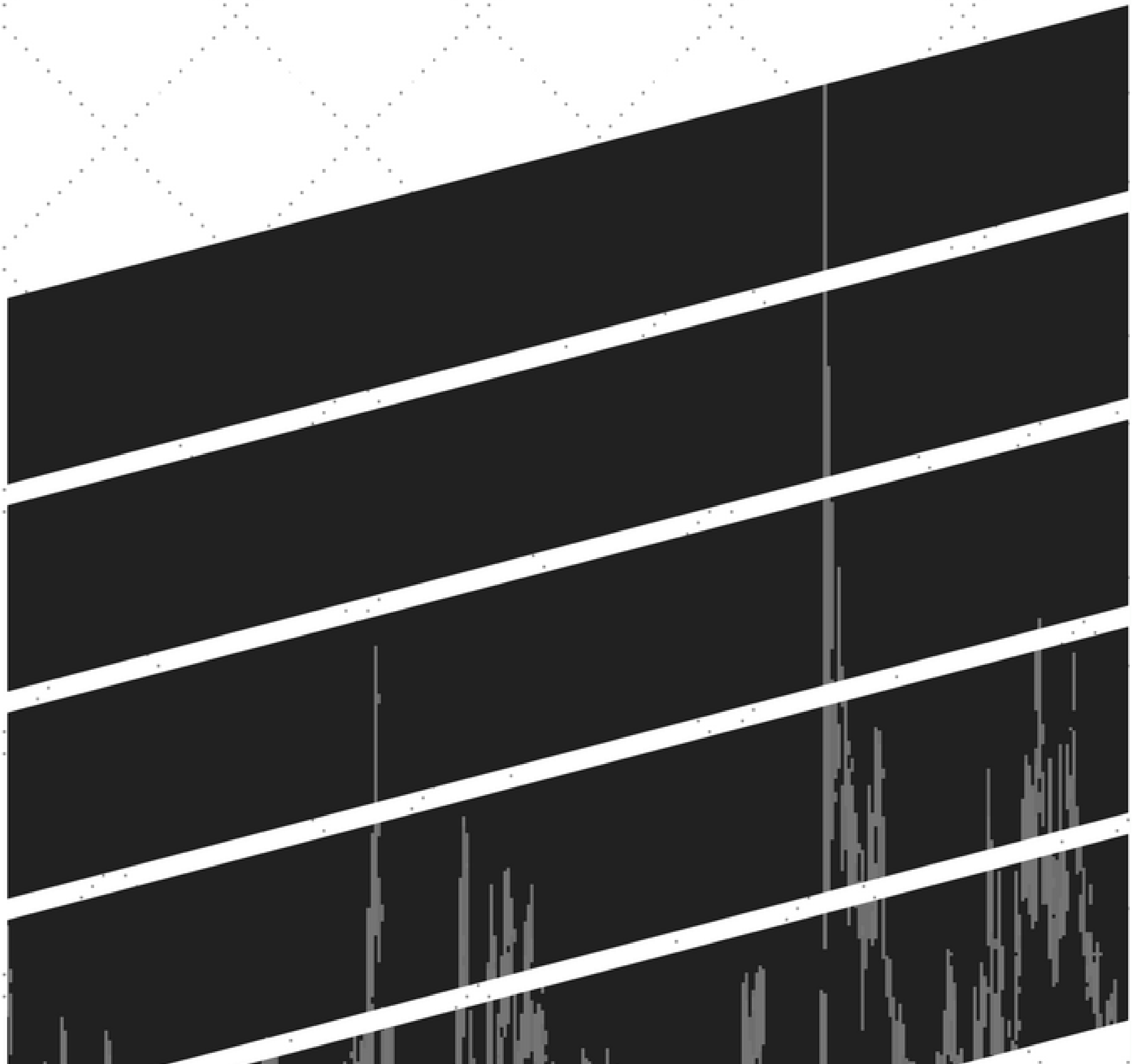
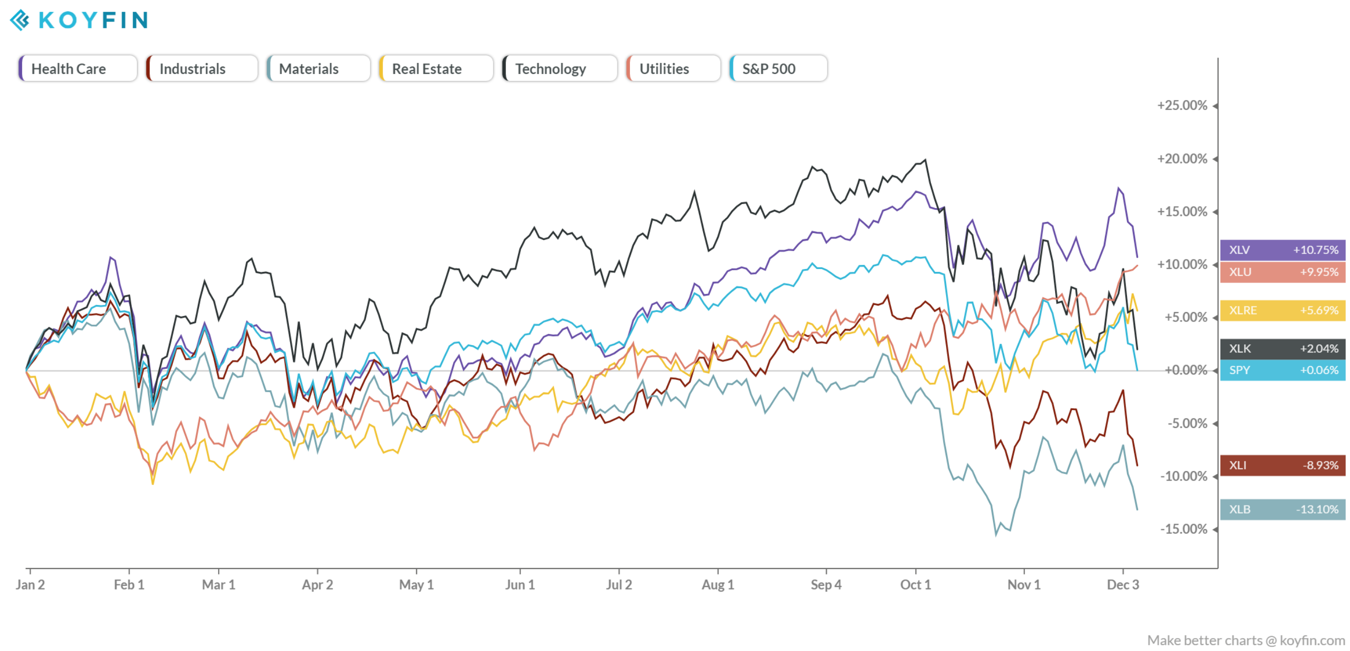
THRASHER ANALYTICS



- WEEKLY RESEARCH & ANALYSI

Sector Dashboard

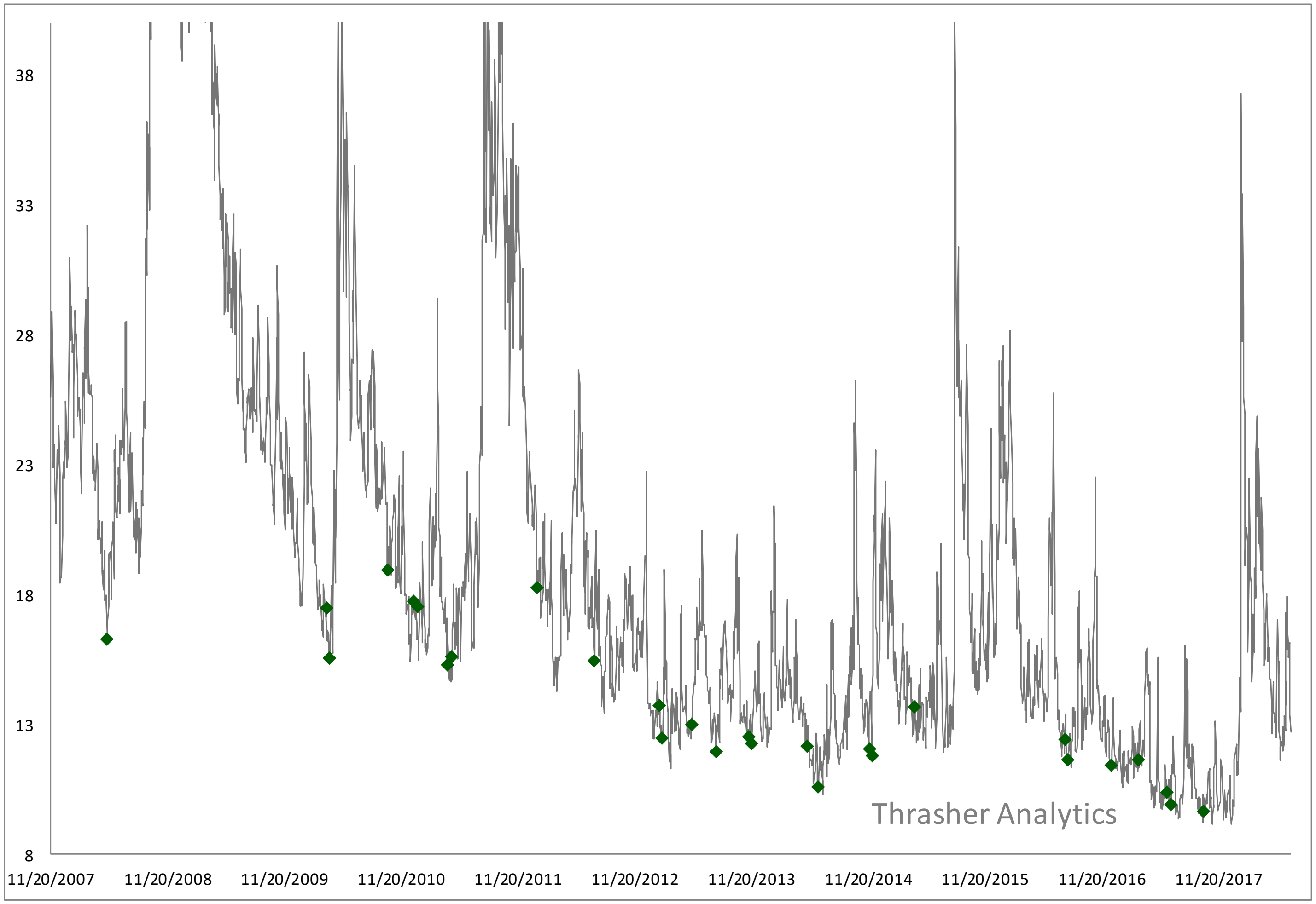


Long vs Short Sector Matrix

1D 5D MTD 1M QTD 3M 6M **YTD** 1Y 3Y 5Y

	+ XLY	+ XLP	+ XLE	+ XLF	+ XLV	+ XLI	+ XLB	+ XLRE	+ XLK	+ XLC	+ XLU
– XLY	-	-7.1%	-14.3%	-13.8%	4.8%	-13.8%	-17.7%	0.0%	-3.4%	-5.3%	4.1%
– XLP	7.6%	-	-7.8%	-7.2%	12.8%	-7.2%	-11.5%	7.7%	3.9%	1.9%	12.0%
– XLE	16.7%	8.4%	-	0.6%	22.4%	0.6%	-4.0%	16.8%	12.7%	10.5%	21.5%
– XLF	16.0%	7.8%	-0.6%	-	21.6%	0.0%	-4.6%	16.0%	12.0%	9.8%	20.7%
– XLV	-4.6%	-11.4%	-18.3%	-17.8%	-	-17.8%	-21.5%	-4.6%	-7.9%	-9.7%	-0.7%
– XLI	16.0%	7.8%	-0.6%	0.0%	21.6%	-	-4.6%	16.1%	12.0%	9.8%	20.7%
– XLB	21.6%	13.0%	4.2%	4.8%	27.4%	4.8%	-	21.6%	17.4%	15.1%	26.5%
– XLRE	0.0%	-7.1%	-14.4%	-13.8%	4.8%	-13.8%	-17.8%	-	-3.5%	-5.4%	4.0%
– XLK	3.5%	-3.8%	-11.3%	-10.7%	8.5%	-10.8%	-14.8%	3.6%	-	-2.0%	7.8%
– XLC	5.6%	-1.8%	-9.5%	-8.9%	10.8%	-8.9%	-13.1%	5.7%	2.0%	-	10.0%
– XLU	-3.9%	-10.7%	-17.7%	-17.2%	0.7%	-17.2%	-21.0%	-3.9%	-7.2%	-9.1%	-

VOLATILITY RISK TRIGGER (VRT)



The VIX has stayed elevated with equities continuing to sell off but spot VIX is not reaching panic-type levels you'd expect for it to reach based on the hundreds of Dow point declines we keep seeing. Inf act, matt Thompson, CFA recently noted that since 1990 when the SPX has fallen 10% from an all-time high, the VIX is currently at its lowest level with a sample size of 14. While I don't believe we're seeing an increase in risk appetite (more on this later), traders don't seen to be capitulating either. There isn't a high degree of fear within the market right now, giving the bears room to keep pushing prices lower.

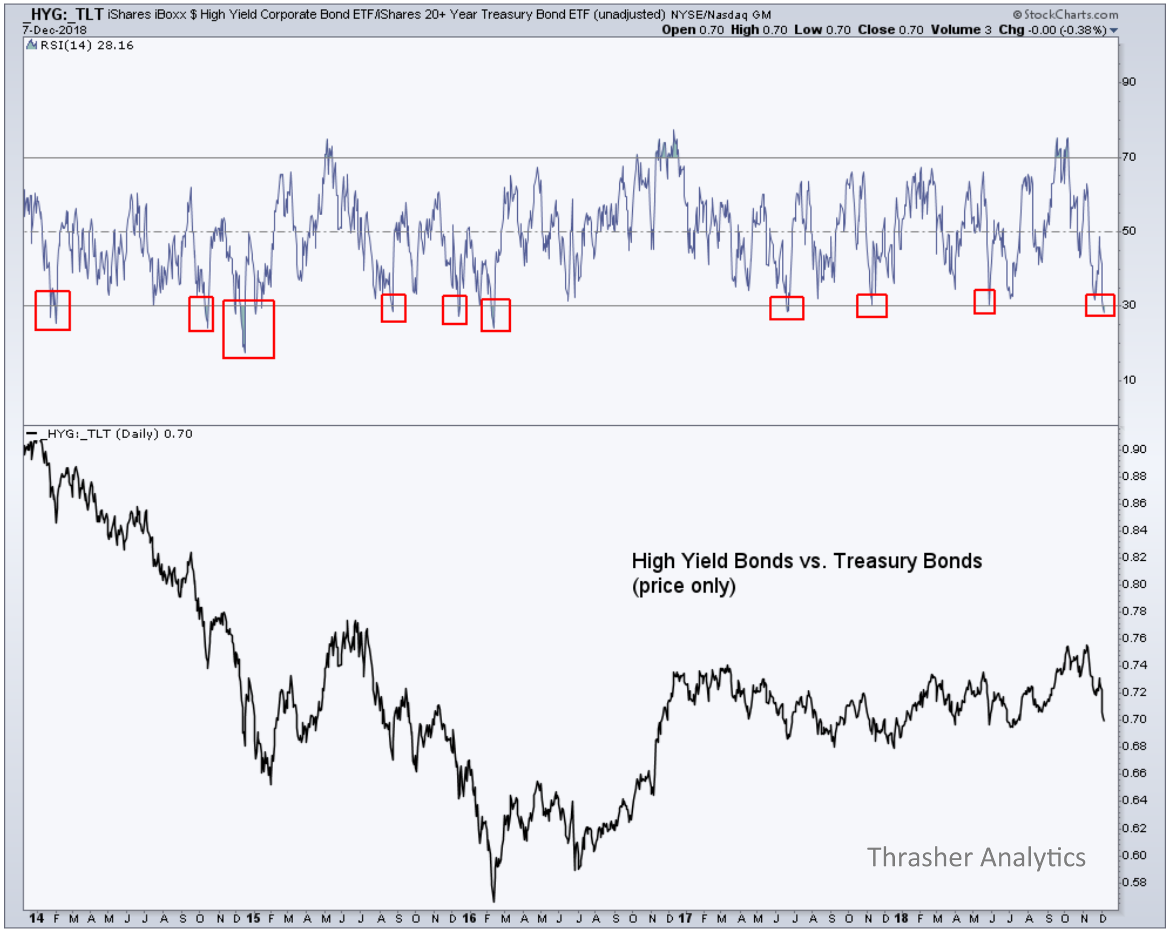
This is probably the biggest surprise of this correction, with each punch the bulls take, they haven't lost their confidence that this down trend will be short lived as shown by their lack of production buying in options and expectation of further volatility. All this even in the face of bullish seasonality that's being totally ignored. In fact, this December is shaping up to the fifth worst December since 1923.

Broad Market Commentary

As expected, traders continued to de-risk last week as the broad equity index moved back to the lower end of its current range, closing just a few basis points above the prior November low. Thursday looked like things may have been improving as the market gaped down at the open and moved higher for most of the trading day. However, Friday painted a different picture with traders smacking the U.S. equity market lower, finishing back near the Thursday low. As I wrote two weeks ago, fixed income is the biggest factor right now and with the 10-year yield moving back under 3%, equity traders are being cautious with adding back risk. I think there's a greater chance of us falling down to the February/March area of 2580 than us shooting back up to take out 2820. If we were to look at small caps, they finished the week actually below their Oct. and Nov. lows, another example of traders not eager to raise equity beta.

A lot of attention is being given to the 'death cross' of the 50-day MA moving below the 200-day MA. Ironically, I know very few CMTs that given this event any significance, myself included. Moving Average crossovers are not something I pay attention to, but you'll see quite a few financial news stories covering the topic. Looking back at market history, it's a basic coinflip to the directional move of the S&P 500 after a 'death cross', with the index rising 52% of the time 2-weeks later since 1923. Between a 1-day and 6-month

High Yield vs. Treasury Bonds



One positive chart for risk assets is the price ratio of High Yield bonds (HYG) vs. Treasury Bonds (TLT) with a focus on momentum. When the black ratio line is rising then HYG is outperforming TLT and when its decline then the HYG is under-performing TLT.

The 14-day Relative Strength Index (RSI) has fallen below 30, a traditionally viewed ‘oversold’ level. Over the last five years this has led to at least a brief counter-trend change in the relative performance to favor High Yield debt. We last saw this happen in May ‘17 before HYG began to outpace TLT for several weeks before giving those gains back as the ratio created a double bottom that then let to a multi-month lead by HYG.

While there is a lot of structial movement taking place in fixed income land, we could see a mean-reversion bounce in high yield bonds as the price action ‘resets.’ I’ll be watching the HYG daily chart o see if it can move back to its 20-day Moving Average which is at $83.50 and has helped define the down trend in the high yield ETF and potentially a move back to its 50-day MA which is just under $84.50

Investor Risk Appetite

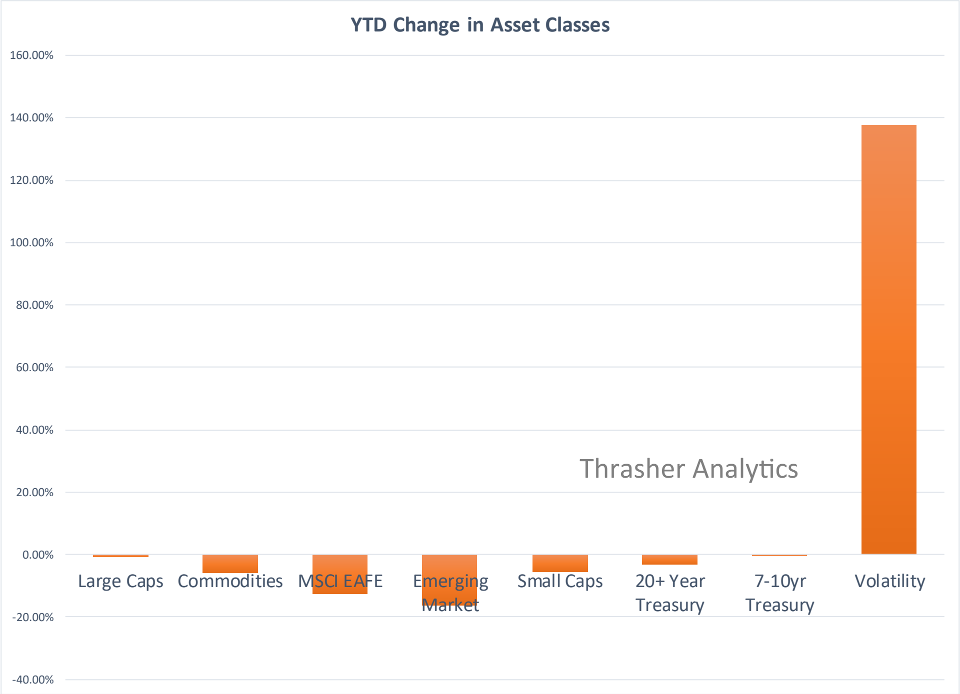
From a risk appetite perspective, there still aren't any clear signs of traders looking to ratchet up their beta or equity exposures. With the S&P 500 re-testing the November low, we see equal weigh losing its relative gain, high yield setting a new low relative to aggregate bonds, high beta is confirming the SPX November re-test, and a continuation of lower lows continues to be the theme for small caps vs. large caps.

Small Caps Lag Utilities Signaling a Lower Treasury Yield

One of my favorite charts for evaluating the 10-year is one I don't see other analysts discussing, and that's the relationship of the bond yield to the ratio of small caps and utilities. When the ratio of IWM and XLU divergences from the 10-year, we often see a shift in trend in the yield. An excellent example of this was the lack of confirmation in strength in small caps, sending the ratio with utilities lower, diverging from the 10-year yield. Small cap stocks have continued to leg, providing cover for the Treasury yield to continue moving lower and breaking back under 3%.

Not shown on the chart, but important to recognize is the momentum data for the ratio of small caps vs. utilities. While the ratio set a lower low, momentum has put in a small bullish divergence, suggesting we could see a strengthening in small caps relative to utes. This would be positive for the 10-year Yield. It's important for price to begin to confirm divergences like this one, we'll see this week if small caps do improve or if the divergence is ignored and utilities retain their leadership role.

Tough Environment For Investors



2018 has been a tough year for investors as it's being proven once again that not even diversification is a free lunch. Looking at price-only, U.S. large caps, commodities, international equities, emerging markets, U.S. small caps, long-term bonds, and intermediate bonds are all negative year-to-year. What's provided a positive return this year? Volatility. Which makes for an entertaining story as we closed the books in 2017 on one of the least volatile years in market history. Now the above chart is somewhat tongue-in-cheek as it's simply a snapshot in time comparing January 2nd values to December 7th, which happened to be near the low in volatility for the year. But the theme still stands as 2018 has not done any favors for modern portfolio theory or investors who felt diversifying across broad asset classes would keep them safe.

Defensive Sectors Remain The Leaders

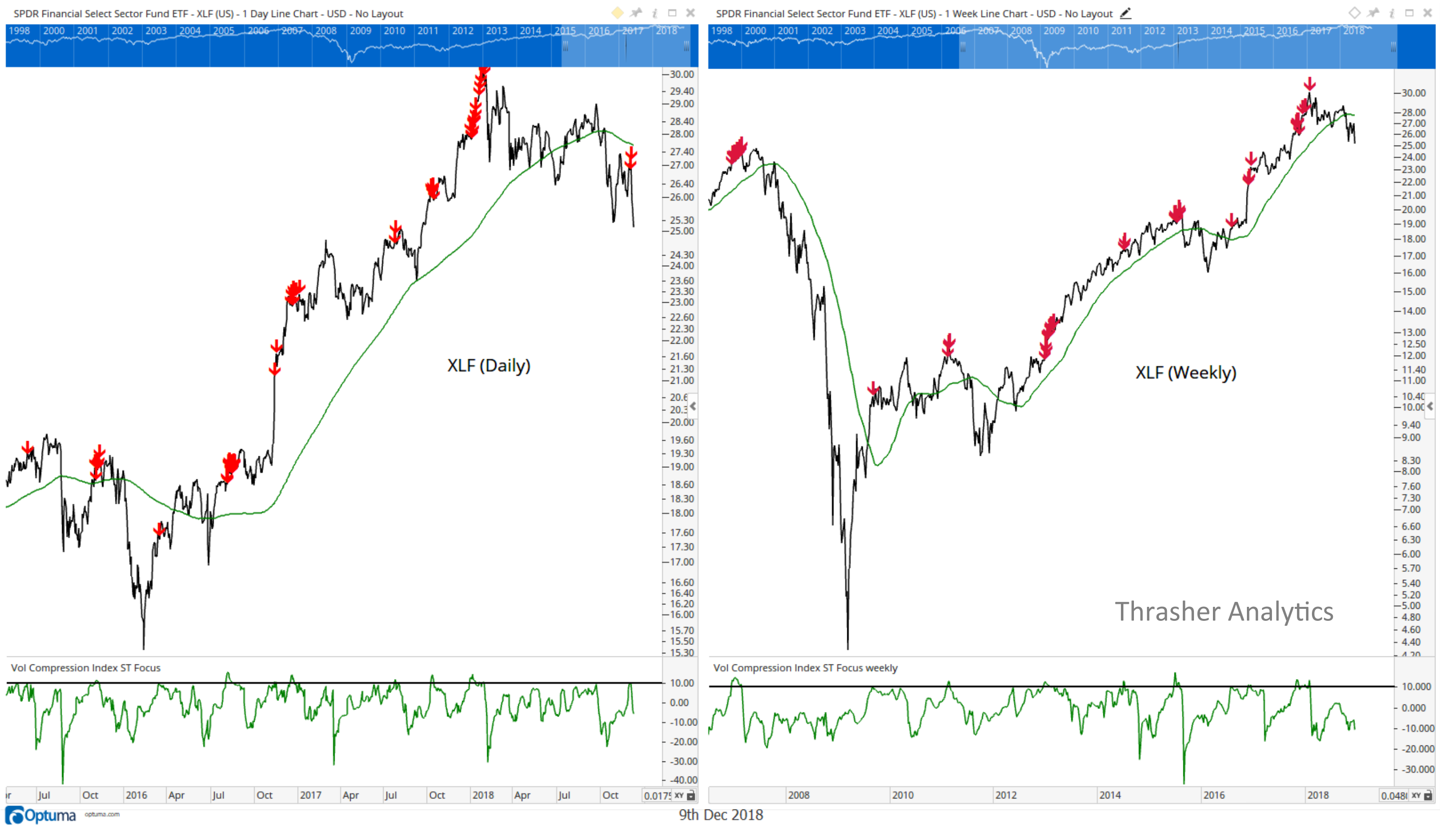
The above chart is a custom index of offensive sectors XLF, XLY, and XLK vs. defensive sectors such as XLV, XLP, and XLU. When Offensive sectors as a group are out-performing defensive sectors then the black line rises. We saw a broad breakdown in the 'risk on' sector group as the relative performance index began to make lower highs starting in July. While many traders were praising the strength within U.S. stocks in August and September, the sector leadership quietly sank. This trend has continued with a slight break below the November low as the broad index tests its own prior low. At this point in time, sector leadership remains with the defensive group as another sign that traders aren't interested (yet) in adding risk to their portfolios from a sector standpoint.

I mentioned about a month ago that I was working on getting my volatility indicator that I created to apply the same concepts I use for the Volatility index but to any available ticker. I've made great progress with getting this coded and in a format I believe presents the data in a more viewer-friendly chart. I'm still tweaking the coding and raise the quality of signals and format, but I wanted to share with you the data as of today and I'll continue to update these charts and improve upon them as they progress. I've got some great ideas in store for Thrasher Analytics in 2019 and this is one step in that direction.

The Volatility Compression Index (VCI) applies the tools I use to create the Volatility Risk Trigger to individual stocks, commodities, forex, etc. … basically any data set I throw at it. Sticking to the focus of Thrasher Analytics being downside protection seeking to shine a light on areas of the market posing a risk of declining prices, the Volatility Compression Index acts as a smoke alarm - signaling when there's potential risk, whether it be short-lived or be a major high.

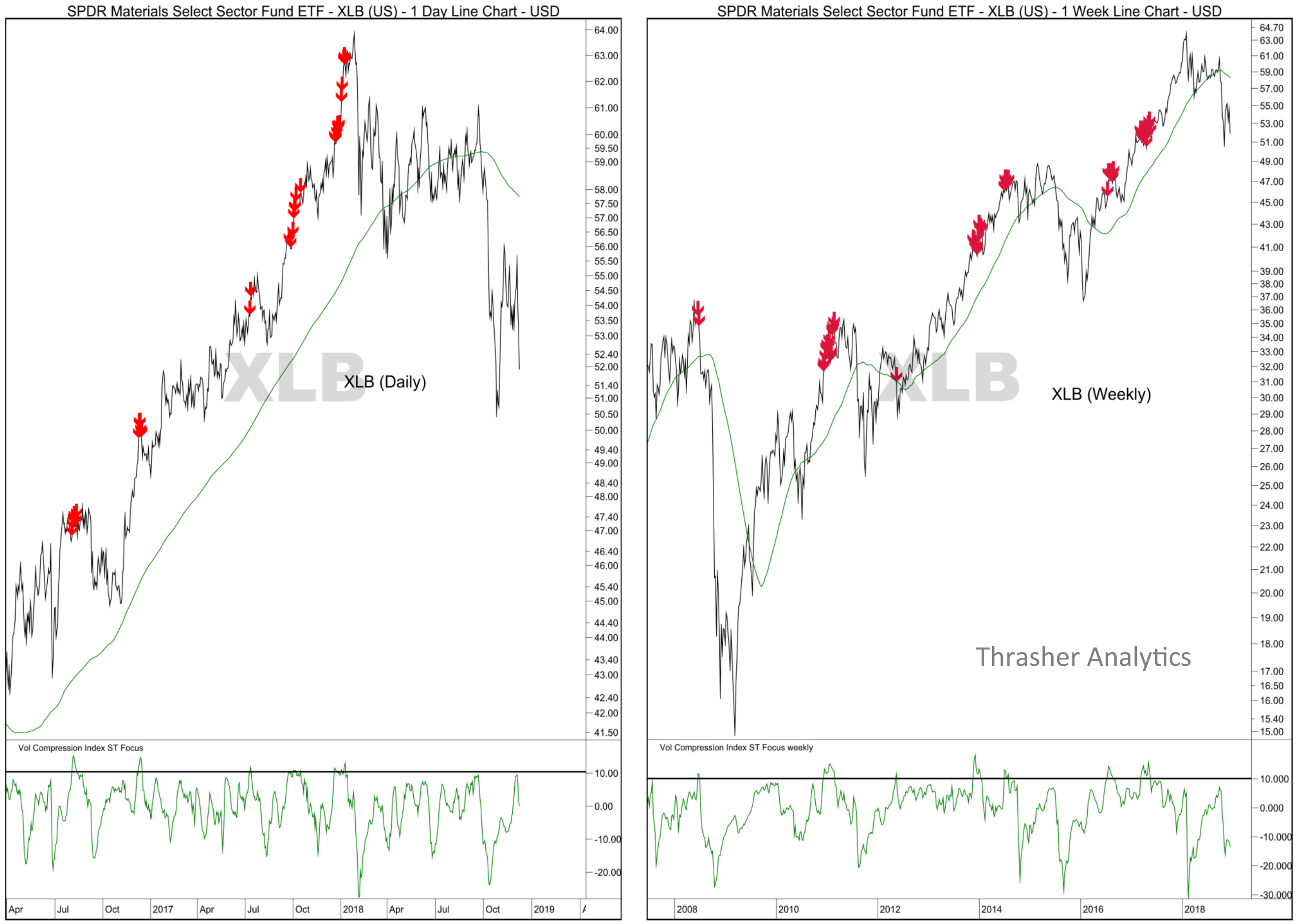
As I said, VCI can be applied to any security data, the next pages show it on a daily and weekly chart for each of the major S&P sectors that have adequate history (real estate and communications are excluded). The red areas show when the VCI is at a high risk level. VCI is not meant to be a stand-alone tool but like any indicator, makes for an excellent addition to the trader toolbox. I'll be showing the VCI along with other forms of analysis to paint clear picture of what the market is telling us about sectors, markets, commodities, etc.

Volatility Compression Index: XLF



9th Dec 2018

Volatility Compression Index: XLB



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Volatility Compression Index: XLE

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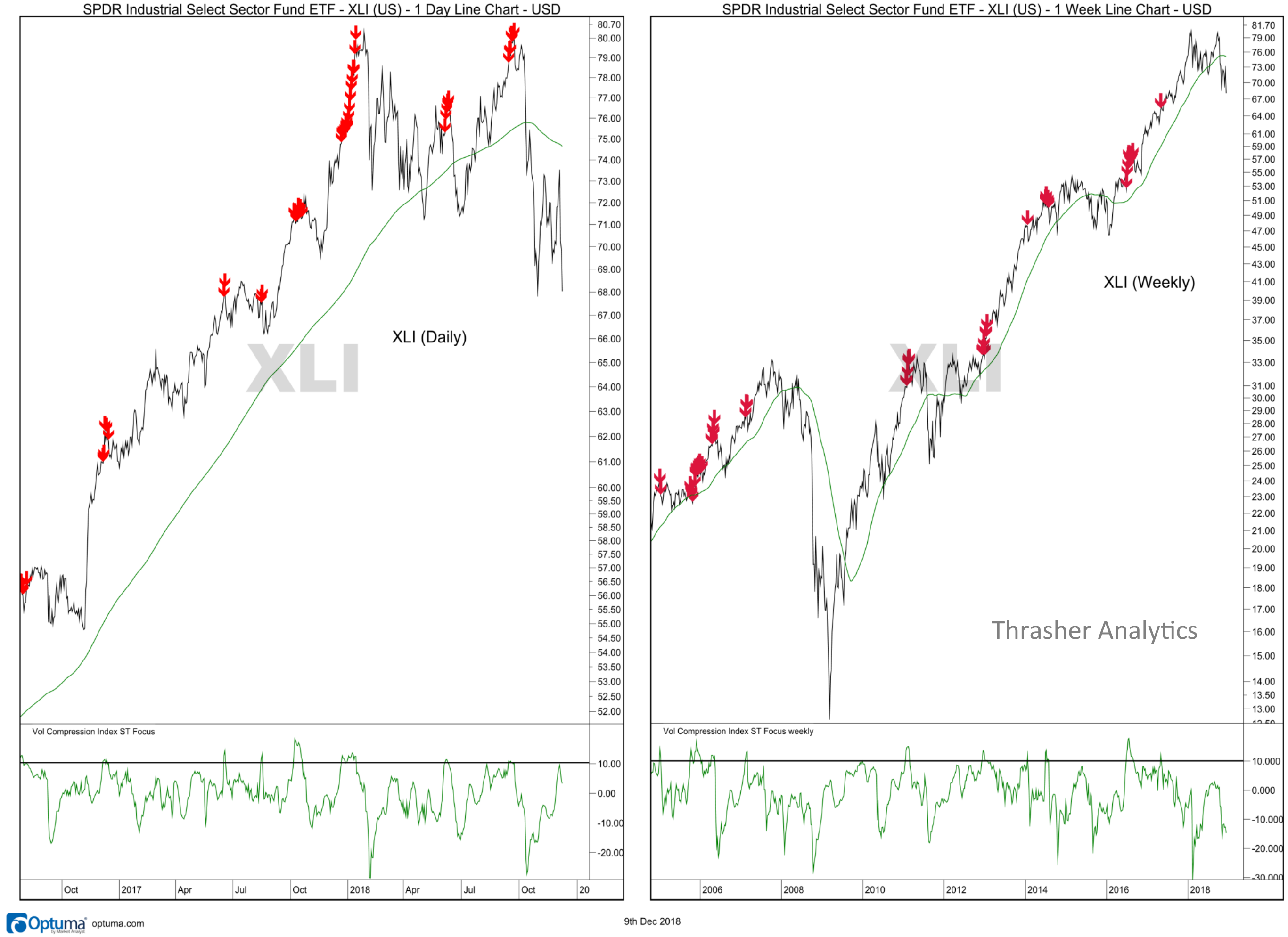
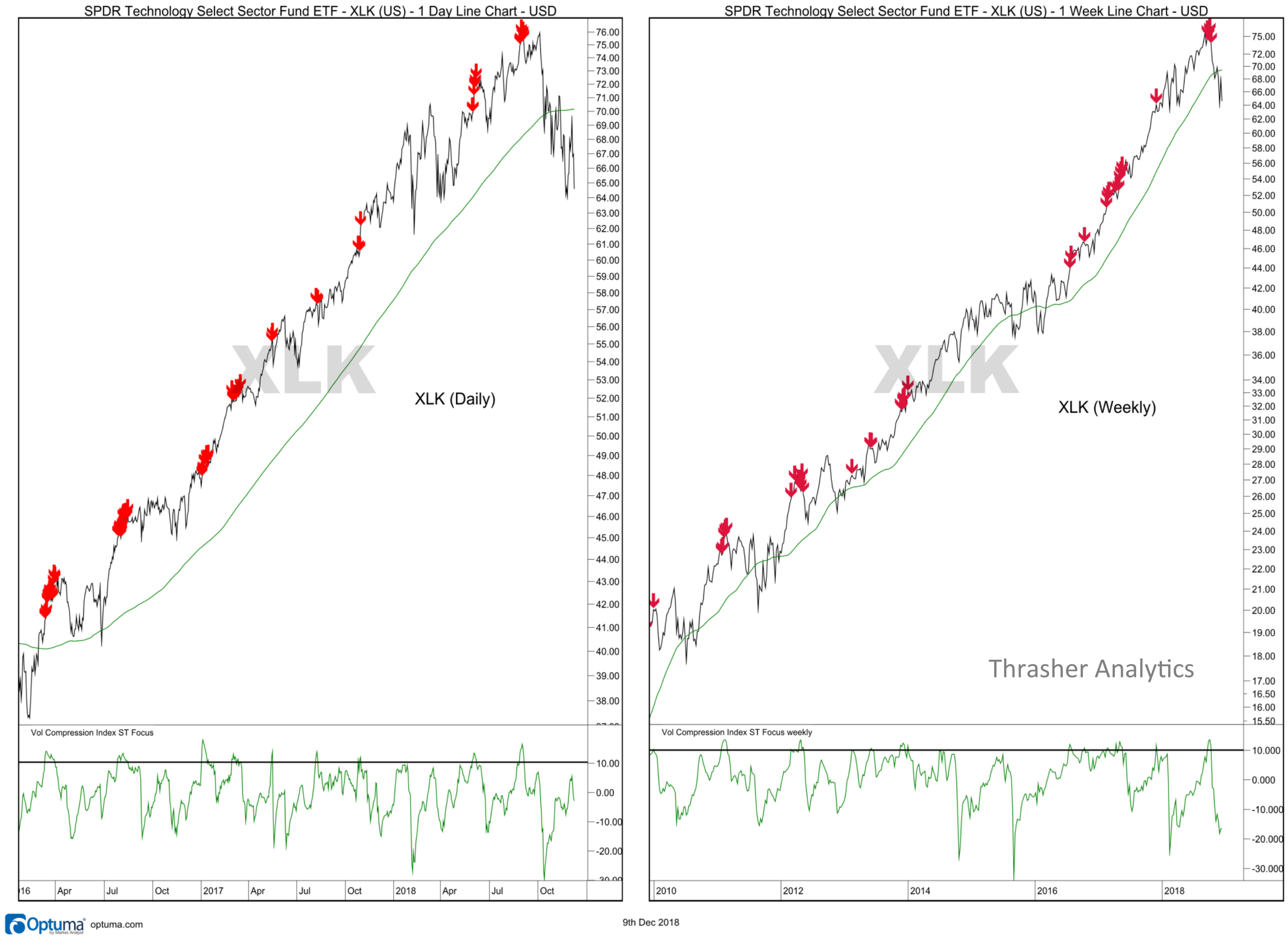
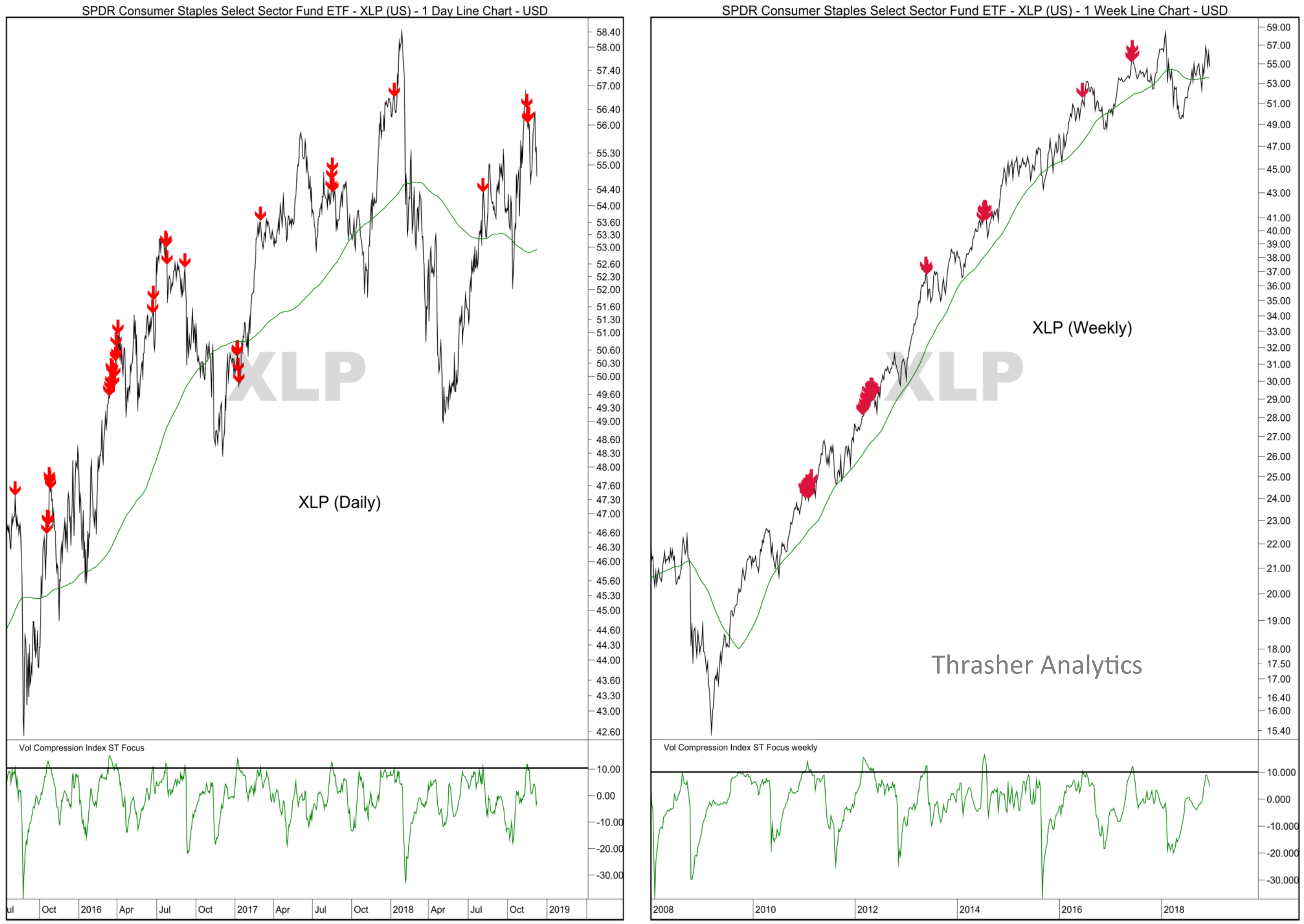
Volatility Compression Index: XLI



Volatility Compression Index: XLK



Volatility Compression Index: XLP



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Volatility Compression Index: XLU

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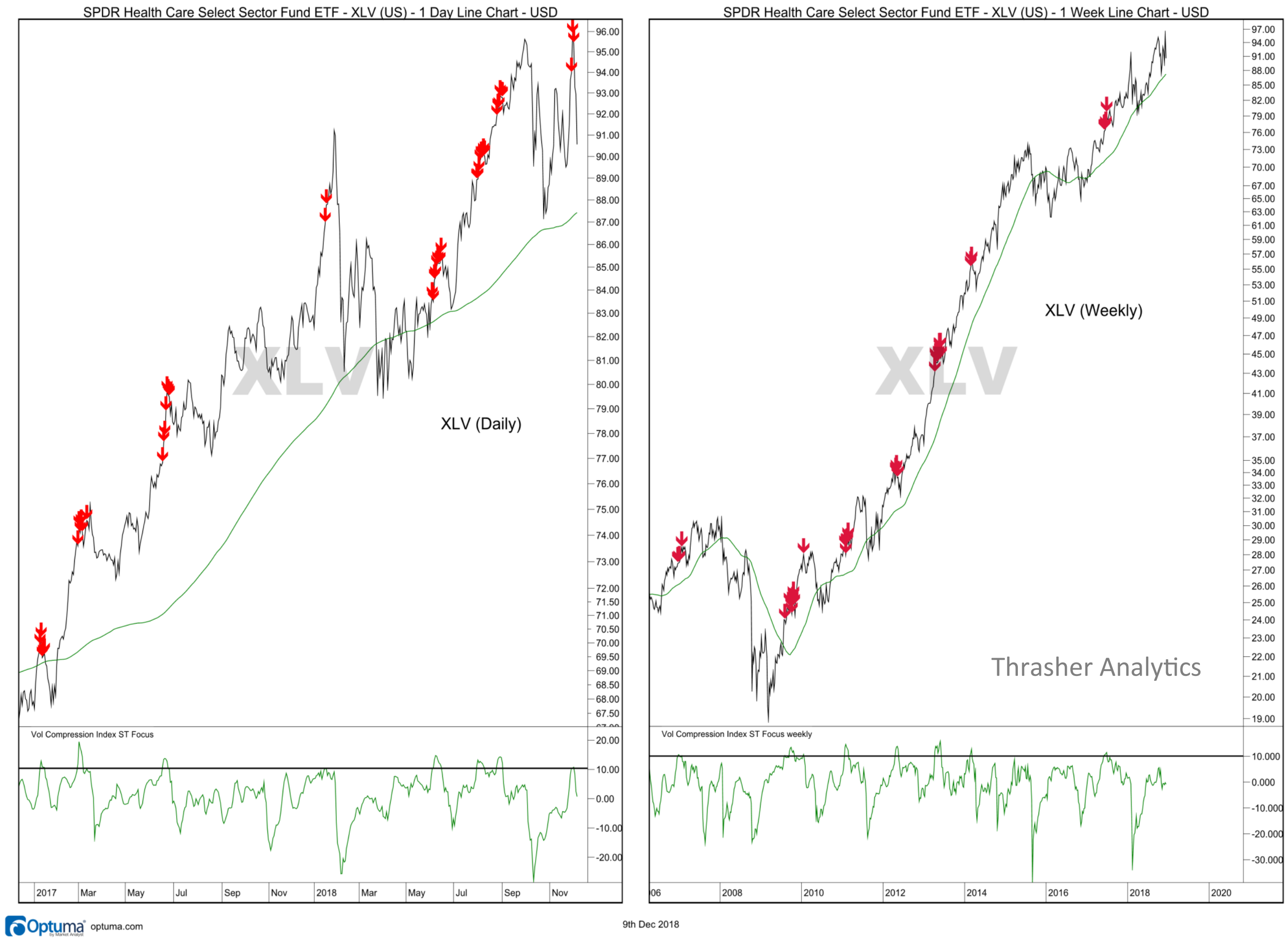
Volatility Compression Index: XLV



Volatility Compression Index: XLY

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