

# OnTrack Report

[www.ontrackreport.com](http://www.ontrackreport.com)

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## 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	Trading range	Uptrend	Uptrend	
Treasury Bonds	Downtrend	Uptrend	Uncertain	
Commodities	Trading range	Trading range	Trading range	

The endless stream of economic data remains generally positive. The Fed has responded by holding short-term interest rates steady at a rate that most economists consider to be elevated. The market wants lower rates, as always, so periodic sell-off have become the norm each time another economic report comes in stronger than expected. Of course, we don't really know if the current interest rate is too high and we don't know when the Fed will actually provide the elusive first rate cut. So we have to do what we have always done, watch a variety of stock and bond charts and make investment decisions based on what the market is doing, not what some economist (and us) think it should be doing.

At this point, stocks are generally trending up, Treasury and associated bonds are trending down, and economically sensitive bonds have weakened but are still trending up. The question is not whether to be invested in this environment, but in what to be invested.

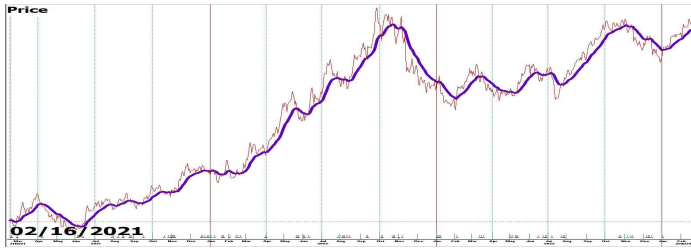
The whole point of the structure of the OnTrack Report is to lay out the process that leads to investment decisions, starting with the big picture business cycle and culminating with actual actionable investment recommendations. Since these free monthly reports will stop at the end of this year, for those that find this process to be useful, I suggest paying attention to the process and not just the bottom line. There is nothing that I do in the OnTrack Report that you cannot do yourself.

Although the OnTrack Report has been reduced to a monthly schedule, I still continuously go through the process to assess the investments held in the fund portfolios that I manage. A structured process, whatever that process may be, is a very useful tool for all serious investors.

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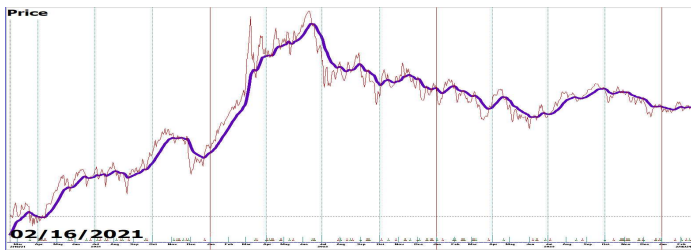
## Business Cycle Indicators (3-Year Charts)

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.



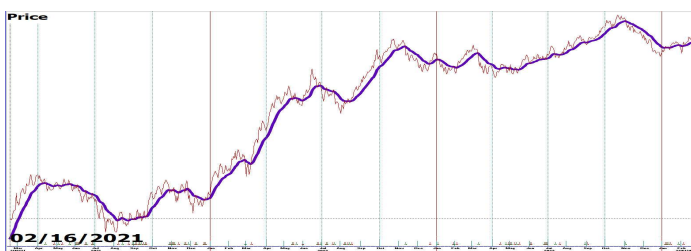
**US Dollar ETF (UUP)**

The dollar trend has turned up and is now near its highs. An uptrend in the dollar normally provides a downward bias for commodity prices.



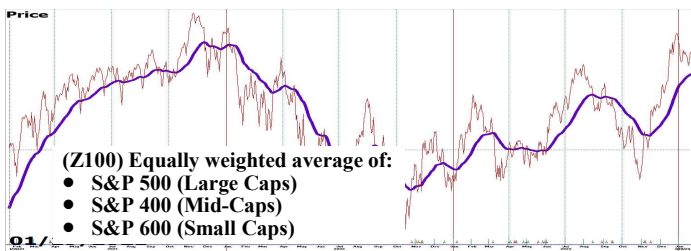
**OTR Commodity ETF Index (Z04)**

Commodity prices are trending sideways, suggesting that inflation pressures have moderated, as expected as the Fed maintains short-term interest rates at an elevated level.



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

The 10-year Treasury bond yield has turned up modestly, suggesting the Fed may hold short-term interest rates at the current level longer than expected.



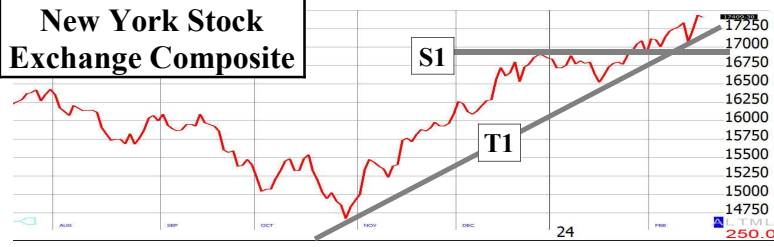
**OTR Stock Market Composite**

Stocks are trending 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.

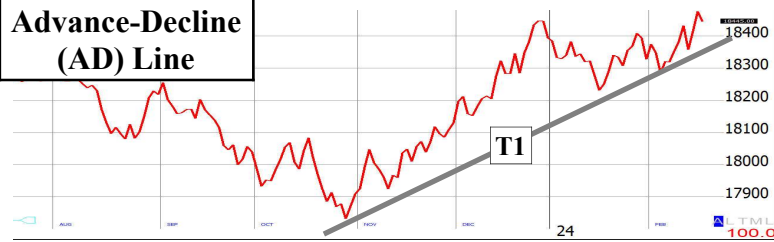
## Market Environment (7-Month Charts)

**New York Stock Exchange Composite**



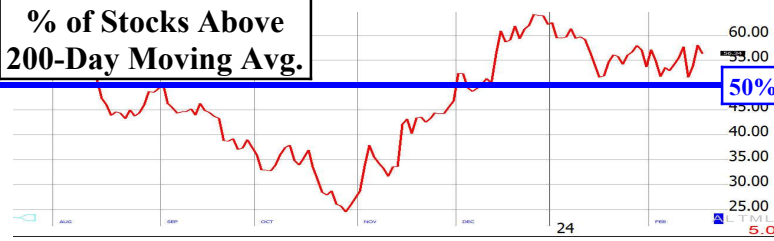
The short-term trading range in the New York Stock Exchange (NYSE) Composite ended with an upside breakout and a continuation of the uptrend that started last fall. The uptrend line T1 has been redrawn to pick up the most recent low.

**Advance-Decline (AD) Line**



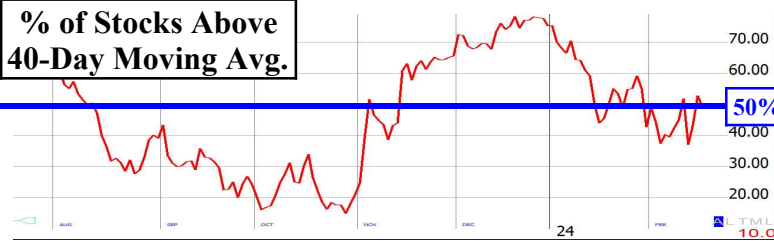
The NYSE AD Line is also trending up and is now at its old high. Ideally, we would like to see a stronger AD line, but the current uptrend confirms the uptrend in the NYSE Composite.

**% of Stocks Above 200-Day Moving Avg.**



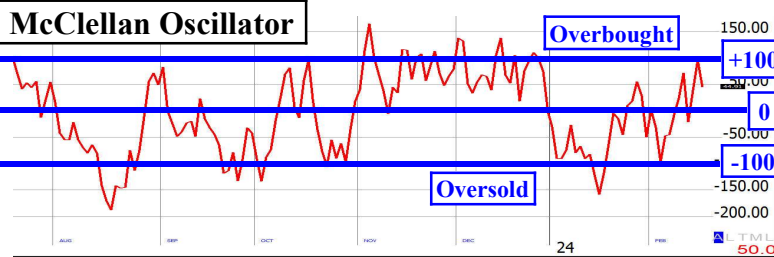
The percentage of stocks above their 200-day moving average (in a long-term uptrend) has moved sideways just above the neutral 50% level since mid-January. The current level is not ideal, but is positive.

**% of Stocks Above 40-Day Moving Avg.**



The percentage of stocks above their 40-day moving average (in a short-term uptrend) has mostly held just below the neutral 50% level recently. This indicates more weakness in the short-term trend than in the long-term trend. While the market seems to be concerned about the near-term outlook, the long-term outlook remains favorable.

**McClellan Oscillator**



The McClellan Oscillator rallied up to the top of the -100 to +100 normal range before declining a little on Friday. On a short-term basis, the stock market is neither oversold nor overbought.

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

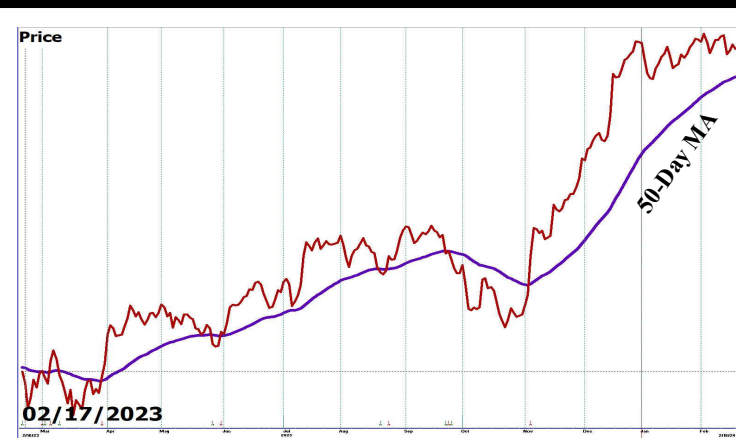
The long-term market environment remains positive, but the short-term environment is more questionable. Buy-the-dip has been the correct approach since the late October lows. We will have to wait and see if that continues, but at this point, the long-term uptrends in most major indices, especially the capitalization weighted large cap indices, remains intact.

## 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 been in a sideways trading range since the beginning of the year, but is still above its uptrending 50-day moving average. This is likely just a case of consolidating the strong gains in November and December that pushed the index too far above its 50-day moving average.



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

Likewise, the Long-Term Treasury Bond Index is now declining following a very strong advance at the end of the year. There is certainly no 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
SPY	SPDR S&P 500 ETF	0.66	-1.71	5.1	46	70.5	▲	Uptrend.
DIA	SPDR Dow Jones Industrials ETF	0.53	-1.36	2.7	23	43.5	▲	Uptrend.
QQQ	Invesco QQQ ETF	1.23	-3.23	5.1	47	38.2	▲	Uptrend.
RSP	Invesco S&P 500 Equal Weight ETF	1.03	-2.54	1.4	11	11.4	▲	Uptrend.
MDY	SPDR S&P Mid-Cap 400 ETF	1.57	-3.16	1.8	15	9.6	▲	Uptrend.
IWM	iShares Russell 2000 ETF	3.11	-5.60	0.5	4	1.3	▲	Short-term uptrend.



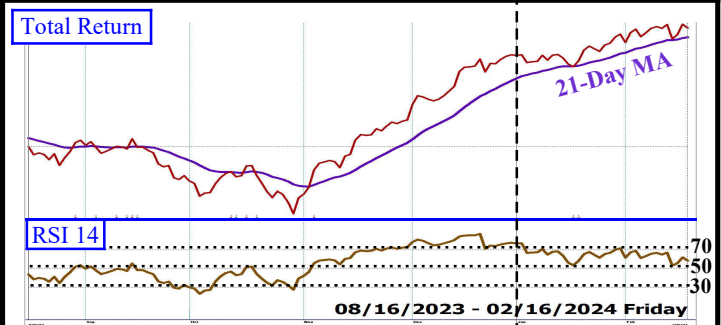
**S&P 500 ETF (SPY)**



**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)**



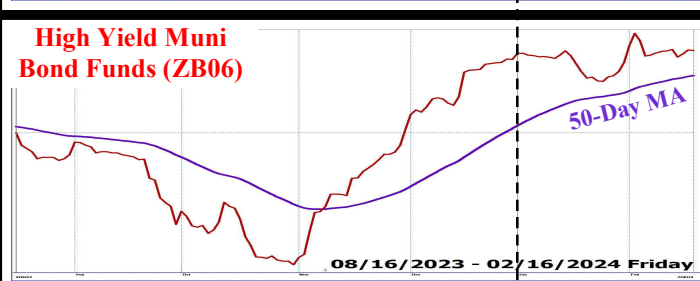
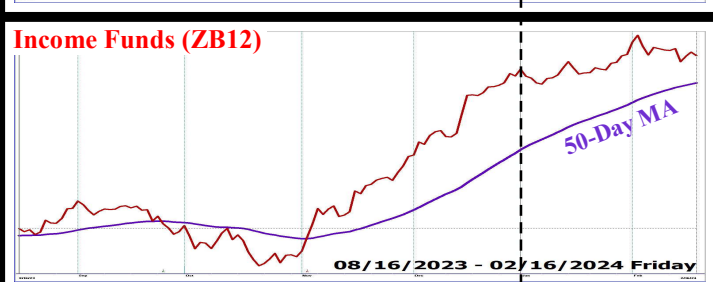
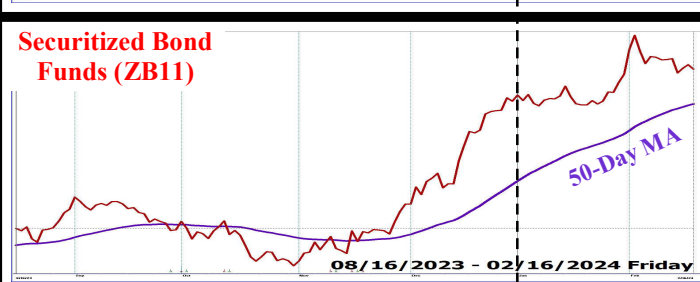
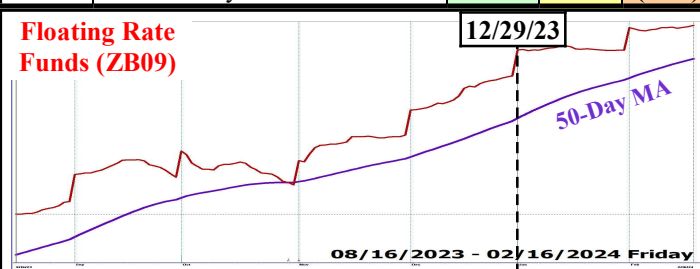
**Nasdaq 100 ETF (QQQ)**

The stock index ETF charts above cover the past six months. The calculations for the table are for the year-to-date. The table is sorted by UPI with a secondary sort by MDD.

The two best performing index ETFs for the year so far are SPY and QQQ. Both have about the same return (TR and Ann), but SPY has twice the risk-adjusted return (UPI) due to its lower volatility (UI and MDD). The worst performing index ETF is IWM, but it has recently turned up, and may start to outperform in a meaningful way once the Fed signals its intention to cut interest rates.

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

Symbol	Group Name	UI	MDD	TR	Ann	UPI	Trend	Comments
ZB09	Floating Rate Loans	0.07	-0.13	0.66	5.19	84.8	▲	Low volatility uptrend.
ZB10	Preferred	0.29	-0.56	1.28	10.2	36.6	▲	Low-volatility uptrend.
ZB11	Securitized Bond	0.34	-0.73	0.50	3.9	12.5	▲	Uptrend correction.
ZB12	Income Funds	0.39	-0.87	0.46	3.5	10.1	▲	Uptrend correction.
ZB06	High Yield Muni Bond	0.90	-1.59	0.15	1.1	1.7	◀ ▶	Intermediate-term trading range.
ZB03	Junk Bond	0.56	-1.04	(0.23)	(1.8)	0.0	◀ ▶	Intermediate-term trading range.
ZB05	Muni Bond	0.62	-1.07	(0.28)	(2.1)	0.0	◀ ▶	Intermediate-term trading range.
ZC01	Core Funds	0.65	-1.08	(0.51)	(3.8)	0.0	◀ ▶	Intermediate-term trading range.
ZB04	Emerging Markets Bond	1.16	-1.85	(0.80)	(6.0)	0.0	◀ ▶	Intermediate-term trading range.
ZB07	Inflation Adjusted Bond	0.94	-2.02	(1.08)	(8.0)	0.0	▼	Intermediate-term downtrend.
ZB02	Corporate Bond	1.25	-2.48	(1.65)	(12.0)	0.0	▼	Intermediate-term downtrend.
ZB08	Mortgage Backed Bond	1.41	-2.68	(2.16)	(15.4)	0.0	▼	Intermediate-term downtrend.
ZB01	US Treasury Bond	1.39	-2.69	(2.14)	(15.2)	0.0	▼	Intermediate-term downtrend.



The bond/income fund group charts above cover the past six months. The calculations for the table are for the year-to-date to allow for direct comparison to the stock index ETF calculations on page 5. Negative UPI values are set to zero and the table is sorted by UPI with a secondary sort by MDD.

Bonds have been generally weak this year, but the weakness has been mainly felt in the interest rate driven bond groups that are closely related to Treasury bonds rather than the economically sensitive groups like ZB03, ZB04 and ZB10. The economically sensitive bond groups have also weakened, but all are still well above their uptrending 50-day moving averages. The top six groups from the table are shown above.

## Model Portfolios

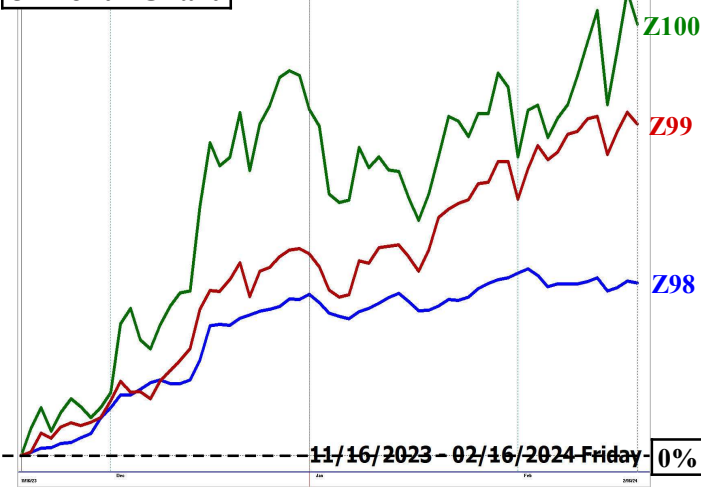
Symbol	Group/Fund	Conservative Allocation (Z98)	Aggressive Allocation (Z99)	Date Added	FastTrack Family
Z26	Large Cap Stocks	0	70	11/13/23	CAP-BIG
Z28	Small Cap Stocks	0	0	11/06/23	CAP-SMALL
ZB03	Junk Bonds	15	0	11/06/23	BD-JUNK
ZB09	Floating Rate Funds	15	0	01/22/24	BD-FLOAT
ZB10	Preferred Funds	35	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	0.27	53.8	-0.7%	5.1%	22.3%	71.0%	0.9%
Z99	Aggressive Model	0.42	94.4	-1.4%	9.9%	47.0%	88.0%	2.1%
Z100	IOT Stock Market Composite	1.64	35.0	-4.2%	13.1%	65.1%	N/A	4.5%

**3-Month Chart**



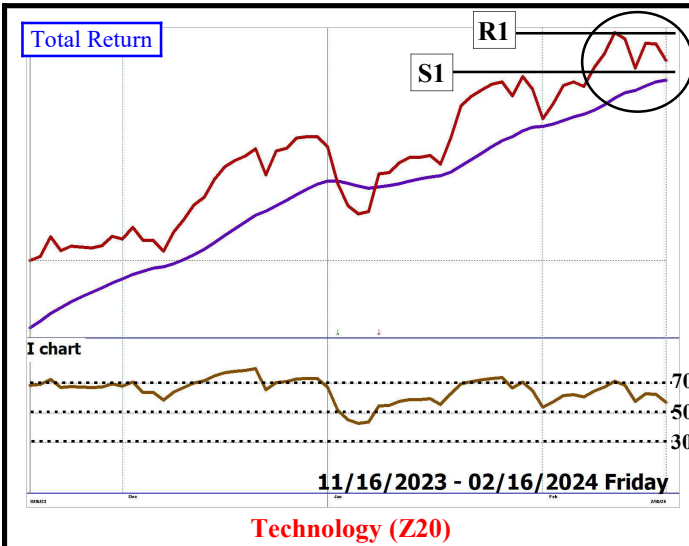
Z100 is the IOT Stock Market Composite used in the chart on page 2. The chart and the calculations for the table above cover the past three months.

There are no changes to the model allocations, however, there are a few related developments that I expect and am watching for that will likely affect allocations:

- A bottom in Treasury bonds
- A strong uptrend in small cap stocks
- A strong upside breakout in junk bonds

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 (3-Month Chart)



Technology (Z20) has been the market leader for the past year, so a top in technology would signal a significant change in the market environment. At this point, Z20 is still trending up above its uptrending 21-day moving average with RSI-14 above the neutral 50 level. Some minor weakness has developed on a very short-term basis, not enough to be very concerned about, but enough to watch.

The latest peak in Z20 is slightly below its previous peak, resistance R1. RSI-14 is still above 50, but has fallen from a very bullish 70. A decisive drop below support S1 would set up a short-term downtrend and might be a good time to reduce exposure to the technology sector.

## The Bottom Line

**General** - The broad stock market is in an uptrend, but there are still some lingering signs of weakness in some sectors and groups. While the large cap stock indices have broken to the upside and resumed trending up, small caps have yet to break above December highs. Treasury bonds have trended down this year, and that has put some pressure on most other types of bonds.

**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 at last December highs, and could soon break to the upside. If that occurs, shift some stock ETF exposure from large caps to small caps. As always, 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.