

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

This is the first monthly OnTrack Report. While there may be minor format changes during the coming year, you can generally expect a normal OnTrack Report, just monthly rather than weekly. Since this is now a free publication, you are free to share it with family and friends as desired. The next issue will be published sometime in mid-February. The exact date will be determined by market conditions.

December was a very strong month for both stocks and bonds, and the market became overbought on a short-term basis. Profit taking hit both stocks and bonds in early January, instilling fear of a market top as many investors focused on the short-term selling without considering the strong advance that preceded the selling. While no one knows what the future holds, the weakness so far in January looks more like a normal market correction than a major trend reversal.

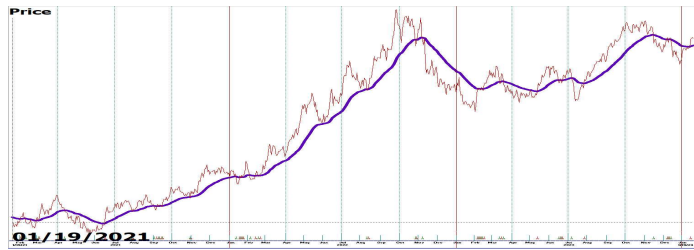
While junk bonds weakened, this important economically sensitive bond group did not turn down decisively. The Junk Bond Index is less than 1% below its peak and is well above its uptrending 50-day moving average. This is a positive chart configuration that normally indicates a positive market environment for risk assets like stocks and economically sensitive bonds.

On the negative side, small cap stocks turned down pretty hard. The Russell 2000 declined 7.4% from its 12/27 peak before rallying off its 1/17 low. While it is not necessary for small caps to lead in a bull market, it does not bode well for the broad market when small caps are actually trending down. It is too early to know if last week's low marked an end to the correction in small caps, but that would certainly be a welcome indication of market strength to support the strength that has already resumed in large cap stocks.

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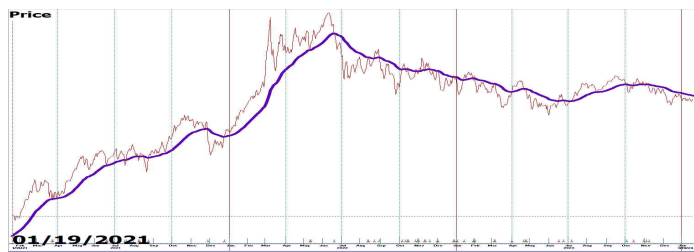
## Business Cycle Indicators (3-Year Charts)

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.



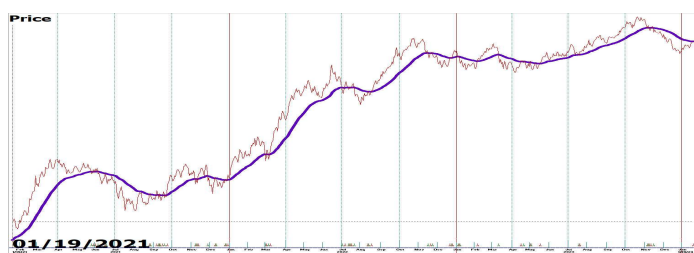
**US Dollar ETF (UUP)**

Since peaking well over a year ago, the dollar has been in a wide trading range.



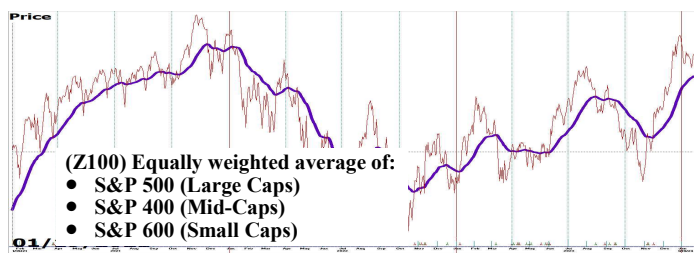
**OTR Commodity ETF Index (Z04)**

The trend of the dollar tends to have an inverse influence on the trend of commodity prices, but commodity prices have trended down slowly for the past year and a half, reflecting declining inflationary pressures in the US economy.



**10 Year Treasury Bond Yield (US10-)**

The 10-year Treasury bond yield peaked a few months ago and is now trending down, reinforcing the declining inflation pressures indicated by the trend of commodities.

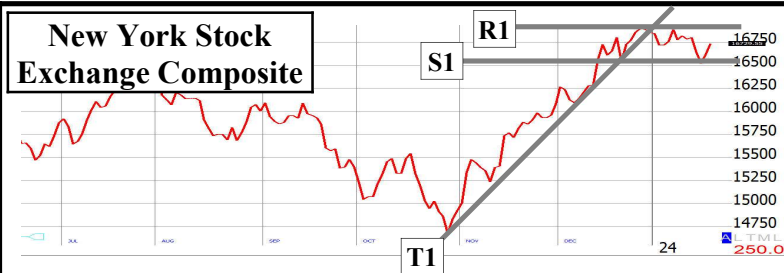


**OTR Stock Market Composite**

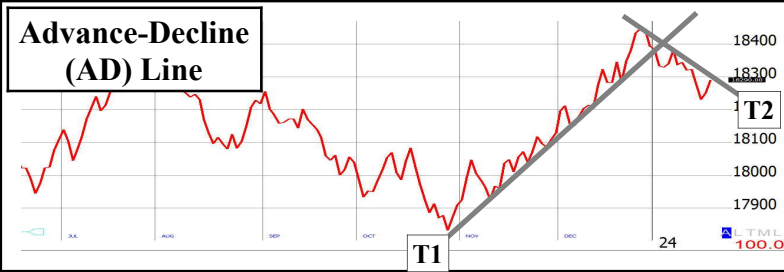
Declining inflation pressures coupled with continued strength in the US economy has boosted stocks. Although there has been some weakness since the end of December, the primary trend of stocks remains up.

**Business Cycle Summary** -- The current business cycle environment is best described as Stage II, generally bullish for stocks and bonds, but bearish for commodities.

## Market Environment (7-Month Charts)



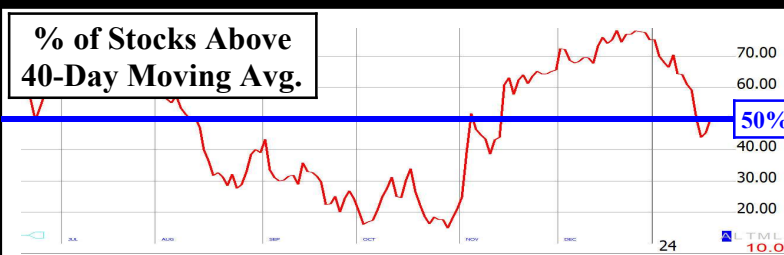
The very strong short-term uptrend in the New York Stock Exchange (NYSE) Composite has ended. The short-term trading range bounded by resistance R1 and support S1 looks like a normal consolidation pattern. Now we will have to wait and see if a more sustainable long-term trend develops.



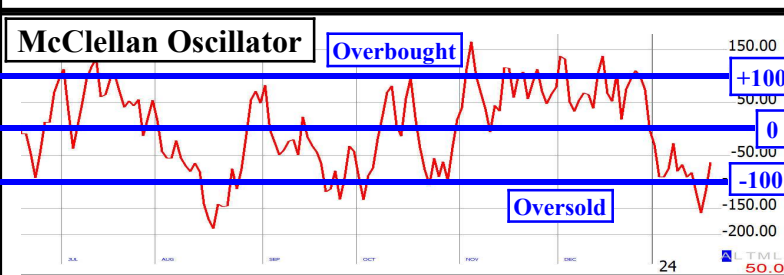
The NYSE AD Line peaked along with the NYSE Composite in December, but has trended down since that top due to broad market weakness in small and mid-cap stocks. That is a negative divergence that bears watching. A resumption of the uptrend in small caps would resolve this issue.



The percentage of stocks above their 200-day moving average has declined, but is still above the neutral 50% level. The trend of this long-term breadth indicator will follow the trend of small caps, so small caps really hold the key to the future trend of the broad market.



The percentage of stocks above their 40-day moving average (in a short-term uptrend) dipped below the neutral 50% level, but bounced a little late last week as small caps rallied. We need more than one or two days of broad market strength to signal that the recent correction is over.



The McClellan Oscillator declined steadily from its December highs before bottoming well below -100 last week. The recent bounce is consistent with an oversold rally, so we need some upside follow-through to show that the correction is over, and that will require some strength in small cap stocks.

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

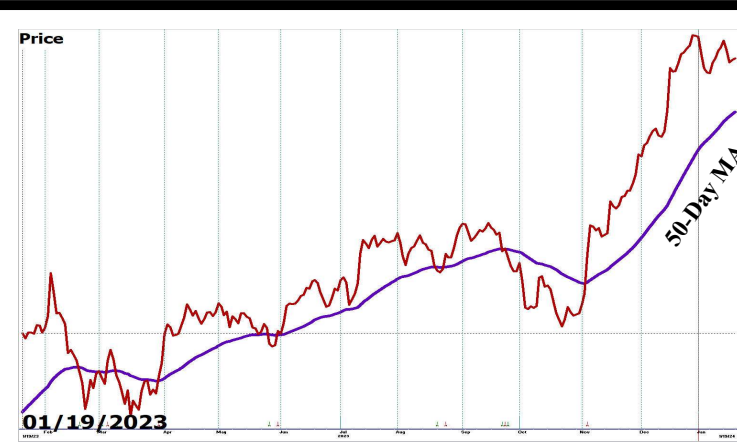
The long-term broad market environment remains positive, but the short-term correction since late December, especially in small caps, has significantly weakened the short-term environment. We will soon see if the short-term weakness has run its course or if there is more downside before the long-term uptrend can resume.

## Junk Bond Market Indicator (1-Year Charts)

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

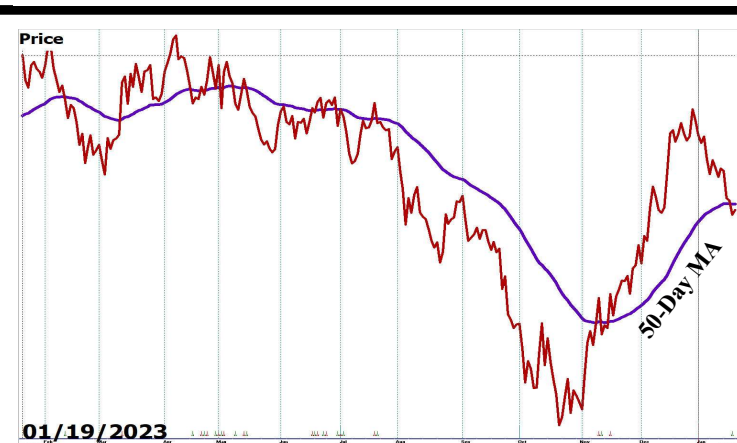
- When the Merrill Lynch Bank of America High Yield Master II Index (symbol MLHY– in FastTrack, referenced as the Junk Bond Index in the OnTrack Report) is trending up, the market environment is favorable for junk bonds.
- When the Junk Bond Index is trending down, the market environment is unfavorable 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.



**ML US High Yield Master II (Junk) Bond Index (MLHY-)**

The Junk Bond Index has moved sideways during the past three weeks, but it is still well above its uptrending 50-day moving average.



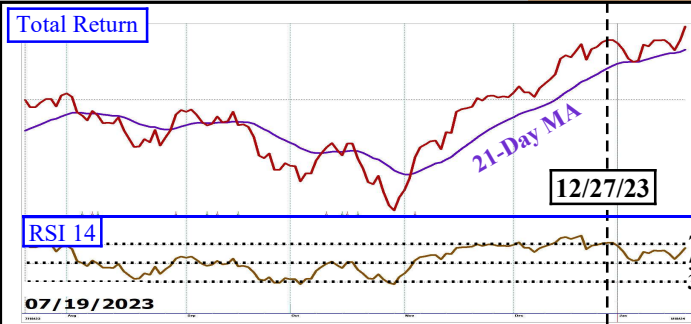
**ML 20-Year Treasury Bond Index (ML-LT)**

The Long-Term Treasury Bond Index has turned down, so it certainly does not show any hint of a flight to the safety of Treasury bonds.

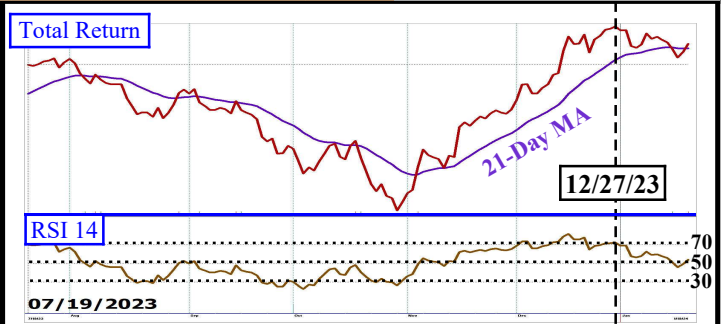
The Junk Bond Market Indicator is positive, indicating a positive market environment for risk assets. The recent sideways action in the Junk Bond Index appears to be consolidation following the sharp November-December advance.

## Stock Market Indices (6-Month Charts)

Symbol	Name	UI	MDD	TR	Ann	UPI	Trend	Comments
QQQ	Invesco QQQ ETF	1.80	-3.70	2.4	48	24.8	▲	Uptrend.
SPY	SPDR S&P 500 ETF	0.91	-1.97	1.2	23	21.9	▲	Uptrend.
DIA	SPDR Dow Jones Industrials ETF	0.55	-1.18	0.5	10	11.6	▲	Uptrend.
RSP	Invesco S&P 500 Equal Weight ETF	1.60	-2.88	(1.4)	(21)	0.0	◀ ▶	Short-term trading range.
MDY	SPDR S&P Mid-Cap 400 ETF	2.86	-4.15	(2.4)	(34)	0.0	◀ ▶	Short-term trading range.
IWM	iShares Russell 2000 ETF	5.23	-7.49	(6.1)	(65)	0.0	▼	Short-term downtrend.



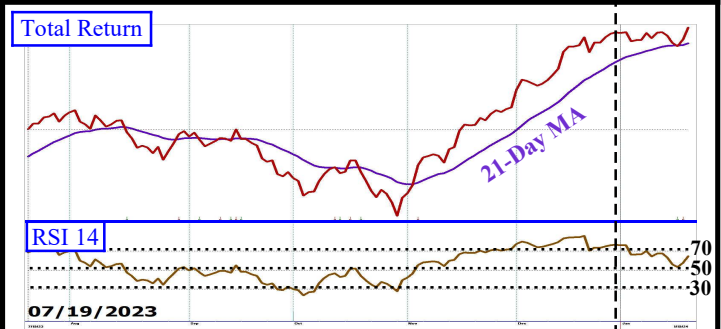
**S&P 500 ETF (SPY)**



**Invesco S&P 500 Equal Weight ETF (RSP)**



**S&P 400 Mid-Cap ETF (MDY)**



**Dow 30 ETF (DIA)**



**Russell 2000 Small Cap ETF (IWM)**



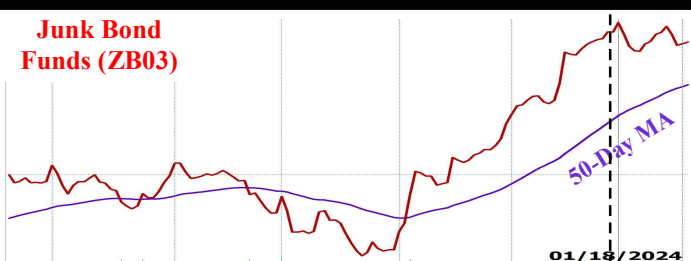
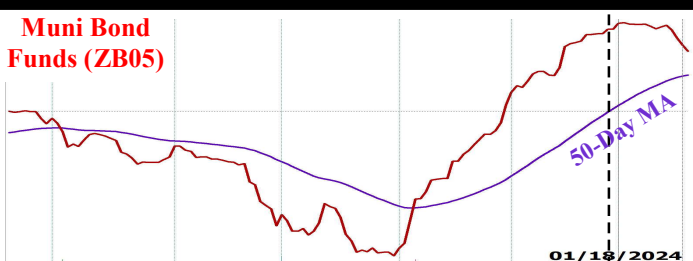
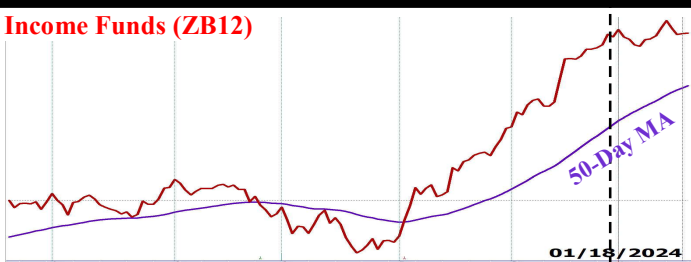
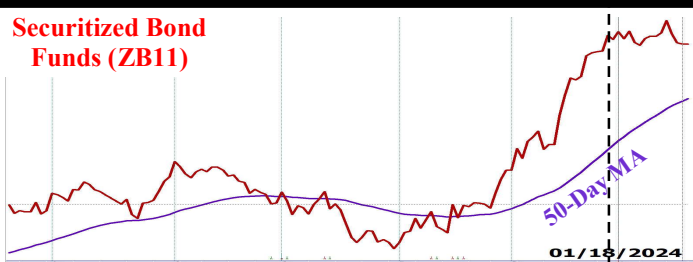
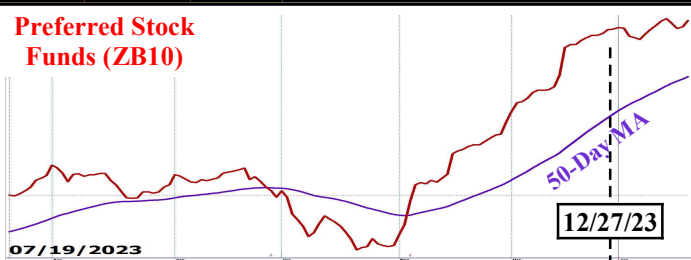
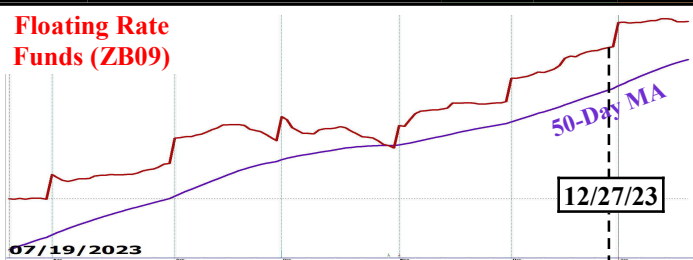
**Nasdaq 100 ETF (QQQ)**

The stock index ETF charts above cover the past six months. The calculations for the table are for the period since 12/27/23, the December peak in the broad US stock market. Negative UPI values are set to zero and the table is sorted by UPI with a secondary sort by MDD.

The stock market has bifurcated into two distinct capitalization groups with large caps quickly resuming the November-December uptrend and small caps remaining significantly weaker. In a healthy market environment, small caps will at least trend up along with large caps. Watch small caps for clues about the viability of the recent advance in large caps.

## Bond/Income Fund Charts (6-Month Charts)

Symbol	Group Name	UI	MDD	TR	Ann	UPI	Trend	Comments
ZB09	Floating Rate Loans	0.04	-0.10	0.75	13.41	245.9	▲	Low volatility uptrend.
ZB10	Preferred	0.24	-0.47	0.36	6.2	12.6	▲	Low-volatility uptrend.
ZB11	Securitized Bond	0.19	-0.36	(0.13)	(2.2)	0.0	◀ ▶	Short-term trading range.
ZB12	Income Funds	0.29	-0.48	0.03	0.5	0.0	▲	Low-volatility uptrend.
ZB05	Muni Bond	0.37	-0.98	(0.76)	(12.0)	0.0	▼	Short-term downtrend.
ZB03	Junk Bond	0.65	-1.04	(0.37)	(6.1)	0.0	◀ ▶	Short-term trading range.
ZB07	Inflation Adjusted Bond	0.86	-1.21	(0.92)	(14.5)	0.0	◀ ▶	Short-term trading range.
ZC01	Core Funds	0.88	-1.25	(1.10)	(17.0)	0.0	◀ ▶	Short-term trading range.
ZB02	Corporate Bond	0.88	-1.35	(1.34)	(20.3)	0.0	▼	Short-term downtrend.
ZB06	High Yield Muni Bond	0.51	-1.42	(0.99)	(15.4)	0.0	▼	Short-term downtrend.
ZB01	US Treasury Bond	1.01	-1.62	(1.61)	(23.8)	0.0	▼	Short-term downtrend.
ZB08	Mortgage Backed Bond	1.13	-1.78	(1.77)	(25.9)	0.0	▼	Short-term downtrend.
ZB04	Emerging Markets Bond	1.23	-1.85	(1.25)	(19.1)	0.0	◀ ▶	Short-term trading range.



The bond/income fund group charts above cover the past six months. The calculations for the table are for the period since 12/27/23, the December peak in Treasury bonds and the broad US stock market. Negative UPI values are set to zero and the table is sorted by UPI with a secondary sort by MDD.

Bonds have generally weakened since the short-term peak in Treasury bonds in late December. The weakness has been mainly felt in the interest rate driven bond groups rather than the economically sensitive groups, however, every bond fund group is still well above its uptrending 50-day moving average. The top six groups from the table are shown above.

## Model Portfolios

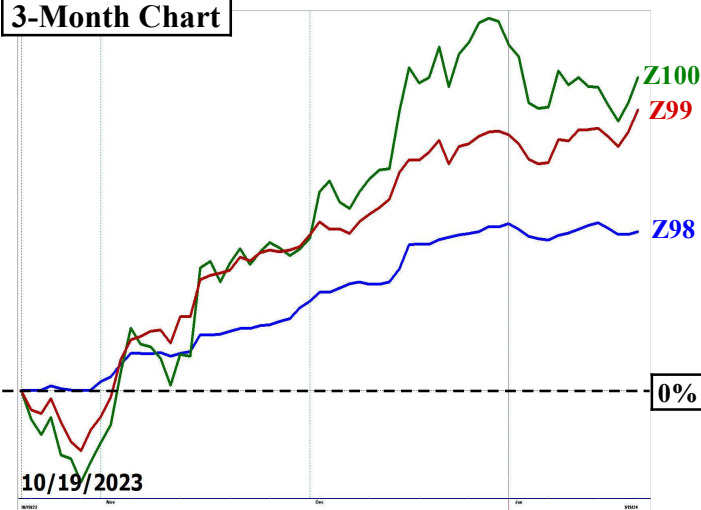
Symbol	Group/Fund	Conservative Allocation (Z98)	Aggressive Allocation (Z99)	Date Added	FastTrack Family
Z26	Large Cap Stocks	0	70	11/13/23	CAP-BIG
Z28	Small Cap Stocks	0	0	11/06/23	CAP-SMALL
ZB03	Junk Bonds	15	0	11/06/23	BD-JUNK
ZB04	Emerging Markets Bond Funds	0	0	11/06/23	BD-EMERGE
ZB06	High Yield Muni Bond Funds	0	0	11/13/23	BD-MUNIHIYLD
ZB09	Floating Rate Funds	15	0	01/22/24	BD-FLOAT
ZB10	Preferred Funds	35	30	11/06/23	BD-PREFFERED
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
<b>Z98</b>	<b>Conservative Model</b>	0.20	91.2	-0.7%	6.9%	31.0%	84.1%	1.0%
<b>Z99</b>	<b>Aggressive Model</b>	0.65	74.8	-2.5%	12.4%	61.0%	93.5%	2.5%
<b>Z100</b>	<b>IOT Stock Market Composite</b>	1.77	32.5	-4.2%	14.0%	70.1%	N/A	4.8%

**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.

In a monthly OTR, the changes to the model portfolios will never be very timely, so the models should be considered a single snapshot in time. There are several changes in the allocation table, but those changes reflect changes in the market environment that have developed over the past few weeks. Bonds and small cap stocks have weakened throughout the month, but at this point, the weakness looks more like a correction than a major trend change in the broad market.

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 (6-Month Chart)



Technology was the leading sector throughout most of last year. It is generally a volatile sector, so the recent 5.5% drop in early January was not much of a surprise. If there was a surprise, it was how quickly the sell-off ended and the strong uptrend resumed.

Z20 has broken decisively to the upside. It surged through resistance R1, which is now support S1, and RSI-14 surged through the neutral 50 level. While it may be a little extended to the upside on a short-term basis, the trend is clearly up. Aggressive investors may want to hold at least a small allocation to technology sector funds as long as this uptrend is intact.

## The Bottom Line

**General** - The broad stock market is in a mild uptrend correction. The large cap stock indices have broken to the upside and resumed trending up, primarily due to strength in large cap technology stocks. Treasury bonds have come under some selling pressure, but junk bonds have held up well.

**Conservative Investors** - Remain fully invested in uptrending low-volatility bond/income mutual funds. Trade as necessary to stay in uptrending funds and use stops to limit risk.

**Aggressive Investors** - Remain fully invested in stock ETFs and preferred mutual funds. Small caps are under selling pressure, but watch for an upside reversal in this group to signal the start of another very favorable environment for the broad stock market. Include some technology ETFs in any aggressive portfolio. 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.