Cypress CAPITAL

# Market Outlook

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## Highlights

What little headway the psychology composite made this week was more than offset by additional deterioration in the monetary composite, pushing Market Risk Index to a similar level from two weeks ago. Improvements to the Surveys category of the psychology composite were negated by the Volatility category. Volatility in both the S&P 500 and the Valueline Arithmetic index have climbed from lows up to levels that are associated with difficult market environments. It's not until these volatility readings climb to extreme readings, VIX over 40 as an example, that they become bullish for market returns. Low volatility readings, which occur during times of complacency, also tend to be bullish markets over shorter periods, albeit less so. Right now, volatility is in no man's land, as is the Market Risk Index.

The ratio of volume flowing into inverse ETFs relative to levered ETFs is finally beginning to register some investor anxiety in markets and pushing the composite in a more constructive direction. However, this was offset by record put/call ratios in OEX options, an old school measure of smart money. There are enough crosscurrents in our psychology composite that the overall readings aren't pushing higher in dramatic fashion. Last week, it was the ARMs index producing some extreme short-term readings, but the High Low Logic index had given its own emphatic warning & counterargument with an all-time high.

The 30Yr Treasury yield hit record lows this week, nudging additional variations & maturity combinations of the yield curve into inverted territory. With the yield curve drawing so much attention, it has become popular to highlight how yield curve inversions preceded recessions by a couple of years in some cases, which consoles investors. It inadvertently builds a case for greater fool theory, leaving investors with the impression that they can safely ignore warning signs of market and economic risk until the last minute. Greater fool theory works with real bears, where survival depends on outrunning the slowest member in your group, but it fails with bear markets. One of a handful of reasons that the same pre-cursors and warning signs for bear markets, like the yield curve, continue to work and aren't arbitraged away is because they don't give investors the rush that one gets from timing something perfectly. Equity investing doesn't require a commitment to all or nothing - it's better to balance the risk of feeling regret from missing out with the risk of losing money. Investors need their own

### Market Risk Index

Elevated

**83.9%**

### Category Percentiles

Psychology - P5: 10.9%

Monetary - M4: 32.9%

Valuation - Extremely Overvalued: 5.2%

Trend - Positive: 82.0%

**Biggest Psychology Influences**

| | |
|---|---|
| Surveys | Positive |
| Leveraged Investments | Negative |
| Consumer Confidence | Negative |
| Volatility | Negative |

**Biggest Monetary Influences**

| | |
|---|---|
| Falling Corporate Bond Yields | Positive |
| Yield Curve | Negative |
| Velocity | Negative |

**Valuation**

| | |
|---|---|
| 7-10 Year Rtn Forecast | 3.3% |
| 10Yr Treas Yield (on 7/31) | 2.1% |

**Price Trends**

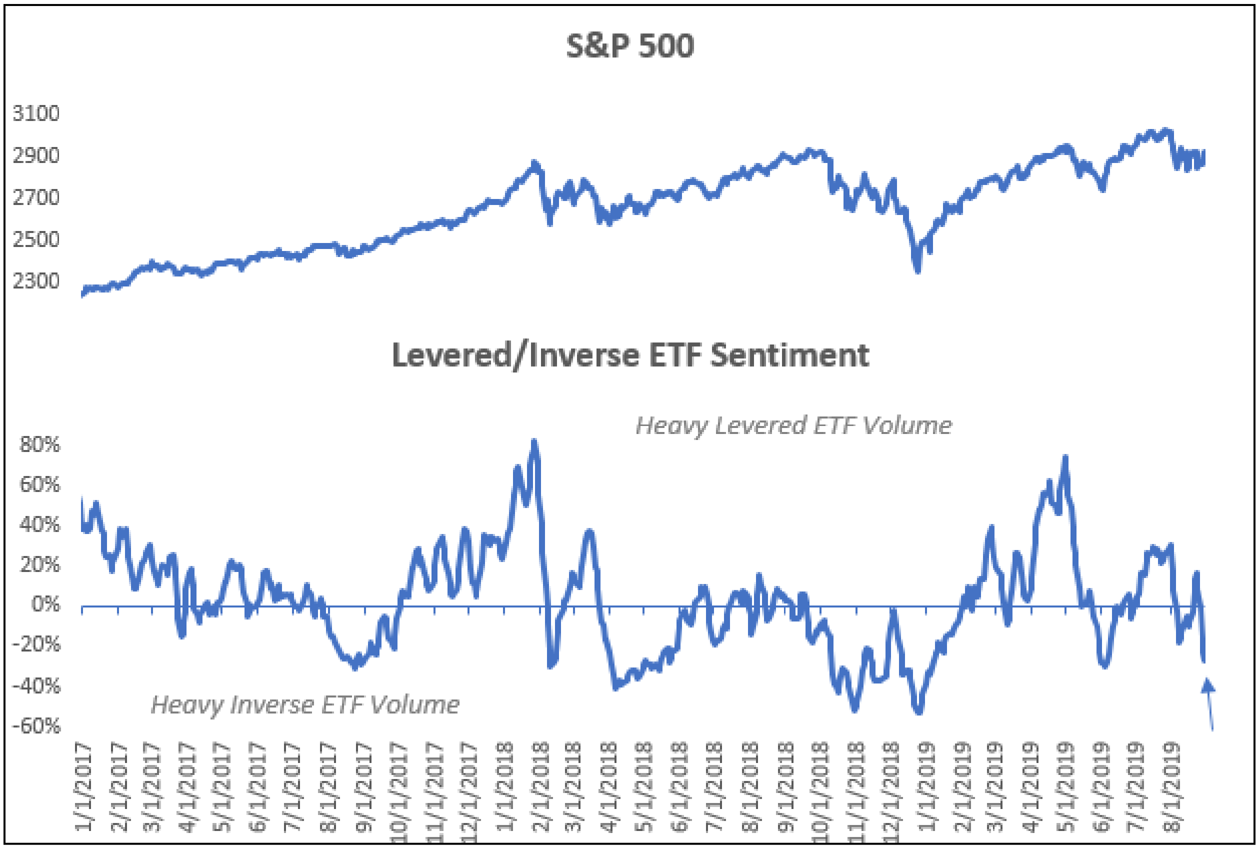
| | |
|---|---|
| US Equities | Positive |
| Intl Equities | Negative |
| REITs | Positive |
| Broad Commodities | Negative |

*Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.*

dual mandate – avoiding permanent losses of capital and avoiding emotional decisions.

We'll close with something that struck us this week as we were doing chart maintenance. We have code that adjusts the axis on all our charts, and while it can be automated, I prefer running the code manually every week, because those changes in scale often tell a story. In strong, broad, rising bull markets, it's routinely charts of the stock market indices that must be adjusted to move the prices higher on the y-axis, making room for the new highs. It has been many months since we've made that adjustment. This week, it was the y-axes for several bond yield charts, the yield curve, gold prices, OEX put/call ratio, and the Chinese Yuan. Yields falling rapidly, TIPs yields going negative, higher gold, falling renminbi, a more inverted yield curve... They tell a story of a trade war making a late stage economy flirt with recession – the deflationary bust kind – it's a threat real enough that smart money is in a rush to hedge market exposure.

**Chart – Volume in Inverse ETFs is beginning to increase**




*Source: Cypress Capital*

**Chart – Smart money traders grow nervous as OEX Put/Call ratio rockets higher**

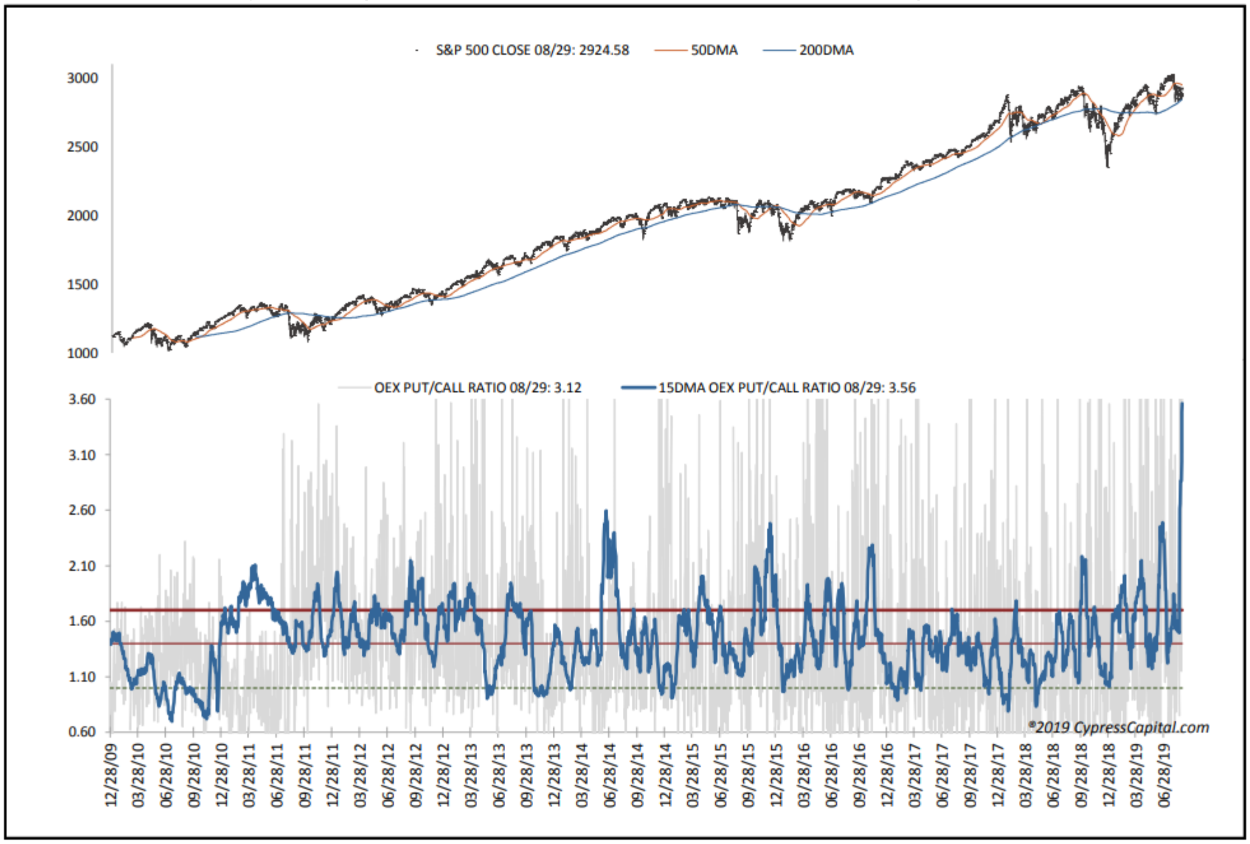
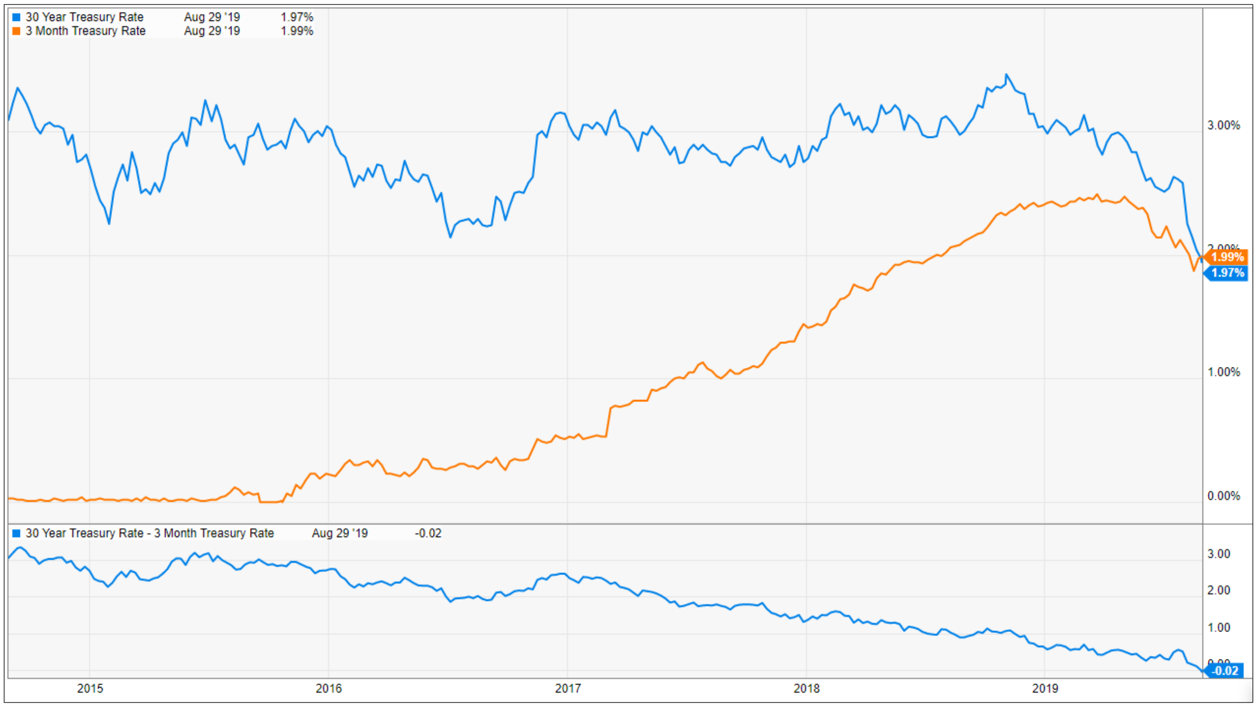



**Chart – 30 Yr Treasury rate falls under 3M Treasury rate**




*Source: YCharts*

## Asset Management – Portfolio Lineup

*The essence of investment management is the management of risks, not the management of returns.*
*– Benjamin Graham*

**Select Dividend** – Bottom up risk managed dividend portfolio of up to 40 stocks that can hold cash and fixed income when markets aren't presenting attractive individual equity opportunities. Portfolio built upon Cypress Capital's own metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks with above average yields and a long-term history of paying dividends, where the dividend is perceived to be safe. Growers are companies with high total shareholder yields and perceived to be high quality, franchise companies. The portfolio is generally made up with familiar, household names.

**Global Allocation** – Multi-asset class portfolio that invests in low cost exchange traded funds across eight asset classes based upon the margin of safety offered by each asset class in an effort to avoid significant drawdowns.

**Strategic Income** – Disciplined, value biased income portfolio that practices patience in awaiting excellent risk reward opportunities in fixed income. Disciplined in its refusal to reach for yield and put capital at risk of permanent impairment.

**Asset Neutral** – Absolute return focused multi-asset class portfolio that allocates assets based upon the margin of safety offered in each asset class. Portfolio can go defensive and hold up to 100% cash in some environments.

**US Opportunity** – Concentrated value portfolio of up to 50 stocks that increases allocations to cash and fixed income when the margin of safety offered by equities is too narrow. Portfolio quantitatively buys the cheapest, highest quality stocks that it can find. Quantitative sell discipline sells individual holdings based on value and momentum factors.

Contact us for more information.