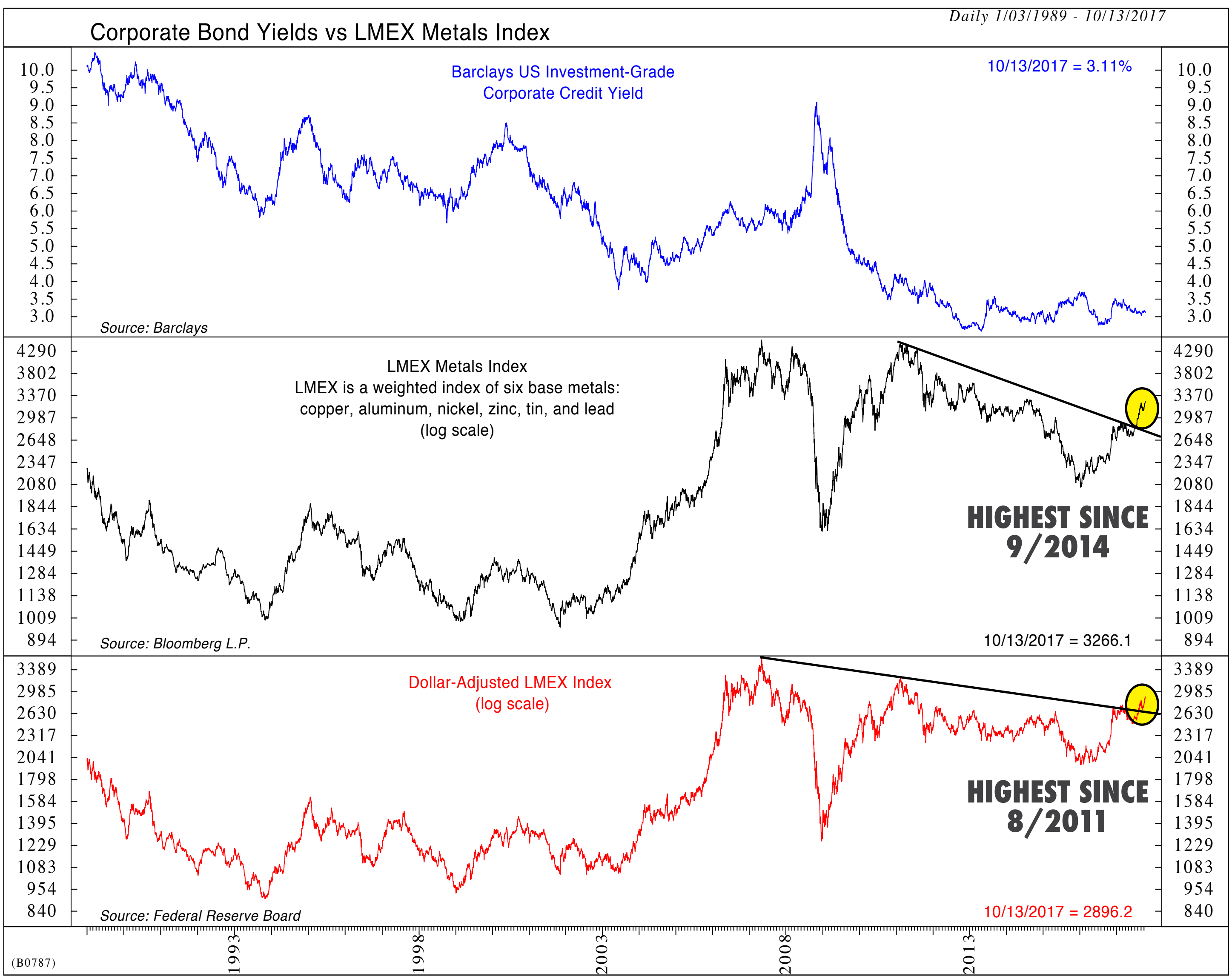
1. **Baby Steps**. Although the criteria for a bond bear market have not been fully met yet, we can take incrementally more bearish positions, in line with the deterioration in the data.

2. **Inflation**. It took nine years in the 1990s for inflation to finally show up in the data. The current U.S. expansion is in its ninth year.

3. **Price and wage pressures building**. Base metal prices are rising (chart below). Although we don't expect these pressures to show at the consumer level for 6-24 months, bond investors will react before it is obvious. We have also noted that commodity credits are improving. Furthermore, a falling unemployment rate typically correlates well with rising average hourly earnings, and the two seem to be getting back in sync.

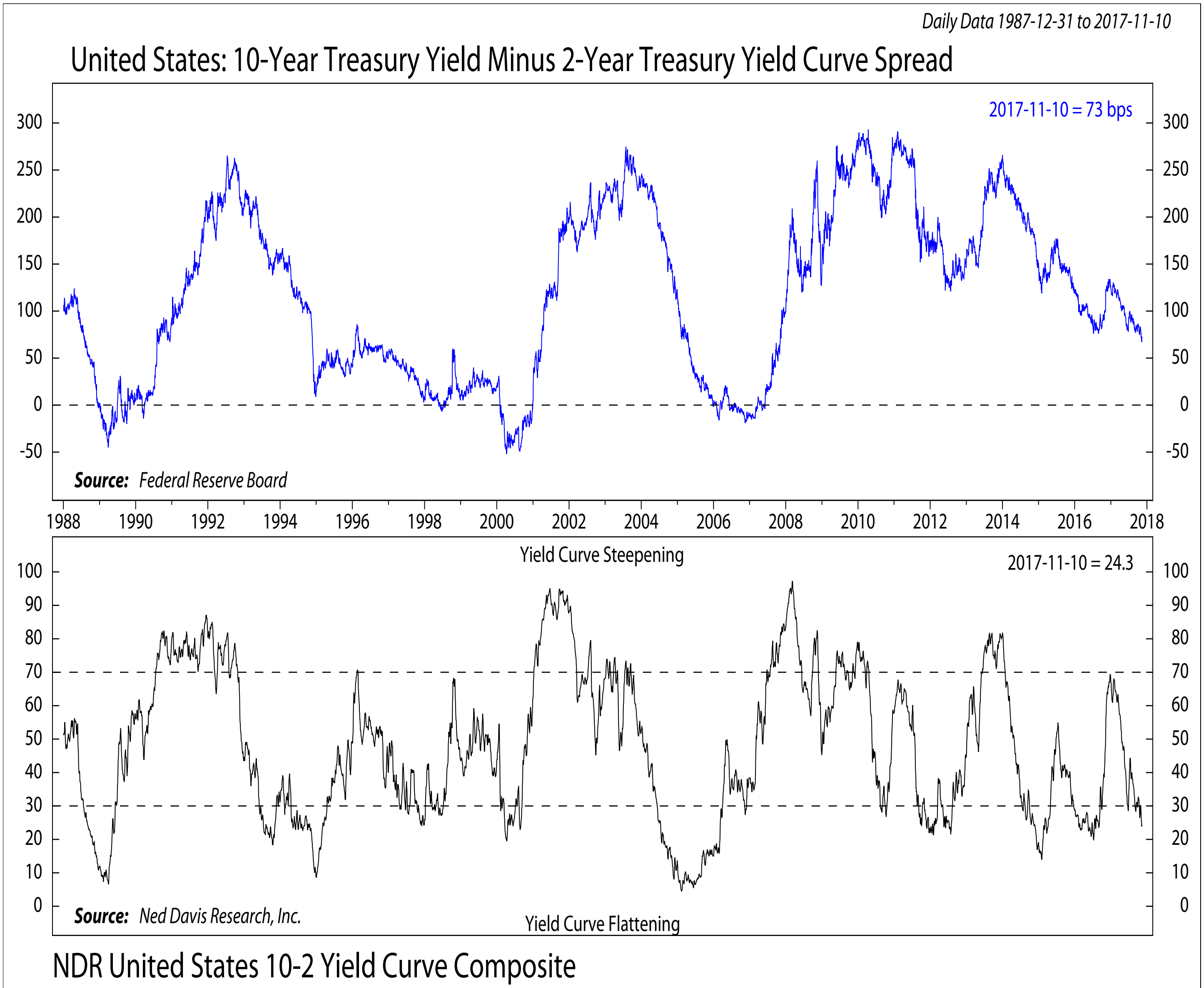
4. **China**. The MSCI China Index continues to make new highs and growth remains stable. Additionally, Chinese bond yields broke out to new highs, which may be a sign of rising inflationary pressures and government efforts to deleverage the economy.

5. **Model confirmation.** The NDR Combo Model declined below 100%.



REINSTATED FLATTENERS

We reinstated our yield curve flattener trade on November 6. The FOMC seems committed to raising rates again in December, as participants see little change to their intermediate-term outlook. A Powell-led Fed will be cautious and is largely seen as continuing the current path of monetary policy. The Fed will continue with balance sheet normalization, which should eventually shrink reserve bank credit to 11% to 14% of GDP. Continuity in monetary policy, high cash levels, and steady inflows could dent the prospects for a big bond selloff before yearend. Many technical support levels failed, which moved most of NDR's yield curve models to flattening mode (chart below). Finally, inflation remains a no-show which will keep longer-term yields in a range.



Yield Curve Performance 1987-12-31 to 2017-11-10		
10-2 Yield Curve Composite	Points/ Annum	% of Time
Above 70	56	20.3
Between 30 and 70	-2	54.1
30 and Below	-45	25.6

Buy/Hold = -1.10 Points/Annum

B874

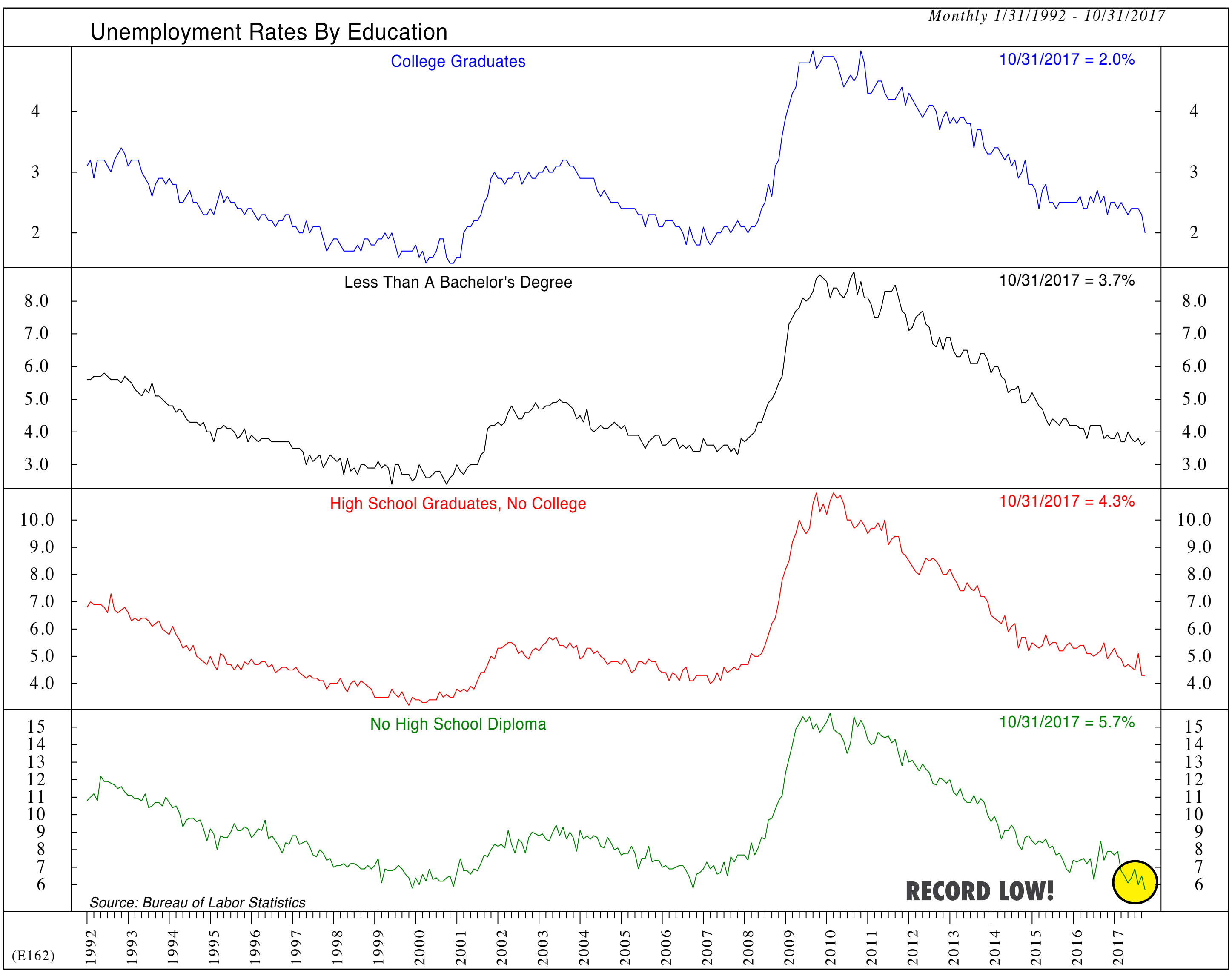
U.S. ECONOMY

In our analysis of the latest employment report, we noted that the official unemployment rate, otherwise known as U3, was getting very close to a 4.0% print. The rate plunged from 4.220% to 4.065%, falling deeper into bearish territory for bonds. Based on our analysis of the unemployment gap, we have long argued that, at a minimum, we need to see a sub-4.0% unemployment rate before inflationary pressures would begin to pick up. The rate is getting awfully close to that level.

Conventional wisdom says that there is too much supply of unskilled or semiskilled labor and not enough of skilled labor. Although the unemployment rate climbs steadily higher as the educational level declines, we were surprised that the unemployment rate for those without a high school diploma fell to a record low last month (below). The other three categories still showed evidence of slack, as their rates were above the prior cycle lows, which were above the 1999-2000 lows.

However, it is still difficult for small businesses to secure skilled labor. In July, 35% of NFIB respondents had job openings, the most since November 2000. Of those about half said they were having difficulty finding qualified applicants, the most since 1999, which was arguably the equivalent of economic nirvana. Indicators that are at 1999 levels highlights how tight the labor markets really are for some positions.

In sum, the labor markets might be tighter than many pundits believe, particularly for low-skilled labor. So what does it mean for markets? Our Labor Market Tightness Index dropped to its lowest level since 1969, a negative condition for bonds and one reason why we remain cautious and slightly under benchmark duration. But tight labor markets also tend to support stocks and housing. Although the economy is in the latter stages of the labor cycle, we remain positive on risk assets and cautious toward rate-sensitive instruments.

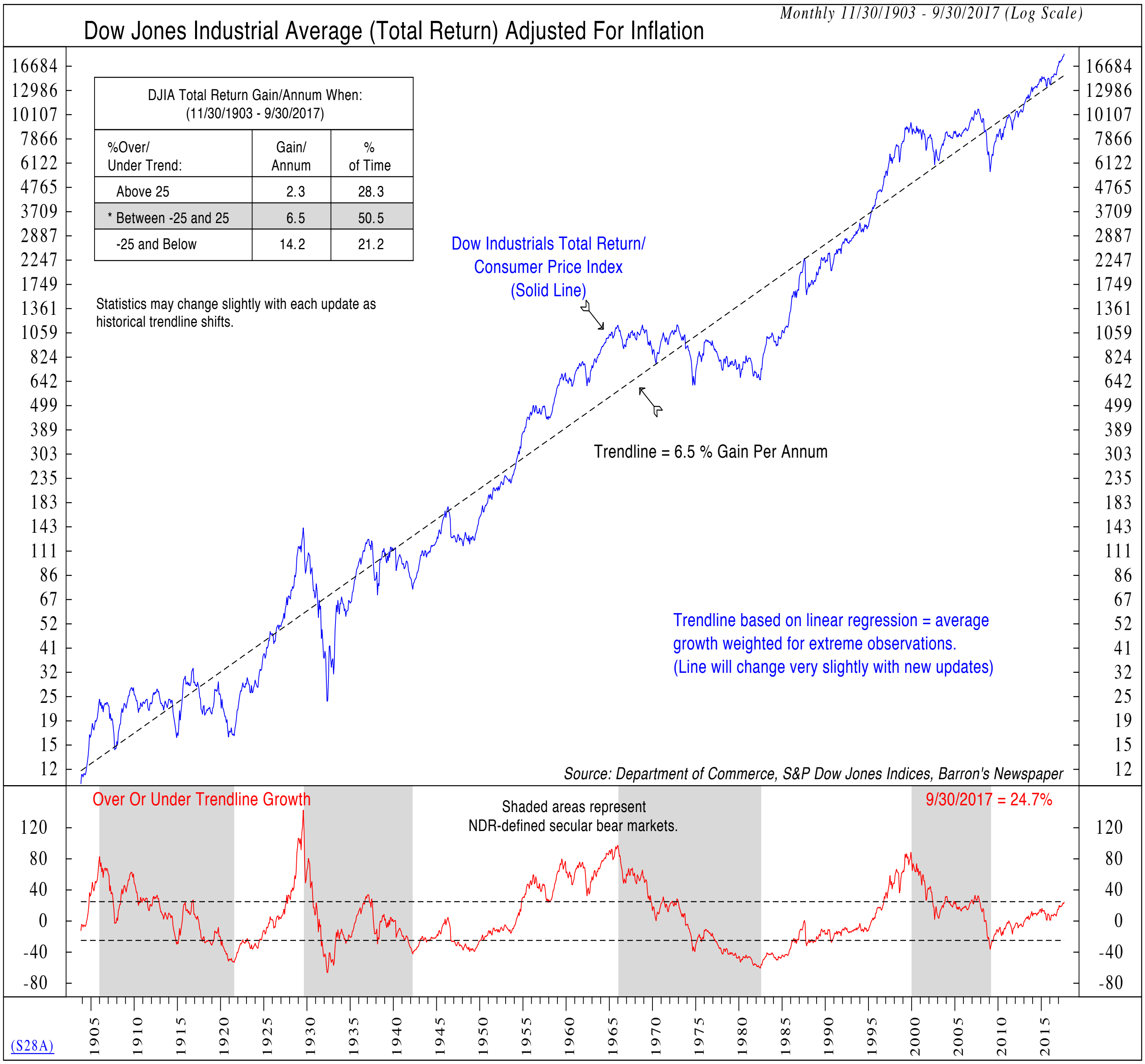


NED'S CORNER

Ned Davis, Senior Investment Strategist

BREADTH IS BULLISH, BUT REMAIN ON ALERT

With 73% of industries in uptrends, the NDR Big Mo Tape Composite remains on its 3/4/2016 buy signal with no signs of mean reversion on the radar (chart on page 4). Yet, stocks have surged well past their normal trendlines. The chart below shows the S&P 500 with a linear regression trendline since 1903. As can be seen, stocks are a little stretched on the upside. To me, this means that the uptrend is higher risk. The long-term record has been excellent. When we receive the inflation numbers for October, I expect this to be in the "overbought" zone. We do not consider trend and valuation mean reversions to be key indicators, because we do not like to "fight the tape." Nevertheless, we think they are very useful from a risk management perspective. Call it an "alert."



GLOSSARY OF TERMS

Asset Allocation: Ned Davis Research, Inc. constrains the recommended equity weighting (which can theoretically range from zero to 100%) to be limited to a minimum of 40% stocks and a maximum of 70% stocks. Due to the constraint on equity weighting, the combination of bonds and cash can be weighted no greater than 60% and no less than 30% in NDR's recommendations. The benchmark for bond allocation is 35% and for cash is 10%.

Benchmark Duration: The most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio should be to changes in interest rates. Point of reference for a measurement.

Beta: A number describing the relation of an investment return with that of the financial market as a whole. Numbers greater than one suggest an investment will increase more than the broad market when it is rising, and have greater declines when the market is falling.

Breadth: A technical term used to demonstrate how broadly a market is moving.

Capital Market: Is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds.

Commercial Mortgage-Backed Securities (CMBS): A type of mortgage-backed security backed by commercial mortgages rather than residential mortgages. When compared to a residential mortgage-backed security, a CMBS provides a lower degree of prepayment risk because commercial mortgages are most often set for a fixed term.

Core Inflation: Is a measure of inflation which excludes certain items that face volatile price movements, notably: food and energy.

Cyclical Bear: Cyclical swings in the market can last from several months to a few years, and are designed to be in line with the primary trend. A cyclical bear market is a cyclical swing when the market is in a downtrend.

Cyclical Bull: Cyclical swings in the market can last from several months to a few years, and are designed to be in line with the primary trend. A cyclical bull market is a cyclical swing when the market is in an uptrend.

Deflation: Is a slight decrease in the general price level of goods and services. Deflation occurs when the annual inflation rate falls but stays above 0%.

Demographics: Studies of population based on factors such as age, race, sex, economic status, level of education, income level, and employment.

Echo Bull/Bear: An echo bear market is a shallower correction which occurs in the equity market that does not coincide with an economic recession. An echo bull market is one that follows and echo bear market.

European Central Bank (ECB): Is the institution of the European Union (EU) which administers the monetary policy of the EU Eurozone member states. It is thus one of the world's most important central banks. The bank was established by the Treaty of Amsterdam in 1998, and is headquartered in Frankfurt, Germany.

Eurozone/European Union: Is an economic and monetary union (EMU) of the European Union (EU) member states which have adopted the euro currency as their sole legal tender. It currently consists of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Federal Open Market Committee (FOMC): A component of the Federal Reserve System, is charged under United States law with overseeing the nation's open market operations. It is the Federal Reserve committee that makes key decisions about interest rates and the growth of the United States money supply.

Gross Domestic Product (GDP): The total output of goods and services produced in a given country during a given period.

Lagging Indicator: An economic factor that changes after the economy has already begun to follow a particular pattern or trend; used to confirm long-term trends.

Leading Indicator: An economic factor that changes before the economy starts to follow a particular pattern or trend; used to predict changes in the economy.

Median P/E: Numeric value separating the higher half of a sample, a population, or a probability distribution, from the lower half. This is the middle price-to-earnings ratio of a series.

Mortgage-Backed Securities (MBS): A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited credit rating agency.

MSCI Emerging Market Index: An index developed by Morgan Stanley Capital International, Inc. (MSCI) as an equity benchmark for emerging market stock performance. It is a capitalization-weighted index that aims to capture 85% of publicly available total market capitalization. Component companies are adjusted for available float.

NDR Global Equity Allocation Model: The model is dynamic, using panel regression to rank six regional and country indices. The weight of the evidence is assessed based on external and internal factors, with 60% of the weight on the externals (non-price-based) and 40% on the internals (price-based). A factor used for one index is also used for the other five, with data unique to that region or country.

NDR-Weighted Foreign Market Indexes: These are capitalization-weighted indexes constructed by Ned Davis Research, Inc. to reflect the overall trend in a global market sector or region.

Optimistic: A sentiment term, investors are said to be optimistic if they think the market will rise. We find that it is best to go with the flow of sentiment until it reaches an extreme and reverses, at which point we take a contrary position.

Overvaluation: A stock is said to be overvalued when its current price is not justified by its earnings outlook or price/earnings (P/E) ratio and, therefore, is expected to drop in price.

P/E: Is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

Personal Consumption Expenditures (PCE): A measure of price changes in consumer goods and services.

Pessimistic: A sentiment term, investors are said to be pessimistic if they think the market will fall. We find that it is best to go with the flow of sentiment until it reaches an extreme and reverses, at which point we take a contrary position.

Quantitative Easing: A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Relative Strength: Is the ratio of a stock price to a market average.

S&P 500 Index Equally Weighted Geometric Index: An index constructed of the 500 stocks in the S&P 500 index on an equally weighted geometric average basis (see geometric average).

Secular Bear: Secular moves in the market can last from several years to decades, and are designed to call overriding trends through several cyclical cycles. A secular bear is a downward-trending secular move in the market.

Secular Bull: Secular moves in the market can last from several years to decades, and are designed to call overriding trends through several cyclical cycles. A secular bull is an upward-trending secular move in the market.

Sovereign Debt: Is money (or credit) owed by a central government.

Spread Product: Favoring not only investment-grade corporate debt, but also asset-backed and commercial mortgage-backed securities, as well as senior secured loans, sectors over Treasury securities.

Standard and Poor's 500 Sectors: Stocks in the S&P 500 index are classified into one of 10 sectors/industries using the Standard and Poor's Global Index Classification System (GICS).

Standard and Poor's 500 Stock Index: An index of 500 stocks chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe.

Treasury Inflation-Protected Securities (or TIPS): Are the inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index, the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against inflation.

Value: A stock that tends to trade at a lower price relative to its fundamentals (i.e., dividends, earnings, sales, etc.) and thus considered undervalued.

VIX Index: A popular measure of the implied volatility of S&P 500 index options. Often referred to as the fear index or the fear gauge, it represents one measure of the market's expectation of stock market volatility over the next 30-day period.

Volatility: A statistical measure of the dispersion of returns for a given security or market index. Commonly, the higher the volatility, the riskier the security.

NED DAVIS RESEARCH GROUP

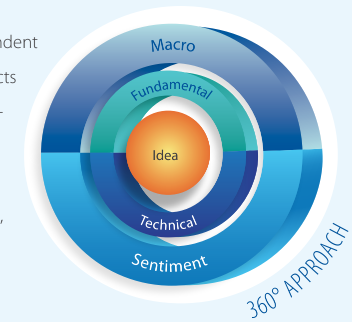
advisorysales@ndr.com
www.ndradvisory.com
(617) 279-4860

VENICE
600 Bird Bay Drive West
Venice, FL 34285

Ned Davis Research Advisory

Generate alpha. Identify risk. Choose Ned Davis Research.

Founded in 1980, Ned Davis Research Group is a leading independent research firm with clients around the globe. With a range of products and services utilizing a 360° methodology, we deliver award-winning solutions to the world's leading investment management companies. Our clients include professionals from global investment firms, banks, insurance companies, mutual funds, hedge funds, pension and endowment funds, and registered investment advisors.



Important Information and Disclaimers

Ned Davis Research, Inc. (NDR), any NDR affiliates or employees, or any third-party data provider, shall not have any liability for any loss sustained by anyone who has relied on the information contained in any NDR publication. In no event shall NDR, any NDR affiliates or employees, or any third-party data provider, be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document even if advised of the possibility of such damages.

The data and analysis contained in NDR's publications are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. **NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.**

NDR's reports reflect opinions of our analysts as of the date of each report, and they will not necessarily be updated as views or information change. All opinions expressed therein are subject to change without notice, and you should always obtain current information and perform due diligence before trading. NDR or its affiliated companies or their respective shareholders, directors, officers and/or employees, may have long or short positions in the securities discussed in NDR's publications and may purchase or sell such securities without notice.

NDR uses and has historically used various methods to evaluate investments which may, at times, produce contradictory recommendations with respect to the same securities. When evaluating the results of prior NDR recommendations or NDR performance rankings, one should also consider that **NDR may modify the methods it uses to evaluate investment opportunities from time to time, that model results do not impute or show the compounded adverse effect of transaction costs or management fees or reflect actual investment results, that other less successful recommendations made by NDR are not included with these model performance reports, that some model results do not reflect actual historical recommendations, and that investment models are necessarily constructed with the benefit of hindsight. Unless specifically noted on a chart, report, or other device, all performance measures are purely hypothetical, and are the results of back-tested methodologies using data and analysis over time periods that pre-dated the creation of the analysis and do not reflect tax consequences, execution, commissions, and other trading costs. For these and for many other reasons, the performance of NDR's past recommendations and model results are not a guarantee of future results.**

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs. Any particular piece of content or commentary may or may not be representative of the NDR House View, and may not align with any of the other content or commentary that is provided in the service. Performance measures on any chart or report are not intended to represent the performance of an investment account or portfolio, as some formulas or models may have superior or inferior results over differing time periods based upon macro-economic or investment market regimes. NDR generally provides a full history of a formula or model's hypothetical performance, which often reflects an "all in" investment of the represented market or security during "buy", "bullish", or similar recommendations. This approach is not indicative of the intended usage of the recommendation in a client's portfolio, and for this reason NDR does not typically display returns as would be commonly stated when reporting portfolio performance. Clients seeking the usage of any NDR content in a simulated portfolio back-test should contact their account representative to discuss testing that NDR can perform using the client's specific risk tolerances, fees, and other constraints.

NDR's reports are not intended to be the primary basis for investment decisions and are not designed to meet the particular investment needs of any investor. The reports do not address the suitability of any particular investment for any particular investor. The reports do not address the tax consequences of securities, investments, or strategies, and investors should consult their tax advisors before making investment decisions. Investors should seek professional advice before making investment decisions. The reports are not an offer or the solicitation of an offer to buy or to sell a security.

Further distribution prohibited without prior permission. Full terms of service, including copyrights, terms of use, and disclaimers are available at http://www.ndr.com/web/ndr/terms-of-service. For data vendor disclaimers, refer to www.ndr.com/vendorinfo.