

OnTrack Report

www.ontrackreport.com

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	Uptrend	
Mid-Cap Stocks	Uptrend	Uptrend	Uptrend	
Small Cap Stocks	Uptrend	Uptrend	Likely uptrend	
Junk Bonds	Uptrend	Uptrend	Uptrend	
Treasury Bonds	Uptrend	Uptrend	Likely uptrend	
Commodities	Downtrend	Downtrend	Uncertain	

Both stocks and bonds are in strong, broad uptrends. This very favorable market environment normally develops following a bear market when the Fed stops raising rates and at least starts hinting at rate cuts. In this case, the bearish market environment actually ended in late 2022 and the widely expected steep decline into 2023 never really developed, at least not in the major capitalization-weighted indices. Small and mid-cap indices staggered along in a broad trading pattern throughout the second half of 2022 and most of 2023, but never dropped into a steep bear market. Treasury bonds did suffer a long bear market and junk bonds bottomed in late 2022. With the Fed raising rates, inflation out of control and recession concerns mounting, 2022 and 2023 was a confusing time for the market and for investors.

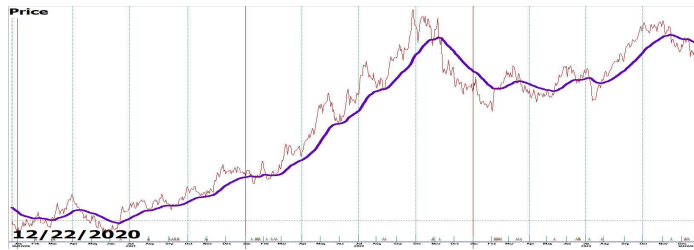
But the picture changed quickly at the end of October of this year when it started to become obvious that the Fed was through raising rates and expected to cut rates several times in 2024. The economy never slowed enough to threaten a recession and employment remained strong throughout the cycle of rate hikes. Investors are now in the process of pulling money out of high yielding money market funds to buy into strongly uptrending stocks and bonds of all types. I don't know how long this process will last, but it is certainly ongoing at this point.

Strong returns are available now for both aggressive and conservative investors. Small cap stocks are trending up strongly, and still have a long way to go before catching up to large caps. Many bond funds are in strong low-volatility uptrends. While there is always the risk of a sharp profit-taking correction, the risk in stocks is significantly less than the risk in low-volatility bond mutual funds.

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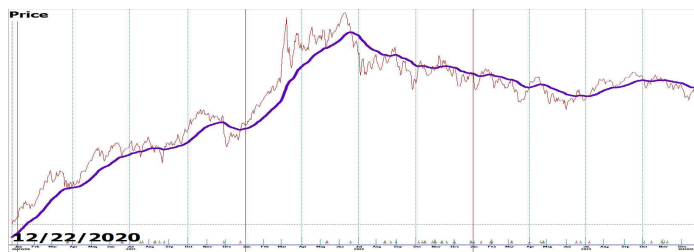
Business Cycle Indicators (3-Year Charts)

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.



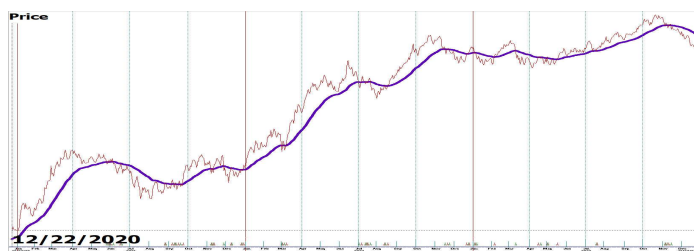
US Dollar ETF (UUP)

The dollar has rolled over and has started to trend down.



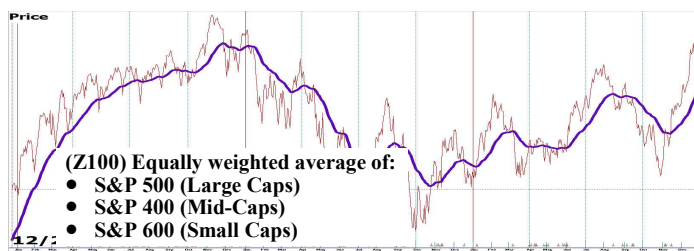
OTR Commodity ETF Index (Z04)

All other things being equal, commodities should be trending up when the dollar is trending down, but right now, Z04 is trending down along with the dollar. This relationship reflects declining inflation pressures in the US economy.



10 Year Treasury Bond Yield (US10-)

The primary trend of the 10-year Treasury bond yield is also down, reinforcing the declining inflation pressures indicated by the trend of commodities.



OTR Stock Market Composite

Stocks have rallied strongly off their late October lows and the primary trend is up.

Business Cycle Summary -- The business cycle is in Stage II. As noted previously, this is not a typical Stage II because it was not preceded by a recession, but that raises the possibility of an extended Stage II if the economy continues to slow without going into a recession. This is a favorable stage that is generally bullish for both stocks and bonds, but bearish for commodities.

Market Environment (7-Month Charts)



The New York Stock Exchange (NYSE) Composite is in a strong uptrend as indicated by the uptrend line T1.



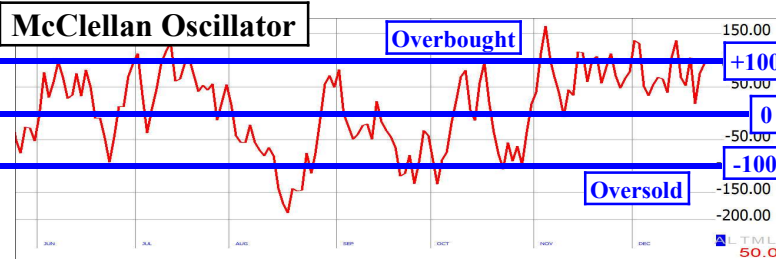
The NYSE AD Line is also in a strong uptrend and has recently strengthened, reflecting improving breadth and confirming the trend in the NYSE Composite.



The percentage of stocks above their 200-day moving average (in a long-term uptrend) is above 60% level, well above the neutral 50% level.



The percentage of stocks above their 40-day moving average (in a short-term uptrend) is above 70%. This is a bounded oscillator that cannot move above 100%. A flattening of this indicator near its current level would indicate continued strong breadth.



The McClellan Oscillator has held above the neutral zero level for the past six weeks with occasional excursions above +100. This is a very positive pattern that is typical in a strong bull market uptrend.

The charts above are from the Worden TeleChart Charting Program (www.worden.com).

Both the tactical environment and the strategic environment are positive. While the market is susceptible to a correction, perhaps a sharp, scary correction, the market environment is conducive to a continuation of the broad market uptrend.

Junk Bond Market Indicator (1-Year 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 strongly above its uptrending 50-day moving average. This is a very positive configuration.

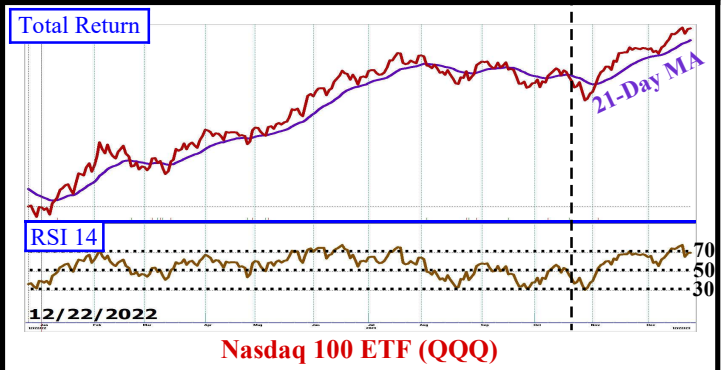
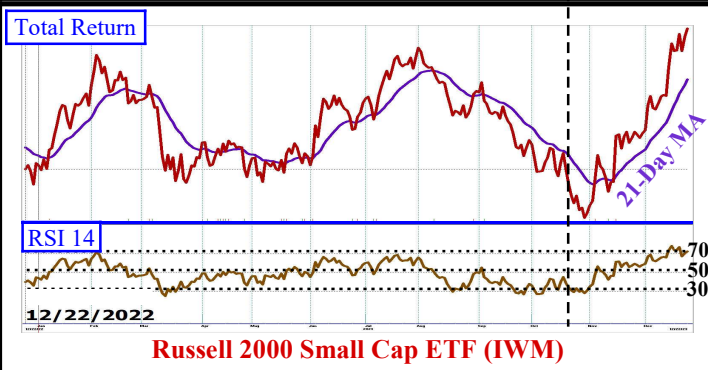
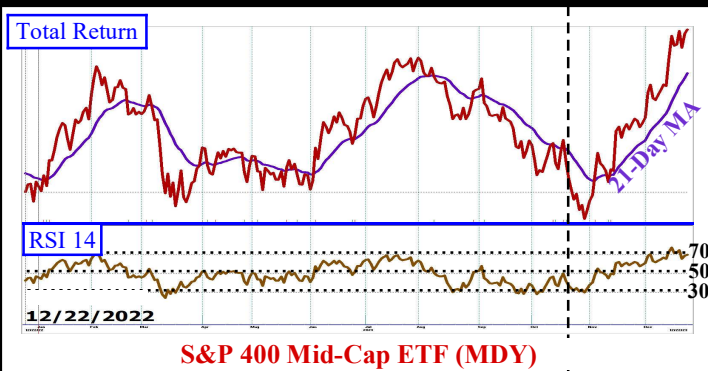
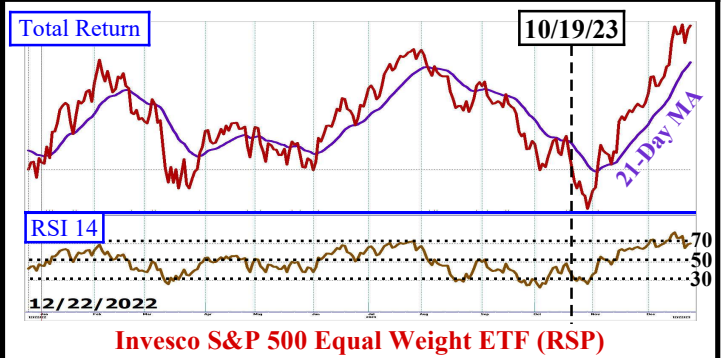


The Long-Term Treasury Bond Index is also trending up, but this is not a flight to safety.

The Junk Bond Market Indicator is decisively and unequivocally positive, indicating a positive market environment for risk assets.

Stock Market Indices (1-Year Charts)

Symbol	Name	UI	MDD	TR	Ann	UPI	Trend	Comments
DIA	SPDR Dow Jones Industrials ETF	0.70	-2.92	12.4	93	109.0	▲	Strong uptrend.
IWM	iShares Russell 2000 ETF	1.64	-4.15	19.9	177	98.4	▲	Strong uptrend.
MDY	SPDR S&P Mid-Cap 400 ETF	1.35	-3.79	15.5	124	80.4	▲	Strong uptrend.
RSP	Invesco S&P 500 Equal Weight ETF	1.15	-3.66	13.6	104	77.2	▲	Strong uptrend.
QQQ	Invesco QQQ ETF	1.27	-4.53	13.7	105	70.4	▲	Strong uptrend.
SPY	SPDR S&P 500 ETF	1.03	-3.69	11.5	84	66.3	▲	Strong uptrend.

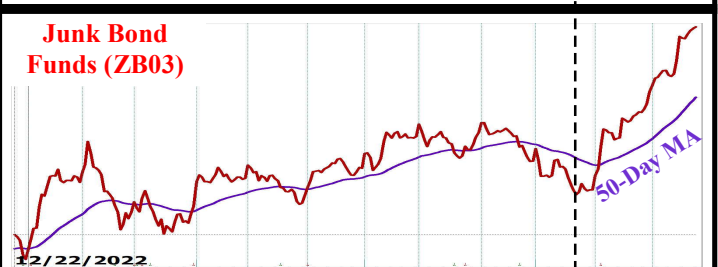
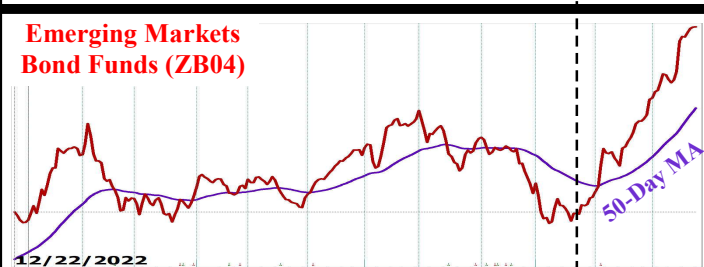
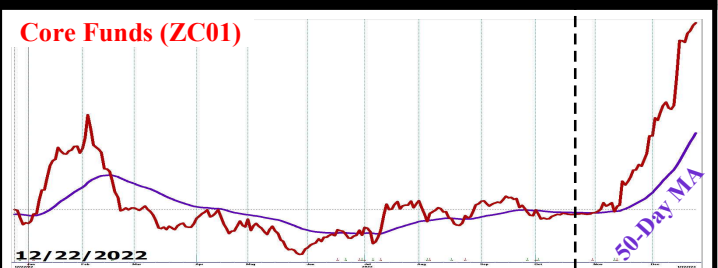
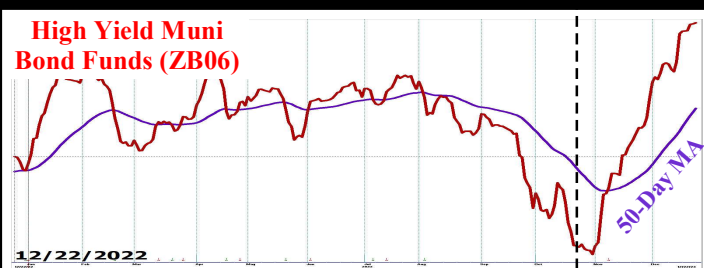
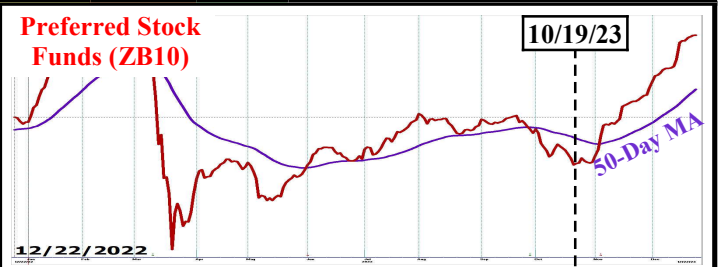
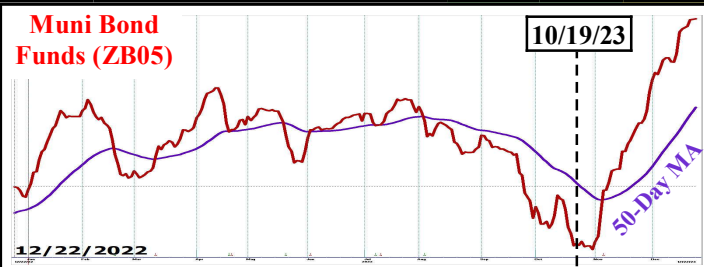


The stock index ETF charts above cover the past year. The calculations for the table are for the period since 10/19/23, the peak in US Treasury bond yields that triggered the uptrend in stocks. The table is sorted by UPI.

All six of the index ETFs shown above are in strong uptrends with RSI-14 near 70, well above the neutral 50 level. The Russell 2000 has been the strongest performing index in this uptrend, but the Dow has the highest UPI due to its lower volatility (UI).

Bond/Income Fund Charts (1-Year Charts)

Symbol	Group Name	UI	MDD	TR	Ann	UPI	Trend	Comments
ZB05	Muni Bond	0.06	-0.27	7.82	52.5	572.1	▲	Low-volatility uptrend.
ZB10	Preferred	0.08	-0.32	8.81	60.4	544.5	▲	Low-volatility uptrend.
ZB06	High Yield Muni Bond	0.12	-0.46	10.73	77.0	498.4	▲	Low-volatility uptrend.
ZC01	Core Funds	0.07	-0.28	6.08	39.2	333.5	▲	Low-volatility uptrend.
ZB04	Emerging Markets Bond	0.23	-0.99	11.53	84.3	292.6	▲	Low-volatility uptrend.
ZB03	Junk Bond	0.17	-0.50	8.02	54.0	229.2	▲	Low-volatility uptrend.
ZB12	Income Funds	0.11	-0.34	6.12	39.5	222.5	▲	Low-volatility uptrend.
ZB02	Corporate Bond	0.27	-0.73	9.01	62.2	168.8	▲	Low-volatility uptrend.
ZB08	Mortgage Backed Bond	0.34	-0.92	9.67	67.7	150.6	▲	Low-volatility uptrend.
ZB01	US Treasury Bond	0.31	-0.82	7.91	53.2	122.2	▲	Low-volatility uptrend.
ZB07	Inflation Adjusted Bond	0.29	-0.82	5.65	36.1	71.0	▲	Low-volatility uptrend.
ZB11	Securitized Bond	0.12	-0.32	2.96	17.7	16.1	▲	Low-volatility uptrend.
ZB09	Floating Rate Loans	0.10	-0.41	2.43	14.37	0.0	▲	Low-volatility uptrend.



The bond/income fund group charts above cover the past year. The calculations for the table are for the period since 10/19/23 to provide a direct comparison with the stock index ETFs on page 5. [Compare the risk-adjusted returns (UPI) for both the stock and bond groups.] The table is sorted by UPI.

All the bond/income groups are in low-volatility uptrends. The top six funds on the UPI-ranked fund groups in the table above are pictured in the charts. The total returns (TR) for these groups are generally lower than the stock indices shown on page 5, but the risk-adjusted returns (UPI) are substantially higher.

Model Portfolios

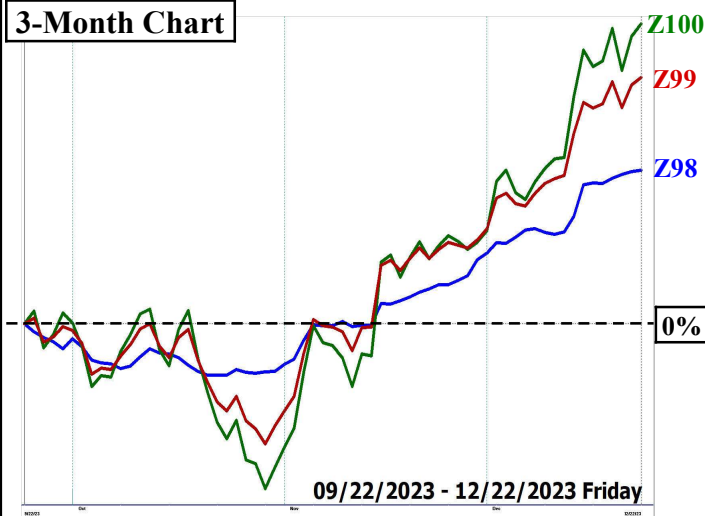
Symbol	Group/Fund	Conservative Allocation (Z98)	Aggressive Allocation (Z99)	Date Added	FastTrack Family
Z26	Large Cap Stocks	0	35	11/13/23	CAP-BIG
Z28	Small Cap Stocks	0	35	11/06/23	CAP-SMALL
ZB03	Junk Bonds	15	0	11/06/23	BD-JUNK
ZB04	Emerging Markets Bond Funds	15	0	11/06/23	BD-EMERGE
ZB06	High Yield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

Always check fees, expenses and restrictions before buying any mutual fund!

Symbol	Name	UI	UPI	MDD	TR	ANN	COR	SD
Z98	Conservative Model	1.00	16.0	-2.0%	6.3%	27.0%	85.1%	1.4%
Z99	Aggressive Model	1.62	22.1	-4.8%	10.2%	46.8%	99.4%	3.3%
Z100	IOT Stock Market Composite	2.35	20.7	-6.9%	12.6%	59.6%	N/A	5.1%

3-Month Chart



Z100 is the IOT Stock Market Composite used in the chart on page 2. The chart and the calculations for the table above cover the past three months.

There are no changes in the model portfolio allocations because there have been no significant changes in the market environment during the past week. The broad market advance that started at the end of October has continued with generally low volatility, especially in bond funds. The one sharp sell-off in stocks last Wednesday was reversed just as sharply on Thursday and Friday, but it did serve as a reminder of the risk in stock funds compared to bond/income funds.

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

This is the final edition of the weekly OnTrack Report. It has been personally rewarding to publish it for the past 25+ years, but the most rewarding part has been the people we have met and friends we have made. I will truly miss the frequent interactions with so many successful and talented investors. Calls and emails from subscribers will always be welcome.

The first edition of the new free weekly OnTrack Report will be published in mid-January. It is our intention to publish near the middle of each calendar month, but have decided not to pre-announce the exact date so we will have the flexibility to react to significant changes in the market environment.

The market is poised to finish the year in a broad bull market. I sincerely hope you are well positioned to finish the year on a positive note, but if you have missed this strong rally, this is not the time to ramp up exposure. The market sometimes acts a little squirrely at the beginning of the year when large portfolio managers reposition for the coming year. Because of the repositioning during the past month, the transition to a new year may be less volatile this year than it has been in some years — but no one knows the future.

I sincerely wish you a Happy New Year and a very successful and profitable 2024!

The Bottom Line

General - Stocks and bonds are still trending up. Interest rates and inflation pressures are declining. Employment and economic growth remain strong. Junk bonds are trending up. This rosy outlook cannot persist indefinitely, so enjoy it while it lasts.

Conservative Investors - Remain fully invested in uptrending low-volatility bond/income mutual funds. Use stops to limit risk.

Aggressive Investors - Remain fully invested in stock ETFs and preferred mutual funds. Use stops to limit risk.

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.