

Quant Coalescence

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Collaborative insight provided by CIO Michael Chapman

October, 2016: “Lions and Tigers and Bears....Oh My”

The markets remain fairly stable despite numerous statistics indicating the market is at record level valuations. These indicators are sending warning signs at a time of geopolitical uncertainty and a close presidential election. In addition, according to John Butters, VP, and Sr. Earnings Analyst at Factset, for Q3 2016, the estimated earnings decline for the S&P 500 is -2.1%. If the index reports a decline in earnings for Q3, it will mark the first time the index has recorded six consecutive quarters of year-over-year declines in earnings since FactSet began tracking the data in Q3 2008.

As earnings have deteriorated over the last 6 quarters, the market has continued in a trading range close to all-time highs. The NYSE Composite, an index that tracks all stocks that trade on the NYSE, is right around the same level that it was over 2 years ago. This deterioration of earnings coupled with a market that has traded in what appears to be an extended topping pattern has brought us here. Of the several research firms that we follow, they all point to a few of their favorite and most reliable valuation models. What they all have in common is that their most trusted measures are showing that we are in the midst of one of the most highly valued markets in history with some metrics showing that we are more overvalued than 2000 and 2007. For October, our models remained balanced with exposure to both equities and bonds. As has been the case the last few times the market has started to roll over, we expect our allocations to transition quickly to positions that would be defensive or possibly even make positive returns in a falling market.

PCM Strategies: 10.2016 Allocations*

*(Please note that performance numbers on the website for indexes do not include dividends and are appropriately calculated sequentially.)

1. [PCM US Bond Total Return IndexSM](#): High yield and U. S. Treasury bonds, bills and inflation protected treasuries (TIPS)
2. [PCM Absolute Bond IndexSM](#): High yield bonds and cash equivalent
3. [PCM Absolute U.S. Sector IndexSM](#) : Technology, energy and cash equivalent
4. [PCM U.S. Industries Total Return IndexSM](#): Insurance, internet, technology and cash equivalent
5. [PCM Absolute Equity Income IndexSM](#) : Preferred equities, US developed real estate and cash equivalent
6. [PCM Emerging Market Total Return Equity IndexSM](#): Emerging Asia and BRIC's
7. [PCM Total Return Portfolio IndexSM](#) and [PCM Stable Growth Plus+ Portfolio IndexSM](#): High yield corporate bonds, emerging market equities, energy, technology, equities in Hong Kong, Austria and Belgium, Australian dollar and the Euro are all themes in these portfolios.
8. [PCM Global Tactical IndexSM](#): U.S. technology and high yield bonds, equities in Hong Kong, Belgium, Austria

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9. [Global Macro IndexSM](#): High yield bonds, the Australian dollar, equities in China and emerging markets and U.S. inflation protected bonds (TIPS)
10. [PCM Alpha 1 IndexSM](#): Australian Dollar
11. [PCM Absolute Commodities IndexSM](#): Copper and cash equivalent

PCM was again been recognized as a “Top Gun” for our performance. This time for the **2nd quarter of 2016** by Informa Investment Solutions. The **PCM Absolute Commodity model ranked #1** out of over 200 other products and money managers in the “ETF Global Balanced Universe” category and also #1 in the “Overall Global/International Balanced Universe”.

PERFORMANCE RECOGNITION: 2nd Quarter, 2016

Informa Investment Solutions’ (PSN) Ranks PCM “Top Gun” Products

- **PCM Absolute Commodity** - (Top 5/#1) ETF Global Balanced Universe (*out of over 200 products*)
- **PCM Absolute Commodity** - (Top 10/#1) Overall Global/Intl Balanced Universe

PERFORMANCE RECOGNITION: 1st Quarter, 2016

Informa Investment Solutions’ (PSN) Ranks PCM “Top Gun” Products

- **PCM Absolute U.S. Sectors** - (Top 5/#1) ETF US Equity Universe (*out of 112 products*)
- **PCM Absolute Bonds** - (Top 5/#1) ETF Global Fixed Income Universe (*out of 25 products*)
- **PCM Absolute Equity Income** - (Top 5/#4) ETF Global Balanced Universe (*out of 204 products*)
- **PCM Absolute Equity Income** - (Top 10) Overall Global/Intl Balanced Universe

PCM was also recognized as a “Top Gun” for our performance during the volatile 3rd quarter of 2015 by Informa Investment Solutions. Four of our models were in the top 10 performers out of hundreds of products and money managers.



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PERFORMANCE RECOGNITION: 3rd Quarter, 2015

Informa Investment Solutions' (PSN) Ranks PCM "Top Gun" Products

- **PCM Protective Equity** - (Top 10/#5) All Cap Universe (*543 products in the All Cap universe*)
- **PCM Diamond** - (Top 10) US Balanced Universe (*314 products in the US Balanced universe*)
- **PCM Global Macro** - (Top 10/#2) Global/Intl Balanced Universe
- **PCM Global Tactical** - (Top 10/#8) Global/Intl Balanced Universe (*297 products in the Global/Intl balanced universe*)

***We have enhanced our website AGAIN at <http://www.pcminvestment.com>. You can now see performance of our indexes (previous day and month to date) on our streaming ticker. We include performance for both our indexes and our composites, as applicable. You will be asked to enter your email address to get into the website. There will be no password required, so you won't have to worry about forgetting it. This is partly due to helping us stay in compliance with requirements in our industry that we know who has reviewed our website content. Please use the website link above to see all of our indexes and composites.

In addition to the above mentioned "Top Gun" performance awards from Informa Investment Solutions, PCM composites have been previously recognized for performance by Informa Investment Solutions; the [PCM Absolute Bond CompositeSM](#) for the three year performance ending the 4th quarter of 2014, as well as previous awards for 1-year trailing performance and 3-year trailing performance. As of 2nd quarter 2014, the [PCM Absolute Bond CompositeSM](#) and the [PCM Absolute Commodities CompositeSM](#) both won a "Top Gun" award for performance in their respective category for the 1-year trailing performance period, with the [PCM Absolute Bond CompositeSM](#) also winning the "Top Gun" award for 3-year trailing performance. The [PCM Alpha 1 CompositeSM](#) was awarded the "Top Gun" performance award for the 1st quarter of 2014. We are very pleased to see these particular multi directional strategies being recognized, as the [PCM Absolute Bond StrategySM](#) and [PCM Alpha 1 StrategySM](#) are particularly timely for where we are in the current market cycle.

To view Morningstar Fact sheets of all of our index models, please visit our website at www.pcminvestment.com under the "[PCM multi-directional Strategies](#)" tab.



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About "PCM Quant Coalescence"

Welcome to Provident's "Quant Coalescence" communication. We suspect that many of you are no different than us. That is to say that when our quantitative models rebalance every 2 weeks for some indexes or once a month for other indexes, you sometimes find yourselves asking "What is behind a rotation into that ETF?" This communication is our opportunity to "unite for a common end" with our clients and partners; keeping you updated on our thoughts and perspectives. As you know, our indexes are based on an absolute approach: we strive to make money in up markets or down markets, while trying to greatly minimize loss in any market environment.

Our indexes are also quantitative, reflective of our systematic, unbiased and technical approach. Since our indexes are unbiased, the quantitative models would obviously at times rotate into positions that cause us to scratch our heads. Nevertheless, being so close to the analysis as it unfolds, allows us to quickly begin to validate the fundamental reasons behind the quantitative "following of the money." At other times, the trades are not validated right away; the story unfolds as the days pass. We have been very excited about many of these "validations" and "ah ha" moments. We had another "ah ha" moment when we decided that these insights would also be interesting to those who have entrusted us with their financial peace of mind. Our goal is to be short and to the point, specific to what is happening in our indexes rather than a lengthy macroeconomic perspective.

For further disclaimers and disclosures, see our website for [index disclosures](#) and [composite disclosures](#).