Portfolio Action Update

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IPMG INVESTMENT PLANNING AND MANAGEMENT GROUP OF RAYMOND JAMES®

# Tactical Asset Allocation Style & Sector Signals

**Ratings 60 and Above are a Green Light**
**Ratings 40 and Below are a Red Light**
**Ratings 41 to 59 are (Neutral)**
**Light Green indicates going from Green to Neutral since last Signal Date**
**Pink indicates going from Red to Neutral since last Signal Date**

| Styles | Large Cap Growth | Large Cap Value | Mid Cap Growth | Mid Cap Value | Small Cap Growth | Small Cap Value |
|---|---|---|---|---|---|---|
| S - T | 9/4/13 (90) | 9/4/13 (90) | 9/6/13 (100) | 10/4/13 (80) | 12/16/13 (90) | 9/5/13 (60) |
| I - T | 3/1/13 (90) | 8/30/13 (80) | 7/5/13 (90) | 7/1/13 (90) | 9/6/13 (70) | 12/27/13 (60) |
| Sectors | Banking | Biotech | Energy Oil & Gas | Financial Services | Gold Mining | Healthcare |
| S - T | 12/9/13 (95) | 12/16/13 (100) | 12/26/13 (70) | 9/4/13 (90) | 10/31/13 (0) | 9/30/13 (90) |
| I - T | 10/4/13 (80) | 11/15/13 (90) | 12/31/13 (40) | 9/9/13 (100) | 1/2/13 (50) | 12/20/13 (45) |
| Sectors | Natural Resource Equities | Real Estate | Retail | Technology | Transportation | Utility |
| S - T | 12/9/13 (80) | 12/4/13 (40) | 9/10/13 (100) | 10/11/13 (93) | 8/20/13 (100) | 11/26/13 (40) |
| I - T | 12/30/13 (65) | 12/13/13 (45) | 7/8/13 (100) | 9/13/13 (93) | 11/23/12 (100) | 12/10/13 (50) |
| Foreign | Emerging Markets | China | Europe | Japan | Latin America | S.E Asia |
| S - T | 12/27//13 (70) | 12/3/13 (30) | 9/5/13 (100) | 12/27/13 (70) | 12/27/13 (60) | 12/27/13 (60) |
| I - T | 12/13/13 (40) | 12/11/13 (20) | 7/15/13 (80) | 12/20/13 (80) | 1/3/14 (60) | 11/22/13 (0) |
| Bonds | Foreign Hedged to $ | Foreign Non-$hedged | Emerging Markets | Invest. Grade Corporate | High Yield Corporate | Long Term Treasury |
| I –T | 11/5/13 (25) | 10/29/13 (0) | 11/1/13 (40) | 12/10/13 (45) | 10/4/13 (70) | 10/29/13 (0) |
| S - T | 12/9/13 (13) | 11/12/13 (10) | 12/13/13 (40) | 9/27/13 (50) | 12/31/13 (60) | 11/11/13 (25) |

*Table Data at end of 1/3/14*

*Rating Table and Technical Analysis Process Explanation at End of Report*

## MARKET COMMENTS JANUARY 5, 2014

**In general, 2013 was a very good year for domestic growth stocks.** Our conservative equity income strategies had strong returns for that class of investing but underperformed relative to pure Growth strategies. On the other hand, fixed income, natural resource and precious metals sectors underperformed and in some sectors had negative returns.

**I am not a fan of making predictions for the financial markets or anything else.** I think that making your own predictions tends to bias your ability to look objectively at what is unfolding. Especially, if it is not unfolding as you predicted. At the beginning of a new year, there are numerous pundits announcing their predictions for the new year. These lists are interesting and entertaining, but their biggest value is in getting you to think about various possibilities. Generally speaking, I tend to lean towards contrarian views. My advice and philosophy is —

**'STAY FLEXIBLE AND NIMBLE MY FRIEND'**

**It appears that Tapering of QE (Quantitative Easing is the Federal Reserve's purchase of Treasury and/or selected Mortgage Backed securities in the open market) is headed towards zero by the end of 2014.** The FED is starting with a cut in the monthly purchase from $85 Billion to $75 Billion this January. However, the FED has maintained that ZIRP (zero interest rate policy) will likely extend thru 2014 and possibly into 2015 or longer. In my opinion, ZIRP has been a main driver of the stock market recovery and the mild improvement in the economy as it has helped recapitalized the banking and financial industry along with the housing industry.

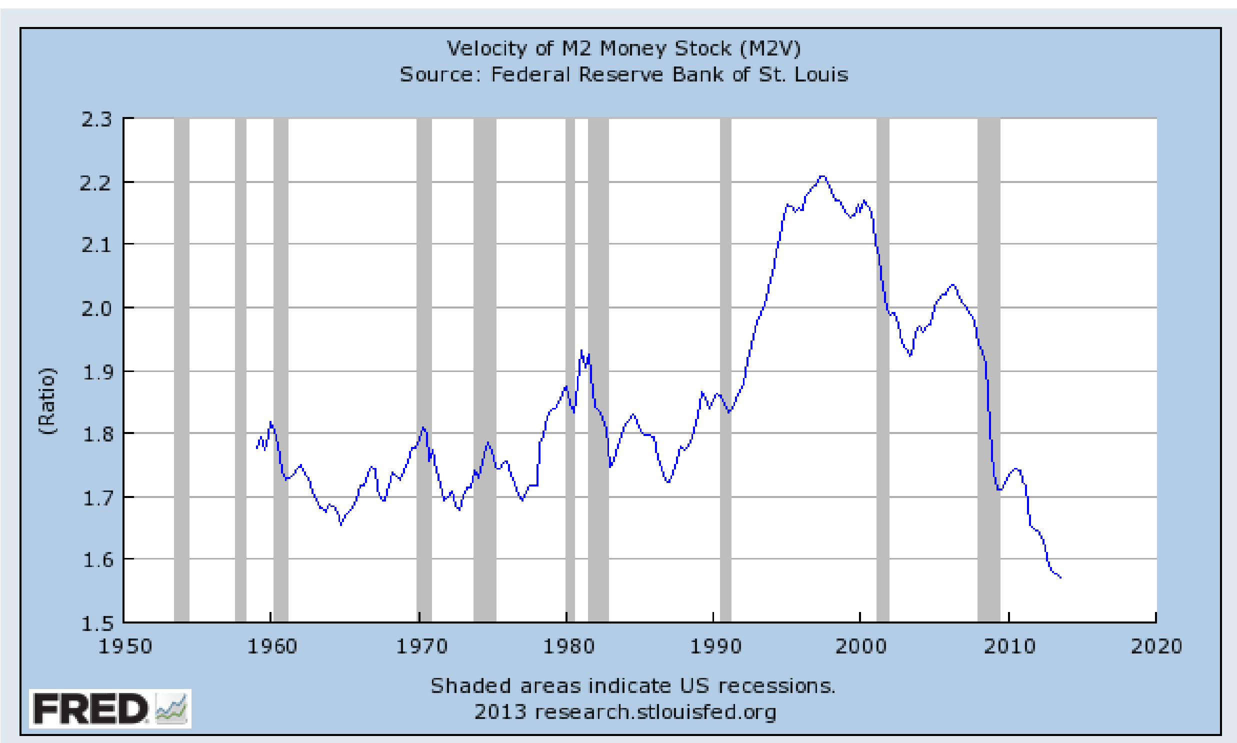
**ZIRP is not a natural free market phenomena, it is imposed by fiat and it will be hard to remove because of its addictive attraction for activities that use leverage.** Unfortunately, this simulative policy is accomplished on the backs of savers, mostly older Americans, that were planning on relying on nice 4% to 6% safe CD earnings for their retirement savings. They are now forced to draw down capital or increase their risk profile to achieve higher investment returns.

**The FED is trying to get CPI inflation up to the 2.0% to 2.5% level. The fear of deflation which is hard to stop is greater than the fear of inflation, which can be corralled quickly as Former FED Chairman Paul Volker proved in the early 1980s.** The use of QE and ZIRP are testimony to the difficulty of combating deflationary pressures. That is, plenty of liquidity and the low cost of money is still struggling to revive strong economic activity. It has long been thought by Keynesian economist that a 2% type of inflation helps foster economic growth. That is, it provides "lubricant" for business activity and incentive to buy things now rather than later by consumers.

**However, another measure of inflation is that computed by John Williams' Shadow Government Statistics (SGS) electronic newsletter (shadowstats.com).** He uses the methodology employed prior to the 1980s which priced the value of essentially a static basket of goods and services rather than the evolving approach of the Bureau of Labor Statics (BLS). According to SGS, over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that no longer reflects the constant-standard-of-living concept. A simple example is that if you used to buy steak three times a week and you no longer can afford to buy it today with the income from the same job, but you can switch to hamburger, then your CPI has not gone up, but you will likely feel that your standard of living has declined. There are other more complex adjustments that have been incorporated into the CPI computation, but I think you get the point. The CPI is a questionable measure of what middle class Americans are actually experiencing in their lives. The SGS computation of inflation for November 2012 to November 2013 was 8.81% Vs. the CPI of 1.24% If CPI gets up to the FED's target of 2.0%, the SGS could be into double digits.

**So what has been keeping the wraps on this recovery compared to previous post WWII recoveries.** The government has appeared to go all out in an effort to grow the economy, well not completely, but that is a topic on taxes, regulations, entitlements, etc. for another time. A thermometer for measuring how well the nation's consumers are feeling and acting, and often considered a leading indicator of economic activity is the trend in the M2 Velocity of money.

**The Federal Reserve's M1 is currency in circulation including that outside the U.S., checking accounts, travelers checks and other near cash deposits.** M2 includes M1 plus savings, small time deposits and retail money funds. Simply put, M2 money is what is readily available to make transactions. The velocity is the measure of how many times a Dollar of M2 turns over in a year. Don't confuse Velocity with Quantity. There may be abundance of M2, but if is not buying things, then the Velocity could be very slow. The Table below shows the Velocity of M2 Money Stock (M2V).




**From the late 1950s through the mid 1970s the M2V varied around 1.75 times, plus of minus 0.07.** Then as inflation picked up in the late 1970s the velocity rose to around 1.93 times as the need to spend money faster before it lost purchasing power became apparent. Paul Volker's increase in the Federal Funds rate to over 20% broke the back of inflation in the early 1980s and M2V quickly retreated back into the historical range as the nation under went a serious recession. When the technology and internet boom of the mid-1980 through the late 1990s took hold, the M2V picked up steam again (over 2.2 times) , but this time driven primarily by an economic booming atmosphere and consumer confidence in the future that generated lots of transactions.

**However, the Dot.com boom collapsed at the beginning of the new millennium.** The Ensuing two major Bear markets along with the credit crisis during the first decade of the new millennium destroyed investor confidence. Consumers pulled in their horns again and paid down debt and opted to hold on to Dollars. Consequently, the M2V began a sharp decline that has yet to reverse in spite of the five year stock market advance and modest economic improvement. Job creation has remained disappointing. The creation of good jobs is a crucial missing component.

**If the M2V begins to rise, that would be an indication that consumers are feeling better and the economy could be gaining momentum in 2014.** I believe that all Economic observers' eyes are watching M2V closely for a positive sign. Will a M2V rise be inflation driven or improved job creation and consumer confidence driven? My guess is it will be some of both.

**What is the M2V problem?** That is the $17.3 Trillion Dollar and growing question. At the end of the 2008 U.S. Fiscal Year (9/30/08) the U.S. Debt was approximately $10.0 Trillion Dollars. At the end of the 2013 Fiscal year, it was at about $17.2 Trillion Dollars. That is $7.2 Trillion Dollars greater over 5 years. The DJ Total Stock Market Index (formally the Wilshire 5000 index indicated the total value of the U.S. stock market was approximately $11.9 Trillion at fiscal end 2008. At the 2013 U.S. Fiscal end (9/30/13), the DJ Total Stock Market index indicated a total Dollar value of $17.7 Trillion for a gain of $5.8 Trillion dollars. However, at 12/31/13 the total dollar value of the U.S. stock market was at $19.4 trillion. A gain of $7.5 Trillion from the Fiscal end of 2008. Interesting. A $7.3 trillion increase in the National Debt and a $7.5 Trillion increase in the value of the U.S. Stock market. Could there be a connection? The stock market may go up or down from here, but the National Debt is very likely to continue to grow.

**The initial five year battle for the soul of the stock market, since the crash low in March of 2009, has gone to the progressive Keynesian approach to economic stimulus: ZIRP and massive QE** Deficit spending by the U.S. Treasury and stimulus policies by the Federal Reserve, at unprecedented levels, were great enough to moderate/overcome the global deleveraging and economic downturns in the aftermath of the financial crisis. The primary benefit has been a strong stock market recovery, as discussed above, but with only modest economic progress and employment gains, at least so far.

**The rest of the world also appears to have bought into the idea of a progressive Keynesian solution with deficit spending and low interest rates.** They have embraced the Paul Krugman (Princeton Economic Professor and NY Times Opinion Columnist) philosophy that deficit spending without constraints is justified to promote economic growth. Don't worry about debt as long as you can always print or electronically create the money to pay the interest or principal when maturities come due. That works until it doesn't, as historical economies have always eventually found out. The Keynesian hope is that economic growth will eventually lift the economy out of the debt hole that is being dug. The jury is still out on the long term wisdom of this approach. As Scarlett said at the end of 'Gone With The Wind' about rebuilding her life from chaos — "I can't think about that now, if I do, I'll go crazy. I'll think about that tomorrow."

**As investment managers, we have to work with the financial hands that are dealt.** Although Risk Management tactics turned out to not be necessary over the past year or so, I don't believe that ***risk*** has been eliminated from the human vocabulary or stock market experience. If anything, the potential risk has increased as the Government Intervention Bubble (my opinion) in contrast to Free Market concepts, continues to grow in bureaucratic reach, regulatory complexity and unfunded liabilities.

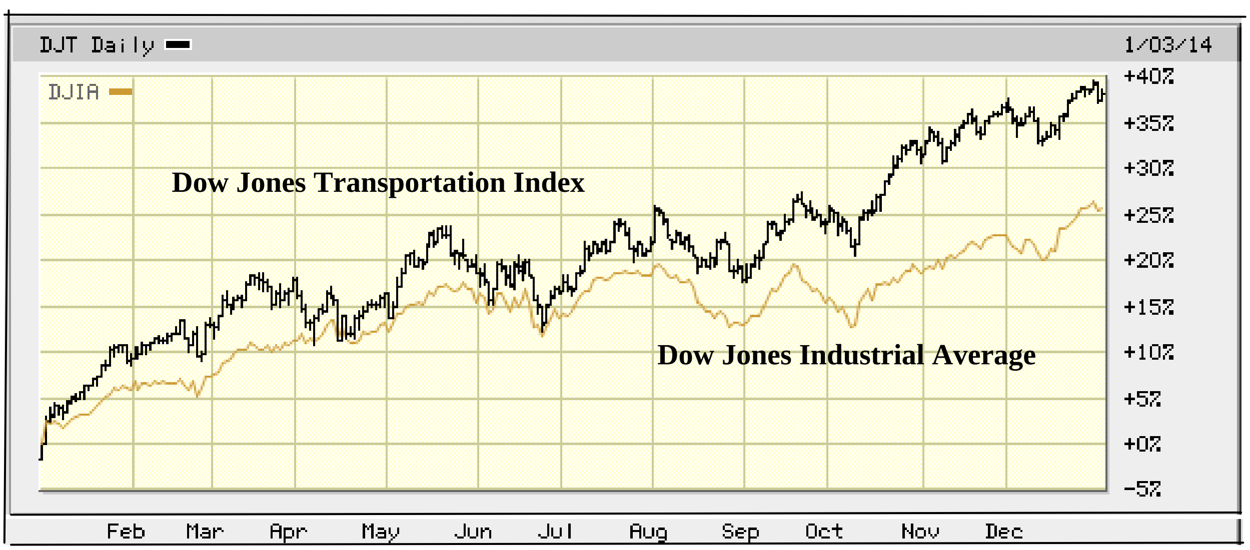
## Capitalization Styles

There are currently Double Green lights for all of the Capitalization Styles. For the most part, these styles have been Bullish since early September after a mild correction in August. Throughout the year, corrections have been unusually shallow in the Capitalization Styles. In fact, the number of days without a correction having more that three consecutive down days in the Dow Jones 30 industrial index set historical records during the first half of 2013, according to Jeff Saut, Raymond James' Chief Investment Strategist.

The first two days of 2014 have been soft, but that is not surprising given the sharp rally from September. Some of this softness is investors taking profits in 2014 rather than 2013. However, if this softness continues for more than a few days, it could develop into more of a correction. Our Rating Table signals and our Technical Early Warning System (TEWS) remain with Bullish readings. Of course, we stay alert for a change to Bearish action. January is often important indicator for the general action during the rest of the year.

## Industrial Sectors

There are double Green lights for Banking, Biotech, Financial Services, Natural Resource Equities, Retail Technology and Transportation. Transportation has held an Intermediate Term Green since 11/23/12. I believe that the Transportation sector could be the canary in the coal mine in providing an early warning for potential stock market weakness. The Chart Below shows the action in the D.J. Transportation index and the Dow Jones 30 index for the past year.



The IPMG Rating Table shows a sprinkling of Red lights for equity income type sectors like Energy, Real Estate and Utilities. These sectors underperformed the pure Growth sectors throughout the year. It would not surprise me that we see a reversion to the mean in 2014 with Growth not doing as well and equity income sectors doing better. Precious metals were under pressure with Silver bullion down 35%, Gold bullion down 28%, Platinum down 11%. Palladium, more of an industrial metal, was actually up 1.6%. The drop in metal prices hit the miners hard with the Philadelphia Gold and Silver mining index down 49.2% for the year.

Commodities in general have been underperforming stocks since a peak in the Dow Jones-UBS Commodity index on April 25, 2011, as shown on the chart below. If economic activity continues to improve in 2014, especially if M2V, discussed earlier, begins to rise, I would expect a renewed uptrend in commodity sectors.

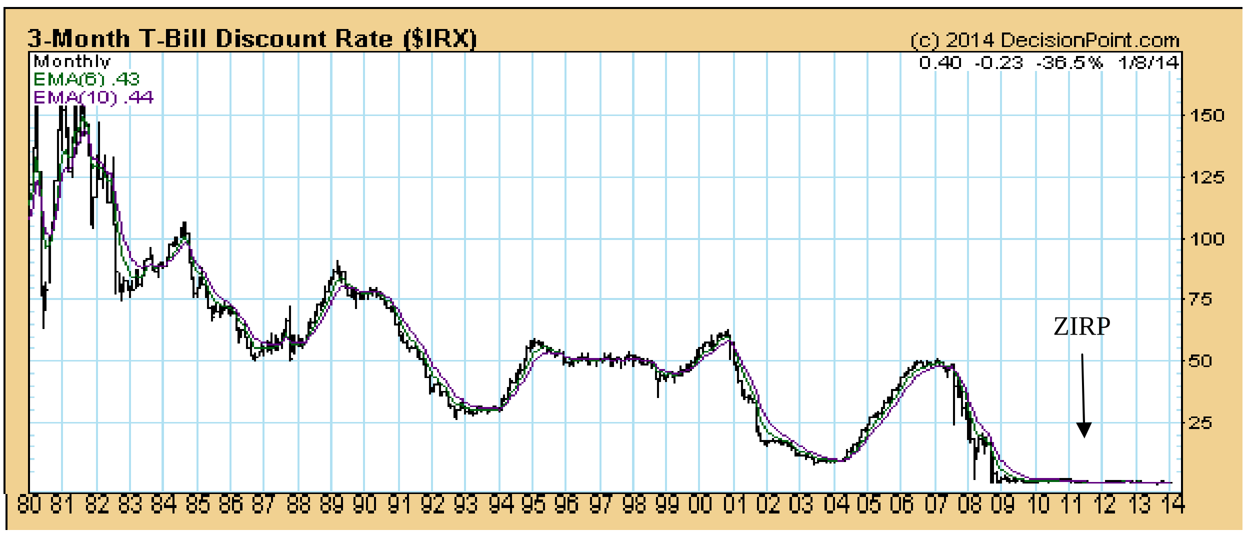

Source: Yahoo Finance:

## Bond Markets

The Rating Table shows that Foreign Investment Grade Hedged and non-Hedged to the U.S. Dollar. Emerging Market and the Long Term Treasury bond sector are currently on Red lights. The High Yield Corporate bond sector has double Green lights and Investment Grade Corporates are currently Neutral. Nevertheless, bonds in general have had volatile action this year with Green and Red lights coming and going frequently. I think this is characteristic of a secular trend that appears to be in the process of reversing direction. Barring a renewed strong recession, I believe bond yields will trend higher (bond prices lower) during 2014. The pace of the change is likely to be slow until a new secular trend is more fully established. Consequently, we have moved to a defensive posture in our fixed income strategy by shortening bond Durations and adding some Treasury bond Bear hedges to our fixed income strategy.

The 10 Year Treasury yield rose from historical lows on July 24, 2012 of 1.404% to close out 2013 at 3.026%. So far, the rise in Treasury yields has not kept equity markets from rising.
It would take a move above about 3.8% to break the downtrend line since 1995. A chart of the 10 Year Treasury Note Yield that goes back to 1980 is shown on the next page.

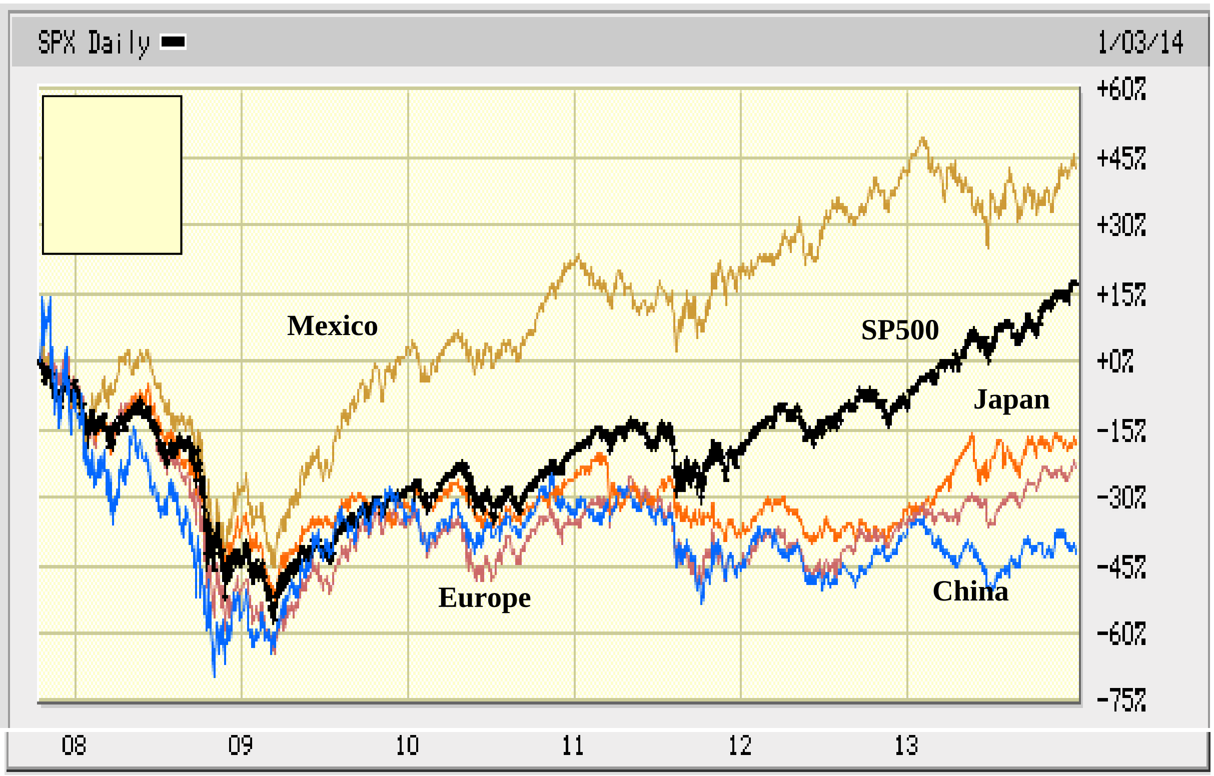

The 3 month T-Bill since 1980 is shown below were the ZIRP unnatural flat line since 2008 stands out.




## International Markets

The International markets have shown some life in recent months with double Green lights for Europe, Japan and more recently Latin America on our Rating Table. Only China has double Red lights. Of course, International markets don't necessarily act in unison. Japan has rallied sharply this year when new political leadership installed a very aggressive stimulus policy to try and get Japan out of its over two decades of stagnation. On the other hand, China has been dealing with inflation and credit problems resulting from its growth for over a decade. Europe, on the verge of collapse a couple of years ago, has taken America's lead in choosing the aggressive Keynesian stimulus approach of deficit financing under the EU auspices to try and revive its triad multiplicity of countries (Northern Europe, Southern Europe and Eastern Europe). Each has it own set of economic conditions to deal with, but chronic unemployment, especially of younger generations is paramount.

After the strong bounce out of the financial crisis low in 2009, many International markets have for the most part traded in a sideways channel since 2010 as shown below for Xinhua China 25 Index (Blue), S&P Europe 350 Index (Red), and MSCI Japan Index (Orange). The U.S. S&P500 index (Black) and the MSCI Mexico Index (Mustard) have done better.




**Source: BigCharts.com. Data Range 10/9/2007 through 1/3/2104**

This is an interesting chart in my judgment. It begins at the S&P500 peak on October 9, 2007 and continues through January 3, 2014. The numbers on the right are the gains or losses in each index over that period. For example, the S&P500 has gained about 17%, a compounded return of about 2.6%. The China Xinhua Index is still down 57%. Only the S&P500 and the MCI Mexico Index are above their highs in 2007 on this chart. Without a lot of fan fair, the Mexico stock market leads the pack with a gain of about 44%. Of course, you can put any indices you like on the free BigCharts.com web site. It is a vary useful tool I use frequently.

## Portfolio Action Update as of 1/3/14

After a short hesitation at the end of October, the stock market moved above the resistance of the peaks in May, July and September. Consequently, we increased our market exposure to participate in a year-end rally. That turned out to be a good move as the market had a strong last two weeks of December. We still have some cash allocation because of the extended bullish move during 2013. Consequently, early January may see some consolidation. The stock market folklore sates that as January goes, so goes the year. No folklore has a perfect record so we will continue to focus our attention on the technical indicators for guidance.

The Table below shows the current market exposure for our various investment strategies:

**Growth Portfolio Plus (GPP) = 95%**
**Focus List Plus (FLP) = 91%**
**Equity Growth Plus (EGP) = 64% (less because of change in portfolio at end of year)**
**Global Opportunity Plus (GOP) = 87%**
**Equity Income Portfolio Plus (EIPP) = 81%**
**Equity Income Plus - ERISA (EIPE) = 84%**
**Portfolio Income Plus (PIP) = 77%**
**Energy/Defense/Resources (EDRP) = 84%**
**Natural Resource Plus (NRP) = 62%**
**Precious Metals Plus (PMP) = 55%**
**International Equity Growth (IEG) = 93%**
**Global InDe-flation Plus (GIP) = 97%**
**Diversified Income Taxable Plus (DITP) = 46% Intermediate Duration Multi-Sector, 27% Cash Equivalent.**

**Note:** The net market exposure values indicated are approximate since individual account exposure can very somewhat from these values. This net exposure is computed by subtracting the total Bear Hedges (if any) from the long positions held in the strategy. Keep in mind that any Bear hedges can be in styles and sectors that may not exactly match the long positions held in the strategy. Consequently, the hedging process is not a perfect defense, but can be an effective risk management tool. The residual cash position is held in a money market.

## *DISCLOSURES*

*There is no assurance that these movements or trends will be profitable or imply a successful investment strategy. The information has been prepared without regard to any particular investor's investment objectives or financial situation. Investors should not act on the information in this report without obtaining specific advice from their financial advisors.*

*Short Term (S-T) signals are based on daily price data and may be different and change more frequently than the intermediate Term (I-T) signals that are based on price action for a trailing 5 day period. These ratings are subject to change at any time and their accuracy is not guaranteed. Individual securities may perform differently form these signals. These directional signals are a useful tool in the portfolio management process but are not the sole determinate of actual portfolio style or sector weightings. Market data used in this analysis is believed to be from reliable sources but it is not guaranteed.*

*Asset allocation does not guarantee a profit nor protect against loss. Investing involves risk including the possible loss of capital . The performance noted does not include fees and charges which would reduce an investor's returns. The indexes mentioned are unmanaged and cannot be invested in directly. Mid-cap and small cap securities generally involve greater risks. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risk are greater in emerging markets. The companies engaged in the technology industry are subject to fierce completion and their products and services may be subject to rapid obsolescence. High-yield bonds are not suitable for all investors.*

## *Technical Analysis Process Explanation*

*Ron's Technical Analysis process utilizes the OMNI Trader software program developed by Nirvana Systems in Austin, Texas. This program is essentially a tool box that contains many technical systems, such as moving averages, trend lines, overbought/oversold oscillators, classical price patterns, etc. to determine the strength and direction of the current price direction of the security under review based on an analysis of historical price data. This process analyzes the price action of approximately 600 mutual funds daily. The mutual funds are organized into specific styles and sectors typically with 10 funds representing each style and sector. For Example, there are 10 Biotech funds, 10 Banking funds, 10 Energy funds, and so on. Altogether, 54 styles and sectors are analyzed (only 30 are shown on the webs site table.). If the technical analysis indicates that a fund is in an up trending mode, it is given a green arrow pointing up and if the analysis indicates a down trending mode, it is given a Red arrow pointing down. If the analysis is indeterminate, that is noted as a Neutral rating split between a Green and Red arrow. If 60% or more of the arrows are green for a style or sector, then the Table cell shows a Green light. If 40% or less of the arrows are Green, then the Table shows a Red light. The date on which the signal direction changed is noted in each cell of the Table along with it current Rating % of Green arrows. This majority rule of the style or sector fund arrows is an essential part of determining the cell color. Please note that these signals do not represent actual trading.*

***Web Site Commentary***

*My Portfolio Action Update commentary is a periodic update of my technical analysis viewpoint of the financial market environment and the current portfolio management posture for our key portfolio strategies. In general, my portfolio management approach is to determine current market conditions through technical analysis and to position the various portfolio strategies to participate in the current environment. My belief is that the market price is the final arbiter of all available information as digested by all market participants regarding security values. Therefore, carefully analyzing price action over time is the key element in our portfolio management process. However, neither opinions, technical analysis or fundamental security analysis produce perfect results. There is always a degree of risk present.*

*A few days may transpire from when these comments are written and when they are posted on the web site. Obviously, the technical analysis data and portfolio positions could have changed in that timeframe. Therefore, these comments should be read in the context of what we have been doing, not necessarily what we may be doing when you actually read them. This information is not intended to be a solicitation of a buy or sell of any financial security. The opinions expressed herein are my own and do not reflect the position of* **RAYMOND JAMES.**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