PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

October 25, 2022

Index Performance: As of October 21, 2022			
Index	**Price**	**Last Week**	**YTD**
S&P 500	3,752.75	4.74%	-24.82%
Dow Jones	31,082.56	1.15%	-18.45%
NASDAQ	10,859.72	-3.11%	-34.03%
Russell 2000	9,114.42	-1.15%	-24.28%
Russell 2000 Growth	7,846.31	-2.56%	-29.49%
Russell 2000 Value	13,861.16	0.33%	-19.11%
Russell 1000 Growth Total Return	2,223.47	-2.80%	-31.79%
SPDR Gold Shares	154.15	-3.10%	-10.52%
GS Crude Oil Total Return	221.02	-10.42%	53.21%
Powershares US $ Index	30.11	0.53%	18.85%
Ishares EAFE Index	57.99	-1.44%	-28.81%
Barclays Aggregate Bond Index	93.77	-1.16%	-17.02%
iShares Barclays 20+ Yr Treasury Bond	93.17	-2.40%	-33.48%
Utilities Select Sector ETF	63.31	-2.53%	-13.17%
Vanguard REIT ETF	78.15	-1.68%	-34.37%
iShares Mortgage Real Estate	21.35	1.16%	-39.41%
Alerian MLP ETF	40.07	0.08%	16.37%

A Word on the Market

By: Patrick Adams, CFA

Summary: As PVG has been anticipating, the market is now in the midst of a technical rally, or rally within a bear market. Keep in mind these are fragile markets.

We see a few catalysts: **Earnings better than feared, Federal Reserve slowing, election, and seasonality**. This is the big week for earnings, **MSFT, GOOG, AAPL, and AMZN**, these are 4 of the best companies in the world.

The Federal Reserve has indicated that they may slow the pace of rate increases (**November 2nd announcement**).

It appears the **Republicans are gaining momentum** and could control both houses of congress in a recent Barron's investor survey this was a significant potential catalyst for the market.

Seasonally, the **best time to be in the market is from November until May.**

Earnings Reports: So far, 20% of the S&P 500 companies have reported but the reports were substantially skewed toward to the large banks. The results were consistent with expectations. The current expectation now stands at an earnings growth rate of 1.5% year-over-year growth for the S&P 500. Thus far, it is not the bloodbath we were fearing, but does not provide any sustainable momentum for the market. Revenue growth is expected to be on average up 8.5%. Increased costs/inflation brings the earnings growth down to 1.5%. **Without the continued strong growth from energy companies, the S&P 500 earnings would be down -3.7% for the third quarter**. **The financial sector has been the worst sector, with earnings down -17.7%, as the banks have been taking large reserves for future bad loans.** The

iShares Global Telecom	53.48	-2.46%	-37.30%
ETFMG Alternative Harvest ETF	4.95	-8.22%	-57.67%
Grayscale Bitcoin Trust	11.42	-1.67%	-67.42%
Shanghai SE Index	3,038.93	1.57%	-15.12%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of October 21, 2022

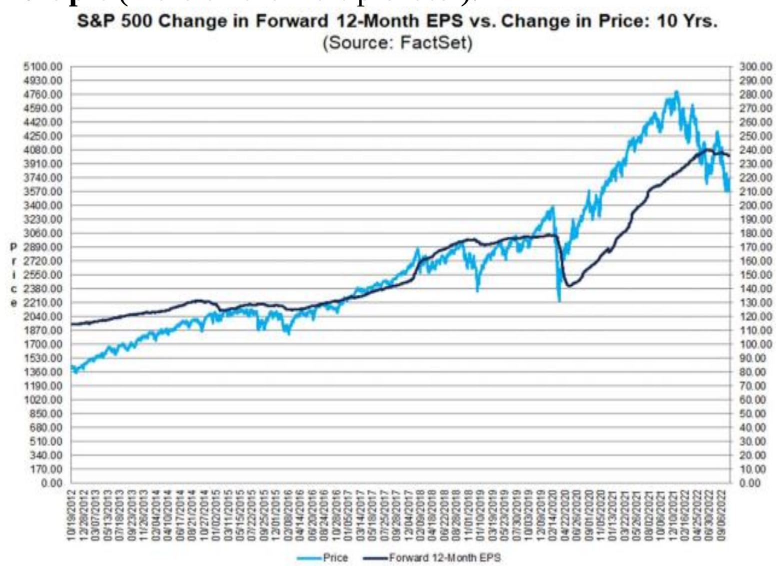
Index	**Price**	**Last Week**	**YTD**
Information Technology	2,178.40	-3.23%	-33.05%
Consumer Disc.	1,124.42	-4.09%	-33.92%
Consumer Staples	718.21	1.45%	-12.62%
Health Care	1,474.11	0.80%	-12.33%
Financials	534.91	0.20%	-20.82%
Industrials	88.69	-0.49%	-19.91%
Energy	667.35	-1.85%	46.07%
Communications Services	169.45	-1.86%	-39.68%
Utilities	321.57	-2.58%	-13.28%
Materials	455.08	-1.89%	-24.74%
Real Estate	217.36	-2.36%	-34.89%

Source: Bloomberg website, Returns are appreciation only.

reality for the banks is they continue to actually see good credit trends.

There are two things that determine stock values, the multiple investors are willing to pay and the actual earnings per share (sorry for the simple statement). If the multiple is roughly constant (it never is constant) then the market follows the earnings.

The chart below shows the S&P 500 in light blue and the dark line being the 12-month forward earnings estimates for the S&P 500. The market has fallen due to lower earnings but mostly **due to the rise in interest rates impacting the P/E multiple** (more on the multiple later).



Last week, **American Express** declined due to a higher-than-expected loan loss reserves, but the current and long-term fundamentals at AXP are strong. This was an opportunity to buy for a trade, or own longer-term for an economic recovery.

Elon Musk made an interesting comment on his earnings call, at some point TSLA would be larger than the current two largest companies in the world combined by market cap. Granted, Musk can trash talk as well as Michael Jordan, but also backs it up. Musk believes they are ramping up production to have a big 4^{th} quarter, the driverless car is coming this quarter, but Musk was thinking long-term…his **robot is coming**.

This is a huge earnings reporting week!!! The most important reports are on **Tuesday with GOOG and MSFT** and on **Thursday with AMZN and AAPL**. GOOG is a cheap stock so a positive report could be a big catalyst. AMZN, is a concern as they have over 1 million employees and they consume a lot of fuel.

PVG Strategies

Tactical Strategies	QTD	YTD
Tactical Total Return	-0.3%	-7.7%
Dynamic Core	-0.3%	-11.0%
Loss Averse		
Loss Averse Equity Income	0.3%	-5.5%
Navigator Growth	0.1%	-13.4%
Specialty		
Emerging Healthcare	-5.4%	-28.6%
Value		
U.S. Large Cap	3.3%	-12.4%
Income		
High Income	-0.6%	-3.0%
U.S. Corporate Bond	-1.5%	-12.4%
Focus		
High Income Focus 10	0.2%	0.8%
Blue Chip Focus 10	1.0%	0.1%
Growth Focus 10	0.9%	1.9%
Emerging Healthcare Focus 10	-5.2%	15.8%

Interest Rates

Fed Fund	3.08 %	**5-Year**	4.45%
3-Month	4.09%	**10-Year**	4.24%
6-Month	4.48%	**30-Year**	4.24%
2-Year	4.62%		

Source: Bloomberg.com

Economic Events This Week

Date	Report	Forecast	Previous
Oct-18	October Consumer Confidence	105.0	108.0
Oct-19	September New Home Sales	580,000	685,000
Oct-20	September Durable Goods Q3 GDP-p	1.8%	-0.6%

PVG Strategies: In the appropriate PVG strategies, **we purchased both AXP and TSLA on the immediate recent weakness.** As the market began to break above the short-term moving averages, **we increased our equity exposure in some cases from zero market exposure to 30% or higher** (Not all the strategies hedge to limit losses in a bear market including Value and U.S. Corporate Bond.).

We designed our Tactical and Loss Averse strategies to limit the downside losses during declining markets, yet to perform well in advancing markets. This risk management is done with the use of our proprietary technical algorithm. Markets move quickly and our allocation is designed to also move quickly.

It appears there is significant tax loss selling in the small biotechnology stocks. These stocks are so significantly undervalued. We believe we have a few stocks in our Emerging Healthcare portfolios that have 5x upside potential in the next 6 months. These stocks seem to move in big chunks.

Interest Rates: **The market continues to expect the Federal Reserve to increase the Fed Funds rate by .75% on Nov. 2nd to 4.0%, but leaked a communication on Friday that they could be slowing the pace in December.** Fed Governor Bullard said they should be done front-loading interest rate increases by early next year. As a result of the indirect communication, reducing the peak rate by .25% to 5% by March 2023. We believe the market is actually leaning toward 4.5%. Even at 4.5% we believe there is a reasonable chance of causing some sort of black swan event, the yen has been crashing (as well as the pound). The Japanese 10-Year bond yield is .25%, our 10-Year of 4.2% has caused money to move to the dollar pushing **the yen down by -24% year-to-date!!!!!**

The equity-risk premium is only around 1% (the inverse of the P/E of the S&P 500, or earnings yield, minus the yield of the 10-Year Treasury, or the 3-month T-Bill or 1/15.6 P/E ratio or 5.14% earnings yield versus, 4.2% on the 10-Year Treasury or 3.9% on T-Bill). **If we have a spike in the 10-Year, the stock market will decline keeping the premium positive**. This is why we are so focused on the amount of interest rate increases and what are the earnings. Rates have been rising and earnings declining, not good. It appears we may have visibility of the P/E multiple stabilizing soon, and after this week we should have a better handle of 2023 earnings (maybe).

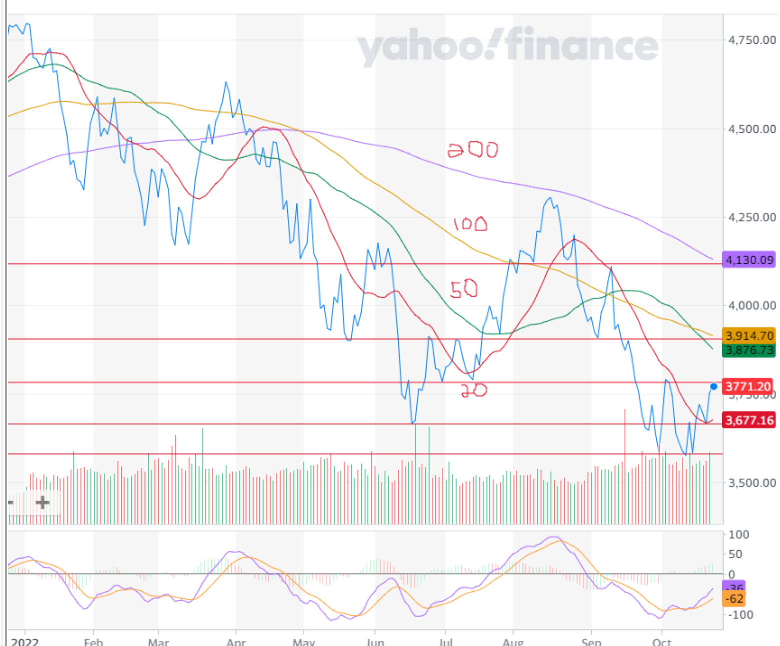
Oct-20	September Personal Income	0.40%	0.30%
Oct-20	October Michigan Sentiment	59.8	59.8
Source: Briefing.com			

Economic Events Last Week	
Oct-17	New York factory activity stumbles in October
Oct-18	U.S. industrial output has solid gain in September
Oct-19	U.S. housing starts retreat in September, dragging down U.S. Growth
Oct-20	Philadelphia Fed's manufacturing gauge remains weak in October
Oct-20	Leading economic indicator is signaling a U.S. recession

Economy: The economy will likely contract in the coming quarters, (which may impact earnings further). Historically, a 3% rise in interest rates results in a recession. We are there now and likely going to 4% plus. From last week, ***the October Beige Book report was weak: "Four Districts noted flat activity and two cited declines, with slowing or weak demand attributed to higher interest rates, inflation, and supply disruptions.*** https://www.federalreserve.gov/monetarypolicy/beigebook202210.htm

If 4 districts are flat and 2 districts are down, it nets to negative GDP growth early in the 4th quarter.

Technicals: **We continue to believe we are in the midst of a rally in a bear market and think we have upside to the 3900 level of the S&P 500. This is a resistance level and where both the 50-day and 100-day moving averages are currently. One step at a time.**



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