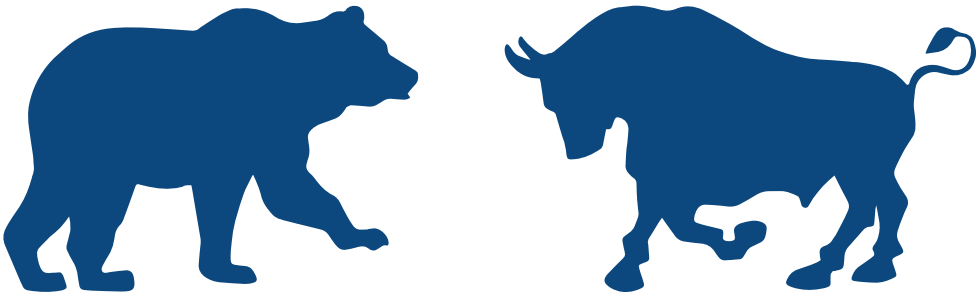
The InvesTech Research

PERSONAL PROFIT GUIDE



This valuable reference is your step-by-step guide to using InvesTech's safety-first strategy. Discover the secrets behind our proprietary indicators, how to easily use the model portfolio, our investment strategy, and much more.

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A LETTER FROM THE PRESIDENT

Dear Investor,

Successful investing in today's volatile and uncertain investment climate has become a demanding task, yet consistent profits on Wall Street have never come easy. Whether investors found themselves in the Roaring '20s, the Depressionary '30s, the Go-Go Fund '60s, the Inflationary '70s, the Tech Bubble of the '90s, the 2008 Financial Crisis, or the 2020 Pandemic Crash, the results have always been the same. The individuals who had the foresight and conviction to look "across the valley" or "over the peak" have been among the small minority to ride the charging bull markets… and sustain those profits when the major bear markets strike.

While most investors continue to base investment decisions on current news or media headlines, InvesTech Research uses technical and macroeconomic analysis to unemotionally look forward to the future stock market environment.

InvesTech seeks to transform the "guesswork" of investing into a more measured strategy by utilizing a sophisticated (yet easy to understand) blending of macroeconomic, monetary, and technical analysis. At first, proprietary indicators such as our Negative Leadership Composite, Pressure Factor, and Bellwether Index may sound strange and unfamiliar. However, such tools have been the key to InvesTech's safety-first strategy and track record. More importantly, investing in the stock market is a learning experience. Within a matter of months, most subscribers begin to feel at ease with the detailed analysis which has earned InvesTech its 40+ year reputation as one of the nation's leading financial research firms and investment newsletter services.

Through our unique and objective research, we strive to provide you with the vital information you need to make safe, profitable investment decisions as we travel through the uncharted waters ahead.

Cordially,

James B. Stack
President, InvesTech Research

About InvesTech Research

Based in scenic Whitefish, Montana, InvesTech Research offers a unique "safety-first" strategy to our readers located in all 50 states as well as 43 countries around the world. Through our proven proprietary models and objective analysis, InvesTech has over a 45-year history of accurately predicting market risk – telling investors when to be most bullish and when to become cautious.

InvesTech Research is over 2,200 miles away from Wall Street, and we see this distance from mainstream financial industries as a core component of our philosophy and objective methodologies. We love our mountain view and are proud to be *"Far From the Madding Crowd,"* allowing us to offer our readers the clear, researched, objective market analysis you rely on to inform your investment decisions.

About James Stack
President & Founder

Recognized as one of the nation's leading technical analysts, **James Stack** was formerly a project manager with IBM Research and has a number of domestic and international patents to his credit. After founding InvesTech Research in 1979, he began publishing the *InvesTech Research* newsletter in 1982. Over the years, InvesTech has earned widespread recognition for our unique analysis of the key forces behind the stock market, and for safety-first returns with an allocation strategy described by Forbes as *"more or less impervious to declines."*

Jim first appeared nationally on *"Wall $treet Week"* with Louis Rukeyser in 1984, and became a regular guest on CNN, CNBC, Reuters, and other business and financial news programs. For over 30 years, Jim was the longest serving Guest Market Monitor on PBS's *"The Nightly Business Report"* – the most widely watched nightly financial news program in the country, which aired from 1979 until 2013 when it was sold to CNBC. In addition to addressing major investment conferences worldwide, Jim is often quoted in popular publications such as *Barron's*, *The Wall Street Journal*, *Kiplinger*, and *Forbes*.

About Claire Cantalupo
Senior Research Analyst

Claire Cantalupo earned her Business Masters of Innovation and Management after receiving the highest honors for completing her undergraduate degree in Biomedical Science at Montana State University. Her professional background and educational experience have allowed her to develop communication, problem-solving, and analytical skills across multiple industries.

Claire is the Senior Research Analyst for InvesTech Research. She works on historical research and analyzes current market data focusing on InvesTech's "safety-first" investment strategy. In addition, she is responsible for developing and maintaining InvesTech's internal analytical software which interfaces with our extensive database of over 120 years of market data.

She contributes research & analysis to each InvesTech publication and writes sections of the newsletter, the weekly Hotline, and Market Insights, keeping subscribers up-to-date on InvesTech's strategy.

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Welcome to InvesTech Research

An Introduction

InvesTech was originally founded in 1979 as a private investment firm dedicated to independent research of the financial markets. Today, InvesTech maintains an extensive historical database of financial and market data extending back more than 120 years. Our proprietary indicators and data sets, along with deep historical knowledge of market cycles, permit analysis of the Federal Reserve, economy, and stock market that is virtually unparalleled on or off Wall Street. This research and analysis is made available to subscribers in real-time through our website, as well as our flagship *InvesTech Research* newsletter.

Our research offers a unique blending of technical, monetary, and macroeconomic analysis, as we attempt to answer not just where the market is heading, but why. Our services include actionable equity sector and asset allocation recommendations via our Model Fund Portfolio. Through our time-tested safety-first investment philosophy, we aim to provide unhedged advice and a valuable perspective on risk management.

Frequently Asked Questions

About your Subscription...

Q. When does my subscription begin?

Once your order is complete, you will get instant access to the InvesTech Research website, and your first issue of the InvesTech Research newsletter will be on its way! The InvesTech website includes valuable Subscriber Resources and Tools such as our InvesTech Hotlines, Market Insights, Daily Data, and the InvesTech Model Fund Portfolio.

Q. When does my subscription expire?

Your subscription expiration is based on the time elapsed since your purchase. You can check your subscription expiration online by going to "My Account" and clicking on "Subscriptions." Your expiration date will show underneath the status. We will notify you to renew your subscription when your subscription is approaching expiration.

Q. How do I access my InvesTech Research subscription online?

To log in, visit www.investech.com and select "Log In" from the upper-right corner of the website. Enter your email address and the password associated with your account. If you submitted your order online, log in using the account credentials you established during checkout. If you subscribed by telephone or mail, we will email you the login instructions when your order is processed.

Q. What if I have questions about my subscription or problems accessing the website?

Most problems can be quickly resolved with a call to our office at (406) 862-7777 (Monday-Friday, 8:30 AM - 5 PM Mountain Time). You may also submit the Contact Us form on our website or send an email to investech@investech.com. Please note, due to SEC regulations, our research team is unable to answer questions about your specific investments or portfolio.

Q. How do I purchase a gift subscription for a friend?

Purchase a gift subscription for a friend, colleague, or family member from the My Account area of your online account. Simply log in to www.investech.com, select the My Account button, and then select "Gifts." Follow the steps to add your recipient's information. Your recipient will receive an email with instructions on how to set up their account. Give the gift of safety-first investing!

About the InvesTech Research Service...

Q. How often does InvesTech publish the InvesTech Research newsletter?

The InvesTech Research newsletter is published on the third Friday of each month. In December, a calendar with the dates of publication for the coming year is printed in the newsletter. The Publication Schedule is also available on the InvesTech Issues page of our website.

Q. What real-time updates are available online?

InvesTech's Proprietary Indicators are available approximately 45 minutes after market close on our website. Our Daily Data listing is updated by 8PM Mountain Time (MT). Market Insights are published when pertinent data releases and economic updates become available. Additionally, changes to the Model Fund Portfolio are emailed as they occur and can also be found on our website. InvesTech Research may also communicate dynamic developments in the market and/or meaningful changes to our strategy on our InvesTech Hotlines.

Q. What indicators does InvesTech use in analyzing the market?

InvesTech utilizes over 100+ technical and fundamental indicators (monetary, economic, leadership, breadth, momentum, and sentiment) – approximately one-third of these are proprietary indicators developed through years of research. While the details of our proprietary indicators are confidential, we openly present their background and use their graphics in support of our analysis... often comparing current readings with the historical performance of these indicators.

Q. Are you able to answer specific questions about my investments?

SEC regulations prohibit us from giving you personal investment advice. We are not investment advisors and are unable to provide analysis beyond what is published and made available to all of our subscribers. Our newsletters, reports, and other research services should never be interpreted as personal investment advice.

Subscriber Resources & Tools

InvesTech Issues

The *InvesTech Research* newsletter has earned widespread recognition for its time-proven risk allocation strategy, as well as in-depth analysis of the markets and the Federal Reserve. The newsletter is published on the third Friday of each month. It is sent by mail and posted to our website for subscribers. We send email notifications to our subscribers when the latest issue is available. The official publication calendar can be found on our website on the InvesTech Issues page.

Market Insights

Market Insights are posted when dynamic economic news and data is released. These are short summaries of what the data means to you and how it may affect your investing. A select few Market Insights are made available to the public with the majority available only to our subscribers.

InvesTech Hotline

Updated every Friday after 12:30PM ET, the InvesTech Hotline provides a summary of the week's important data releases and technical updates. Hotlines are also posted when there are any changes to the Model Fund Portfolio.

Model Fund Portfolio

The InvesTech Model Fund Portfolio is designed for individual investors who want to follow our allocation and sector recommendations for the equity portion of their portfolio. Subscribers who follow the Model Fund Portfolio can track the trades we're making in real-time as we implement our "safety-first" strategy. Emails are sent to subscribers notifying them of any changes to the portfolio. For assistance utilizing the InvesTech Model Fund Portfolio, see page 27.

InvesTech Indicators

InvesTech utilizes over 100+ technical and fundamental indicators (monetary, economic, leadership, breadth, momentum, and sentiment) – many of these are proprietary indicators developed through years of research. While the details of our proprietary indicators are confidential, we openly present their background. Long-term charts of some of these indicators are on the website and are up-to-date with data as it is available on the InvesTech Indicators page.

Daily Data

Daily access to a wide range of stock market metrics, including market indexes, breadth/volume data, leadership data, short-term indicators, and proprietary indicators is provided in one convenient location. Daily Data is updated each day as soon as the information is available from our sources.

Subscriber Library

Explore the Subscriber Library of Special Reports and past issues on important topics of a timeless and historically significant nature. Learn more about past market cycles, asset bubbles, and important strategies for long-term investment success.

Understanding InvesTech's Indicators

An Introduction to Technical, Monetary, and Macroeconomic Analysis

The term "Technical Analysis" oftentimes conjures up visions of trendlines, oscillators, stochastics, point-and-figure charts, candlestick patterns, and Fibonacci sequences in the search to unlock the secret of the stock market. And while there are those who profess the ability to forecast the stock market using these or more esoteric tools, this picture of technical analysis and the ability to predict future stock prices is for the most part – *wrong*.

InvesTech Research is built on a 45+ year track record of successfully navigating some of the most treacherous markets in Wall Street history – including the 2008 Financial Crisis, the 2005 Housing Bubble, the 2000 Tech Bubble, and even the 1987 Crash. While some of the tools mentioned above can often be beneficial to short-term traders, the ability to manage risk at times of extreme danger requires a much broader and more in-depth approach that includes not only the technical health of the market, but a fundamental understanding of the importance of monetary policy, and the ability to proactively apply the most leading macroeconomic tools available.

When technical, monetary, and macroeconomic analysis are taken together, investors have a strong framework for successfully navigating every part of the market cycle. The following tables show our most relied upon indicators for each of these three areas.

The technicals ❶ are the most leading and allow investors to act ahead of important turning points in the market.

InvesTech Indicators

❶ TECHNICAL

Breadth
- Advance-Decline Line
- ***InvesTech*** A/D Divergence Index
- ***InvesTech*** Adjusted Breadth Index
- Breadth Thrusts

Leadership
- ***InvesTech*** Negative Leadership Composite
- ***InvesTech*** Leadership Indexes

Index Divergences
- ***InvesTech*** Canary (in the coal mine) Index
- ***InvesTech*** Gorilla Index
- ***InvesTech*** Artificial Intelligence Index
- ***InvesTech*** Bellwether Index
- DJUA/DJTA/Russell 2000

Sentiment
- ***InvesTech*** Investor Psychology Barometer
- AAII Individual Investor Sentiment Survey
- Investors Intelligence Advisor Sentiment

Long-Term Conditions
- Coppock Guide
- 18-Month Relative Strength Index

Short-Term Conditions
- ***InvesTech*** Pressure Factor
- CBOE Equity Put/Call Ratio

Continued on next page...

Monetary indicators ❷ then reveal whether conditions are acting as a headwind or tailwind for the market, which can impact both the size and longevity of a major move in the market.

InvesTech Indicators

❷ MONETARY

Inflation Pressures
- S&P Goldman Sachs Commodity Index
- ISM "Prices Paid" Index
- Median Consumer Price Index
- U.S. Dollar Index

Inflation Forecasting Models
- FIBER Leading Inflation Index
- NY Fed Underlying Inflation Gauge
- ECRI Future Inflation Gauge

Fed Policy
- Discount Rate
- 90-Day T-Bills
- 2-Year T-Note

Long-Term Yields
- 10-year Treasury Bonds
- 30-year Mortgage Rate
- High Yield Credit Spreads

Yield Curve
- Fed Yield Spread Model
- Percent of Yield Curve Inverted

Finally, leading macroeconomic indicators ❸ are what confirm the signals being sent from the technical and monetary tools. For example, technical and monetary indicators can warn of recession well ahead of time, but it is only the macroeconomic data which can confirm that a recession is indeed inevitable.

InvesTech Indicators

❸ LEADING MACROECONOMIC

Employment
- Jobless Claims
- Job Openings
- Consumer Confidence - "Jobs Plentiful"

Housing
- ***InvesTech*** Housing [Bubble] Barometer
- New Home Sales
- Existing Home Sales
- NAHB Builder Confidence
- NAHB Traffic of Prospective Buyers
- Housing Starts
- Building Permits
- Housing Prices vs. Inflation

Confidence
- CEO Confidence
- Consumer Confidence
- Consumer Sentiment
- NFIB Small Business Optimism

Debt and Leverage
- Margin Debt

Leading Economic
- U.S. Leading Economic Index
- ECRI Weekly Leading Index
- ISM Manufacturing Index
- ISM Services Index

Every indicator listed above has proven to have a positive impact on our investment process, yet over 45 years of investing experience has taught us that there is no single Holy Grail indicator. Instead, it's the weight of the evidence of all of these indicators which gives the best opportunity for investing success. Next, we will show how these indicators form the basis of a "safety-first" strategy which both protects against major stock market drawdowns while also capitalizing on low-risk buying opportunities once they appear.

The InvesTech Bellwether Index

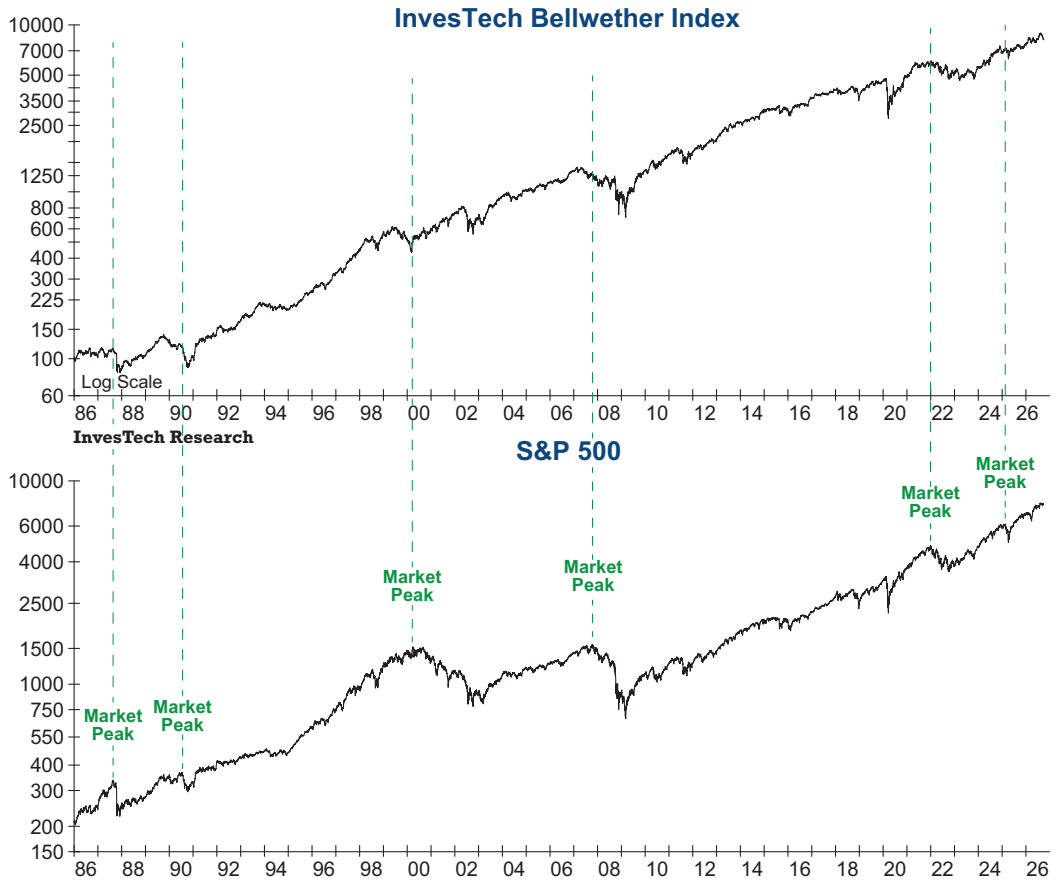
Measuring bellwether leadership...

Historically, there are certain bellwether stocks, and even entire sectors, that have characteristically led the broad market averages at major market tops. At different times over past decades, these have included stocks like General Motors, IBM, and GE. Yet it is primarily three economically- and monetarily-sensitive sectors –Consumer Discretionary, Financials, and Utilities– that have earned the right to be called true historic bellwethers today.

In the later stages of a bull market, the Federal Reserve will typically tighten monetary policy as the economy starts to overheat, with the result being that the interest rate-sensitive Financial and Utilities sectors begin to weaken. At the same time, higher interest rates curb borrowing and investment spending. And as the economy slows, consumers cut back on purchases of Consumer Discretionary items such as cars, eating out, and entertainment. Hence, these three economically-sensitive sectors will often signal an early warning flag prior to the start of a bear market.

The *InvesTech Bellwether Index* is designed to forewarn investors that they should start battening down the hatches in anticipation of a market turning point. To compile this Index, we pulled some of the longest-trading and most leading stocks from these three economically- and monetarily-sensitive sectors. Selection emphasis was given to companies that were well capitalized and which displayed a cyclical price pattern that peaked well before previous bull market tops.

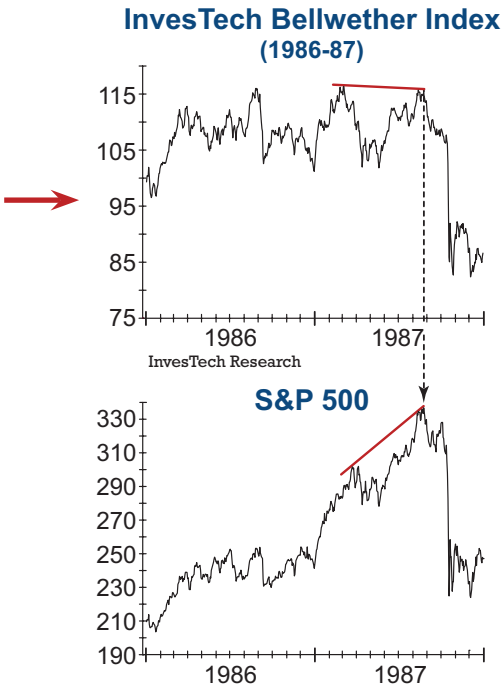
As shown in this long-term graph of our *InvesTech Bellwether Index* (below), weakness in this Index has tended to foreshadow the subsequent bear markets at least several months in advance.

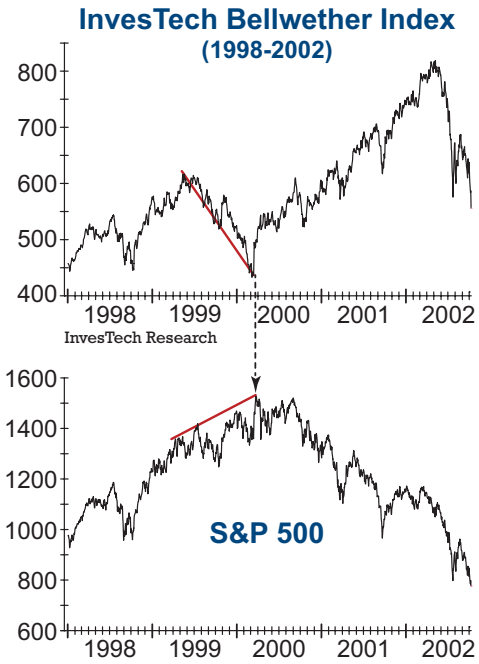


Stepping back in history to four important market peaks since the mid-1980s, we see how this Index would have warned of imminent trouble…

The 1987 Crash

As the stock market rose sharply in the summer of 1987, the S&P 500 Index (bottom graph at right) gained over 10% in just 4 months. In contrast, the *InvesTech Bellwether Index* struggled just to stay even – sending an important warning that these bellwether stocks were signaling trouble.





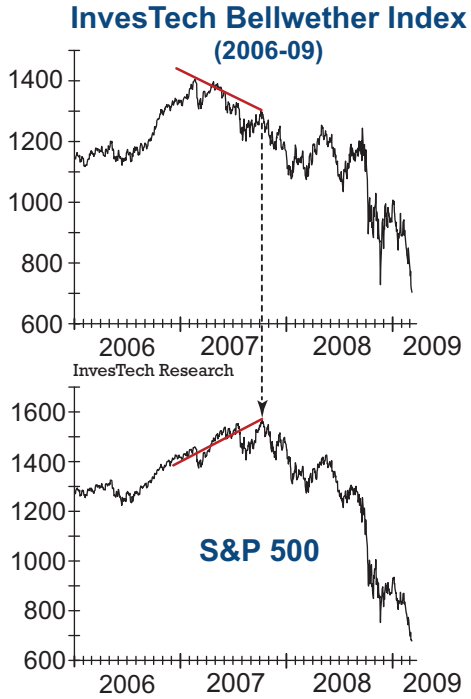
The 2000-02 Bear Market

All of the major stock market averages peaked in the first three months of 2000 at all-time record highs. However, the *InvesTech Bellwether Index* had already hit its peak over 12 months earlier and had declined by almost 20%!

NOTE: Although these bellwether stocks did not continue declining in 2000-01, they had nonetheless already given their all-important warning signal. *Its exclusive purpose is to help identify market tops.*

The 2007-09 Bear Market

Almost 8 months of advance deterioration in the *InvesTech Bellwether Index* during the summer of 2007 was yet another ominous warning flag of a potential bear market ahead. Instead of looking at corporate earnings, media headlines, and "no recession" reassurances from economists, this is what investors should have been watching!

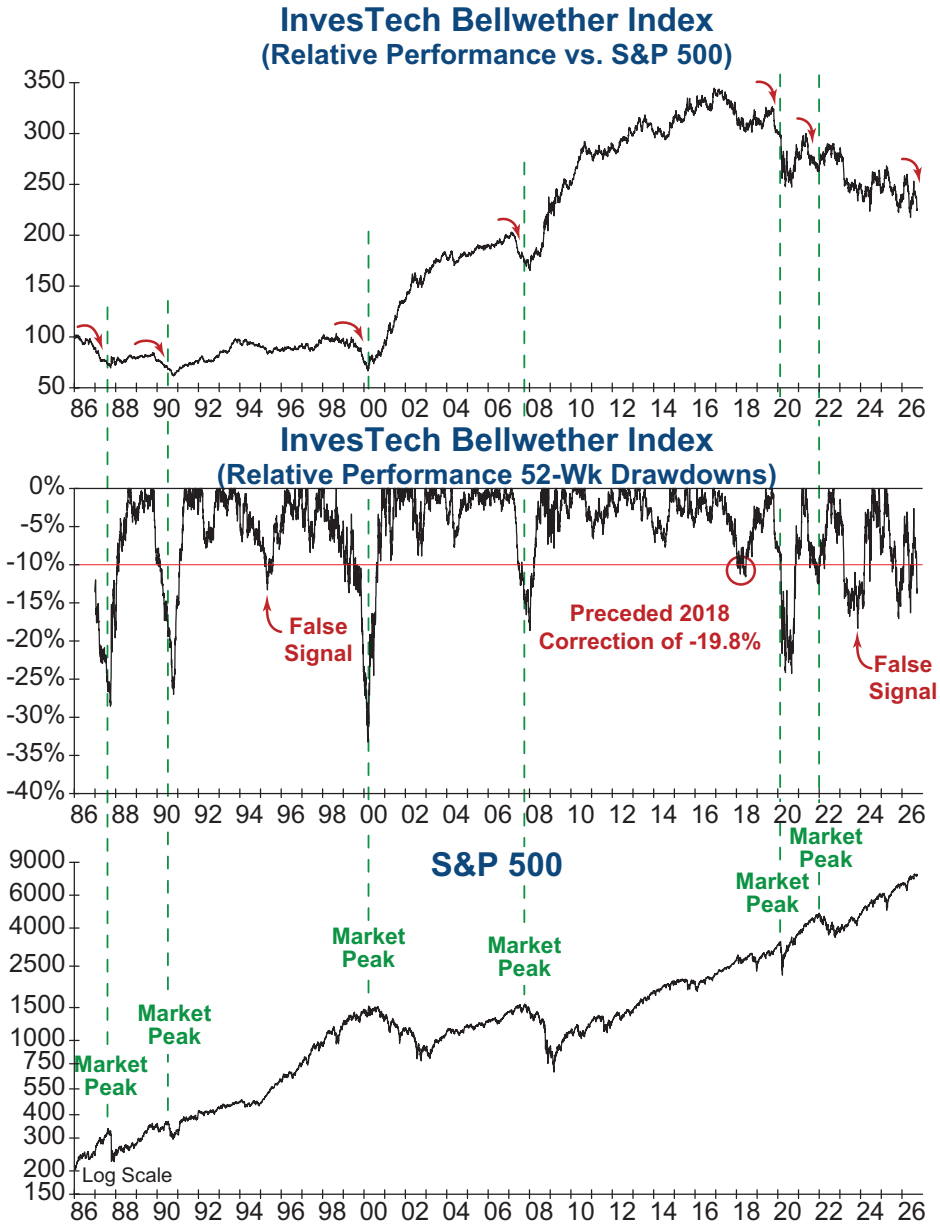


Bellwether Stocks and Relative Performance

While divergences in the *InvesTech Bellwether Index* on an absolute basis have proven useful for identifying market tops, there is also value in tracking this Index on a relative basis. Historically speaking, the *InvesTech Bellwether Index* has underperformed the S&P 500 by at least -10% on a 52-week basis prior to every bear market since its inception (see middle graph below). As such, this signal likely carries strategic consequences when breached.

Tracking the relative performance of the *InvesTech Bellwether Index* serves two purposes. First, it gives a defined threshold to tell you that bellwether underperformance has become significant enough to warrant defensive action. While the lead times provided by this signal can vary, knowing that the *InvesTech Bellwether Index* has broken the -10% barrier on a relative basis provides an investor with a definitive and actionable bearish warning flag. Second, monitoring this leading index on a relative basis provides a much-needed signal for times when the *InvesTech Bellwether Index* is not diverging on an absolute basis. For example, bellwether stocks significantly underperformed the S&P 500 prior to both the -19.8% correction in 2018 and the -33.9% COVID-19 Crash in 2020, yet the *InvesTech Bellwether Index* was still making new highs on an absolute basis in the lead up to both instances.

Used alongside other technical and monetary indicators, the *InvesTech Bellwether Index* deserves close attention when it noticeably underperforms the popular market indexes.



The Negative Leadership Composite (NLC)

Measuring the real quality of internal leadership...

Why should one pay attention to leadership?

Two reasons. First, leadership is easily measured. And second, broad leadership is a prerequisite for a bull OR a bear market. The biggest, multi-year bull markets have the least negative leadership. Conversely, the big bear markets must have very negative leadership. Many other indicators, such as valuation and sentiment gauges, are more subjective and imprecise. That is, they never peak at the same level twice. In addition, both sentiment and valuation are "counter-trend" – meaning that once a market top is in place and stock prices start falling in a bear market, these indicators immediately begin to improve by moving toward more favorable readings. In other words, if you're not already defensive, these counter-trend indicators will keep you invested all the way down.

In researching various leadership indicators, we found little value in attempting to quantify leadership in blue chip stocks versus secondary stocks, or in NYSE versus Nasdaq stocks. In addition, we also discovered that tracking upside leadership (the number of stocks hitting new yearly highs) failed to differentiate between a temporary correction and a full-fledged bear market. The real quality of leadership analysis lay somewhere else...

QUESTION: What is the most difficult decision that an investor must make?

If you answered *"when to sell a stock,"* you're at least partially correct. Every investor inevitably learns that the most difficult decision is actually *"when to sell a stock at a loss."* Emotions can easily overwhelm judgment. And there isn't a seasoned investor alive who hasn't held at least one stock all the way down, as they waited and hoped for that one chance to get out even.

With time, logic replaces emotion. So selling a stock at a loss becomes a little more mechanical (if not less painful) for the experienced investor. Nonetheless, it often requires a pretty grim market outlook for the majority of investors to "bite the bullet" and dump a stock that is tumbling to new 12-month lows. Therein lies one of the most valuable technical tools in the stock market: downside leadership – or the number of stocks hitting new yearly lows.

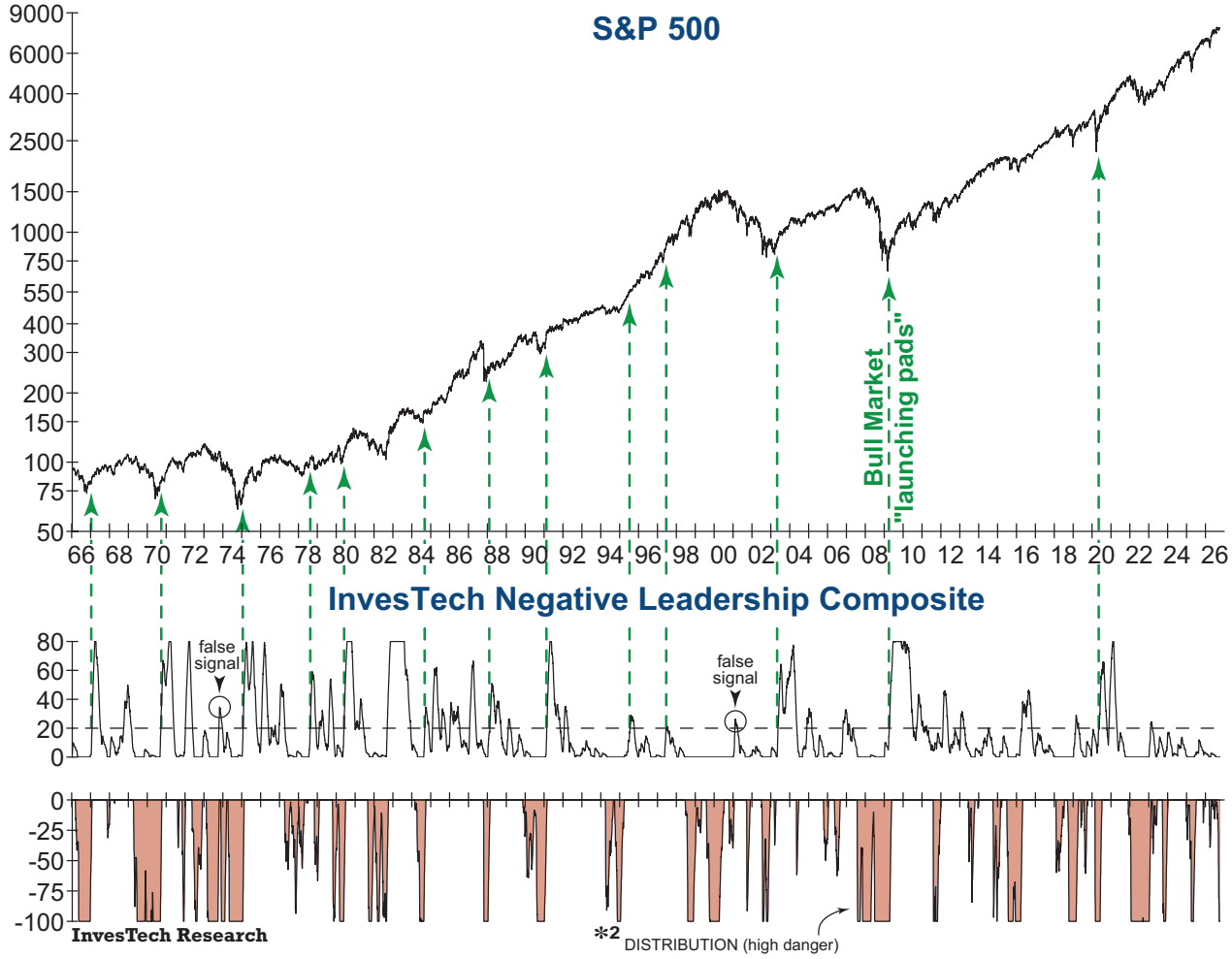
The graph on the following page shows the S&P 500, plus the two components of our Negative Leadership Composite or NLC. Both parts of our NLC are based purely on downside leadership. Together, they're designed to signal the onset of a new major bull market, which is often when investor gloom is most widespread. And perhaps more importantly, they reveal when the probability of a full-scale, portfolio-slaughtering bear market is highest.

Continued on next page...

The top half of our NLC [*1 – graph below] monitors the absence of selling pressure or what we call a "Selling Vacuum." **No new bull market springs to life without seeing downside leadership dry up – with the appearance of this Selling Vacuum.** More often than not, the height and duration of this Selling Vacuum help indicate how strong a new bull market is – and how long it will last. For example, look at the times this Index climbed to a very strong +60 to +70 reading. Almost invariably, they confirmed the onset of a new multi-year bull market.

The bottom half of our NLC [*2 – shaded region on graph below] measures "Distribution" by looking at the rate of acceleration in downside leadership. Quite simply, when the shaded region appears, it means that investors have reached that "bite-the-bullet" stage and are anxious to dump their stocks – even if at a big loss. This is the most vulnerable, dangerous region for the stock market… it is when bear markets can strike.

Obviously, the Negative Leadership Composite doesn't provide a major signal very often. When Distribution is present, it's time to be more cautious and carry a higher cash reserve. But when a Selling Vacuum appears (especially after 6 or more months of Distribution), it's time to take notice and get ready to jump on a charging new bull market in stocks. Of course, the decision to aggressively buy at that time should be confirmed by other technical and monetary indicators tracked by InvesTech.



*1 SELLING VACUUM [-BULLISH-]: This confirms the absence of negative or downside leadership. It is normally a very bullish signal since a stock market without any downside leadership is destined to move much higher.

*2 DISTRIBUTION [-BEARISH-]: This signals that investors are anxious to sell stocks regardless of whether their position is at a loss, or the stock market is tumbling to new lows. It carries bearish implications as it suggests investors will use any rallies to get out of the market.

The A/D Divergence Index

Measuring long-term breadth divergence...

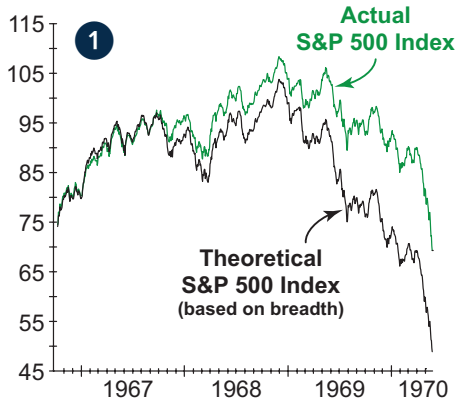
Stock market "breadth" or participation has always been a most valuable tool at market tops. As stocks reach overpriced levels (and inflation fears appear or interest rates begin to rise), it's common to see investors become more selective in their stock purchases.

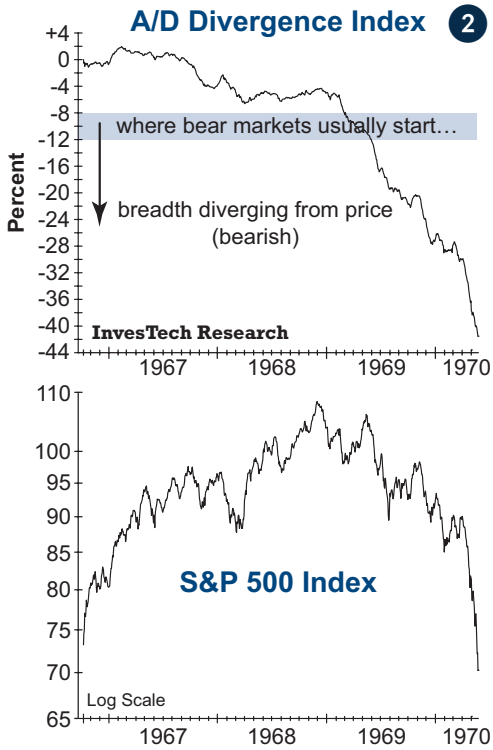
The A-D Line (cumulative total of daily advancing issues minus declining issues) is the most prevalent tool in monitoring breadth. To use this tool, one must visually compare the line's divergence with the graph of a market index such as the S&P 500, and accurate measurement can be difficult. Additionally, the A-D Line can display an upward or downward bias depending on the period.

In developing InvesTech's A/D Divergence Index, we tried to expand on previous research done by others in the area of market breadth. Yet our goals for the model were very specific:

- It should provide confirmation of a probable bull market when underlying breadth is broad and strong.
- It should reveal when breadth divergence is reaching a critical point at which past bear markets have normally begun.
- It should not be distorted by "temporary" weakness or strength in the A-D Line.

In technical terms, first we adjusted the 75+ years of A-D Line data for the increasing number of stocks traded over time. Next, we normalized the S&P 500 Index so current price changes are comparable to historical price changes. And finally, through linear regression, we found the relationship that was most consistent in past bull markets. The end result is a model that reveals the percent difference between the actual S&P 500 Index in a bull market... and the "expected" S&P 500 Index based on historical breadth. That difference or divergence, when it reached a certain level, was an excellent warning of an impending bear market.



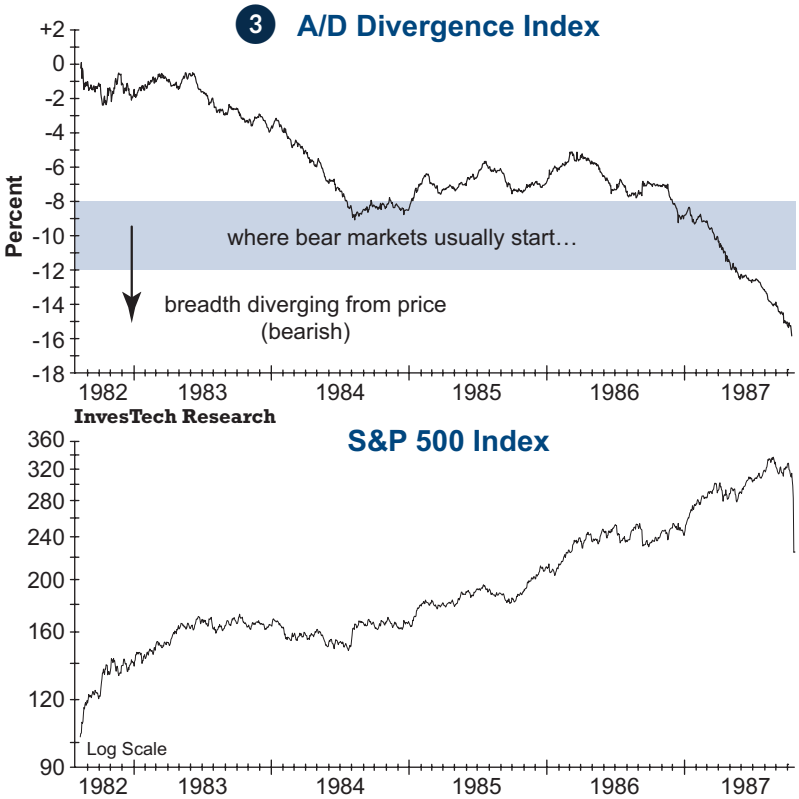


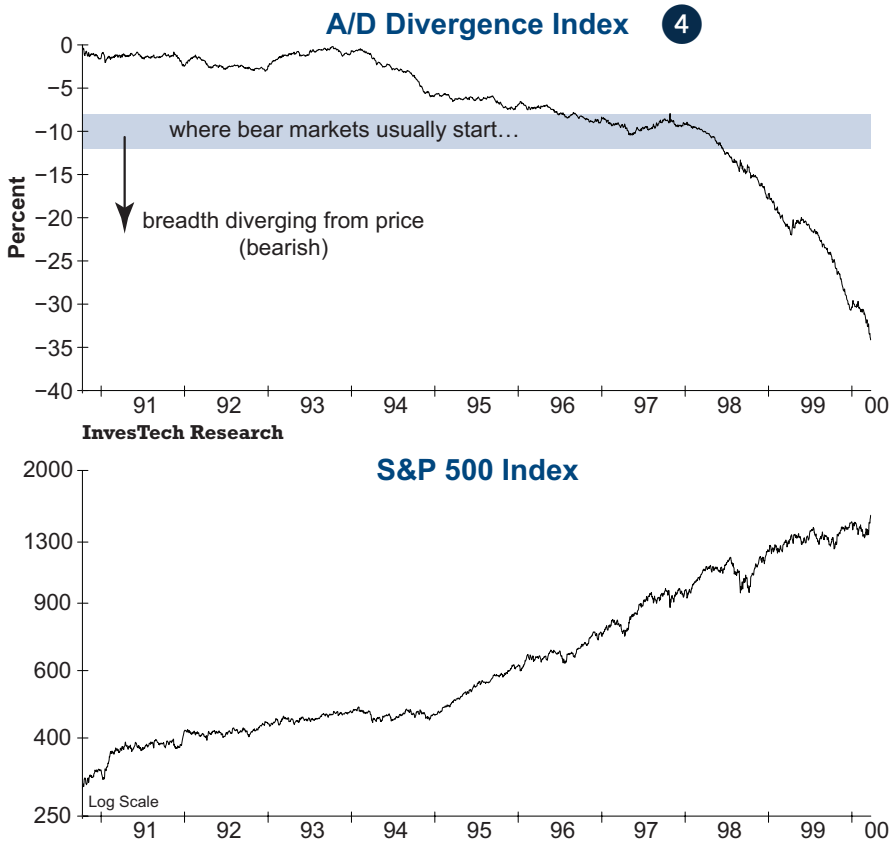
Technical jargon aside, here are the results – shown by example. Figure 1 at right shows the S&P 500 Index as the "Go-Go Fund" era of the late 1960s gave way to the 1969-70 Bear Market. Also displayed is our "Theoretical S&P 500 Index" (or where the S&P 500 should have been based on market breadth). You'll notice that by the time the bear market started, a substantial gap existed between these two lines or indexes. As the bear market progressed, this spread opened even wider... increasing the downside risk. Quite simply, that gap measured how much the market's breadth was leading prices lower.

To display this divergence in a more understandable form, we've shown it (as percent difference) in our A/D Divergence Index – Figure 2 at left. As with a surprising majority of bear markets, the "danger zone" of this Index turned out to be between 8-12%. The more that breadth weakened in the bear market, the faster this Index declined, and the faster the market fell.

In Figure 3 at right, we've shown our A/D Divergence Index for the 1982-87 Bull Market (and subsequent crash). From mid-1983 until mid-'84, deteriorating breadth caused problems for the market as the technology-heavy NASDAQ dropped over -30%. But note that this A/D Divergence Index then moved higher (strengthened) for several years... until 1987. The warning before the '87 Crash was a classic!

How has this gauge performed in other benchmark periods? Remarkably, it did work in 1929... with one of the greatest breadth divergences in history. And entering the 1950s, the A/D Divergence actually showed the S&P 500 Index as 20% underpriced by 1951. That bullish condition remained throughout most of the decade... with the A/D Divergence rising as stocks marched profitably higher.





Finally, we come to the greatest breadth divergence in the modern era, the Tech Bubble – Figure 4. Market breadth had deteriorated to worrisome levels just as the Tech Bubble was starting to get nutty in 1997, yet the market continued to advance on increasingly weaker breadth until its ultimate peak in 2000. Unsurprisingly, this gargantuan breadth divergence resulted in a bear market that lasted over 2½ years, with losses that approached -50% in the S&P 500 and -80% in the NASDAQ.

Thus, another important lesson to be taken from this tool is that the larger the divergence, the more painful the eventual bear market is likely to be.

Coppock Guide

Identifying the safest buying opportunities...

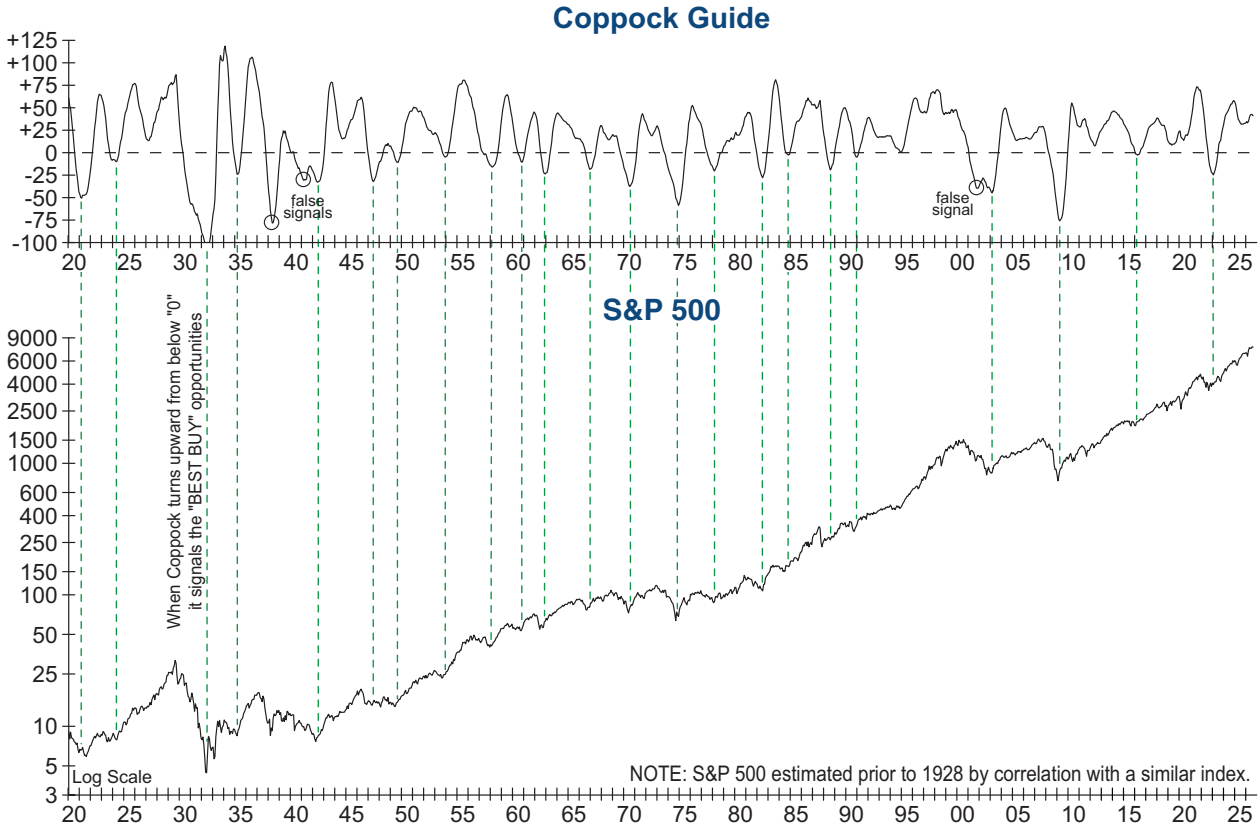
The Coppock Guide or Curve was originally developed over 60 years ago by Edwin S. Coppock. It's been modified and adapted by a few analysts since then, but the only notable publicity it receives is an occasional mention in a timely *Barron's* article or from independent, technically-oriented newsletters. Yet this indicator has a remarkable 100+ year track record when it comes to signaling the start of a new bull market for stocks. And it is one of the few technical tools that would have kept anxious investors from stepping **prematurely** into the middle of the 1929-32 record stock market decline.

The Coppock Guide has been described as a *"barometer of the market's emotional state."* This indicator moves very slowly and methodically from one emotional extreme to another. Its historical value lies in signaling or confirming the best, low risk buying opportunities in history. All of these are noted by the dashed lines to the S&P 500 Index in the graph below.

By calculation, this Index is actually the 10-month weighted moving total of a 14-month rate of change plus an 11-month rate of change of a market index. In other words, it's really just a momentum oscillator. Because of this, it reverses direction when the momentum or rate of change in the market peaks. And since market bottoms are usually sudden or "spiked" reversals, the Coppock Guide works amazingly well in triggering buy signals.

After dropping to 0 or below, a mere 2-point upturn in this Index can usually be treated as an excellent buying opportunity. And often, the more negative the Coppock Guide is when it turns upward, the more impressive the profits ahead. The only false signals under this guideline were in 1938, 1941, and November 2001.

However, the Coppock Guide has never been noted for timely sell signals. The reason is that market tops are usually slow, rounding formations in which momentum *(and the Coppock)* peak up to a year or more ahead of the market. So other technical or monetary tools must be used to gauge when to reduce



exposure and shift to a higher cash reserve… except, that is, in a few cases. And that's where the carnage comes in, as explained below.

In the late 1960s, a technician named Don Hahn observed another phenomenon about the Coppock Guide. When a double-top occurs without the Coppock falling to 0, it identifies a bull market that hasn't experienced any normal, healthy washouts or corrections. That's a runaway bull market usually headed for disaster. This double-top has occurred only 9 times in the past 100+ years – with 5 of them accompanying the start of the most notorious bear markets of the past century: 1929, 1969, 1973, 2000, and 2007.

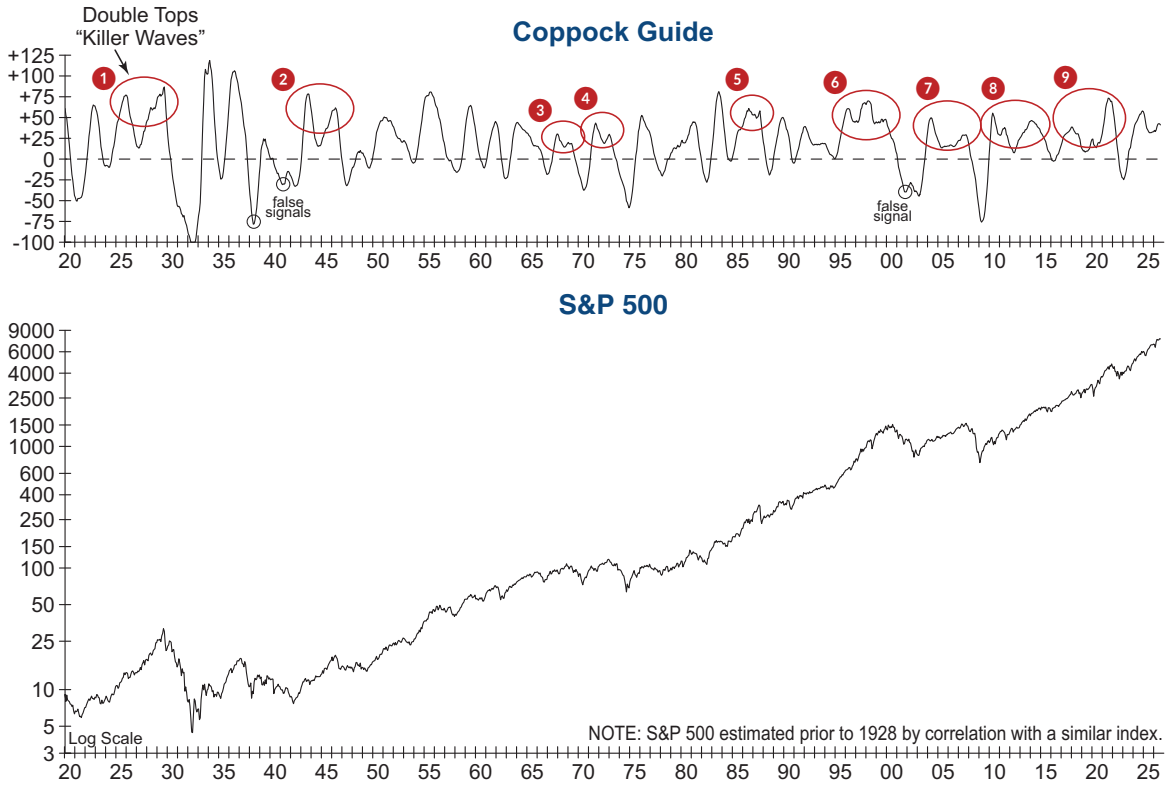
Coppock Guide

2nd Peak "Killer Wave"	Start of S&P 500 Bear	Bear Market Loss
1 Oct 1929	Sept 7, 1929	-86.2%
2 May 1946	May 29, 1946	-28.8%
3 Feb 1969	Nov 29, 1968	-36.1%
4 Jan 1973	Jan 11, 1973	-48.2%
5 Sep 1987	Aug 25, 1987	-33.5%
6 Apr 1998	Mar 24, 2000	-49.1%
7 Jul 2007	Oct 9, 2007	-56.8%
8 Feb 2014	May 21, 2015 *	-14.2%*
9 Aug 2021	Jan 3, 2022	*-25.4%*

*Market Correction

InvesTech Research

So one historical aspect of this double-top: *They can result in nasty bears!* Looking at the 9 "Killer Waves" of the past century, the table at right shows the month of the second peak, along with the timing of the start of the S&P 500 bear market. And a glance at those resulting bear market losses reveals why the double-top in the Coppock Guide has been nicknamed a "Killer Wave." *The average decline (excluding the -86% loss in 1929) was almost -40%!*



In summary, there are two critical lessons in this model. First is the inherent danger that accompanies a double-top in the Coppock Guide. Such a formation often precedes the biggest and most devastating bear markets. The second lesson, and perhaps most important, is the knowledge that the safest and most profitable buying opportunities appear after this Guide declines to (or below) 0 and then turns upward.

With its remarkable track record, the Coppock Guide should be a key tool in any investment strategy. When used with our other indicators, it can provide the discipline and patience to avoid treacherous bear market rallies and wait for the best buying opportunities that occur only a couple times each decade.

Short-Term Indicator – The Pressure Factor

Market psychology tends to roll in waves… a wave of euphoria followed by a wave of pessimism… overconfidence followed by fear. **As a result, markets advance (or decline) in a volatile manner as they bounce between "overbought" and "oversold" levels.** Both investors and traders are easily swept along in these buying or selling panics, only to find themselves jumping in near a short-term peak or selling right at a short-term bottom.

An "overbought" market condition can be defined as stock prices having climbed too far, too fast, with too much volume flowing into too few stocks. In simple terms, the more overbought a market becomes, the higher the probability that it will level off to digest its recent rise, or even correct downward – giving back a portion of its gain. The opposite is true for an oversold market.

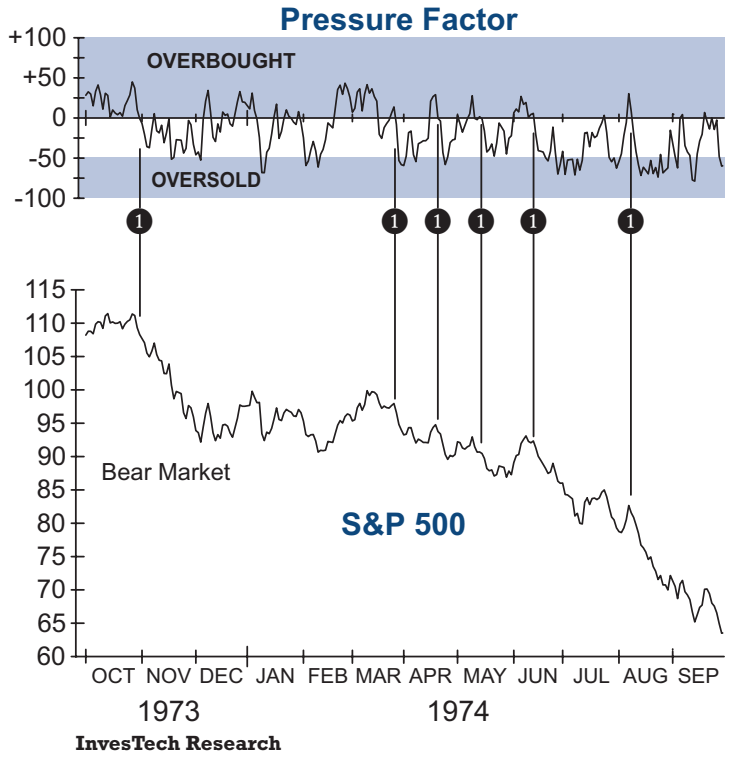
Obviously, an investor could increase their profit potential by determining when these sentiment swings reach an excessive level. For example, someone desiring to buy stocks (or exit a short position) can likely buy at a lower, more favorable price if the market is not overbought… or better yet, waiting until the market is oversold. Over the years, a number of methods have been used to measure the degree that a market becomes overbought or oversold. One of the most common is the Short-Term Trading Index or TRIN – defined as the Advance/Decline Ratio divided by the Advancing/Declining Volume Ratio.

InvesTech's proprietary Pressure Factor (PF) is an index which utilizes three individual oscillators: an inverse variation of the TRIN, a volume oscillator, and a price oscillator to determine when the market is overbought or oversold on a short-term basis. Because the Pressure Factor moves about a neutral 0-axis, the indicator is termed an oscillator.

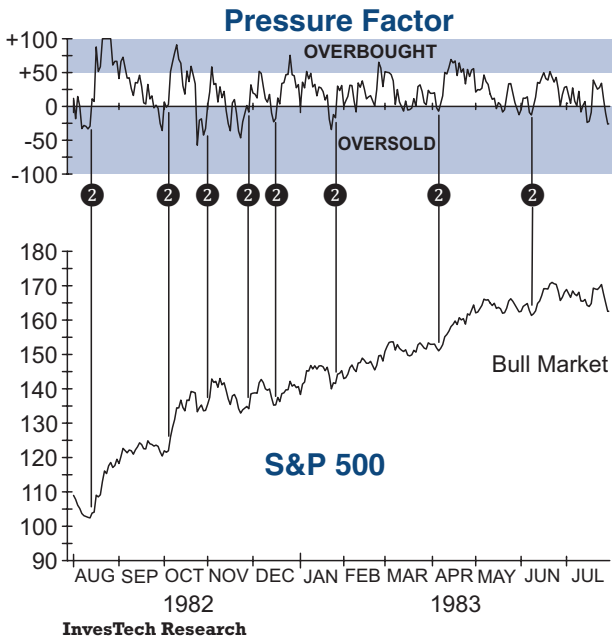
Under NORMAL market conditions, as the Pressure Factor climbs above a certain level, the market becomes overbought; the higher the PF, the more overbought and the higher the probability that the market is about to stall or correct downward. Conversely, as the PF drops below a certain level, the market becomes oversold; the lower the PF, the more oversold.

Shown at right is a graph of this Pressure Factor versus the S&P 500 during the protracted 1973-74 Bear Market. Notice that traders were presented the best opportunities for adding to short positions as the PF fell out of the overbought region – marked by ❶.

The infamous bull market of 1982-83 was exactly the opposite, as the oversold region provided the optimum entry points for purchasing stocks [❷ next page]. In addition, whenever the PF jumped to an overbought level, investors were normally better off waiting to add to long positions (purchase stocks) until after the PF dipped to neutral or into the oversold area.



You will also notice the overbought/oversold regions have been shifted downward in a bear market (such as the 1973-74 example) and shifted upward in a bull market (1982-83 example). This leaves the obvious question: "How do we determine when to shift the levels?" Previously, the shifting was based on monetary policy – upward if the Federal Reserve was accommodative, downward if they were tightening. An alternative to shifting the shaded levels is to mathematically adjust the Pressure Factor itself. This is automatically done by InvesTech today, with the shaded overbought/oversold thresholds for moderate readings fixed at +30 and -30 and +60 and -60 for extreme readings.



As shown in the graph at left, moderate Pressure Factor readings carry very near-term market implications and are useful for making tactical trades. On the other hand, extreme PF readings occur far less frequently and typically carry more meaningful consequences. A prime example of this was when the PF reached the most overbought level in 30 years following the 2020 Covid Crash. During the next three days, the S&P 500 lost -7.2%, including a single-day loss of -5.9%!

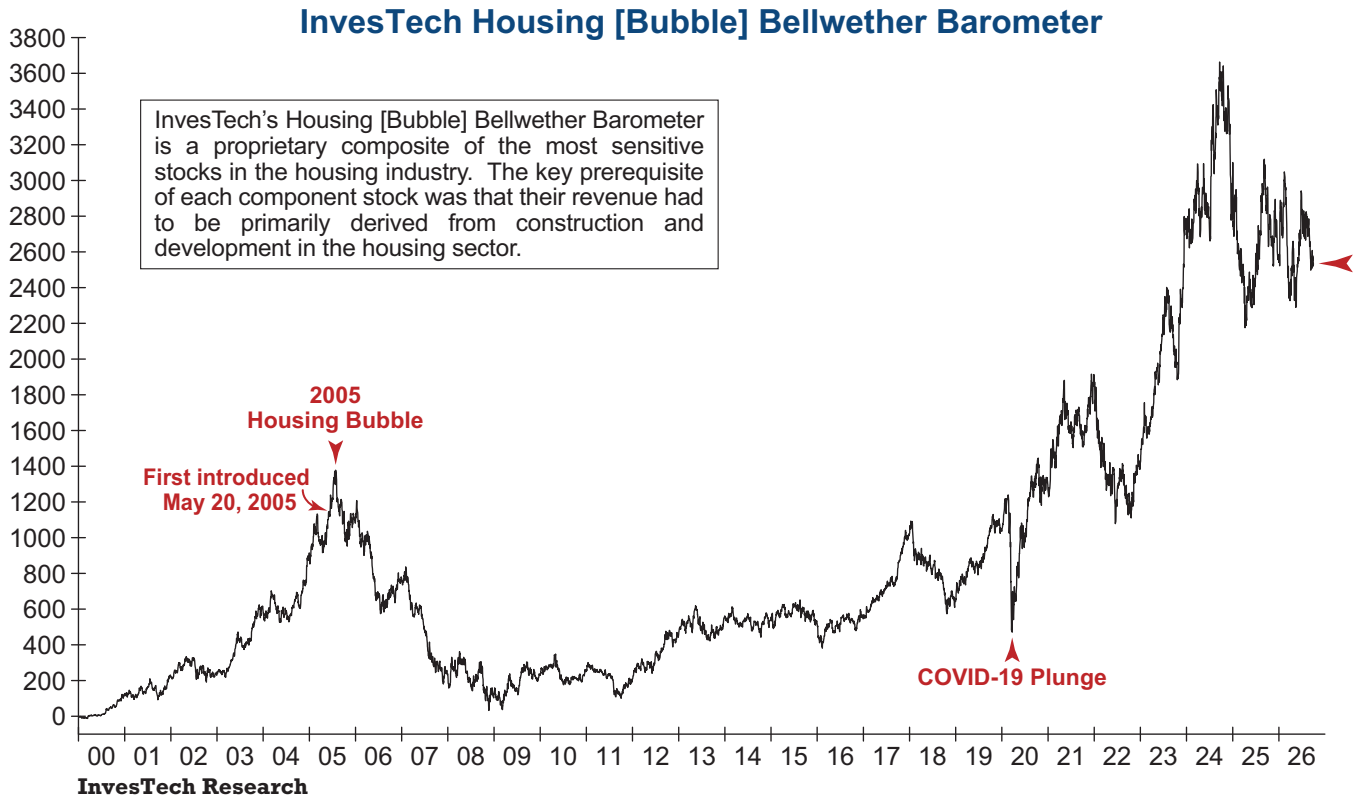
Since markets can remain extremely overbought/oversold for a period of time, the PF should be used as a trigger when it *exits* these regions. In other words... **the time to purchase stocks is not when the PF enters the oversold region, but rather after it bottoms and exits the oversold region**. Conversely, the time to sell a stock is when the PF peaks and exits the overbought region.

InvesTech Housing [Bubble] Bellwether Barometer

Housing is a crucial area of the market for investors to follow due to the outsized impact that it has on the consumer and economy. Changes in the housing market are typically wide-reaching and can reverberate for many years – even though it only accounts for approximately 17% of U.S. GDP. For this reason, we debuted our InvesTech Housing [Bubble] Bellwether Barometer in May of 2005 as we recognized that the housing market was in a bubble that was at risk of popping.

Our Housing [Bubble] Bellwether Barometer was developed to track the most sensitive stocks related to the U.S. housing industry – such as leading homebuilders, mortgage financers, and related stocks. This Barometer turned sharply lower just a few months after its debut in mid-2005, which was a potent warning that the housing market was skating on thin ice. Housing prices peaked just three months later, in what would ultimately lead to the 2008 Financial Crisis and the deepest bear market since the Great Depression. Housing prices wouldn't return to new highs for another 11 years.

While excesses in the housing market continued to unwind until home prices eventually bottomed in 2012, extremely accommodative monetary policies from the Federal Reserve helped housing prices bounce back to new highs by 2016. After the COVID-19 pandemic hit, housing prices went ballistic, rising at the fastest pace on record thanks to trillions of dollars in stimulus and rock-bottom interest rates. Our analysis indicated that the U.S. housing market had once again reached bubble status, a view which was further corroborated by our Housing Bellwether Barometer surpassing its high from the 2005 housing bubble. However, it wasn't long before this Barometer fell dramatically and the housing market headed into a significant slowdown. Due to the critical impact of the housing market on the U.S. economy, our Housing [Bubble] Barometer remains an important tool for gauging the level of potential risk in the housing market.



InvesTech Canary (in the coal mine) Index

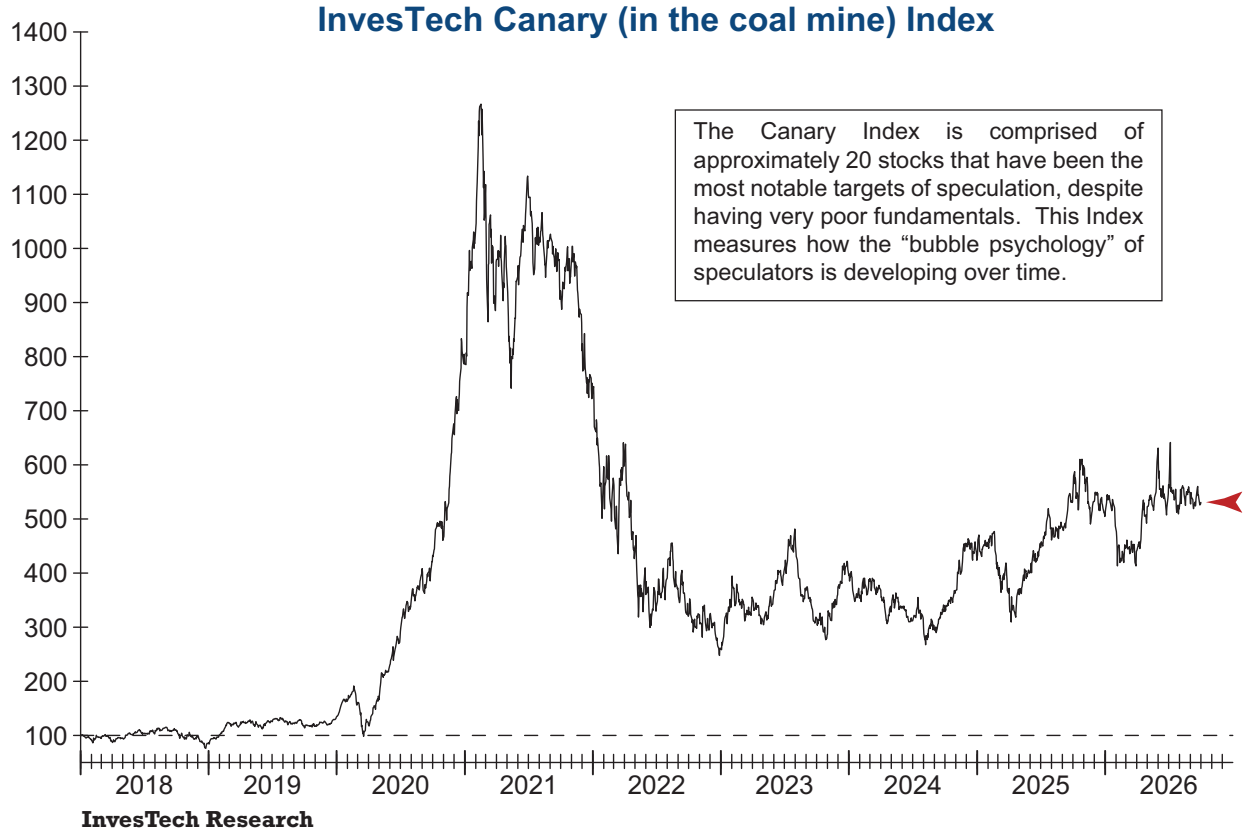
When a bubble in asset prices develops, one of the most reliable signs that the party is coming to an end occurs when the hottest and most speculative stocks begin to suffer significant losses. Simply put, the darlings of investor speculation are typically the first to unwind when investor sentiment and risk appetite begin to shift.

That was what we originally recognized in the Tech Bubble of the late '90s, when the dot-com stocks contained within the Interactive Week Internet Index plunged by -42% in the Spring of 2000, while the S&P 500 had only declined by -10% at that point. The carnage that struck these fundamentally unsound and epically overvalued stocks was the warning shot across the bow that indicated what was to come: a 2½ year-long bear market that would see the S&P 500 lose nearly -50% and the Internet Index lose over -90%!

In 2020, a very similar frenzy was ignited in speculative "meme" stocks as a result of trillions of dollars in pandemic-related monetary and fiscal stimulus. For this reason, we introduced our InvesTech Canary (in the coal mine) Index in May of 2021 as a tool that would provide an early warning signal of the danger in the stock market – just as miners used to carry a canary to warn of dangerous gases when descending into a coal mine in the early 1900s.

We designed our Canary Index to contain 20 of the hottest, most speculative, and most overvalued stocks of that speculative mania – including hot initial public offerings (IPOs), special purpose acquisition companies (SPACs), so-called "story stocks," and other favorites of the speculative crowd. Despite their seemingly limitless valuations, most of these companies never turned a profit and many never will.

Just like the Internet Index in 2000, our Canary Index gave an early warning that investor psychology was unwinding prior to the arrival of a bear market in the blue chip averages. While its primary purpose has already been served, the Canary Index is still useful as we track the long and painful reversal of speculative psychology.



InvesTech Artificial Intelligence (AI) Index

When a new technology enters the market it is not unusual for investors to get (over)excited and stock prices to shoot to the moon. This happened with the Internet and dot-com stocks in the late 1990s, and even the radio back in the 1920s. While the technology certainly changes over time, human emotions and investor psychology do not.

Recently, artificial intelligence (AI) has been the name of the game in the stock market, but we know from history that the momentous gains in AI stocks, like Wall Street-favorite NVIDIA, are not likely to be sustained. And these stocks leading the stock market to new highs will lead on the way down, too, when sky-high expectations can no longer be met. It's important to remember that this can happen even when the technology succeeds —just as it did with the internet and the radio.

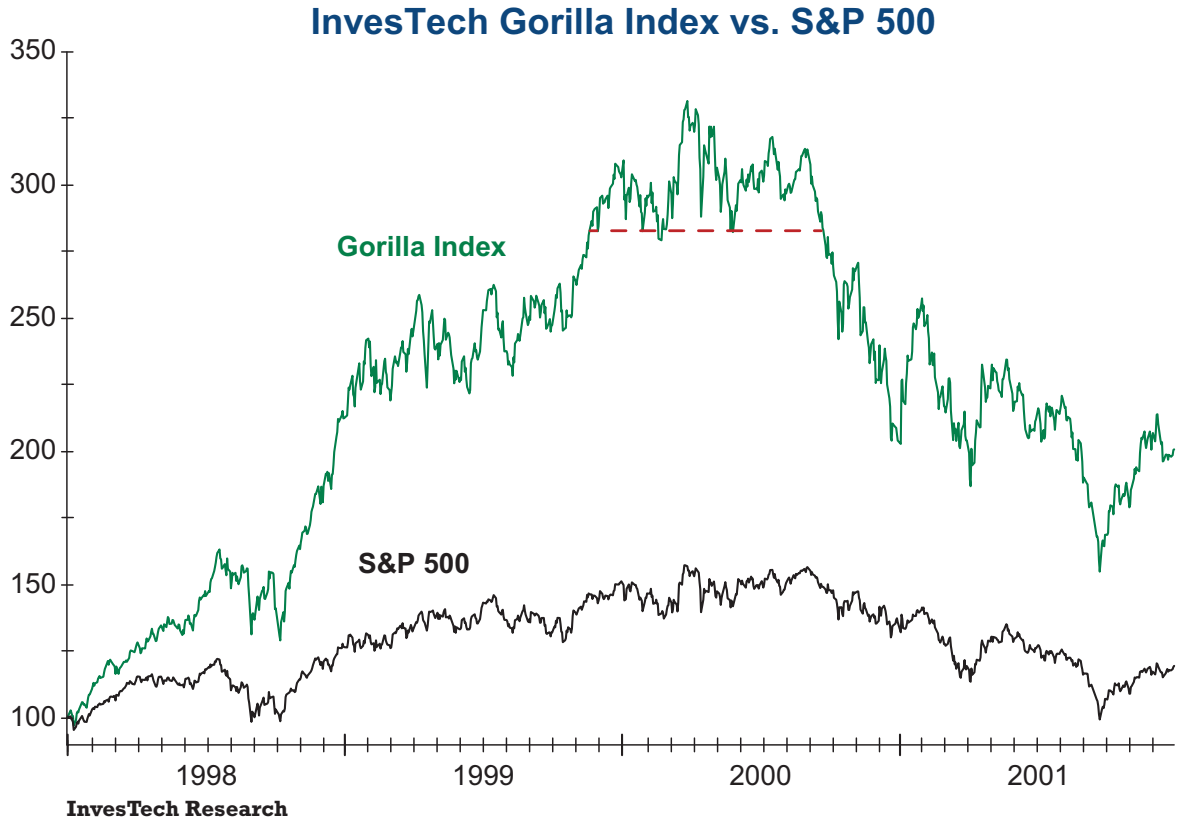
To track the exuberance surrounding this new technology and the excitement in AI-related stocks, we created the InvesTech Artificial Intelligence Index. This Index is made up of nine AI-heavy stocks that are representative of investor sentiment —and the potential asset bubble— surrounding the AI phenomenon.

A technical breakdown of our AI index would indicate that the air has started to flow out of the speculative bubble. Where these stocks go, so will investor sentiment, and these Wall Street darlings will likely have wide-reaching consequences for the broader market.

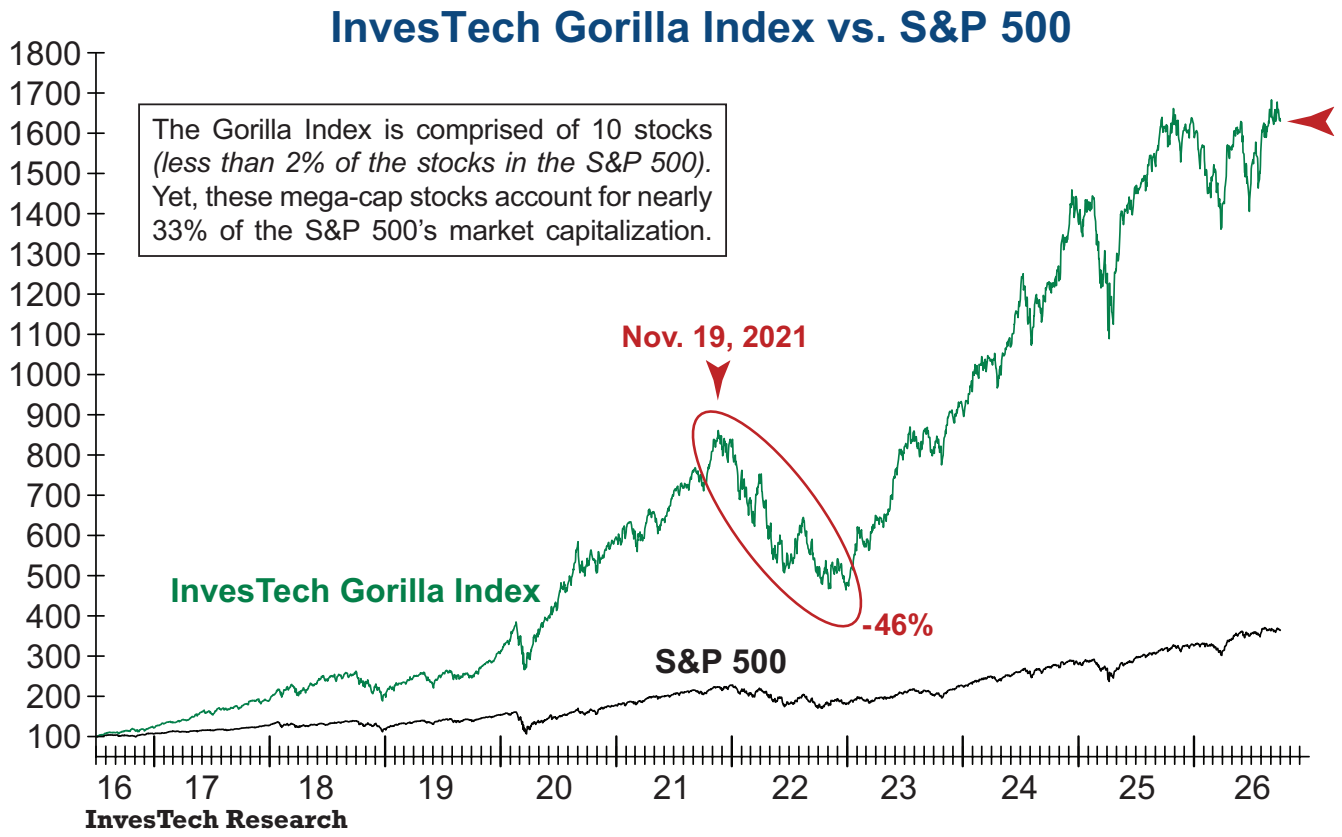
InvesTech Gorilla Index

One of the defining features of the Tech Bubble was the market's growing reliance on a very small number of megacap stocks. Companies like AOL, General Electric, Lucent, Microsoft, and MCI Worldcom had become viewed as the winners of the new "high-tech" era and their share prices were bid up to stratospheric levels as a result. Recognizing that so few stocks were having an outsized impact on the S&P 500 Index, we originally created the InvesTech Gorilla Index in 1999 to track the performance of these critical stocks and monitor the concentration risk in the broad index.

In total, the 17 stocks that comprised our Gorilla Index represented less than 3% of the stocks in the S&P 500 Index, yet accounted for over 25% of the Index's capitalization weighting. More importantly, this basket of stocks contributed to almost 60% of the S&P 500's gains in the final 18 months of the Tech Bubble. When it was introduced in the final year of that bull market, we said, "A bear [market] won't have control until the Wall Street favorites in this Gorilla Index roll over." Indeed, it marked the first major down leg of the 2000-2002 bear market when our Gorilla Index broke under its long-term support level (see graph below).



After the COVID-19 pandemic struck, there was a similar resurgence of megacap dominance in the S&P 500 Index, and this time it was *even more* pronounced. Thus, we introduced the InvesTech Gorilla 2.0 Index. The new Gorilla Index is made up of only 10 stocks, yet its weighting in the S&P 500 was even greater than the original at 35%. Without revealing all of the components in this tool, a few of its megacap growth holdings include Facebook, Tesla, Google, and Nvidia.



These stocks continued to dominate the market until late 2021, when our Gorilla Index peaked and began negatively diverging six weeks prior to the January 2022 peak in the S&P 500. We continue to watch this indicator closely, as our Gorilla Index has resurged to speculative highs.

Using the InvesTech Research Model Fund Portfolio

An Introduction

In today's volatile markets, a long-term investor is jokingly described as "an individual who holds onto a new purchase long enough to receive his next brokerage statement in the mail." However, history has proven that the true long-term investor, who aims for a one year holding period or longer, is typically rewarded by the most consistent capital growth from the stock market.

InvesTech uses a number of proprietary indicators to monitor the long-term "health" of the market which you've read about in the previous section. Among these are our Negative Leadership Composite, A/D Divergence Index, and InvesTech Bellwether Index. When our technical tools are universally bullish, we will recommend an aggressive long position and have up to 100% of our Model Fund Portfolio invested in the ETFs or mutual funds listed in the newsletter. As key indicators deteriorate, we will shift allocation to more conservative sectors and funds and/or reduce the percentage invested in the market by cutting back on positions in more cyclical sectors.

Even if you invest in stocks or funds other than the funds recommended by InvesTech, you should still reduce holdings when advised. By doing so, you reduce exposure as the market enters a more vulnerable stage. And more importantly, by the time a bear market strikes, a substantial portion of your investment portfolio should be safely in T-bills or a money market fund.

The Model Fund Portfolio Construction

Our Model Fund Portfolio is constructed as described above by specifying the allocation percentage in each exchange-traded fund (ETF) or mutual fund, with the remainder in T-bills or a money market fund. This portfolio focuses primarily on sector ETFs. However, we may also incorporate ETFs and mutual funds in the portfolio that are not specifically sector related, such as international funds, small-cap funds, or an inverse index fund when warranted. If mutual funds are held in the portfolio, we will generally list an ETF alternative for the position.

In selecting ETFs we focus on funds with solid track records that have demonstrated a close correlation with the sector or category index that we want to target. For instance, if we are establishing a position in small-cap stocks, we might seek an ETF that has tracked the performance of the Russell 2000 Index very closely over the past ten years. We also look at how the fund's portfolio is constructed, the level of assets in the fund, the expense ratio, and the reputation and experience of the fund's sponsor.

Selection of mutual funds is based on objective, size, ease of access, and performance – with an emphasis on the 5-year and 12-month rates of return. After all, when you purchase a mutual fund, you're actually buying the skill, knowledge, and track record of the management team running that fund. Specialty funds such as gold and bear market funds are recommended only if we see an opportunity for profit or the need to provide a hedge for our long positions.

How to Use the InvesTech Research Model Fund Portfolio

The InvesTech Model Portfolio is designed for individual investors who want to follow our allocation and sector recommendations for the equity portion of their portfolio. Get started bringing your portfolio allocation more into alignment with InvesTech's strategy:

1) **Determine your current invested allocation** by totaling the amounts you have invested in equities (individual stocks, stock mutual funds, and ETFs). Divide this by your total equity portfolio size (this does not include the fixed income or bond portion of your investments). The result is your percent invested allocation.

2) **Refer to the InvesTech "percent" invested recommendation and allocations listed in the Model Fund Portfolio.** If your portfolio is similar in composition, sector weighting, and percent invested allocation to the current recommendations in the Model Fund Portfolio, it is unnecessary to make any changes. Just wait for InvesTech's next recommendation to either add new positions or take profits, and act accordingly with your own holdings.

3) **Adjust your portfolio, if necessary.** Purchases after our initial recommendations must be made at your discretion; however, if your portfolio mix is dramatically different from our current recommendations and sector weightings, you may wish to consider changes to more closely align the portfolio with our model. *Generally rebalancing is not required. However, if the portfolio experiences outsized performance in certain areas we will periodically adjust the model to reflect this.*

An exception to Step 3 above would be if we warn in the InvesTech Research newsletter or on our Model Fund Portfolio page against new purchases in a particular area. This usually means that we believe sector leadership is changing or most of the profits on a position have already been achieved and new investment would not be advisable. In that case, it is better to wait in the safety of a money market fund for our next recommendation. Depending on market conditions, we may advise bringing your portfolio in line with our recommendations by phasing into the market. Please review the Model Fund Portfolio published in the current newsletter or the "New Subscribers and Our Portfolio" section of the Model Fund Portfolio page for more information.

InvesTech's strategy is not a short-term market timing system, but a long-term "risk allocation" strategy based on highly sophisticated indicators. Our objective is NOT to try to forecast stock movements in advance, but to correctly assess the market environment. When market indicators point to a strong, low-risk buying opportunity, we will recommend an aggressively invested position and growth oriented sectors. Conversely, we will inform you when our indicators show risk has risen to an unacceptable level so that you can take steps to protect your portfolio. **This risk-conscientious strategy will help you to preserve capital in times of market vulnerability so that you will be ready and able to take advantage of the next low-risk buying opportunity when it arrives.**

IMPORTANT DISCLOSURE INFORMATION: Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategy recommended and/or undertaken by InvesTech) will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Please see additional **IMPORTANT DISCLOSURE INFORMATION** at www.investech.com.

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