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Index Levels

SPX	1,709.67
10YR	2.602%
GOLD	1,310.50
DXY	81.908

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MacroView:
Reading Between the Lines

Our mission is to produce original, unbiased, thought-provoking observations that will unlock the message of the markets. Our view is neither bullish nor bearish, our goal is to uncover potential ideas and opportunities for our clients.

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Key Takeaways

Our bearish opinion on bonds and bullish sentiment toward oil have been tempered recently, as short-term price targets were achieved.

Equities related to yields and oil have begun to trade as though a temporary peak has occurred within the trend.

China and Brazil are currently offering investors an opportunity to pick their spots in terms of defined risk entry zones.

The rally in technology has been broad-based, as illustrated by the outperformance of RYT relative to XLK.

Summary

We are 100% believers in the message of the markets and with price comes knowledge. While we pay attention to absolute price levels of assets, we find that relative performance offers a more pinpointed opinion of where the opportunities lie, given the prevalence of benchmark hugging by market participants.

We continue to see divergences exist between the level of economic activity and the pricing of assets. While many troubling divergences have begun to turn more neutral over the past several weeks, we continue to feel uneasy regarding some of the extremes which have been developing over the past several quarters. There has been improvement in the many of the sectors and inter-market relationships we monitor.

With the SP500 being the main driver of global equity market euphoria and annualized gains currently extended, we feel the lagging assets should continue to relatively perform, as participation continue to broaden out.

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The interpretation of the incoming economic data can be debated in both bullish or bearish form. While we have had positions on both ends recently, we will be taking some chips off the table in two of our macro calls. We have been bearish on bonds (yields going higher) and bullish on oil (prices rallying). We are tempering our enthusiasm for both positions as they have hit our short-term targets.

Equities related to these themes have begun to trade as if a temporary peak has occurred within the overall trend. Rate sensitive homebuilders have rallied 2.75% off the lows and Energy shares have traded sideways to down. With XOM and CVX missing expectations (combined 31% weighting in XLE), the Energy index had little chance to outperform for the week.

Yields and Inflation

WTI Crude (Red Line) and US 10yr Yield (Black Line) - YOY

Global Relatives

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We have been positioning for the outperformance of the emerging markets and other growth sectors for the better part of a month. While they have outperformed of late, that may have only been the beginning. Should global growth finally begin to gain traction ,these markets would have plenty of room to run and play catch up in terms of valuation and performance.

While China and Brazil have had incredible growth in terms of global importance over the past decade, we feel we are being offered an interesting opportunity to pick out spots as we gain more insight into the message of the markets. While there are risks to this strategy, the current ranges offer the start of a defined risk entry zone.

China – FXI – 60M Intraday YTD

Brazil (EWZ) 60 Minute – 2Month

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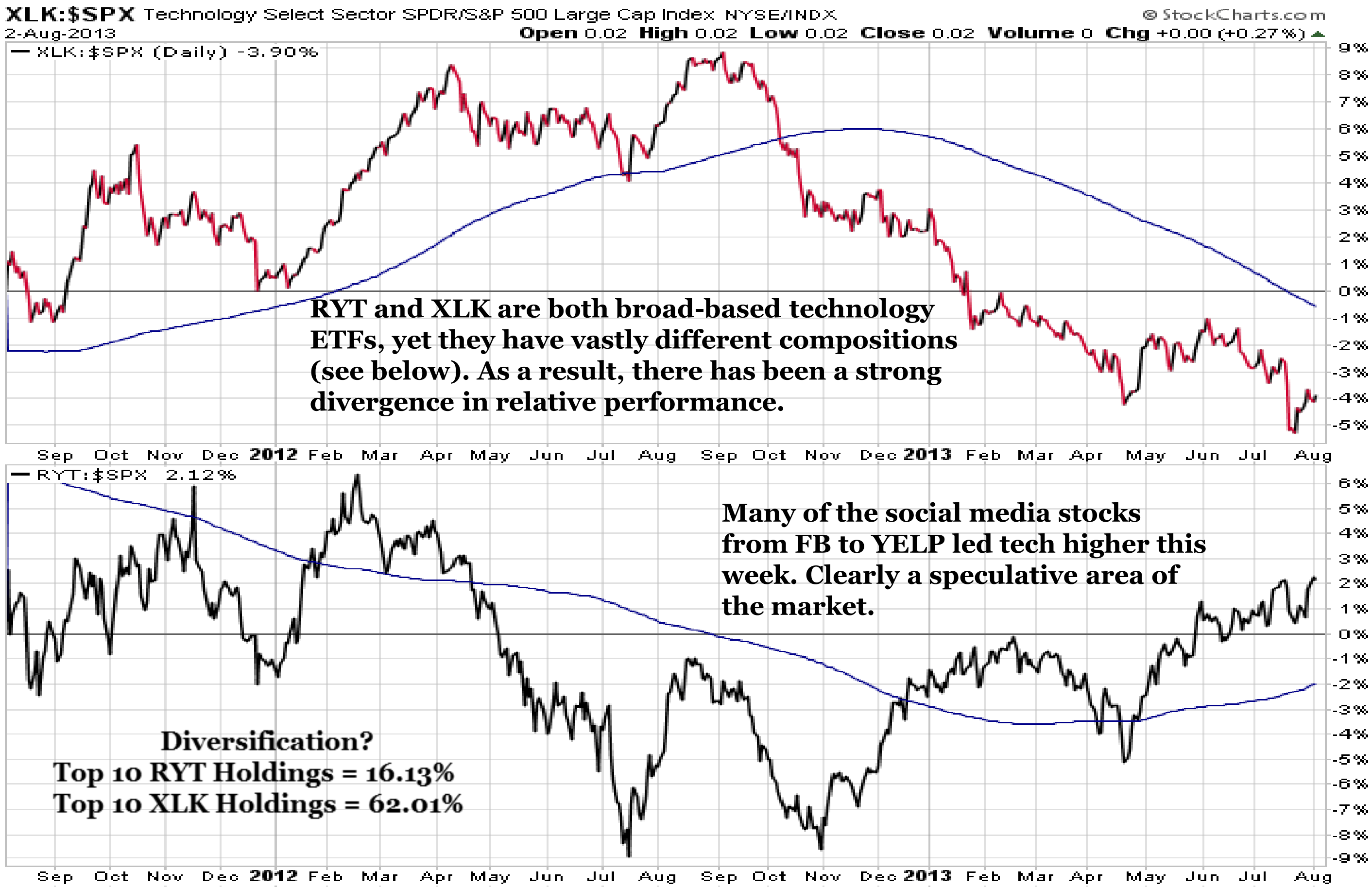
Technology – Equal and Index Weight

The SP500 Technology Index (XLK) is comprised of all things tech but heavily weighted toward the largest names in the sector. Understanding the weightings of the holdings within the ETF universe will give a better understanding of what's actually going on with the fund flows within an index.

With the Top 4 holdings of XLK comprising nearly 35% of the index, by calculating the YTD returns, we can see they have negated the upside impact of many of the smaller constituents.

We can see that the rally has been much broader than one would have believed by simply looking at the market cap weighted index. With the equal weight index (RYT) vastly outperforming since the Nov'12 lows, we can say with certainty that there has been broader participation taking place under the surface within the tech space. Is benchmark hugging by many enabling a longer term opportunity for those willing to deviate?



RYT Top 10 Holdings

1. FLIR Systems Inc (FLIR) – 1.83%
2. Electronic Arts Inc (EA) – 1.62%
3. Salesforce.com Inc (CRM) – 1.61%
4. Jabil Circuit Inc (JBL) – 1.60%
5. F5 Networks Inc (FFIV) – 1.59%
6. Total System Services Inc (TSS) – 1.59%
7. Xilinx Inc (XLNX) – 1.59%
8. Citrix Systems Inc (CTXS) – 1.58%
9. Symantec Corp (SYMC) – 1.57%
10. Cognizant Tech.Solutions (CTSH) – 1.55%

XLK Top 10 Holdings

1. Apple Inc (AAPL) – 12.43%
2. Microsoft Corporation (MSFT) – 8.68%
3. Google Inc (GOOG) – 7.91%
4. International Business Machines (IBM) – 6.66%
5. AT&T Inc (T) – 6.37%
6. Verizon Communications Inc (VZ) – 4.84%
7. Cisco Systems Inc (CSCO) – 4.34%
8. Oracle Corporation (ORCL) – 3.80%
9. QUALCOMM Inc (QCOM) – 3.55%
10. Intel Corporation (INTC) – 3.43%

Previous Market Observations

Week 10: July 29-August 2

- Should investors desire short exposure to the US, we prefer IWM over SPY.
- Monitoring currency values against global commodities, we anticipate the market could begin to shift toward tangible assets.
- Strength in the Nikkei has been largely the result of weakness in the yen. With the Yen looking to bottom, there is risk of further unwind in carry trade. Recent CPI data is a headwind to the real economy.
- In order to protect against FX depreciation, we are seeing investors look to commodities in select regions.
- Preference of tangibles may begin to shift from housing to Gold.

Week 9: July 22-26

- Rates may be creating a headwind for the housing sector, and should be monitored closely as a result. We continue to feel that the housing market is closer to a top than a bottom.
- Oil has rallied recently and began outperforming retail. Further strength in this spread could cause a rotation into energy shares.
- While Gold and Gold Miners have risen from their recent lows, we would still be looking to add to our position on pullbacks.
- With the VIX approaching its lows for the year, market risk seems to be mispriced.
- Global markets have performed poorly relative to the US in recent years, yet wide spreads are offering investors ample opportunity to acquire countries at depressed valuations.
- We expect an upward correction to take place in the most beaten-down sectors and countries in both absolute and relative terms.
- Higher oil is creating opportunities, with Gulf States and Shipping firms as possible beneficiaries.

Week 8: July 15-19

- S&P 500 is making new highs in USD terms, but is still well below its 2000 highs when priced in EUR, Gold or Oil.
- Consumer Discretionary has outperformed in recent years, yet the index may be getting a bit ahead of itself. We believe that better opportunities exist in other segments of the market.
- In the end, we believe the Fed will keep monetary policy fast and loose. The reasons for owning Gold haven't changed, only the price has.
- Volatility in FX has picked up recently, yet it is impossible for all currencies to fall at once. We are watching the EUR as it tests critical support levels – a break would clear a path for the USD to outperform.
- Commodities appear to be in a favorable position: either there will be growth and higher demand, or a lack of growth will spur further monetary easing that pushes investors toward real assets.

Please contact us if you would like to receive previous issues

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  - Portfolio monitoring

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  - Trend identification and reporting
  - Customized research on specific sectors, individual stocks and asset types
  - Customized charts and data tables

- **Personalized trading conversations**
  - Trade suggestions that work within a specified mandate
  - Advice regarding timing and implementation vehicles

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