

Issue 7 | Volume 1 | November 2015

INDEPENDENT RESEARCH FOR THE BUYSIDE | WWW.IRPJOURNAL.COM

IRP

Journal

HPOQ:
WE BLEED TONER

STILL NOT
BUYING EM

REFORMING
THE EU

ART STOCKS
OVERVALUED

MAKING SENSE OF THE

MACRO





Exceptional trading,
investment and
information solutions
for the world's
financial community

fidessa.com

Fidessa
Trade / Invest / Inform

CONTENTS

- 04** Making Sense of the Macro - Absolute Strategy Research
- 07** HPQ: We Bleed Toner - Management CV
- 09** Art Stocks Overvalued - Sundial Capital Research
- 11** Market Weakness a Buying Opportunity - Phases & Cycles
- 13** Reforming the EU - Graham Bishop
- 14** Still Not Buying Emerging Markets - Ned Davis Research
- 17** Directory – A listing of Independent Research Providers



For advertising enquiries contact
support@irpjournal.com

For research enquiries contact
support@irpjournal.com

MAKING SENSE OF THE MACRO

August's global growth scare has passed. But the way forward seems to hinge on three questions: (1) How sustainable is China's policy response? (2) For how long will the Fed's 'liftoff' be delayed? And (3) Are economies other than the US capable of doing some heavy lifting? The answers seem to raise sufficient doubts to remain cautious about global growth.



Dominic White

Absolute Strategy Research
Chief Economist

In late August, as equity markets were tumbling, David Bowers, co-founder of Absolute Strategy Research, attempted to map a path through the mayhem. He outlined two competing accounts of the sell-off. According to the Conventional Wisdom, the market volatility was 'Made in China'. On this logic, Chinese policymakers' bungled attempts to stabilise the stock market and extend the renminbi's flexibility undermined their credibility and signalled a far weaker economy than most had assumed.

But an alternative interpretation saw China's ordeals as a symptom rather than a cause. According to this account, the Federal Reserve committed the original sin. Its apparent determination to raise interest rates threatened to intensify the downside risks in emerging markets.

These competing accounts provide alternative explanations for the 'risk on' rally that ensued. The Conventional Wisdom would contend that its origins lie in China. As the dust has settled, the immediate fears about

China's economy seemed overdone. And while there has been no 'shock and awe', proponents of this view can also point to the steady stream of stimulus measures that have followed August's volatility. Several infrastructure projects have been approved, fiscal expenditures have expanded and, most recently, the PBoC has cut interest rates and banks' reserve requirements.

The alternative account would maintain that the Fed's aborted 'liftoff' was more critical. As markets pushed out the first rate increase to the second quarter of next year (since countermanded by the Fed's statement last month), this allowed the dollar to ease, commodities to rise, and eased pressure on emerging markets. Clearly, these accounts are not mutually exclusive. But depending on where your trail of logic starts, a different set of preconditions is required to secure a stronger global growth environment next year. We think the following three questions help to clarify the way forward: (1) Is the current Chinese policy response sustainable? (2) How long will a soft US economy prevent the Fed raising rates? And (3) Is this all about the US and China, or could other parts of the world do some heavy lifting?

1. IS THE CHINESE POLICY RESPONSE SUSTAINABLE?

For those who saw China as the epicentre of global growth concerns, some kind of policy response was never really in doubt. The question was how strong and how credible that response would be. Unfortunately, those doubts largely seem to remain. Fiscal and monetary policies have been eased, but little has been done to tackle problems of overcapacity or bad loans in the banking system. And political frictions are hindering the reform of State-Owned Enterprises.

Just as important, China's current configuration of macroeconomic policy still seems to violate the 'impossible trinity'. This doctrine states that a country cannot simultaneously achieve: (i) an independent monetary policy; (ii) free movement of cross-border capital; and (iii) a fixed exchange rate. This conflict is central to China's predicament.

As October's PBoC move confirmed, Chinese policymakers wish to 'decouple' monetary policy from that in the US. Without an aggressive move to write down bad loans, lower interest rates are required to smooth the deleveraging process in the corporate sector. At the same time, an easing of capital account restrictions is needed to ensure the renminbi's passage into the IMF's reserve currency basket, the SDR. Yet, as has become clear, there is an unwillingness to accept a weaker currency as the necessary quid pro quo (Chart EC.3).

As a result, the 'trilemma' is currently being satisfied endogenously: the PBoC's intervention in FX markets to stabilise the yuan is shrinking its balance sheet (Chart EC.4). This, in turn, threatens to tighten monetary conditions, demonstrating that not even Chinese policymakers can achieve the impossible.

This tension has become particularly acute as forward markets have discounted a weaker renminbi – an expectation that our latest Multi-Asset Survey reinforces. For China's current policy configuration to look sustainable, this expectation will need to reverse. But this could require one of three things: a pick-up in global growth and larger Chinese current-account surpluses; the Fed to postpone its 'liftoff' indefinitely, maintaining downward

// ...with
consumers' real
incomes growing
at around 4% YoY,
final domestic
demand looks
well-supported."

pressure on the dollar; or a weaker renminbi.

2. FOR HOW LONG WILL THE US ECONOMY REMAIN SOFT?

A renewed softness in activity data appears to have been critical in staying the Fed's hand in September. And this seems likely to persist until the short-term imbalance between supply and demand (or inventories and sales) starts to clear. Our Leading Indicator suggests that isn't an immediate prospect. A December rate increase is still not guaranteed, despite last month's statement.

Still, it serves to highlight a strong circularity. Because, for all our caution about the US this year, some parts of the economy clearly remain strong. In particular, with consumers' real incomes growing at around 4% YoY, final domestic demand looks well-supported. Rather, the US's softness has primarily reflected the external shocks that have buffeted the economy this year – lower energy prices, weaker global demand and the dollar's 15% appreciation – and the related hit to corporate profits and business investment.

If the dollar eases further and commodity prices rise, the headwinds constraining the US could subside. But if the economy then picks up, the Fed could feel sufficiently confident to start its tightening cycle ... bringing us back to square one. This feedback loop could become a persistent feature of the global economy – an 'axis of instability' – until it tips decisively in one direction, or stronger demand in the rest of the world provides a broader basis for global growth.

To see the full report from Absolute Strategy Research contact:

Richard Mylles



+44 207-073-0753



Richard.Mylles@absolute-strategy.com



http://www.absolute-strategy.com

3. COULD OTHER ECONOMIES DO MORE OF THE HEAVY LIFTING?

We've noted previously that there are signs of improvement in the eurozone and Japan (Charts EC.7 & EC.8). Lower oil prices have boosted consumers' real incomes and the resulting pick-up in spending seems to be releasing some pent-up investment demand. Moreover, prior monetary stimulus has fed through to stronger growth in the broader monetary supply.

But are these improvements sufficiently strong to preclude additional monetary easing? Mario Draghi's comments in October suggest the ECB's answer is 'no'. The Bank of Japan seems less concerned, though a stronger yen could alter that judgement. In isolation, additional easing could secure recoveries in those economies. But if it also adds to the dollar's strength, it could be something of a mixed blessing.

CONCLUSION

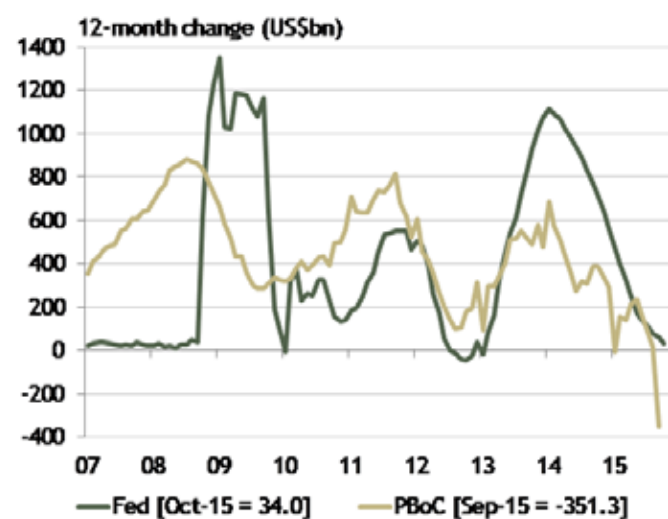
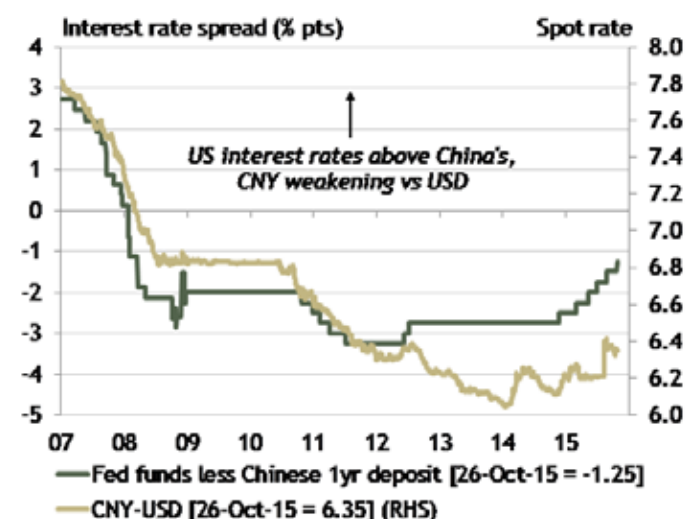
Three issues look central to global growth prospects heading into 2016. First, the sustainability of China's response to its slowdown

in growth. Second, the persistence of the US 'soft patch' and the Fed's response to it. And third, the trajectories of eurozone and Japanese demand and the related probability of additional monetary stimulus.

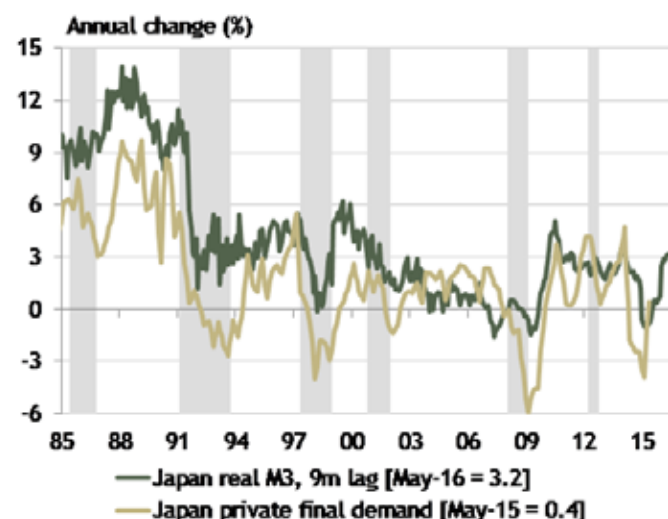
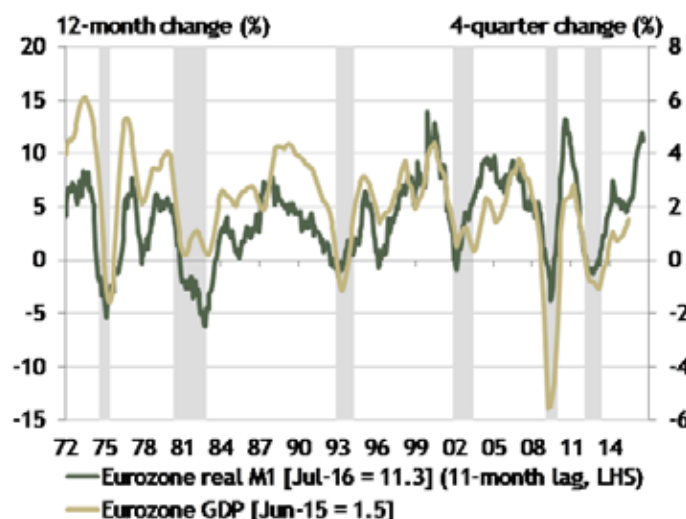
These issues are clearly intertwined. For those who see China as the global economy's main weak spot, an incomplete policy response could mean her slowdown persists. Even if the Fed responds by delaying rate hikes until next year, the resulting sense of 'relief' could prove fleeting. If it tips the ECB and BoJ into providing more stimulus, a stronger dollar and pressure on emerging markets could return.

For those who see China as a symptom of a deeper malaise, a similar feedback loop applies. Despite more encouraging signs in the eurozone and Japan, the US remains the only large economy capable of generating sustainable domestic demand. A stronger dollar is acting as the balancing mechanism for global demand and supply, yet it is also adding to China's instability. Until one element of this loop is broken, the sluggish, uncertain growth environment looks likely to endure.

EC.3 & 4: China's 'trilemma' ... interest rate spreads, the exchange rate and CB balance sheets



EC.7 & 8: Eurozone (LHS) and Japanese (RHS) monetary developments look more encouraging





Renny Ponvert
CEO, Management CV, Inc.



Management CV

HPQ: We Bleed Toner

Last week's split of Hewlett Packard into two separate but essentially equally sized firms (HPQ & HPE) is all good for long term investors but HP, Inc is the better entity for long term shareholders. We think CEO Dion Weisler (48) and his team are the entity likely to deliver the most value to shareholders in 2016 because they are substantially through the cost restructuring effort and lead lean, focused, and cash generating lines. We like Weisler's international experience and prior work history at Lenovo, now his principal competitor. The CEO says that "while we have the heart and energy of a start-up, we already have the brand, brains and muscle of a Fortune 100 company." We like this CEO's focused approach of segmenting each products market share to rebuild sales fore-casts from the bottom up. We also like the Chairmanship of Meg Whitman but the otherwise new Board at HP, Inc. is also refreshing. The combination of CEO Weisler and CFO Cathie Lesjak provides a seasoned and capital sensible leadership team that have long track records honing costs (reducing SKUs by 25% and costs by \$500 million in the last two years) and squeezing out returns. We think their newfound freedom to focus on their legacy product line's organic growth, and not just cost cuts, is likely to surprise Wall Street's too conservative estimates on what modest single digit growth rates can mean in a Fortune 100 sized entities like HP. CFO Lesjak has pledged to consistently return 60%-75% of the firm's \$3 billion FCF to investors each year and CEO Weisler says that they will likely be at the high end of that range in FY16.



EXECUTIVE TEAM SKILLS FIT

The new HP, Inc. has 50k employees and a revenue base of about \$53 billion, equally divided between the two principal divisions. It's a diverse group. CEO Weisler is Australian by birth and a former competitive swimmer. Spaniard Enrique Lores leads the core Printing & Personal Systems (PPS) division that drives 80% of the firm's \$50 billion in TTM revenues. The Printing division is the main source of earnings, with about \$5 billion in annual operating profit. We like the recurring revenue stream "razor blade model" of the printing supplies part of the business where a given printer sale generates an average of 7 years of supply orders. PCs comprise about 60% of that revenue and

Team

Industry

Printing contributes about 78% of the profit. Lores has been with HP for 26 years and likes to remind investors that his toner and other replacement stock sales are the profit center as “..its all about supplies!” We especially like the PPS division’s prospects for enterprise outsource contracts “Managed Print Services” where the entire solution is provided by HP and the supplies are too. We remain skeptical of many 3D printing firms (see our prior reports on Stratasys and 3D Systems) but do think that SVP Steve Nigro’s focus on Industrial prototyping and design in 3D is a growth opportunity. Ron Coughlin leads the PC business, where he and his now CEO have shed over \$1 billion of fixed costs in just the last year and despite a Y/Y sales de-cline of almost 12% still commands about a 23% global market share. With that lower cost base, we think he is likely to benefit substantially in 2016 from new form factors and a Windows 10 replacement cycle.

COMPENSATION & CAPITAL ALLOCATION

HPQ’s Board has not yet disclosed the new management team’s exact pay plan but we expect CEO Weisler to be paid a salary of about \$1.2 million, have a 100% target cash bonus plan, and total compensation valued at about \$7 million for 2016. The HP, Inc. entity is reasonably leveraged but with strong cash flows of about \$3.2 billion that support an investment grade debt structure and opportunistic share repurchases. It has 1.8 billion shares outstanding (69% of which are held by U.S. based institutions), about \$4.5 billion in cash and equivalents, and total debt of about \$6.8 billion with plans to distribute about \$865 million in dividends (1.6% yield) the first year. CFO Lesjak says that 75% of R&D will be spent on the core Printing & Personal Systems business and that acquisitions will play a minor tactical role for the coming year. We especially like the highly leveraged sales model, where 80% of revenues are generated by a huge channel marketing platform of over 230k vendors in 170 countries. The 30-year long strategic private label partnership with Canon means that HP’s Printer business has surprisingly low capital requirements (mostly for cartridges and supplies) with total CapEx for 2016 at about \$500 million. HPQ has over 18k patents, with more than half relating to printing technology, in its global portfolio.

OTHER FIDUCIARY ISSUES

We like the mostly new faces serving on the 12 person Board of Directors. Directors include Carl Bass (ADSK), Bob Bennett (DISCA & Liberty), Mary Anne Citrino (Blackstone), and Subra Suresh (Carnegie Mellon University).

“ We like this CEO’s focused approach of segmenting each products market share to rebuild sales forecasts from the bottom up.”

To see the full reports from Management CV contact:

Renny Ponvert



(301) 455 5886



renny@managementcv.com



www.managementcv.com



Jason Goepfert
Sundial Capital Research Inc.

Art Stocks Overvalued

The recent art auction by Christie's managed to sell a Modigliani nude painting for \$170 million, second only to a nude by Picasso that fetched \$179 million in May. Even adjusting for inflation, the dollar amount of huge art sales in the past year has eclipsed the prior record from 2007.

Figure 1 shows a rolling 12-month sum of large art sales, adjusted for 1986 dollars, and we can see that recent sales have clearly set a new record. Instead of looking at a possible correlation to the broader stock market, let's look at it compared to the stock price of Sotheby's (BID). We can see that investors in BID tended

Figure 1: Art Market Surges To Another Record

Sotheby's stock tends to peak ahead of the art market, suggesting a cooling market ahead for art

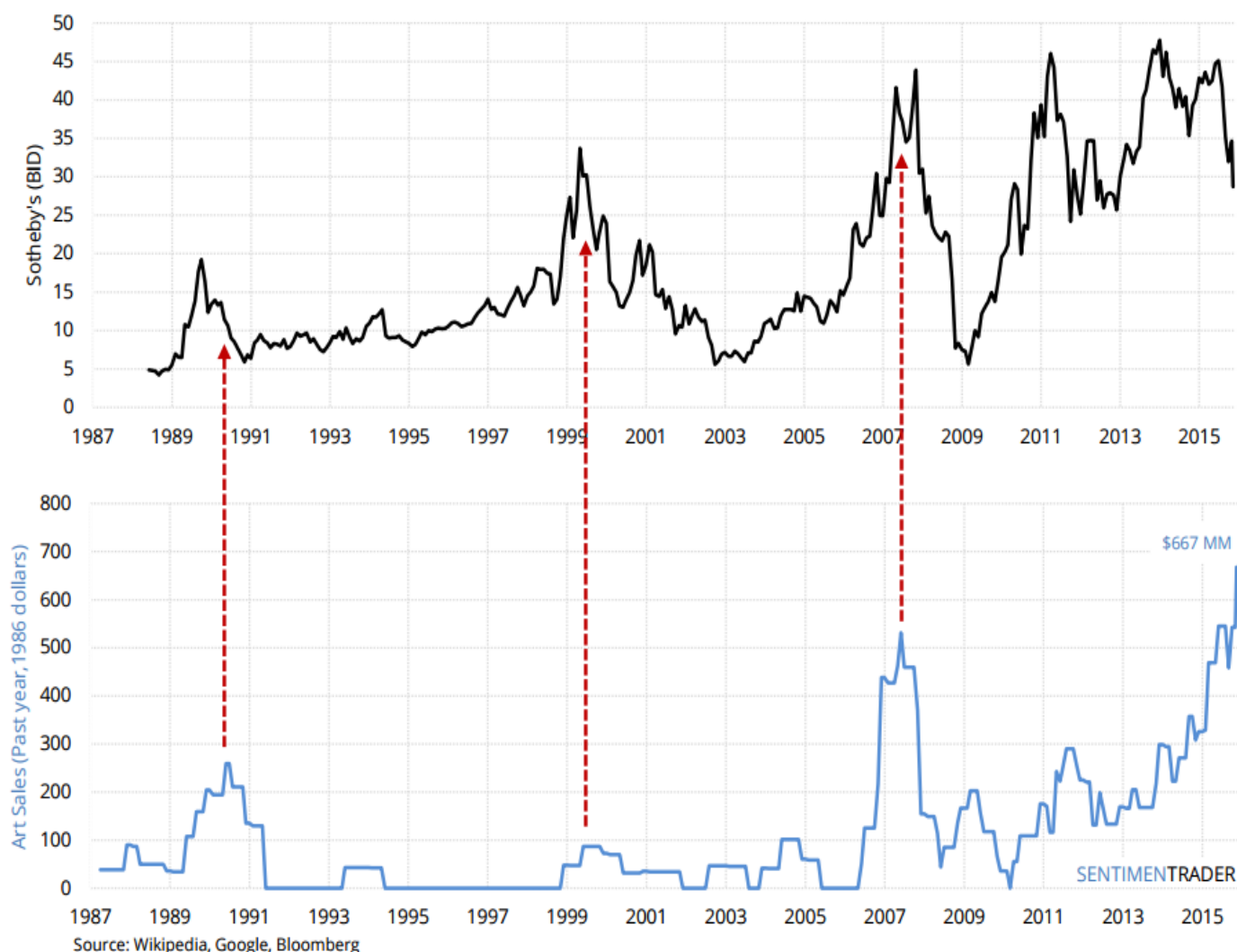
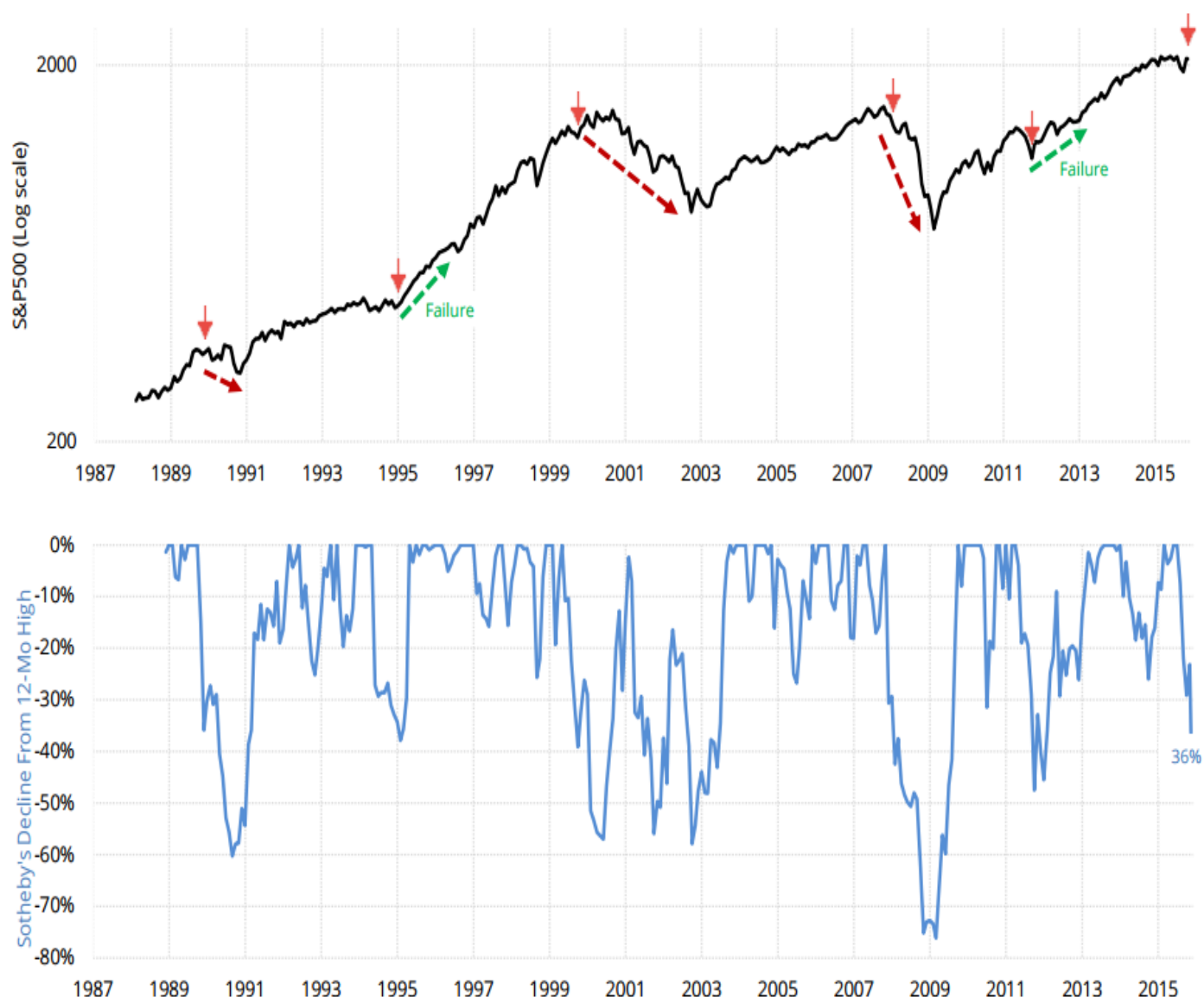


Figure 2: Declines In Sotheby's As A Precursor To Trouble In The Broader Market

Declines of 33% or more from its highest price in the past 12 months



“Some investors watch Sotheby’s stock as a canary in the coal mine for the broader market ...”

to anticipate peaks in large art sales.

By the time Sotheby’s lost a quarter of its value or more, it was a sign that art sales were about to cool. That didn’t so much occur in 2007/2008, however, as the two peaked coincidentally.

Some investors watch Sotheby’s stock as a canary in the coal mine for the broader market, so let’s take a look at that.

Figure 2 shows the S&P 500 against the percentage decline in Sotheby’s from its highest close over the prior 12 months. The

red arrows on the S&P highlight those times that Sotheby’s had lost a third of its value or more, which it has just done. This was a great tip-off of waning risk appetites before (or as) stocks peaked in 1990, 2000 and 2007. It was a miserable failure in 1995 and 2012.

When we combine the euphoric art market along with the decline in BID, the closest correlations are the 1990 and 2007 peaks, when art sales had gone through the roof. We didn’t so much see that in 1995 and 2012. The runaway art market has been a concern for months and continues to be so, especially if stocks can’t turn higher like they did in ‘95 and ‘12.

To see the full report from Sundial Capital Research contact:

Jason Goepfert



888-795-9893



jason@sentimentrader.com



http://sentimentrader.com

PHASES & CYCLES®

THE MARKET GAVE A CLEAR SIGNAL OF A MAJOR UPSIDE REVERSAL.

USE THE UPCOMING MINOR WEAKNESS AS A BUYING OPPORTUNITY.

In our last look at the markets, we observed that the September 29th low in the S&P 500 was a significant "double-bottom". What were the signs.

1. September 29th was a "1-to-10 day", defined as the day when there are ten times as many Declining stocks as Advancing stocks in New York.
2. The S&P 500 hit a low of 1879 (compared to the 1867 low of August 24th) creating the long awaited "double bottom" we forecasted.
3. There was a "non-confirmation" in the percentage of stocks below their 10-week Moving Averages (Investors Intelligence data), as the numbers were only 86% on the 29th, compared to the August low of 93%.
4. There were no stocks on the new 52-week highs list in Toronto.
5. Last Friday was the conclusion of the 105-day cycle, as well as an option-expiry day.
6. The strength of the rally allowed major market indices in New York, Toronto and London to move back above their respective 50-day Moving Averages. Some major market

indices – including the S&P 500, Dow Industrials and NYSE Composite – have also succeeded in moving above their mid-September rally points.

7. September 29th newspapers contained the largest and the most bearish articles seen for a long time.

As we now know, neither market has looked back since.

Is the correction all over? Is it "full steam ahead"? Are the markets ready to go to new all-time highs?

None of the major market indices have moved above their respective declining 200-day Moving Averages but did rise above their respective 50-day Moving Average. The S&P 500 is now bumping up against the lower portion of its previous trading range. As we noted in the last Market Comment, the 2,040 to



Ron Meisels

Phases & Cycles Inc.

S&P 500



S&P/TSX Composite Index



2,135 zone is an extensive area of potential supply and resistance to further price advance. It may be tough slogging through this zone. And after the recent rally, the markets are well over-bought and somewhat stretched.

Toronto quietly had a 1,000 point rally in just nine trading days. Underneath this impressive performance there are some potentially significant trends emerging. Many of Toronto's most eaten-down sectors, including Golds, Oil and Gas and Materials, participated in the recent advance. These may be just "relief rallies" within ongoing declines, but a more positive interpretation is that Toronto's traditional "latestage bull market sectors" are finally stirring into life. While many analysts have written the Toronto market off for the foreseeable future, this bull market may have yet another surprise up its aging sleeve – an out-performing S&P/TSX Composite Index over the next few months.

The balance of the evidence at the moment is that the corrective Leg 4 is over. But the bulls have significant challenges directly ahead: holding onto recent gains, resisting the inevitable selling pressures from overbought markets, moving through overhead resistance zones, and getting back above 200-day Moving Averages.

However, the evidence cited in 1-7 clearly suggests that a major change has occurred on September 29th.

For the short-term, the markets are somewhat extended and, a modest pull back or consolidation period is possible. Following this pause, we expect to see the beginning of a new upleg (Leg 5).

From the platform of the double-bottom formed by the August and September lows, the S&P 500 recovered nearly two-thirds of the decline from the May high at 2,135 by the end of last week. The S&P 500 also exceeded its mid-September recovery high and moved above its declining 50-day Moving Average.

The immediate issues for the S&P 500 are to resist any selling pressure, and then to confront overhead resistance at the now-

broken lower band of the trading range (at 2,040).

The S&P 500 is short-term overbought and deserves a pause/modest pull back to digest its recent gains. As the recent uptrend is maintained during any pause/pull back, then the S&P 500 could launch an important assault on the band of overhead resistance.

The S&P/TSX Composite Index defended the important 13,000 level in late-September and the subsequent rally has established a new trading range between 13,000 and 14,000.

Having now edged above its declining 50-day Moving Average, the Toronto market now faces the challenge of hanging on to its recent gains and moving up to the next upside objective, the declining 200-day Moving Average just above 14,500. Once that objective is exceeded then there is a good chance that the S&P/TSX Composite Index will make a run towards its April high at 15,525.

Although the Toronto market can tolerate a move back towards 13,500, ideally it should contain any selling pressure well above this level. Once that occurs, the bullish implications of the recent double-bottom will be reinforced. A move above 14,000 will exceed the downtrend line originating with the April high, which would be another bullish signal.

Toronto appears to be in the early stages of a Leg 5 advance, which will be reinforced if the 200-day Moving Average is exceeded.

To see the full report from Phases & Cycles contact:

Ron Meisels



(514) 393-3653



RonMeisels@phases-cycles.com



www.phases-cycles.com

REFORMING THE EU AND COMPLETING THE ECONOMIC AND MONETARY UNION

News headlines about the EU are dominated by the migration crisis but it cannot detract from the importance of securing the economic and financial stability of the Eurozone, and thus the EU as a whole. If that stability is lost, the consequences will dwarf the undoubted social dislocations flowing from migration.

So it is regrettable that so little attention has been paid to the announcement of proposals for profound "reform". The Commission published its proposals for "A deeper and fairer Single Market". This should be seen as a vindication of the UK's demands for reform in the EU's single market. Prime Minister Cameron is pushing at a wide-open door! The proposal covers:

- Consumers: when buying goods or services – online or face to face – they should not face "diverging prices, sales conditions, or delivery options," without genuine reasons.
- SMEs and start-ups are to be assisted in financing by Capital Markets Union. Crucially, the Commission will publish a proposal for business insolvency – a key problem for CMU.
- Professionals: improved opportunities for businesses and professionals to cross borders, especially by recognition of professional qualifications.

Co-incidentally (or perhaps not), the bulk of the necessary legislation should be announced during 2016 so the EU will be able to point to a major wave of economic 'reform' during the Brexit referendum debate. As George Osborne said in his recent Berlin speech "We want Britain to remain in a reformed European Union." However, there is another wave of 'reform' that many Conservative back-benchers may not welcome so much: a further round of deepening and integration within the Eurozone. To quote Osborne's Berlin speech again "In the end the inexorable logic of monetary union will mean the treaties will have to be changed to support the financial and economic union required for a permanently stronger euro — the stronger euro we want you to build."

In a decade, it is entirely foreseeable that only a few euro non-members. The "inexorable logic" has been well underway since the Greek crisis of 2010 and is now poised to push forward rapidly in the decade to 2025.

Since the original Four Presidents report of June 2012, the inability of the EU banking sector to fund economic growth has become a major source of concern and the concept of a Capital Market Union has come to the fore as potentially a major contribution to growth. (See earlier articles and STS in this edition) The Five Presidents' Report in June laid out a two-stage process to completing EMU by 2025, and the Commission's October Communication added much detail to the Report's principles.

In particular, this made a clear link between the improvement of democratic accountability and the development of financial integration. "...the European Parliament should organise itself to assume its role in matters pertaining especially to the euro area... However, as the euro area evolves towards a genuine EMU, some decisions will increasingly need to be made collectively while ensuring democratic accountability and legitimacy... A future euro-area treasury could be the place for such collective decision-making."

1 This Plan has been developed by Graham Bishop since 2012.

More at www.GrahamBishop.com



Graham Bishop

The Five Presidents Report of June 2015 set some ambitious goals as well as a clear timetable. Swamped by migrant stories, the media has hardly reported this and even European Council meetings have barely focussed on it – except to authorise continued work.

Stage 1 from July 2015 – June 2017 as a period of 'deepening by doing'.

Stage 2 ('completing EMU') should run from July 2017 to 2025 at the latest, and include 'concrete measures of a more far-reaching nature... for each euro area Member State to participate in a shock absorption mechanism for the euro area.' Thus a fiscal stabilisation function for the euro area is envisaged

(Note: Graham Bishop has proposed a Plan for a Temporary Eurobill Fund as an explicit Stepping Stone to Stage 2. The plan provides a concrete mechanism to:

- Bind the euro area into economic policy co-ordination and convergence; deepen the financial integration inherent in CMU; and buttress financial stability.
- Be initiated in Stage 1 as a modest stepping stone; be scaled up in Stage 2 towards becoming a de facto European Treasury with Communautaire political governance – perhaps even providing a modest 'fiscal capacity'.
- Be easily reversed (even to extinction) within two years.)

The October 2015 "Communication on steps towards Completing Economic and Monetary Union" set out some concrete steps for achieving Stage 1. In reality, the 'Completing EMU' proposals would extend the existing concept of co-decision making from legislation fully into the economic governance of the euro area as a whole, and its member states. Key concepts include:

- A Revamped European Semester by implementing country-specific recommendations
- Promoting convergence by benchmarking and pursuing best practices
- More focused support to reforms through EU funds and technical assistance - utilising the principle of so-called macroeconomic conditionality for all five European Structural and Investment Funds
- Improving the toolbox of economic governance: Improving transparency and reducing complexity of the current fiscal rules
- A stronger Macroeconomic Imbalances Procedure.

To see the full report from Absolute Strategy Research contact:

Graham Bishop



+44 1424 777123



hannah.sassone@grahambishop.com



www.grahambishop.com



Tony Welch
CMT, ETF Strategist Research



Wenbo Zhou
ETF Technical Analyst

STILL NOT BUYING EMERGING MARKETS

What a difference a week makes. Last Monday, we discussed a more optimistic assessment from the intra-month reading of our ETF Asset Allocation Model. The indicators had been slowly improving and the model had gotten more optimistic on equity, moving up the recommended exposure to a near benchmark 58%. After a correction in the S&P 500 of -3.6%, both of the model's technical indicators have now given sell signals, which resulted in a 44% reduction in the recommended equity exposure. Through the volatility, there has, however, remained one constant message, and that is to steer clear of emerging market equity funds. On September 21st, we detailed our preference for emerging market debt rather than equity, and the recent breakdown strengthens our conviction.

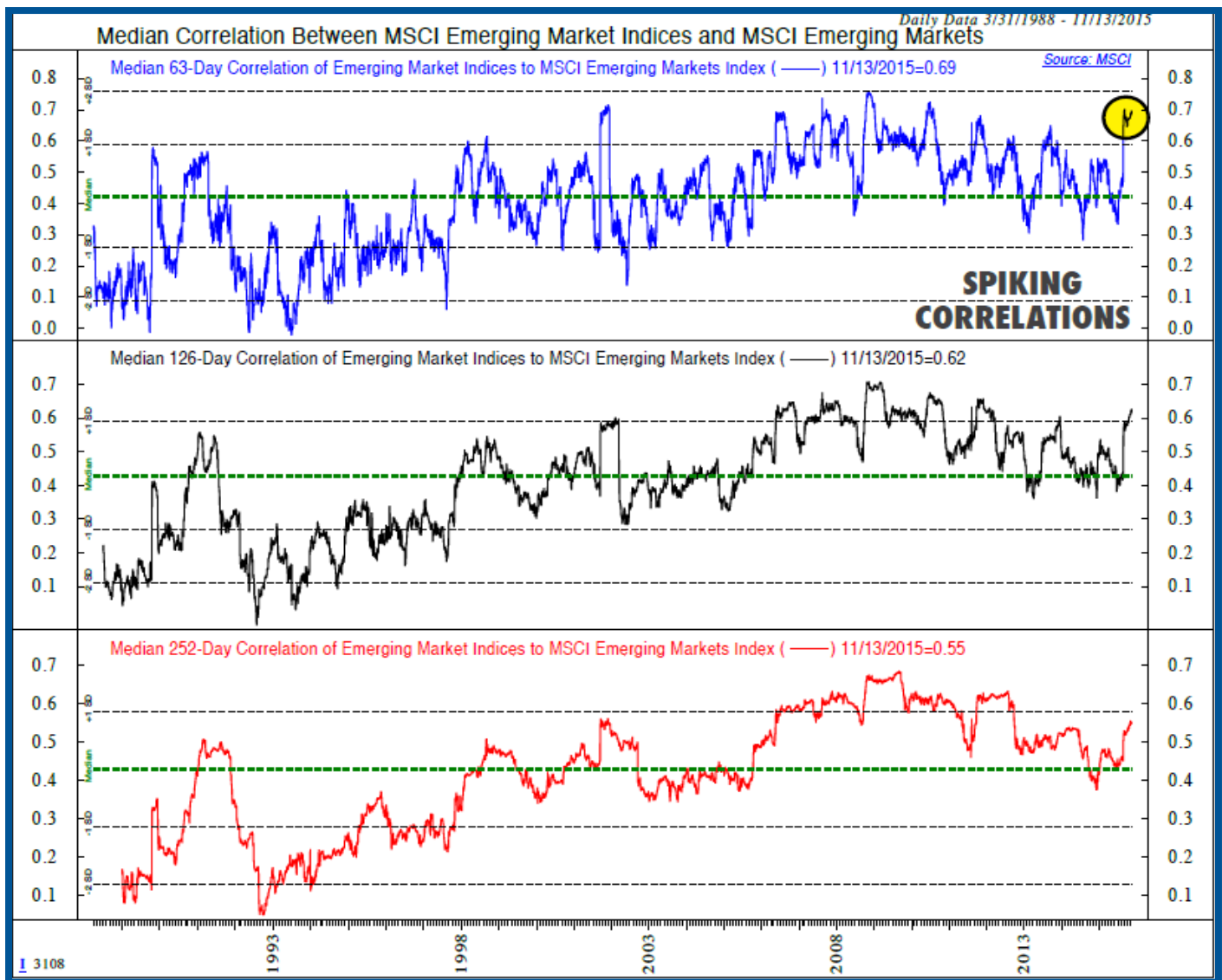
This week saw far more ETF downgrades than upgrades based on our ranking systems (one upgrade versus 26 downgrades) and 11 funds downgraded were emerging market equity-specific. The majority of emerging market funds reside in the lowest quintile of our relative strength rankings, failing to climb the relative ladder despite a 16% rally in EEM off of the August lows. In quick order,

that rally actually erased the long-term pent-up mean reversion condition that had been developing throughout this year.

Therefore, following an October during which broad emerging market funds raised the most assets since April, it would appear that a renewed wave of pessimism and another deeply oversold condition may need to develop before we would feel comfortable buying this asset class.

But What About Granularity?

Through most of this cycle, investors have generally been able to find a diamond in the rough. Whether it has been the consumer-based markets in southeast Asia (EPHE, for instance) or Indian funds following the appointment of Rajan and the election of Modi, there have been bright spots along the way. However, right now, correlations between emerging markets are on the rise. The chart below shows that the median individual emerging market now has a .69 correlation with the broad index over the past



“...CORRELATIONS
BETWEEN
EMERGING
MARKETS ARE ON
THE RISE”

three months. That is near the highest levels since the Financial Crisis. This suggests that individual markets are moving in unison, a precarious position given the uncertainty over growth in China and the commodity trade. Add in a looming Fed rate hike in December, which has historically been deflationary, and it is hard to build a fundamental case to own emerging markets.

The only emerging market fund that currently has an overweight recommendation in our momentum ranking belongs to South Korea (EWY). But much of the strength may be attributable to an extreme oversold condition which had been worked off by October 9th.

So for now, with correlations at elevated levels, there is not even a single country fund that we would recommend.

To see the full report from Ned Davis Research contact:

Steve Sellers
Ned Davis Research



(800) 241-0621



sales@ndr.com



http://www.ndr.com

DERIVSOURCE

the source for clear thinkers in the evolving derivatives world

DerivSource is an independent information source and online community for derivatives professionals. We provide trend analysis, peer commentary and various educational resources via our articles, podcasts and interactive webinars.

Opinion &
Industry
Analysis

Peer
Commentary

Weekly
News
Roundups

Educational
Briefings &
Webinars

Free e-
newsletters

Podcasts
&
Events

Join DerivSource

Register for **DerivSource** **FREE** today to join the community of derivatives professionals and receive industry news and analysis straight to your inbox.

<http://derivsource.com/user/register>

JULIA SCHIEFFER
FOUNDER & EDITOR-IN-CHIEF

+44 (0) 20 3239 1830
marketing@derivsource.com
www.derivsource.com

 twitter.com/derivsource
 <http://www.linkedin.com/company/derivsource>

DIRECTORY

Company Absolute Strategy Research
Website: <http://www.absolute-strategy.com>
Contact: Ian Harnett & David Bowers
Email: info@absolute-strategy.com
Phone: +44 207 073 0730

Company Agency Partners
Website: <http://www.agencypartners.co.uk>
Contact: Paul Miskin
Email: paul@agencypartners.co.uk
Phone: +44 207 186 7186

Company Alphavalue
Website: <http://www.alphavalue.com>
Contact: Maxime Mathon
Email: m.mathon@alphavalue.eu
Phone: +33 1 70 61 10 52

Company APTI Research
Website: <http://www.aptiresearch.com>
Contact: Nicolas Espinoza
Email: info@aptiresearch.com
Phone: +46 8 66 07 450

Company Arete Research Services LLP
Website: <http://www.arette.net>
Contact: Richard Kramer
Email: richard.kramer@arette.net
Phone: +44 207 959 1303

Company Atona RA Partners SA
Website: <http://www.atonra.ch>
Contact: Stefano Rodella
Email: srodella@atonra.ch
Phone: +41 22 319 74 74

Company Autonomous Research
Website: <http://www.autonomous-research.com>
Contact: Jonathan Firkins
Email: info@autonomous-research.com
Phone: +44 207 776 3400

Company BCA Research Inc.
Website: <http://www.bcaresearch.com>
Contact: Bashar Al-Rehany
Email: info@bcaresearch.com
Phone: +1 514 499 9550

Company Capital Economics
Website: <http://www.capitaleconomics.com>
Contact: Julian Jessop
Email: Julian.Jessop@capitaleconomics.com
Phone: +44 207 823 5000

Company Capital Structure
Website: <http://www.capital-structure.com>
Contact: Sarah Goodchild
Email: Sarah.goodchild@capital-structure.com
Phone: +44 207 283 3820

Company Carn Macro Advisors
Website: <http://www.carnmacro.com>
Contact: Nick Carn
Email: nick.carn@carnmacro.com
Phone: +44 203 551 6344

Company CM Research
Website: <http://www.researchcm.com>
Contact: Elgen Strait
Email: elgen@researchcm.com
Phone: +44 20 3744 0105

Company Creative Global Investments
Website: <http://www.cg-inv.com>
Contact: Carlo R. Besenius
Email: research@cg-inv.com
Phone: +352 2625 8640

Company Credit Sights
Website: <http://www.creditsights.com>
Contact: Simon Adamson
Email: subscriptions@creditsights.com
Phone: +44 207 429 2080

Company Cross Border Capital
Website: <http://www.crossbordercapital.com>
Contact: Michael Howel
Email: CrossBorderCapital@liquidity.com
Phone: +44 (0)207 868 4104

Company Day by Day
Website: <http://www.daybyday-pro.com>
Contact: Valérie Gastaldy
Email: gastaldy@daybyday-pro.com
Phone: +33 1 58 18 37 50

Company Decision Economics Inc.
Website: <http://decisioneconomicsinc.com>
Contact: Ben White
Email: bwhite@decisioneconomicsinc.com
Phone: 212 884 9448

Company Eagle Alpha
Website: <http://www.eaglealpha.com>
Contact: Emmett Kilduff
Email: emmett.kilduff@eaglealpha.com
Phone: +44 20 7151 4880

Company Emerisk
Website: <http://www.emerisk.com>
Contact: D'Arcy Rice
Email: dar@emerisk.com
Phone: +44 7833 173 233

Company Financieel Diensten Amsterdam
Website: <http://www.fiaweb.nl>
Contact: Jan van der Meulen
Email: jan.van.der.meulen@fiaweb.nl
Phone: +31 20 69 72 926

Company FuturesTechs
Website: <http://www.futurestechs.co.uk>
Contact: Clive Lambert
Email: clive@futurestechs.co.uk
Phone: +44 777 172 8601

Company Geospatial Insight
Website: <http://www.geospatial-insight.com>
Contact: Dan Schnurr
Email: dan.schnurr@geospatial-insight.com
Phone: +44 20 3318 3041

Company GrahamBishop.com
Website: <http://www.grahambishop.com>
Contact: Hannah Sassone
Email: office@grahambishop.com
Phone: +44 142 477 7123

Company Harlyn Research
Website: <http://www.harlynresearch.com>
Contact: Simon Goodfellow
Email: info@harlynresearch.com
Phone: +44 1763 208 601

DIRECTORY

Company:	ID MidCaps
Website:	http://www.idmidcaps.com
Contact:	Gaël Faijean
Email:	gfaijean@idmidcaps.com
Phone:	+33 1 48 01 87 29
Company:	Independent Minds
Website:	http://www.independent-minds.co.uk
Contact:	Lucy Cottrell
Email:	lucy.cottrell@independentminds.com
Phone:	+44 207 930 8811
Company:	Independent Strategy
Website:	http://www.instrategy.com
Contact:	John Armstrong
Email:	main@instrategy.com
Phone:	+44 20 7730 4965
Company:	Indigo Equity Research
Website:	http://www.indigo-equity-research.com/
Contact:	Nick Landell-Mills
Email:	nick@Indigo-Equity-Research.com
Phone:	+41 79 519 6591
Company:	Insight Investment Research
Website:	http://www.insightir.com
Contact:	Robert Crimes
Email:	robert.crimes@insightir.com
Phone:	+44 203 397 9182
Company:	INTEGRAS
Website:	http://www.integras.com.tr
Contact:	Hasan Colakoglu
Email:	hasan.colakoglu@integras.com.tr
Phone:	+90 212 269 13 81
Company:	Investcafe Independent Research
Website:	http://www.investcafe.ru
Contact:	Grigory Birg
Email:	gb@investcafe.ru
Phone:	+7 903 720 03 65
Company:	i-Res Independent Financial Research and Advisory
Website:	http://www.ires.com.tr
Contact:	Zekeriya Ozturk
Email:	zekozturk@ires.com.tr
Phone:	+90 532 261 2137
Company:	Libra Investments
Website:	http://www.libra-is.com
Contact:	Christopher Tinker
Email:	chris.tinker@libra-is.com
Phone:	+44 207 960 6520
Company:	Lombard Street Research
Website:	http://www.lombardstreetresearch.com
Contact:	Seamus Keaveney
Email:	seamus.keaveney@lombardstreetresearch.com
Phone:	+44 207 246 7800
Company:	Longview Economics
Website:	http://www.libra-is.com
Contact:	Paul Boland
Email:	Paul@longvieweconomics.com
Phone:	+44 870 225 1388
Company:	Lucror Analytics
Website:	http://lucroanalytics.com
Contact:	Dafydd Morriss
Email:	dafydd.morriss@lucroanalytics.com
Phone:	+65 6631 9721



Management CV

Company:
Management CV Inc.

Website: <http://www.managementcv.com>
Contact: Renny Ponvert
Email: rponvert@managementcv.com
Phone: (301) 455 5886

Company: Management Joint Trust SA
Website: <http://www.mjt.ch>
Contact: Jean-François Owczarczak
Email: jfo@mjt.ch
Phone: +41 22 328 93 33

Company: Markit Securities Finance
Website: <http://www.markit.com/securitiesfinance>
Contact: Simon Colvin
Email: simon.colvin@markit.com
Phone: +44 207 260 2000

Company: MDB Insights
Website: <http://www.moneydashboard.com>
Contact: Ian Webster
Email: ian.webster@moneydashboard.com
Phone: +44 131 225 4157

Company: Messels
Website: <http://www.messels.com>
Contact: Tim Parker
Email: tim.parker@messels.com
Phone: +44 148 342 0999

Company: mrb partners
Website: <http://mrbpartners.com>
Contact: Chris Sandfield
Email: chris.sandfield@mrbpartners.com
Phone: +44 (0) 20 7073 2792

Company: Morningstar
Website: <http://morningstar.com>
Contact: Christopher Deavin
Email: chris.deavin@morningstar.com
Phone: +44 (0)20 3107 0046

Company: MRB (The Macro Research Board) Partners
Website: <http://www.mrbpartners.com>
Contact: Chris Sandfield
Email: chris.sandfield@mrbpartners.com
Phone: +44 207 073 2792

Company: Nau Securities
Website: <http://www.nau-securities.com>
Contact: John Nelson Ferreira
Email: johnferreira@nau-securities.com
Phone: +44 20 7947 5510

Company: Ned Davis Research Group
Website: <http://www.ndr.com>
Contact: Nancy Grab
Email: nancy@ndr.com
Phone: +1 941 412 2300

DIRECTORY

Company New Street Research
Website: <http://www.newstreetresearch.com>
Contact: Maria von Tonder
Email: maria@newstreetresearch.com
Phone: +44 20 7375 9111

Company Now-Casting Economics
Website: www.now-casting.com
Contact: Jasper McMahon
Email: info@now-casting.com
Phone: +44 20 3286 0797

Company Omega Analysis Limited
Website: <http://www.OmegaAnalysis.com>
Contact: Dr. William F. Shadwick
Email: Research@OmegaAnalysis.com
Phone: +44 7970 938 875

Company Primewrite Research
Website: <http://www.primewrite.com>
Contact: Dr. Victor Chukwuemeka
Email: info@primewrite.com
Phone: +44 1753 673987

Company Providentia Capital LLP
Website: <http://www.providentia-capital.com>
Contact: Gulamabbas Lakha
Email: info@providentia-capital.com
Phone: +44 207 499 9040

Company Rareview Macro LLC
Website: <http://www.rareviewmacro.com>
Contact: Neil Azous
Email: info@rvmacro.com
Phone: (203) 539 6067

Company Thomas Quantitative Group, LLC
Website: <http://www.quantresearchgroup.com>
Contact: Jean W. Thomas
Email: jean@quantresearchgroup.com
Phone: (914) 734 1312

Company Radios GmbH & Co. Finanzanalyse KG
Website: <http://www.radios.ag>
Contact: Franz Isselstein
Email: franz.isselstein@radios.ag
Phone: +44 207 477 2337

Company Roubini Global Economics
Website: <http://www.roubini.com>
Contact: Paul Domjan
Email: paul.domjan@roubini.com
Phone: +44 207 092 8883

Company Seven Days Ahead
Website: <http://www.sevendaysahead.com>
Contact: Mark Sturdy
Email: msturdy@sevendaysahead.com
Phone: +44 784 992 2573

Company Spartan Institutional Research, Inc.
Website: <http://www.spartanresearch.com>
Contact: Richard Rossi
Email: rrossi@spartanresearch.com
Phone: (212) 385 5500 x209

Company Spread Research
Website: <http://www.spreadresearch.com>
Contact: Stephane Tremelot
Email: stephane.tremelot@spreadresearch.com
Phone: +33 478 95 36 14

Company Standpoint Research
Website: <http://www.standpointresearch.com>
Contact: Ronnie Moas
Email: admin@standpointresearch.com
Phone: (786) 768 2317

Company Stockcube Research
Website: <http://www.stockcube.com>
Contact: Rob Silberbauer
Email: rsilberbauer@stockcube.com
Phone: +44 20 7352 2121



Company:
Sundial Capital Research Inc.

Website: <http://sentimentrader.com>
Contact: Jason Goepfert
Email: jason@sentimentrader.com
Phone: 888-795-9893

Company Storm Research
Website: <http://www.stormresearch.co.uk>
Contact: Rowan Ewart-White
Email: rowan@stormresearch.co.uk
Phone: +44 121 288 3402

Company The Analyst
Website: <http://www.theanalyst.co.uk>
Contact: Mark Hiley
Email: info@theanalyst.co.uk
Phone: +44 207 498 6593

Company The Idea
Website: <http://www.theidea.nl>
Contact: Henk Slotboom
Email: henk@theidea.nl
Phone: +31 343 840 151

Company Trusted Sources
Website: <http://www.trustedsources.co.uk>
Contact: Nicholas Mather
Email: nicholas.mather@trustedsources.co.uk
Phone: +44 203 137 7255

Company WaveTrack International
Website: <http://www.wavetrack.com>
Contact: Peter Goodburn
Email: services@wavetrack.com
Phone: +49 89 210 207 10

Company Waverly Advisors
Website: <http://www.waverlyadvisors.com>
Contact: Chris Noye
Email: noye@waverlyadvisors.com
Phone: +1 585 662 5189

INTEGRITY RESEARCH: THE LEADING AUTHORITY ON INDEPENDENT RESEARCH



Since 2003, Integrity Research has been tracking the latest developments in non-traditional, non-consensus research

Our ResearchSelect database tracks over 4,000 research sources globally

We guide investors to innovative, alpha-generating research

Our ResearchWatch news and commentary is the go-to source for trends impacting investment research



INTEGRITY
RESEARCH ASSOCIATES

Contact
Michael Mayhew
01.646.786.6859
Integrity Research Associates
<http://integrity-research.com/>
Twitter: @integrityra