BELKIN REPORT

2014 EXCERPTS

Oct 1, 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.

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 ...

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.

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.

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.

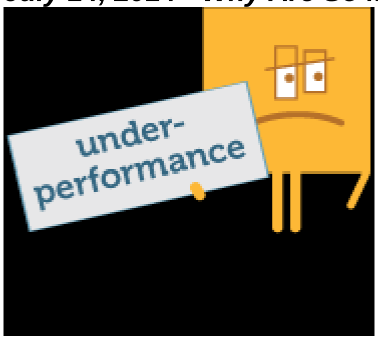
Jun 30, 2014

Q2 sector rotation disparity in Europe was gigantic. Q2 alpha for the model's recommended overweight Eurostoxx sectors was: Real estate +9%, oil & gas +8%, telecom +6%, food & beverages +6% and utilities +4%. For the model's recommended underweight Eurostoxx sectors Q2 alpha was: Banks +7%, travel & leisure +6%, media +4%, tech +2%, autos +2% and industrials +2%. In other words, the model's Q2 Eurostoxx overweight recommendations outperformed and its underweight recommendations underperformed. Given that the Eurostoxx index was only +1% in Q2, these European sector performance disparities were gigantic opportunities you could have driven a Mack truck through ... Emerging markets are probably poised for another slump. The defensive sector outperform forecast is also as strong as ever. It is not too late to jump on this theme. The fairy dust crowd should get their wings clipped and drop like flies. The best way to benefit from their aerial collapse is to be long (overweight for long-only) defensive sectors and short (underweight for long-only) cyclical and high-beta sectors. S&P500 industrials have recently evolved into our top sell.

July 7, 2014

European defensive sector outperformance has been dramatic: The Eurozone sectors we have been plugging are utilities, energy and telecom, which have outperformed ytd by +14%, +10% and 3.4% respectively. These sector relative performance gaps outweigh stock index gains this year. In other words, you could have outperformed indexes with the market neutral long/short sector positions the model recommended (or added major league alpha with overweight/underweight positions for long-only funds) ... Our sector forecasts are based on a time series analysis model that has stood the test of time. It is best on sector rotation, so we try to add value to your asset allocation by stressing the high-probability sector forecasts. The rotation has been particularly bifurcated this year, with defensive sectors relatively depressed and cyclical sectors over-owned.

July 14, 2014 - Why Are So Many Portfolio Managers Underperforming?



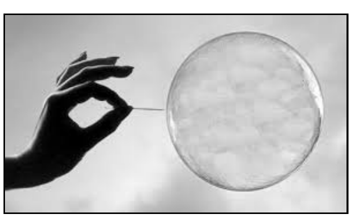
Most portfolio managers aren't adding value because they are lagging the index. This causes capitulation and closet indexing. The market is now a torture chamber that is forcing hedge funds to cover short positions and hedges, a fact that is reflected in the July 9 FT article on the previous page **Stocks rally forces short sellers on to back foot. Bearish bets at lows despite euphoria fears.** Recent sentiment surveys (Investors' Intelligence, brokers) reveal record capitulation and long positioning. This is Yellen's objective and she has succeeded. Since central bank manipulation is backfiring on prominent investors this year, the US equity market really stands out as an overbaked cake. Investors using central bank siren songs are getting lured onto the rocks. Our model's time series forecast is for market forces, not central bank manipulation. Ultimately, market rigs fail ... Market forces are alive and well in sector rotation. That is where we have focused this year and that is where opportunities still abound. The title of this report is *Why Are So Many Portfolio Managers Underperforming?* One big answer is found in the table to the left. Goldman strategist David Kostin reports the consumer discretionary sector is the primary hedge fund overweight position. Notice it is dead last in the ytd performance table, -6% behind the index

July 21, 2014

Junk bonds and emerging market debt started selling off four weeks ago (the peak was June 24). A high yield debt selloff generates margin calls that leads to more forced selling, lower prices and more margin calls, etc. Junk bonds are the 2008 mortgage backed securities crisis equivalent of this cycle. Brokers are exposed through prime brokerage account leverage to hedge funds. We are only one month into a junk bond sell-off that should continue and pick up speed. The old Wall Street saying goes: *When the tide goes out you find out who isn't wearing a bathing suit.* Watch for junk and emerging market debt problems to surface.

July 28, 2014

Sector rotation in the US, Europe and Japan has been in a major bear market all year. The most defensive sectors have massively outperformed, while cyclical sectors have underperformed. The utilities sector is +16% ahead of the index in Europe, +6% ahead in the US. At the other end of the spectrum, the industrials sector is -6% behind the index in Europe, -5% behind in the US. The S&P consumer discretionary sector is -7% behind the index (the worst performing sector ytd). Consumer discretionary is the top hedge fund overweight position according to David Kostin, Goldman's strategist. These are enormous sector performance gaps, more consistent with a stock index bear market of -20% during a recession, than the modest stock index rally that has occurred. At this point in time, the Eurostoxx index is +2% ytd, the S&P500 is +7% ytd, while the Nikkei is -5% ytd ... The Belkin Report has steadfastly recommended a long defensive/short cyclical sector allocation all year.



Aug 4, 2014 - Sell Europe

A Reuters poll says fund managers have ploughed into European equities, with the highest holdings in 3 1/2 years. We advise doing the opposite, sell Europe. The model has a major underperform forecast for European equities. European companies are exposed to the escalating Russian sanctions morass. The recent big inflow into European equities has provided an excellent selling and shorting opportunity. We recommend you take advantage of magical thinkers who bought Europe and will ultimately be dumping ... Emerging Markets are an Accident Waiting to Happen. Emerging markets (EMs) received big inflows from February to July, just like European equities. Everyone should be reminded that EMs turn highly illiquid in selloffs. You can get in but you can't get out (Roach Motels). The major reason EMs are now vulnerable is a reversal in high yield bond fund flows. Emerging market debt is right up there with US junk bonds in a major model liquidation signal that is just starting. Markets should be on the cusp of a major high yield debt fund redemption that will weaken EM currencies and raise EM interest rates. The model has a fresh sell signal for the Mexican Peso, Brazilian Real, Russian Ruble, Hungarian Forint, Polish Zloty, Czech Koruna, Indian Rupee and Korean Won. The emerging equity markets with the strongest sell and short signals currently are India, Russia, Poland, Hungary, Turkey, Brazil, Chile, Colombia, Peru and the Philippines.

Aug 25, 2014 - Is the Dollar Rally a Defensive Risk-Off Trade?

The model has been long the dollar and short the Euro and emerging market currencies for months. The DXY dollar index began its ascent in early May, from the 79.1 level (May 6). It now stands at 82.5, up +4% from May. The 12-month model forecast for the DXY points higher, suggesting an extended dollar rally has commenced. A mainstream sell-side justification for a dollar rally is interest rate differentials. The Fed is perceived to be approaching the end of QE and ZIRP (zero interest rate policy), while the ECB is considering launching a QE program. Higher rates in the US vs. Europe = dollar supportive. That argument probably doesn't explain everything. ***Portfolio managers should be aware that the dollar is a risk-off asset when speculative bubbles burst.*** Case in point: 2008. Everything was looking rosy in early 2008, before the credit bubble burst and brokers like Bear Stearns and Lehman went bankrupt. The DXY index stood at 71.5 in late March 2008, before it started a steady rally that took it to the 89 level by early March 2009 (12 month +24% DXY rally). Over that same period the S&P500 fell by -50%. The dollar was a refuge as the bubble burst. Deleveraging tends to favor the dollar as investment flows return home. The emerging market etf fell by -61% from 2008 peak to 2009 trough as leveraged investments were liquidated. Emerging markets underperformed in the crash. The Goldman Sachs commodity index GSCI fell by -55% over that period as commodities were dumped along with everything else. The XAU gold share index first sold off into October, then rallied by +69% from October to March 2009, in a counter-trend move higher (from its low it outperformed the S&P500 by +116%).

Sep 8, 2014 - The Root Cause Of Portfolio Manager Underperformance

Goldman Sachs (Kostin, Sep 4) reports that 77% of large cap portfolio managers have underperformed the S&P500 this year, a much worse number than usual. Kostin doesn't offer any insight into WHY so many are underperforming this year. We do. We've focused like a laser all year on sector rotation. ***Sector rotation is why portfolio managers are underperforming.*** Defensive sectors have massively outperformed the S&P500 and EuroStoxx 600 indexes. Cyclical sectors have massively underperformed. This was the model's forecast and it has transpired. Unfortunately for most managers, they are overweight cyclical and underweight defensive sectors. No wonder they are underperforming. Just to flesh this theme out, the S&P utilities sector has beat the index by +5.4%, health care by +6.8% ytd. Meanwhile the S&P industrials sector is -5.5% behind the index, the consumer discretionary sector is -5.2% behind the index. Getting those four sectors right either paid or cost managers double-digit percentage performance. Kostin previously stated that the consumer discretionary sector was hedge funds' biggest overweight position, oops. Now the average hedge fund is +2% on the year, 650bp behind the index. European sector results are even more stark. Our recommended defensive sectors have significantly outperformed the Eurostoxx 600 ytd: Utilities by +16%, real estate by +9%, oil & gas by +7%, food & beverage by +6% and health care by +6%. Meanwhile, cyclical basic resources have underperformed the Eurostoxx 600 by -8% and industrials by -5%.

Sep 15, 2014 - Why Portfolio Managers Are Underperforming: Part 2 - Stocks

Last week's report emphasized the sector rotation source of portfolio manager underperformance (defensive sectors have outperformed, cyclical have underperformed). This week's report focuses on individual stock underperformance and how that is hurting portfolio managers. The table to the left contains 82 stocks from the Belkin Report recommended sell list that are down an average -21% from their recent (2013-2014) peaks. The list contains high profile names such as GM, BHP, ETN, MU, AMZN, WYNN, RIG, TRIP, SBUX, PCLN, MCD, AAL, GE, MDR, FLR, MON, QCOM, ALU, TOL, AXP, FIG, GNW, APOL, AN, etc. Stock indexes may be flirting with all-time highs, but many high profile stocks are already headed down in earnest. Some are down -40% to -50%. The Bloomberg quote on the previous page states: '*About 47 percent of stocks in the Nasdaq Composite Index are down at least 20 percent from their peak in the last 12 months while more than 40 percent have fallen that much in the Russell 2000 Index*.' As our table to the left demonstrates, many NYSE cyclical stocks are in the same boat, sinking. While the source of this phenomena may be a mystery to Bloomberg and stock brokers like Goldman and Morgan who wouldn't issue a stock sell recommendation if their life depended on it, the Belkin Report had most of these stocks as sells before they slumped - and they REMAIN sell and short recommendations. The stock market is self-destructing from within, stock by stock and we recommend you take advantage of this process by selling and shorting these names and others on our US and European forecast underperform list.

Sep 22, 2014

The emerging market EEM etf is down -7% in the last 2 weeks. That is probably just the beginning of a severe EM selloff. The model forecast points down for the EEM and key EM country indexes like China. The dollar rally is dangerous for emerging markets, it's a margin call indicating capital flight. Emerging markets have been inflated by an echo-bubble of capital inflows for five months. This misguided buying has simply lifted EM to a level that provides you with a gift selling and shorting opportunity. Global growth faces a double whammy: A slowdown in China and a war sanctions-inspired slowdown in Europe. Corporate revenues and earnings should get whacked by this dual-downturn. Market sentiment isn't prepared for this reality and the authorities are absolutely correct in warning investors about the risks in bubble markets. Investment sentiment faces a rude awakening. Please be ahead of the curve when the market's alarm clock rings.

Sep 29, 2014

Emerging markets appear to be the focal point of a major global market liquidation. Blind buying lifted emerging markets from March to early September, but since then it has been straight downhill - like a toboggan. Emerging markets from Europe to Asia to Latin America are now in the headlines, with crisis overtones. The extent and the rapidity of this EM decline has been staggering. At its Sept 3rd peak, the MSCI EM Index (in $US) was +10% on the year. It has given back all those gains in 3 weeks. Individual EM country indexes are down a lot more from their 2014 peaks: Greece -32%, Hungary -23%, Russia -22%, Turkey -20% and Brazil -19%. They all peaked on different dates from January to September. The dollar rally (which the model anticipated) is a major margin call for emerging markets. In good times, capital flows into emerging markets, strengthening currencies, reducing local interest rates and lifting equity indexes. In bad times, capital flows out of emerging markets, strengthening the US dollar, weakening EM currencies, raising EM inflation and interest rates and slamming EM equities. That process is clearly underway and the model forecast suggests it has a long way to run. The dollar is a defensive risk-off asset in this environment. We recommend selling and shorting the EM equity indexes, currencies and bonds of Turkey, Russia, China, Mexico, Colombia, Brazil, Greece, Hungary, Indonesia, Peru, South Africa and India. Take advantage of inevitable brief, sharp bear market bounces to sell and short emerging markets.