

**BELKIN REPORT**

**2014 EXCERPTS**

**June 24, 2014**

## Belkin Report 2014 Excerpts

### **Jan 6, 2014**

Gold stocks probably offer a great opportunity on the long side. The model forecast points up and many names on the recommended list are down 80%-95% from the 2011 peaks. That is the sign of a classic liquidation climax. Gold stocks are negatively correlated to the stock market and should offer a good entry point right here. Sector and industry group rotation remains defensive. Many cyclical plays like autos are over-owned and seem to have peaked. Apple is a fresh sell recommendation. Volatility should pick up and the forecast underperform list should expand as portfolio managers begin to dump last year's stale long holdings.

### **Jan 13, 2014**

Gold stocks probably offer a superb opportunity on the long side. The GDX gold stock etf fell -69% from its Sept 8, 2011 peak to its Dec 23, 2013 low. Individual gold stocks on our recommended long list are down 80%-90% over that same period. Buying opportunities don't get much better than down -90%, the DJIA 1929-1932 bear market decline was -89% at its bottom. The long dollar/major positions are closed out (not vs. EM). Bond future shorts are covered, new bond future longs are added. The S&P consumer discretionary, industrials and tech sectors have the weakest forecast (shorts). The utilities and health care sectors have the strongest relative forecast. Retailers are breaking down: In last week's up market retail stocks on our sell list were down big (BBY -7%, LB -6%, ZUMZ -12%, RSH -20%). Apple is a top short recommendation. Major stocks like GE, NKE, NTFX, FDX, F, GM, NOK, X, BHP, SBUX, AMAT and TXN are recommended sells and shorts.

### **Jan 20, 2014**

The argument for buying gold stocks is simple: It's an asset class that has had a huge two-year bear market (GDX stock gold etf -69% from Sep 8, 2011 top to Dec 23, 2013 bottom). Gold shares have been getting nuked while Fed QE has inflated a bubble in everything else. Try finding another sector, group or market that has had a 69% decline over the past two years. Everything else has been inflated and picked over with a fine tooth comb a dozen times over. Our model forecast suggests the liquidation in gold stocks is over. Investors who believe in buying low and selling high should get ahead of the herd and buy gold stocks. The GDX is only up 14% from its recent low. Many gold stocks on our list fell >80%. Bounces off such extreme liquidations can be > +300%.

### **Jan 27, 2014**

US cyclical sectors are breaking down. The consumer discretionary, industrials and materials sectors have recently reversed and have a underperform forecast. Defensive utilities are really depressed and have a fresh upward forecast. Market-neutral etf spreads of long XLU and short XLY, XLI and XLB are recommended (long utilities/short consumer discretionary, industrials and materials).

### **Feb 10, 2014**

Sector rotation currently seems to offer excellent market-neutral opportunities. In the US that would be long (overweight) the utilities sector and short (underweight) the consumer discretionary and industrials sectors. In Europe, that would be long (overweight) the utilities and telecom sectors and short (underweight) the industrials, technology and retail sectors.

### **Feb 17, 2014**

Gold recently completely a two year, -37% bear market. The peak was August 22, 2011 (\$1897), the low was December 19, 2013 (\$1188). The gold price is up 11% in the past two months. The model forecast for gold and silver points up, intermediate and long term (3 month and 12 month view). We recommend accumulating long positions in precious metals and mining stocks. Buy brief pullbacks, as they are likely to be followed by higher prices. Gold mining stocks fell twice as much as the metal during the bear market (GDX -69% from Sep 8, 2011 to Dec 23, 2013). More recently, the GDX etf is +29% from its December low, a new bull market in the making. GDX is +5% above its 200 day average, a brand new development as of last week (see chart). Gold mining stocks appear to be leading the metal price higher.

### **Feb 24, 2014**

The forecast for sectors and groups is polarized, which should provide opportunities for market neutral long/short pair trades and overweight/underweight positions. Utilities have the top model outperform sector forecast in the US and Europe. Energy is a fresh outperform prospect. Industrials, consumer discretionary, financials and tech are the model's sector underperform prospects.

### **Mar 10, 2014**

Central bank-distorted equity markets create opportunities in sector and group rotation. In Europe, mindless buying has

inflated cyclical sectors like industrials and technology, while defensive sectors like utilities and telecom have been ignored. The model forecast suggests you can add value by selling European cyclicals and buying defensives. That can be implemented via market neutral long/short spread trades by hedge funds or overweight/underweight positions for long only funds. A similar forecast exists in the US.

### **Mar 24, 2014**

The Wall Street Journal reports the Russell 2000 PE is 83. Yes 83. If that's not a small-cap bubble than what is? But in the Congressional hearings for her Fed Chairman nomination, here's what Yellen had to say: Senator Dean Heller: "A quick question about quantitative easing: Do you see it causing an equity bubble in today's stock market?" Yellen: "*I mean, stock prices have risen pretty robustly. But I think that if you look at traditional valuation measures, the kind of things that we monitor, akin to price - equity ratios, you would not see stock prices in territory that suggests bubble - like conditions ... valuations ... are not in bubble territory.*" Yellen is a goofball and the Bubble becomes her. Biotech and internet stocks appear to be rolling over (the Nasdaq biotech index is down 10% from its Feb 25th peak). Biotech and internet have been the heart of the bubble.

### **Mar 31, 2014 Second Quarter Investment Opportunities Sector And Group Rotation**

The tide has turned. The utilities sector outperformed the index by 4.6% in Europe and by 2.4% in the US during March. This is not a fluke. Utilities remain a top model outperform prospect, 3 month and 12 month view. Want to outperform the index? Overweight utilities. Think about it. If utilities are set to outperform the index and be the top performing sector, what does that suggest about market direction? Hint: It isn't what Janet Yellen wants.

The risk-off rotation theme is evident in March's worst performing S&P500 sectors: Consumer discretionary (-3.6% relative), health care (-2.1% relative) and tech (-0.5% relative). The consumer discretionary sector reversal is noteworthy. It has been the strongest sector since the 2009 market bottom and has now made a distinct reversal. Consumer discretionary sector industry groups responsible for that -3.6% relative underperformance are homebuilders (-10.7%), specialty retailers (-2.5%), autos and auto components (-1.1%, -1.7%) and media (-3%). These were all on our recommended sell list ahead of time. Health care sector underperformance was strictly a biotech affair (-10.2% for the biotech group). Biotech was added to our sell list on March 9th. Tech sector underperformance was strictly an internet group affair (-8.6%). Internet stocks were a top model sell recommendation during March. All percentages are relative to the S&P500.

This boils down to a major inflection point in sector and group performance. *Defensive is 'in' and cyclical is 'out.'* This dichotomy creates a major opportunity for long/short hedge fund positions and overweight/underweight long only positions. The model would have you be long (or overweight) these S&P sectors: Utilities, telecom, energy and consumer staples. Conversely, the model would have you be short (or underweight) these sectors: Consumer discretionary, tech and industrials. Put those long/short ideas together and you are likely to capture significant alpha in the months ahead ...

As for gold stocks, it is an asset class that has already been through the wringer. If there is one thing we've learned in the 20+ years of producing the Belkin Report, asset classes that fall 80%-90% have subsequent enormous percentage rebounds. Here are a few examples: DJIA -89% 1929-1932, then + 371% by 1937. Hang Seng -92% 1973-1974, then +372% by 1978. Solar stock index -91% Dec 2007-Nov 2012, then +386% by Mar 2014. Greek stock index in \$US -95% Nov 2007-Jun 2012, then +180% by Mar 2014. The GDXJ junior gold miner etf recently declined 81% from its Apr 2011 peak to its Dec 2013 low. A number of serious gold mining stocks declined >90% over that period. The long-term model forecast points up for gold and gold mining stocks. As in the examples above, the potential for triple digit percentage gains exists for severely depressed gold shares.

### **Apr 7, 2014**

The risk-off sector rotation shift we've stressed continues apace. The XLU S&P utilities sector etf has outperformed the S&P500 by 10% ytd. It has outperformed the XLY S&P consumer discretionary sector by 14% (our top recommended sector long/short spread listed in the portfolio). This is probably just the beginning of utilities sector outperformance, as the XLU/S&P ratio just broke decisively above its 200 day average today (see chart). The model has a strong upward relative forecast for the S&P utilities, telecom, consumer staples and energy sectors. The tech and consumer discretionary sectors have the opposite forecast. For the umpteenth time, we recommend hedge funds and long-only investors sell tech and consumer discretionary stocks and overweight utilities, telecom, staples and energy. The divergence in sector performance creates an exceptional opportunity.

### **Apr 14, 2014**

We're adding a tentative new long position on the US30Yr bond future. Hate to do it, it's not like bonds are a bargain or anything but the long-term signal is there. Long bonds fits with the risk-off theme. Asset allocators have to go somewhere and it looks like they might go out of stocks into bonds. Another recent model signal which goes against the grain is long US dollar. Like bonds, the dollar wouldn't be our first choice for a core long position, but the tentative signal is there vs. the euro, Russian ruble, Chinese yuan and a bunch of EM currencies. Dollar up could be another risk-off trade.

### **Apr 21, 2014**

As so often happens at major market inflection points, the majority of investors are positioned with yesterday's favorite trade, in this case long and overweight biotech, internet, new tech and consumer discretionary stocks. Those assets are *done for* in our humble opinion. The under-owned sectors that the momentum stock jockeys don't own much of are energy, utilities, consumer staples and telecom services. The recommended trade remains to be long or overweight the latter and short or underweight the former. This can be accomplished easily using sector etfs. We recommend a market-neutral sector strategy of long XLE (energy), XLU (utilities), XLP (staples) and short XLK (tech) and XLY (consumer discretionary). The XLU/XLY pair trade is +16% ytd and its rally is probably just getting started.

### **Apr 28, 2014**

So our recommendation is to overweight the defensive sectors and underweight tech and consumer discretionary - ideally a long/short pair trade with no market exposure. Long-only clients can still take advantage of this theme by tilting exposure in the recommended direction.

We've been pounding the table on this theme for several months and it's been working. The long/short etf spreads in the portfolio are all up substantially. Since last week's report, in ratio terms: AMLP/FDN +6.1%, XLU/XLY +3.2%, OEX/R2000 +2.4%, etc. Keep in mind this is pure alpha in a week's time.

Our forecasting model is best on sector rotation and the forecast says this is the beginning of an extended move in favor of defensive vs. tech/consumer discretionary. To add value, we recommend taking advantage of short-term market spikes (like PKO operations at the market open and in the last 1/2 hour of trading) to sell tech/consumer discretionary and buy defensive.

### **May 12, 2014**

The dichotomy between deflating small-cap and tech bubble stocks and rebounding defensive groups presents a major rotation opportunity. High-flying stocks on our model's recommended sell list are down 20%-40% in the last few months, while the defensive staples, telecom services, energy and utilities names on our forecast outperform list have outperformed. The model forecast suggests this trend is still fresh and should continue. So we recommend taking advantage of brief market rallies to sell and short momentum, small-cap, technology and consumer discretionary stocks and rotate into defensive names for long exposure. Please note this major opportunity has little to do with stock market direction. We're recommending a market-neutral allocation for hedge funds (or overweight/underweight for long-only) that should continue to provide significant alpha. Here's what we suggest for long exposure: For sector etfs long (overweight) XLE, XLP, XLU. Drilling down to US groups and stocks, these are outperform candidates: *Oil*: COP, CVX, APA, XOM.

### **May 19, 2014 Sell Financials**

The S&P500 financial sector has underperformed the index by -4% in the past two months (since March 24th). That slump has been more pronounced for the S&P500 bank group (-9% relative) JPMorgan Chase (-12% relative) and the XBD securities broker index (-10% relative) over the same period (brokers, banks and JPM have been on our sell list) ... Portfolio managers who have a lot of tech, financials and consumer discretionary are likely to be unloading those in a risk-off sector rotation move. They will probably seek to go into smaller weighted defensive sectors. This sets up a nice opportunity to pick low-hanging fruit. Hedge funds can have a low-volatility, market-neutral pair trade of long defensive sectors/short tech, financials and consumer discretionary. Long-only funds should move away from closet indexing to overweight defensive and underweight those suggested sectors. Financial stocks are probably moving into a period of underperformance.

### **May 26, 2014**

In our humble opinion, this market has a mental health problem. Portfolio managers have been guinea pigs in a highly manipulative psychological experiment conducted by the Federal Reserve which they call Portfolio Balance Channel (google it). It boils down to forcing investors to be risk-on, no matter what the fundamentals, valuations, economic conditions or international geo-politics are. It's the Fed's stated Portfolio Balance Channel mission to force investors into high yield bonds and equities. By extension, stock investors have felt empowered to buy the highest-beta tech, biotech, consumer discretionary and financial stocks. It's not working. Retailers like BKS and BBBY, banks like JPM, C and BAC, popular tech stocks like AMZN, FB, TWTR, EBAY, NFLX and biotech stocks like INCY, REGN and SEGN are all down double-digit percent from recent peaks, while the S&P500 is at a new high. This must be a nightmare if you are long former high-flying stocks like this and getting measured against the S&P500. We continue to recommend long defensive/short high beta sectors and stocks. The Fed may have kited the S&P500 back to another peak, but major stocks aren't going for it. There is a distribution going on as hedge funds and long-only funds dump the stocks that were previous leaders last year.

### **Jun 2, 2014**

We resolved awhile back that the best way to play the inevitable liquidation of the Fed's latest bubble is through

market-neutral sector plays. This approach has worked well this year (recommended S&P utilities sector +12%, S&P consumer discretionary sector -2% ytd). That's +14% of market neutral alpha in a simple sector spread. As the Goldman quotes on the previous page reveal, the hedge fund and long-only consensus is on the opposite side of this trade. Hedge funds love consumer discretionary stocks and hate utilities. They have a 25% weighting in consumer discretionary stocks, vs. the index 12% weight. So they have a double weight in the sector. In his Bloomberg TV appearance, Goldman's Kostin pointed out that the dispersion of stock returns within sectors is 1/2 of normal this year; in other words sector performance is more important than stock selection. So it is vital to get sector rotation right. Here's what the model forecast has to say on sector rotation: The defensive outperform theme is just getting started (12 month view). Defensive is in and cyclical momentum is out. It's broader than just utilities. *Overweight S&P500 consumer staples, utilities, energy and telecom. Underweight consumer discretionary, financials and technology (x-Apple).* Long/short or overweight/underweight positions can be implemented through sector ETFs. This forecast can also serve as a template for stock selection/liquidation decisions in your asset allocation process.

### **Jun 9, 2014**

the recommended approach in this twisted, upside down environment is to be long the defensive out-of-favor asset and be short what bubble people own. Even with stock indexes here at new bubble peaks, this contrarian approach is working.

In Europe, the defensive Stoxx utilities sector has outperformed the index by +12% ytd, telecom by +5%, oil & gas by +6% (these have been our long picks). The over-owned industrials sector (our sell recommendation) has underperformed by -5% ytd. Isn't that ironic? In a bubble market, a defensive approach is working. You can eke out a positive market-neutral rate of return by being long defensive, short cyclical. European autos, construction and banks are fresh underperform prospects (sells).

In the US, defensive sectors (our longs) have outperformed the S&P500 ytd: Utilities by +7%, energy by +3% and health care by +3%. Meanwhile, hedge funds' favorite consumer discretionary sector (our short) has underperformed by -6%. So even in this bubble market it has paid to fade the bullish fever. Market-neutral long defensive/short overowned spreads are paying off, even with the indexes still bubbling. US financials are fresh underperform prospects, consumer staples, telecom services, energy and utilities are outperform recommendations.

### **Jun 16, 2014**

Gold mining shares remain a favorite outright long. It's the only group that is in the gutter (some stocks down -90%) as opposed to elevated assets that central banks and hedge funds are buying. Two recent examples of down -90% assets that zoomed after their lows are 1) Solar stock index (+443%) and 2) Greek stock market +180%). We've learned to take advantage when the market offers deeply discounted assets. The model has an upward forecast for the gold stocks on our buy list and some could triple, 1-2 year view.

### **Jun 23, 2014**

Our best outright long idea is gold stocks. The GDX gold mining stock ETF (top line in our recommended core portfolio) is +9% in the past week and is +24% ytd. The GDXJ junior gold mining stock etf is +35% ytd. Ironically, many of the momentum stocks cherished by Bubble People are down on the year (-8% for our momentum stock index), while despised gold stocks are soaring. It looks like gold stocks could become the new momentum stocks. Don't tell the Bubble People because buying gold shares is against their religion. The GDX gold mining etf fell 70% during its recent bear market (Sept 2011- Dec 2013), leaving gold shares as one of the few depressed areas in over-inflated markets. Some gold shares on our buy list fell more than 90%. So gold shares have room to run for awhile.

Sector rotation continues to offer excellent opportunities for long/short or overweight/underweight positions. The model forecast recommends a long/overweight position in the S&P energy, utilities, staples and telecom sectors vs. a short/underweight position in the consumer discretionary, financials and industrials sectors. Industrials are a new addition to that underperform list (as hinted last week). In Europe, the model likes a long/overweight position in the Stoxx telecom, utilities, health care, oil & gas and food & beverage sectors vs. a short/underweight position in the construction, banks, autos, industrials and travel & leisure supersectors. Notice financials and banks figure prominently as short/underweight recommendations in the US and Europe.