

# OnTrack Report

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850-934-6300

## Market Overview

	Short Term	Intermediate Term	Long Term	This table summarizes my subjective assessment of the major trends that shape the market environment. The trends are based on current closing prices and are not meant to be predictive. Trends tend to continue until something changes, so recognizing current trends helps us recognize changes in the market environment.
Large Cap Stocks	Uptrend	Uptrend	Uncertain	
Mid-Cap Stocks	Uptrend	Uptrend	Trading range	
Small Cap Stocks	Uptrend	Uptrend	Trading range	
Junk Bonds	Uptrend	Uptrend	Uncertain	
Treasury Bonds	Uptrend	Uptrend	Uncertain	
Commodities	Downtrend	Trading range	Uncertain	

Stocks worked off the short-term overbought condition in the best way possible last week—they moved sideways. Friday's employment report was stronger than expected, but the market's reaction was muted as stocks finished the day in positive territory. Bond yields moved up on the news, but not enough to change their downward trajectory.

The short-term environment is positive for stocks and bonds. The Federal Open Market Committee (FOMC) meets this week. The Fed is not expected to raise rates at this meeting, but they also will not take future rate hikes off the table. The Fed would like to see employment and the economy slow enough to continue to bring down inflation, but not enough to cause a recession.

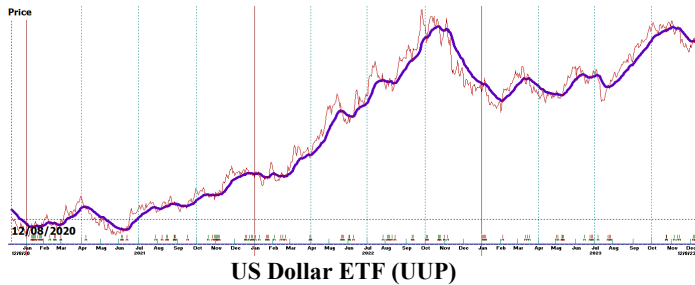
The longer-term environment is very much dependent on the ability of the Fed to rein in inflation and engineer a soft landing, which remains an unknown. Investors are pricing in a series of interest rate cuts in 2024, but that is contrary to what Fed governors are currently signaling.

For now, stocks and bonds are in steady uptrends as we enter the last few weeks of the year. Stay fully invested, and be aware that mutual funds make distributions in December. Buying mutual funds in December not only can have tax consequences, but locks you in the fund through the start of the new year when money managers reposition portfolios for what they expect to happen in the next year. Exchange traded Funds (ETFs) are an alternative to gain exposure to the market without locking in capital, or investors can simply defer mutual fund purchases until after the new year.

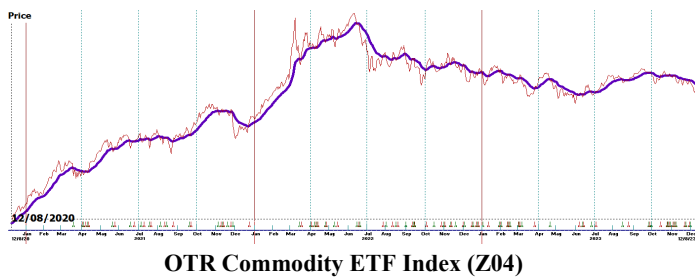
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## Business Cycle Indicators (3-Year Charts)

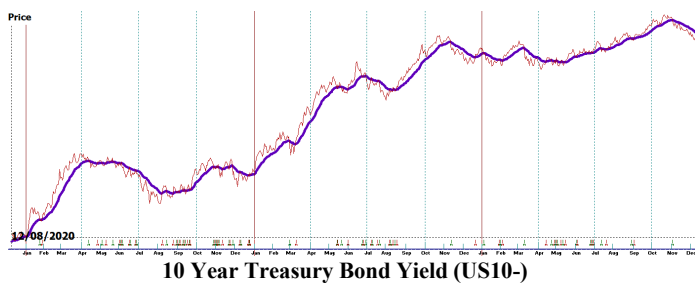
An analysis of the business cycle is useful as a guide to the macroeconomic environment. To emphasize that role and to avoid a focus on short-term trends that usually have no business cycle relevance, the 50-day moving average is emphasized as a bold line in the charts below to shift focus to the longer-term trend.



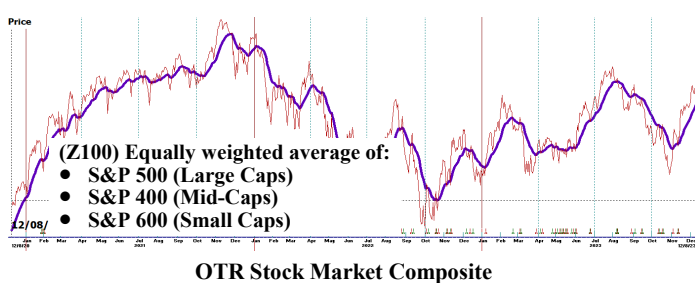
Despite a short-term move higher to start December, the dollar's 50-day moving average has rolled over and the long-term trend is down.



Commodity prices are drifting lower despite the positive bias provided by a declining dollar.



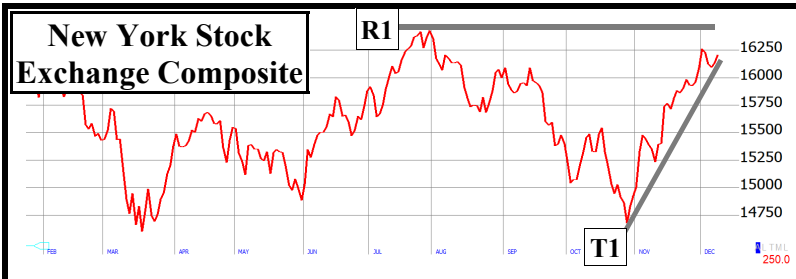
The 10-year Treasury bond yield is trending down. Since bond prices move in the opposite direction of yields, the long-term trend of bond prices is up.



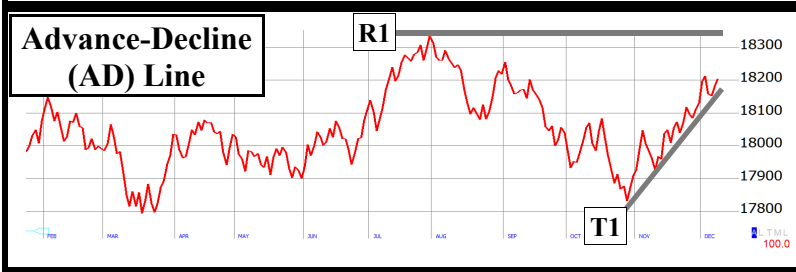
The long-term trend of stocks is up.

**Business Cycle Summary** -- Stocks and bonds are moving up and commodities are moving down. That is the definition of a Stage 2 business cycle environment. However, Stage 2 of the business cycle typically occurs as the economy is bottoming. Currently, interest rates are elevated and are expected to slow the economy, which normally occurs in Stage V. These conflicting signals reflect the difficulty in defining the current stage of the business cycle.

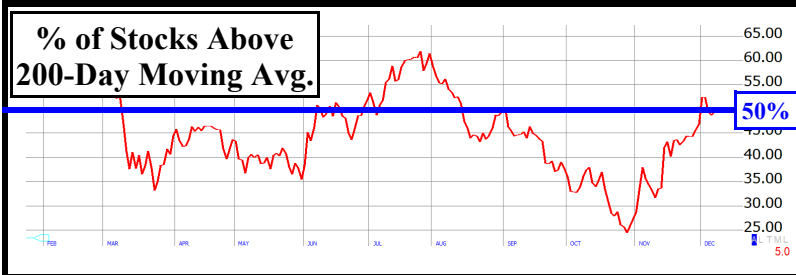
## Market Environment (11-Month Charts)



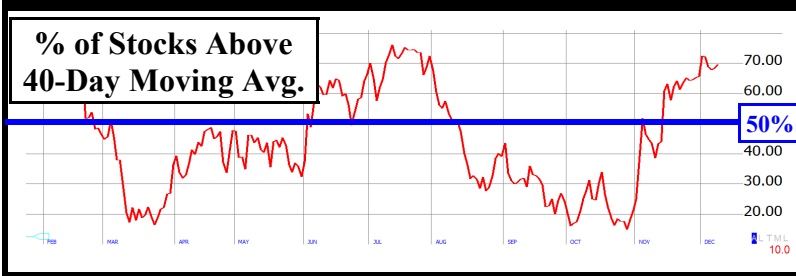
The New York Stock Exchange (NYSE) Composite took a breather last week, but the dip looks to be simply a down-leg in an ongoing uptrend shown as trendline T1. The high for the year marked as resistance R1 is the next level of significant resistance.



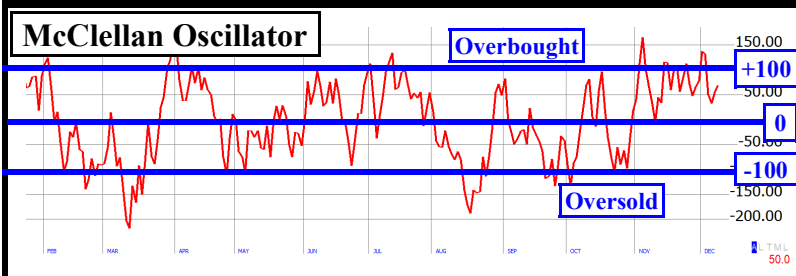
The NYSE AD Line has a similar pattern, but has further to go before reaching resistance R1.



The percentage of stocks above their 200-day moving average (in a long-term uptrend) continues to hover near the neutral 50% level.



The percentage of stocks above their 40-day moving average (in a short-term uptrend) is still at a bullish 70% level.



The McClellan Oscillator worked off its short-term overbought condition last week. The Oscillator has remained above the neutral 0% level since October which is typical behavior during uptrends.

*The charts above are from the Worden TeleChart Charting Program ([www.worden.com](http://www.worden.com)).*

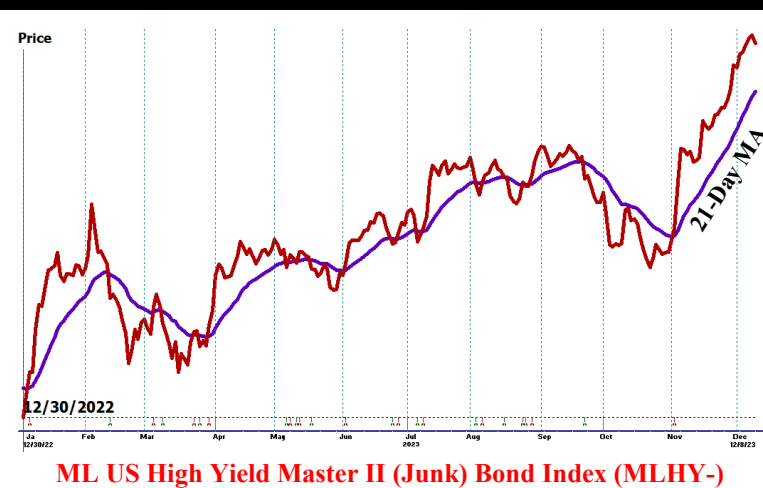
The stock market is in an uptrend that began in October when Treasury bond yields peaked and began to decline. The strategic (long-term) and the tactical (short-term) market environments are positive.

## Junk Bond Market Indicator (Year-to-Date Charts)

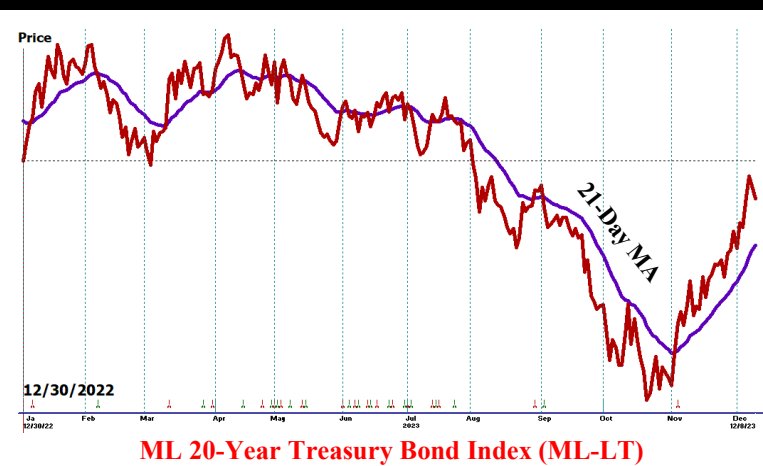
Guidelines for using the junk bond trend as an aid to making investment decisions:

- When the Merrill Lynch Bank of America High Yield Master II Index (symbol MLHY– in FastTrack, referenced as the Junk Bond Index in the OnTrack Report) is trending up, the market environment is favorable for junk bonds.
- When the Junk Bond Index is trending down, the market environment is unfavorable for junk bonds.
- When the trend of the Junk Bond Index is uncertain, the market environment is uncertain.
- When the market environment is favorable for junk bonds, consider long positions in aggressive stock funds and junk bond mutual funds. In this environment, the use of leverage may be appropriate for some investors.

When the market environment is unfavorable for junk bonds, consider cash (money market funds), defensive stock funds, Treasury bond funds and other bond funds that tend to move in sync with Treasury bonds.



The Junk Bond Index is trending up above its uptrending 21-day moving average. The 21-day moving average serves as a trendline during strong uptrends. Crossing the 21-day moving average would serve as a warning that the uptrend is weakening.

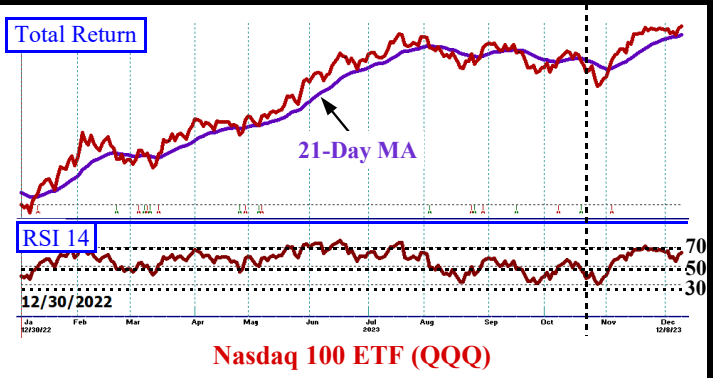
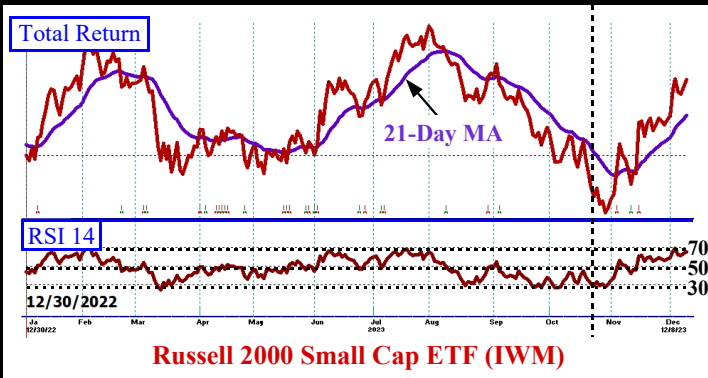
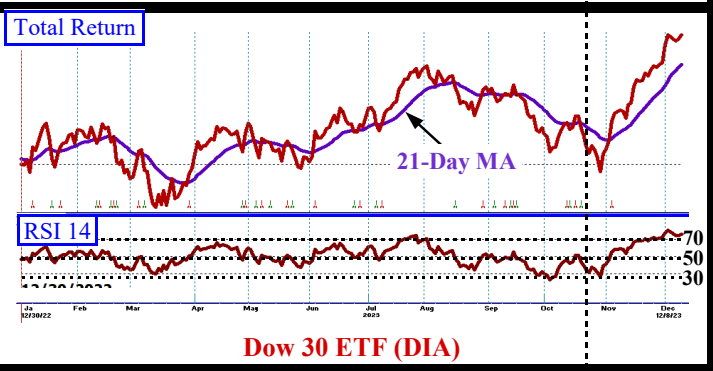
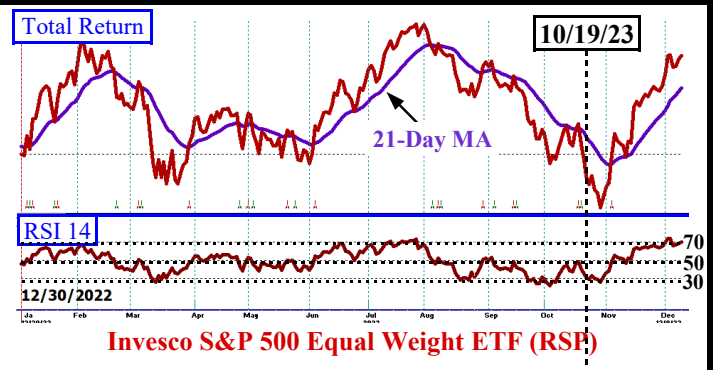
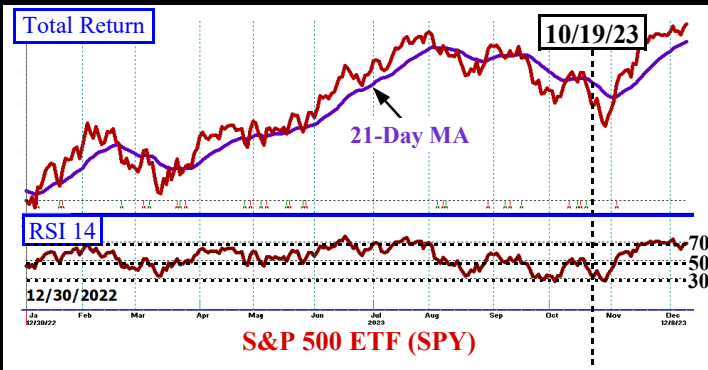


The Long-Term Treasury Bond Index is trending up, but the move higher is a result of falling Treasury yields and not a flight to the safety of Treasury bonds.

The Junk Bond Indicator is positive, indicating a positive environment for risk assets.

## Stock Market Indices (Year-to-Date Charts)

Symbol	Name	UI	MDD	TR	Ann	UPI	Trend	Comments
DIA	SPDR Dow Jones Industrial Avg ETF	0.76	-2.92	9.0	86	94	▲	Intermediate term uptrend.
RSP	Invesco S&P 500 Equal Weight ETF	1.26	-3.66	8.5	80	53	▲	Intermediate term uptrend.
IWM	iShares Russell 2000 ETF	1.81	-4.15	10.8	109	52	▲	Intermediate term uptrend.
SPY	SPDR S&P 500 ETF	1.14	-3.69	7.9	73	52	▲	Intermediate term uptrend.
QQQ	Invesco QQQ ETF	1.41	-4.53	9.0	85	51	▲	Intermediate term uptrend.
MDY	SPDR S&P Mid-Cap 400 ETF	1.49	-3.79	9.0	86	48	▲	Intermediate term uptrend.

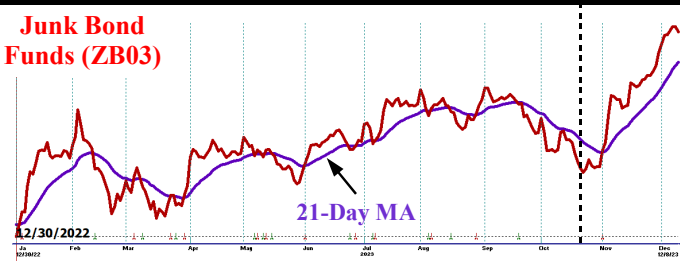
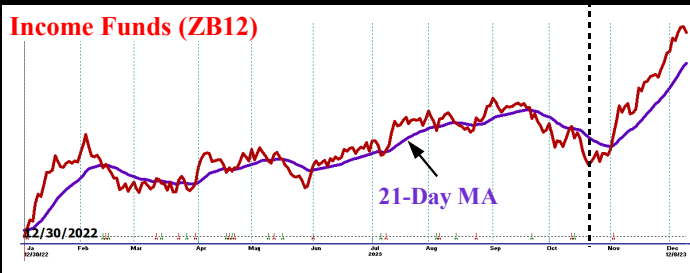
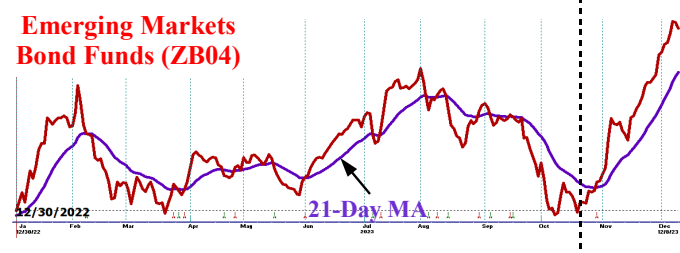
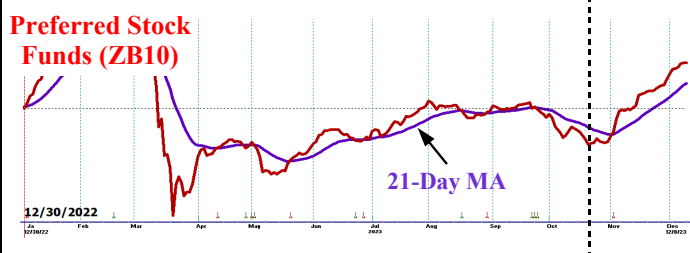
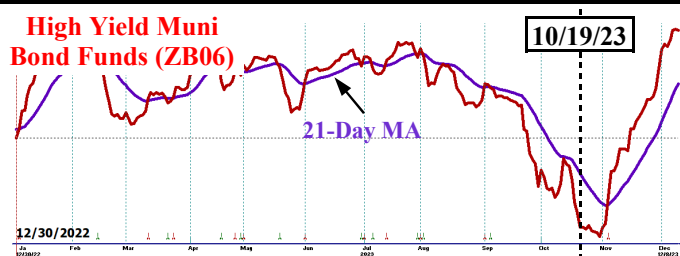
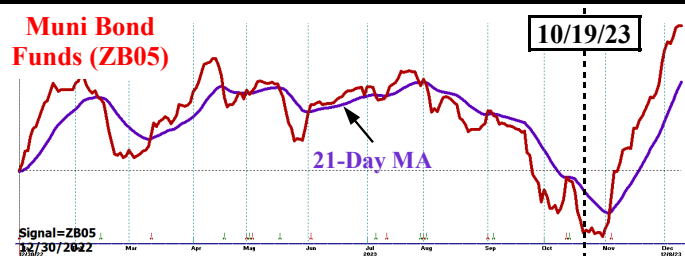


The stock index ETF charts above cover the year-to-date period. The calculations for the table are for the period since 10/19/23, the peak in bond yields that led to the bottom in stocks. The table is sorted by UPI.

The six broad stock market ETFs all show similar patterns. Each index is above an uptrending 21-day moving average and near the RSI-70 level. The uptrend in each market index portrays broad market strength entering the final weeks of the year.

## Bond/Income Fund Charts (Year-to-Date Charts)

Symbol	Group Name	UI	MDD	TR	Ann	UPI	Trend	Comments
ZB05	Muni Bond	0.07	-0.27	6.43	56.6	658	▲	Intermediate-term uptrend.
ZB06	High Yield Muni Bond	0.11	-0.46	8.65	81.7	604	▲	Intermediate-term uptrend.
ZB10	Preferred	0.09	-0.32	6.48	57.1	467	▲	Intermediate-term uptrend.
ZB04	Emerging Markets Bond	0.24	-0.99	8.14	75.7	255	▲	Intermediate-term uptrend.
ZB12	Income Funds	0.11	-0.34	4.34	35.8	193	▲	Intermediate-term uptrend.
ZB03	Junk Bond	0.18	-0.50	5.59	47.9	190	▲	Intermediate-term uptrend.
ZC01	Core Funds	0.07	-0.28	3.34	26.7	189	▲	Intermediate-term uptrend.
ZB02	Corporate Bond	0.28	-0.73	6.61	58.5	158	▲	Intermediate-term uptrend.
ZB08	Mortgage Backed Bond	0.37	-0.92	7.00	62.8	133	▲	Intermediate-term uptrend.
ZB01	US Treasury Bond	0.32	-0.82	5.57	47.8	106	▲	Intermediate-term uptrend.
ZB07	Inflation Adjusted Bond	0.30	-0.82	3.43	27.5	46	▲	Intermediate-term uptrend.
ZB11	Securitized Bond	0.13	-0.32	1.44	10.8	0	▲	Intermediate-term uptrend.
ZB09	Floating Rate Loans	0.11	-0.41	1.70	12.9	0	▲	Intermediate-term uptrend.



The bond/income fund group charts above cover the year-to-date period. The calculations are for the period since 10/19/23 to provide a direct comparison with the stock index ETFs on page 5. Negative UPI values are set to zero, then the table is sorted by UPI with a secondary sort by MDD.

All bond groups are in strong uptrends. Since Treasury yields peaked, even the weakest bond group (ZB11) is trending up at an annualized rate of 10.8%. Investors should take advantage of the strong risk-adjusted returns provided by bonds.

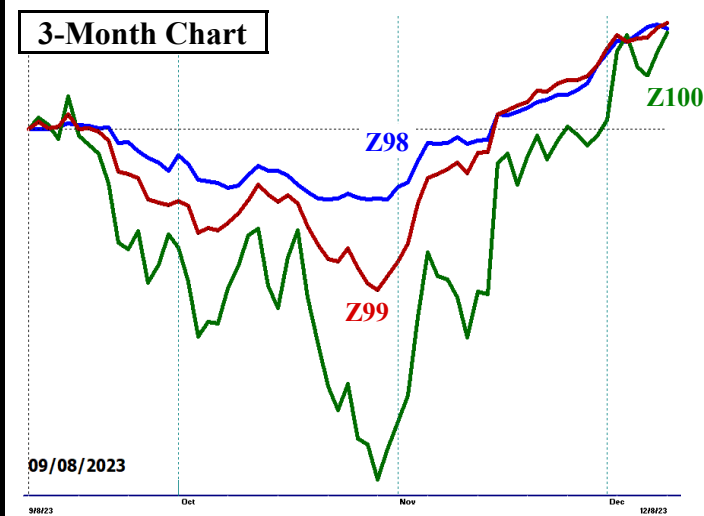


## Model Portfolios

Symbol	Group/Fund	Conservative Allocation (Z98)	Aggressive Allocation (Z99)	Date Added	FastTrack Family
Z26	Large Cap Stocks	0	35	11/13/23	CAP-BIG
Z28	Small Cap Stocks	0	15	11/06/23	CAP-SMALL
ZB03	Junk Bonds	15	0	11/06/23	BD-JUNK
ZB04	Emerging Markets Bonds	5	0	11/06/23	BD-EMERGE
ZB06	High Yield Muni Bonds	15	20	11/13/23	BD-MUNIHIYLD
ZB09	Floating Rate Bonds	15	0	04/03/23	BD-FLOAT
ZB10	Preferred	15	30	11/06/23	BD-PREFERRED
ZC01	Core Funds	35	0	08/31/20	N/A
	Money Market	0	0		

Positions added or increased this week are highlighted with a green background. Positions deleted or reduced this week are highlighted with a blue background. Positions on my sell watch are highlighted with a tan background.

Symbol	Name	UI	UPI	MDD	TR	ANN	COR	SD
<b>Z98</b>	<b>Conservative Model</b>	1.12	4.44	-2.1%	2.9%	11.9%	84.2%	1.0%
<b>Z99</b>	<b>Aggressive Model</b>	2.25	2.53	-4.9%	3.1%	12.6%	91.1%	1.8%
<b>Z100</b>	<b>IOT Stock Market Composite</b>	4.86	0.92	-10.3%	2.8%	11.4%	N/A	4.8%



Z100 is the IOT Stock Market Composite used in the chart on page 2. The chart and the calculations are for the past 3-months.

No changes were made to the Aggressive Model. In the Conservative Model, 10% of the allocation in ZB09 was shifted to ZB03 which has a stronger uptrend.

The chart effectively shows the value of the Ulcer Performance Index (UPI). All three symbols have the same starting point and approximately the same end point and return, but the UPI column identifies the line with the best risk-adjusted performance.

The plots of Z98 and Z99 are not historical records. They are simply plots of current positions, including cash, calculated as if those positions had been held for the entire period of the chart at today's allocations. Any change in positions or allocations will change the entire charts. The primary purpose of the Z98 and Z99 charts is to show the approximate level of risk built into the models.

## My Point

As announced in previous reports, the OnTrack report will cease to be published as a weekly newsletter at the end of the year, but will continue as a free monthly newsletter throughout 2024. Current subscribers will continue to receive the monthly newsletter unless you opt out by contacting Beth at 850-934-6300. Your friends and family can subscribe to the monthly newsletter at no cost starting in the new year by contacting Beth, but as you know, a working knowledge of FastTrack aids in fully understanding the OnTrack Report.

Statements were sent last week to current subscribers who are due a refund for the period of their subscription that extends into the new year. Contact Beth if you believe you are due a refund but did not receive a statement last week. Refund checks will be sent over the next two weeks.

Dixon Foss is finalizing with FastTrack how to distribute the OTR-Edge program on the Investors FastTrack website. The version on the website will be available at no charge and will not have an authorization code that IOT users are accustomed to using. We will announce when the new version is available for download.

## The Bottom Line

**General** - Stocks paused last week and worked off their short-term overbought condition, but both stocks and bonds are in bullish, intermediate-term uptrends. The Junk Bond Indicator and market breadth signal a positive environment for risk assets entering the second half of December which is traditionally a strong period.

Entering new positions in mutual funds in December risks buying into a taxable distribution in accounts that are not tax-deferred. In taxable accounts, deferring mutual fund purchases until after distributions are made is usually a good strategy.

**Conservative Investors** - Stay fully invested in low volatility bond and income mutual funds.

**Aggressive Investors** - Stay fully invested in broad stock market ETFs and low volatility bond and income mutual funds.

Recommendations are given for two broad categories of investors based on investing style and tolerance for risk—conservative and aggressive. Most investors fall somewhere in between these two categories, and sometimes shift their investing style as their financial situation and perception of market conditions change. The recommendations above are not given for any specific investor. It is your responsibility to determine what investing style best fits your individual needs, and to blend and tailor the recommendations above to fit your specific needs.