Cypress CAPITAL

Market Outlook

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Highlights

Before we begin this week, please note that we reversed the scales on the categories to make readings consistent across the board, so that low readings are bullish for markets and high readings are associated with riskier markets. This will apply to every category and makes readings line up with Market Risk Index.

Market Risk Index improved along with the psychology composite, but the move was modest, and MRI continues to be locked in higher risk territory. The psychology improvement this week was not a result of sentiment, which has stalled as markets have rallied. Instead, it was purely due to technical indicators, measures of breadth, and the recent drop of volatility into a zone that is more conducive to market rallies. The exception to the improvement in technical indicators and breadth, was the 10Day NYSE ARMS index, which has made a very rapid swing from bullish readings to bearish ones. In a strong, healthy or momentum driven bull market, those low readings won't matter much and will be soon followed by higher prices. In a challenging market or one that coincides with recessions, a low reading on the 10Day ARMS is often followed by a resumption of falling prices within days to weeks, giving us a good opportunity to see if the combination of news of the ECB stimulus and a softening of the US/China trade relations will be enough to re-ignite animal spirits.

Monetary conditions dropped again, but instead of being interest rate or yield curve related as it has been for much of this year, this week it was a result of one of our bank credit indicators dropping from positive to neutral. The category itself though is still modestly positive. Unlike the previous cycle, the banks have largely behaved, whereas most of the excess seems to be occurring outside the banks, including corporations levering up balance sheets.

With broad market indices approaching highs and some above average core CPI readings released this week, the bond market has ruled out a 50basis point cut and is only expecting 25 basis points from the Fed this month. Candidly, we have some trepidation about monetary stimulus this time around. The US seems to be a recession away from negative yields hitting home here, and with it, central bankers will have pushed beyond the constraints of how modern monetary policy is supposed to work. The full implications of this phenomenon aren't fully understood, but it will be anything but normal. Needless to say, it isn't an environment where paying top dollar for equities, so long as they are still cheaper than the dot

Market Risk Index

Elevated

83.4%

Category Percentiles

Psychology - P5: 87.3%

Monetary - M4: 68.3%

Valuation - Extremely Overvalued: 94.8%

Trend - Positive: 3.2%

Biggest Psychology Influences

Flow of Funds	Positive
Leveraged Investments	Negative
Consumer Confidence	Negative
Option Activity	Negative

Biggest Monetary Influences

Falling Bond Yields	Positive
Yield Curve	Negative
Velocity	Negative

Valuation

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

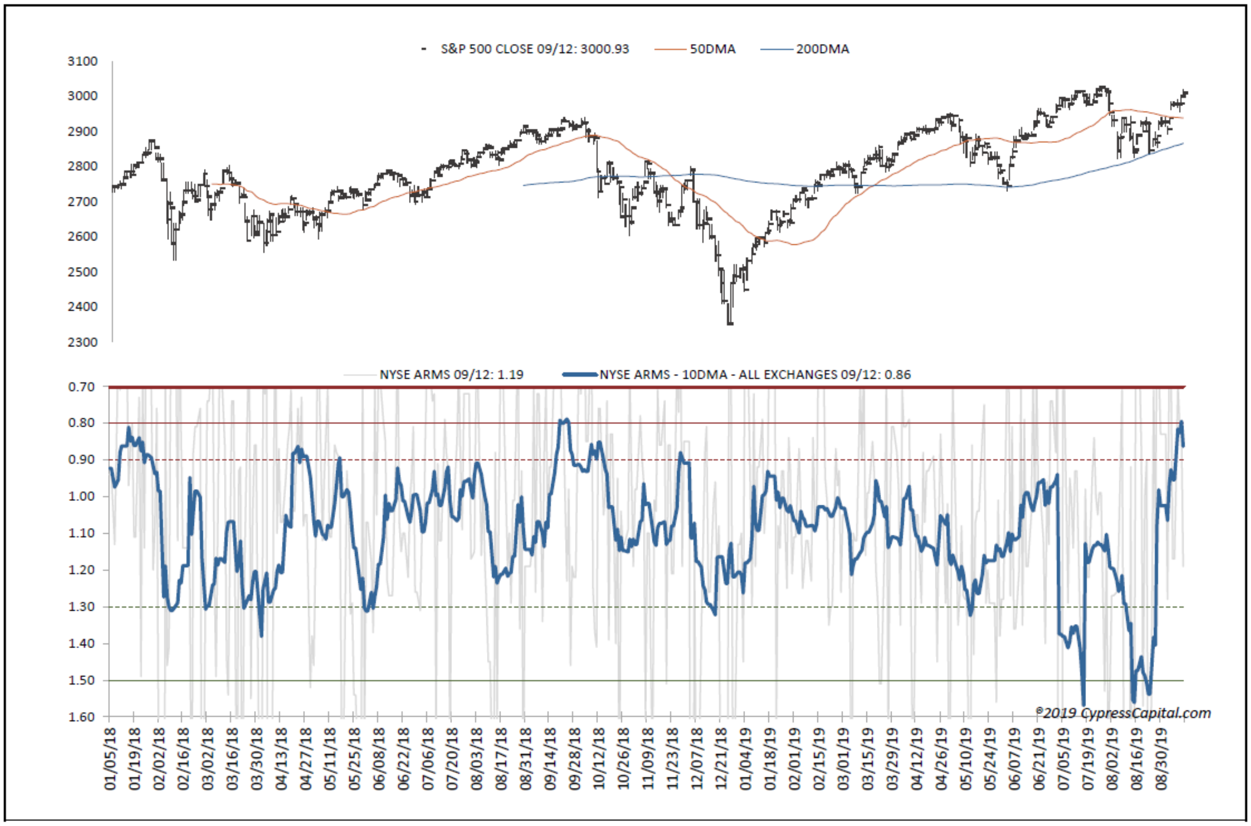
Price Trends

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.

com bubble, strikes us as a wise use of capital. With equities offering little margin of safety, we are content to hold and recommend an above average cash position. It is uncomfortable, but to quote Warren Buffett, "Holding cash is uncomfortable, but not as uncomfortable as doing something stupid."

Chart – Wild swing in the 10Day ARMS Index



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.