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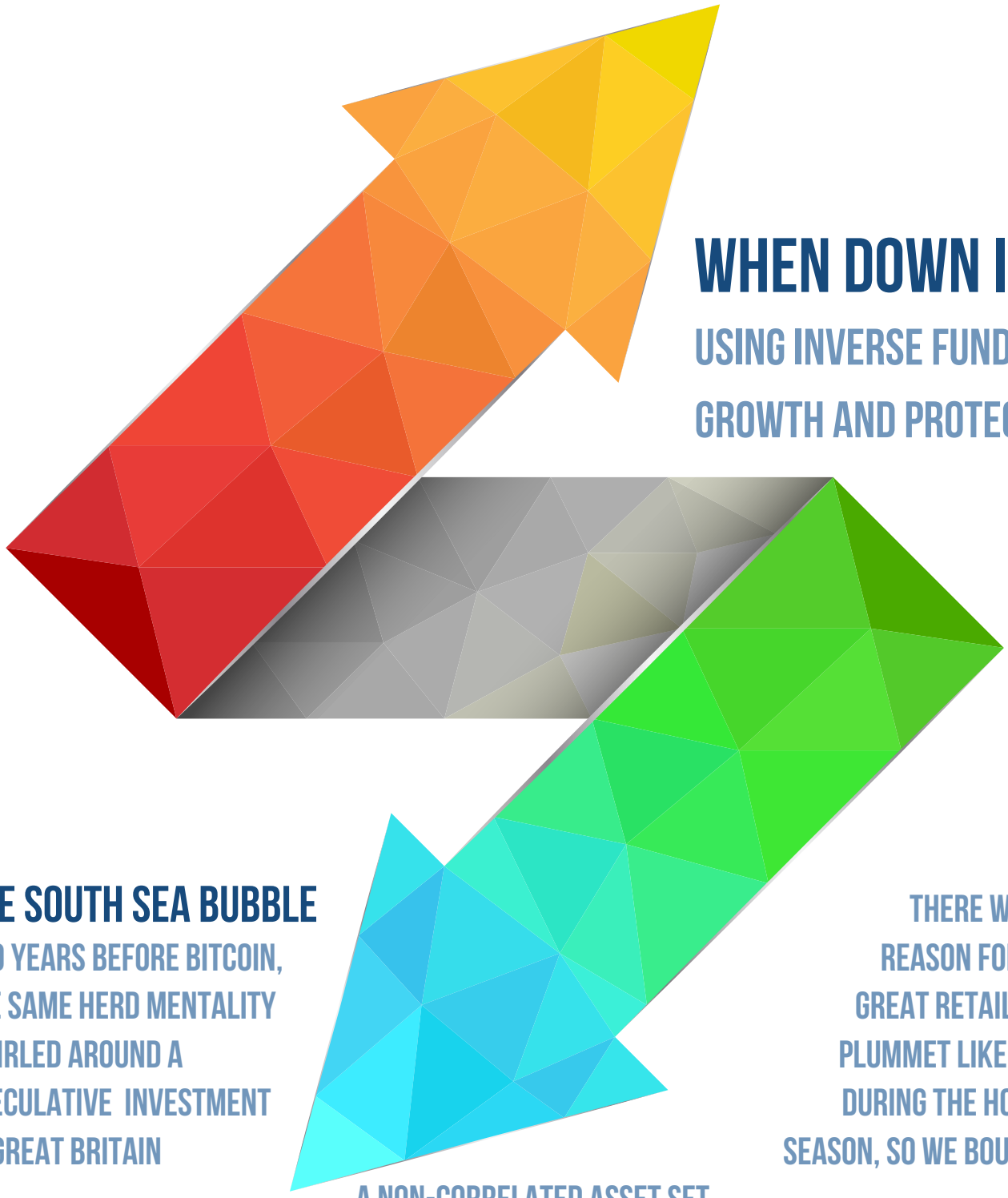

WHEN DOWN IS UP

USING INVERSE FUNDS FOR GROWTH AND PROTECTION

THE SOUTH SEA BUBBLE

300 YEARS BEFORE BITCOIN, THE SAME HERD MENTALITY SWIRLED AROUND A SPECULATIVE INVESTMENT IN GREAT BRITAIN

THERE WAS NO REASON FOR THIS GREAT RETAILER TO PLUMMET LIKE IT DID DURING THE HOLIDAY SEASON, SO WE BOUGHT IT

A NON-CORRELATED ASSET SET UP FOR BIG GAINS IN 2019

Cover: **WHEN DOWN IS UP AND UP IS DOWN. IT'S NOT ALICE IN WONDERLAND, SIMPLY THE WORLD OF INVERSE INVESTING.**

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Just when everyone was ready to call the bear, the markets roar back

2019 is going to be a fun year. It will take skilled investment action, based on an accurate reading of the past and a pretty good sense of what will unfold domestically, to notch some nice portfolio gains.

Nothing personal to Jerome Powell, but we have seen enough of the Fed chief for awhile. Actually, it is not his fault as much as it is the emotionally-driven financial news networks.

Within the past month, we have been forced to watch live speeches and question-and-answer sessions by a guy who is supposed to be quietly and methodically massaging monetary policy behind the scenes. The Fed's job is to help prevent runaway inflation and keep the right amount of grease on the skids of our financial institutions, not serve as a motivational speaker for investors. But the networks couldn't help themselves—they had to carry the most mundane events live, with the market's instant reaction on the chyron. I found myself saying, "C'mon Jay, just don't give them any crumbs to misconstrue and force another 700-point drop.

It really has been utter nonsense. We need to be paying attention to earnings reports and the health of the domestic and global economies, not the rate at which the Fed is going to reduce its balance sheet each month. The 10-year Treasury is sitting at 2.704% for Pete's sake, not 8%. Nothing the Fed can do with rates this low should rattle the stock market. Yet here we are.

As for our outlook on 2019, we have actually become more bullish thanks to the great pressure relief of the last quarter of 2018. We certainly haven't heard about an "overheated" market recently. PE ratios have fallen to reasonable levels, and the Chinese need to make a deal on trade. Our biggest concern going into the year revolved around the ugly political battles which will fill the headlines on too many days, and that remains the case.

It used to be safe to say that one in every four years would bring us negative returns on the Dow, the S&P 500, and the NASDAQ. While old paradigms are often meaningless, we just had that negative year. On our Market Pulse page, we predicted an S&P 500 in the 2,800-2,900 range by year-end, and we are sticking by that call. That would represent a 12-15% return for 2019.

But it won't be smooth sailing on our twelve-month journey, and investor confidence won't be where it was in 2017. Furthermore, some of the biggest losers of recent years will take the year by storm. For example, we have moved from underweight to overweight on areas such as emerging markets and gold. And, with the Fed about done with its quantitative tightening (QT), it will be safe to get back into some bond funds we have been avoiding.

In short, we expect it to be a good year for hands-on investors. In other words, shun the plain vanilla index funds and make specific bets on some former dogs—that bold action should pay off nicely.

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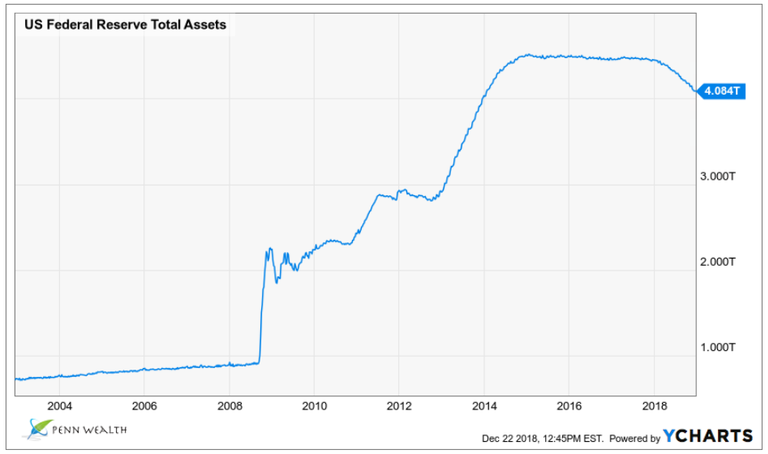
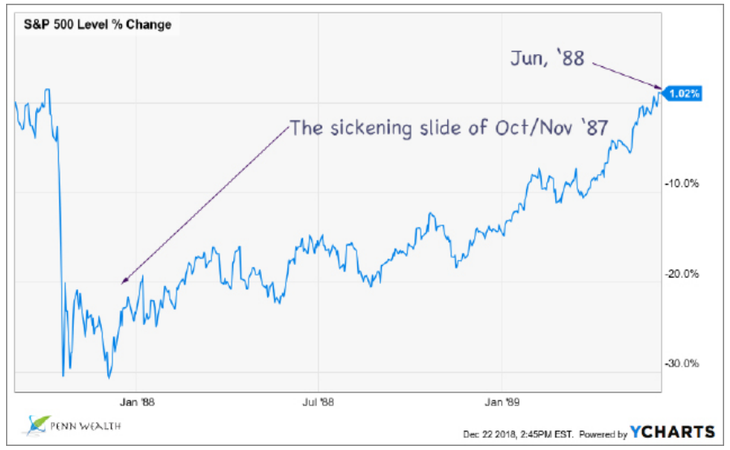
The Week in Charts

CHARTS TELL THE STORY. HERE ARE SOME OF OUR FAVORITES FROM RECENT DAYS. FOR THE TOP BUSINESS AND ECONOMICS STORIES OF THE WEEK, VISIT PENN...AFTER HOURS AT WWW.PENNECONOMICS.COM.

The Fed's balance sheet

It is a staggering amount. It grew from under $1 trillion in September of 2008 to $4.5 trillion six years later. Now, the Fed is unwinding its ridiculously-large federal balance sheet—all of its outstanding T-bills, notes, mortgage-backed securities, and the like—to the tune of $50 billion per month, or $600 billion per year. But investors reacted angrily to Fed Chair Powell's comments that the unwinding would continue on "auto-pilot." Good for our fiscal health; bad in the short-term for the markets.



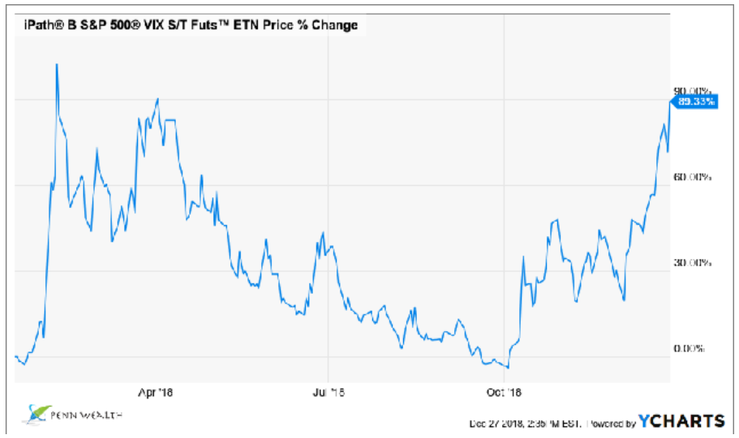


It feels a lot like 1987

Abject fear gripped the markets back in the latter months of 1987. Out of the blue, the S&P plunged 23% in October, followed by a 9% drop in November. Investors wanted out. That would have been a mistake, as the S&P rose about 30% by the following summer. To us, today's markets feel a lot like 1987.

Not everything was down in '18

It was an ugly year, but inverse funds weren't the only vehicle bucking the trend. Volatility returned with a vengeance in the fourth-quarter. Consider VXXB: it rose over 90% during the first-quarter downturn, only to fall 90% by the fourth. But, in the last three months of the year (and YTD overall) it was up 90% once again as of the time of this writing. If you invest, strap on! (And put some protection on the investment!)



Western Civilization

The South Sea Bubble

300 years before Bitcoin, the same herd mentality swirled around an investment in Britain's South Sea Company.

The S&P 500 had an outstanding 2017. In fact, the benchmark index was up nearly 20%. *But*, what if we told you there was actually a high-volume investment that rose 1,420% for the year? Hard to believe, but that is the precise return of the NYSE Bitcoin Index in 2017. Back in 2000, investors were becoming emotionally attached to equities with fanciful PE ratios, like AOL. In 2017, they were enamored with something that had no physical attributes—a digital currency.

It was around the beginning of 2018 that we began receiving phone calls from clients about this "currency of the future." Perhaps it was fear of missing out, but millions of Americans were suddenly asking their brokers how to get in on the action.

As is so often the case, by the time an investment reaches "craze" level, people tend to jump in en masse—just in time for the bottom to fall out. Just before Christmas of 2017, the Bitcoin Index topped out around $18,000; not bad for something that was selling for $900 the previous Christmas. The sky was the limit, with digital currency "miners" telling us that $30,000 was on the horizon. By the time the dust settled on 2018, bitcoins were going for under $3,800 a virtual coin. A 75% loss. Ironically, that is almost identical to the 78% drop in the NASDAQ from its high in March of 2000 to its trough.

Perhaps the belated bitcoin investors of 2018 can take some solace in the story of the South Sea Bubble, which took place some 298 years prior.

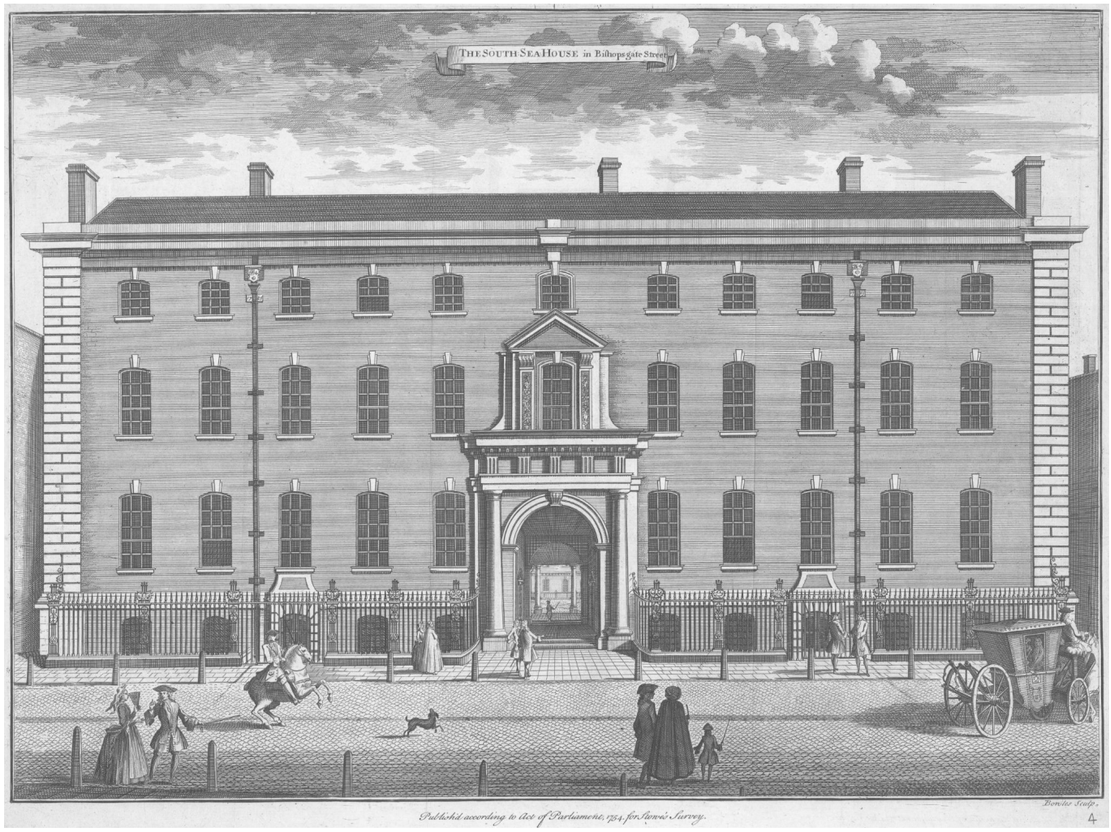
War of Spanish Succession.

When the last Hapsburg king of Spain, Charles II, died childless in 1700, his throne was willed to Duke Philip of France—King Louis XIV's grandson. This didn't set well with the Hapsburg King of Austria (and the Holy Roman Emperor), Leopold I, who wanted his son Charles to take the Spanish throne. Suddenly, France and Austria were at war over the issue, with Bourbon Spain joining with the former (The Bourbon Alliance), and Great Britain, the Holy Roman Empire, and Prussia siding with Austria (The Grand Alliance). Spain was divided, and the balance of power on the continent hung in the balance.

The South Sea Company.

Prior to and during the War of Spanish Succession, Spain controlled South America, which meant the country controlled the lucrative trade between that region and Europe. In 1711, when it was becoming obvious that The Grand Alliance held the upper hand, a British joint-stock interest known as the South Sea Company was created.

The organization was founded by Edward Harley and John Blunt as a competitor to the Bank of England, which had consolidated British government debts on a number of previous occasions. As Great Britain was footing the lion's share of the war's costs, the idea was for the South Sea Company to take over the current national debt. With the approval of the British government, debtholders would be issued shares of the company equal to the amount owed, and would receive interest (in the form of dividend payments) of 6% per year on the shares.



1754 engraving of the Old South Sea House in London, headquarters of the South Sea Company. (Public Domain)

In exchange for the scheme, the South Sea Company would be given a monopoly on trade with South America once the war was over, with the (strong) assumption that Britain would be the victor.

The end of a war, the start of a bubble.

The Treaty of Utrecht did, indeed, signal an end to the war, and Britain did walk away with most of the spoils. But the founders of the South Sea Company were engaging in something of a Bernie Madoff-like Ponzi scheme. They knew that Spain would never willingly give up their lucrative South American trade routes, and they knew that their promises of wealth being made in this endeavor were greatly exaggerated. Their cargo trips, with the cargo generally consisting of slaves, were perpetually unprofitable.

At the start of 1720, South Sea shares were trading around £128. To keep the money flowing in, the directors began circulating false stories of vast wealth being created from the trade side of the business. The stock price rose to £175 the following month, and to £330 by the end of March. By the end of spring, shares were at £550—over a 400% gain from the start of the year.

In a warped deal, greatly misconstrued by would-be investors, the South Sea Company persuaded Parliament to pass the Bubble Act, which required all joint-stock companies to receive a royal charter. From the South Sea angle, this would curtail competition; from the angle of the investing public, this only lent credibility to the company. By summer, South Sea stock had spiked to £1,050 per share.

1720; The "night singer of shares" sells South Sea shares on the street (Public Domain)

The collapse and the fallout.

Like any financial bubble, the collapse came even more fervently than the rise. Questions surrounding the company's actual profit (or lack thereof) went unanswered, and fear began to supplant greed. Investors began unloading shares at a breakneck speed, and by September they were once again trading around £175.

When we think of 18th century England, we envision a small percentage of well-offs, and a vast percentage of the abject poor. But members of all economic quintiles got caught up in the South Sea Bubble. Porters, maids, and clergymen lost their life savings, and members of the House of Commons lost their situation.

Politically, the bubble led to the 20-year reign of Robert Walpole, considered to be the first Prime Minister of Great Britain. Walpole had opposed the South Sea scheme from the start. By clawing back the national debt and dividing it into three government-controlled buckets, he eventually restored order.

Despite the "safeguards" we have in place today, the similarity between the South Sea Bubble and modern bubbles should serve as a warning sign for investors who let emotions dictate their actions.

Market Downturn Strategies

Using Inverse Funds to Create Gains and Protect Positions

On their face, inverse funds make perfect sense in a bear market, but investors need to be aware of risks.

Other than hiding out in cash, what's an investor to do? At most points in the past, falling values in one asset class meant rising values in other, inversely- or non-correlated asset classes. For example, as markets were hitting their crest back in the spring of 2000, the target federal funds rate was sitting at 6.5% (it is at 2.5% now). That meant an investor could pick up 7-8% high quality corporate bonds till the cows came home. As the Fed began lowering rates to counter the softening economy, the value of those bonds went straight up.

And cash as an investment? We recall 5% money market rates back around that time! Of course, one could also go into precious metals, agricultural commodities, real estate, foreign markets, and other asset classes in an attempt to avert the imploding tech bubble.

To get an idea of how an investor could have diversified away market risk back in the first few years of the new millennium, take a look at the accompanying graph. While the "new economy" NASDAQ was busy falling an almost-unfathomable 73.5% between March of 2000 and the end of 2002, the typical bond portfolio was going up nearly 32%. If you diversified into gold to hedge your market bets over that time frame, you would have been rewarded with a 20% gain.

Fast forward to today. Markets are falling, oil is plummeting, gold is flat, rates are going up (meaning bond values will fall), and emerging markets are nightmarish. What about hiding out in the money market? That is certainly wise for a larger portion of your portfolio as the stock market tries to find a floor, but instead of 5% you will be rewarded with less than one-half of 1%.

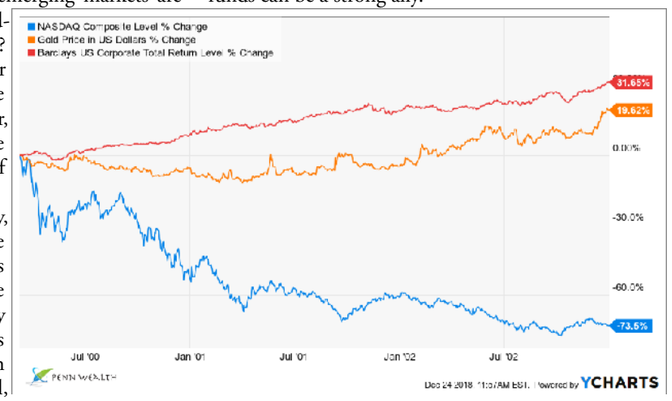
There is one market strategy, however, guaranteed to generate positive performance (overall) as the markets drop: adding inverse funds to your portfolio. So, why don't more investors use this tool? Namely, it is fraught with danger and, barring a crystal ball, investors can get hammered before they know what hit them.

So what are inverse funds, anyway?

There have always been ways for sophisticated traders to take the opposite side of any market bet; unfortunately, most of those methods were historically reserved for a privileged few. That changed with the advent and blossoming of the exchange traded fund. Today, any individual investor can buy any number of inverse funds to hedge against a certain long position.

Let's use the NASDAQ as a classic example. Despite crazy and unsettling gyrations in the tech-heavy index during the first quarter of 2018 (up 8%, down 8%, up 8%), the NASDAQ rose 16% between the beginning of Q2 and the end of Q3. Suppose you had a bad feeling about the fourth quarter for tech stocks, and wanted to either protect your holdings or simply take advantage of another downturn. So, you picked up some shares of PSQ, the $517 million NASDAQ inverse fund, selling for $29 per share on the first day of the fourth-quarter. Good call. By the end of the year, you had gained 18% on that call (see chart on the following page).

Of course, it's impossible to know precisely what is going to happen in the markets, but when all signs are pointing to an overvalued condition in one corner or niche segment of the investment universe, inverse funds can be a strong ally.



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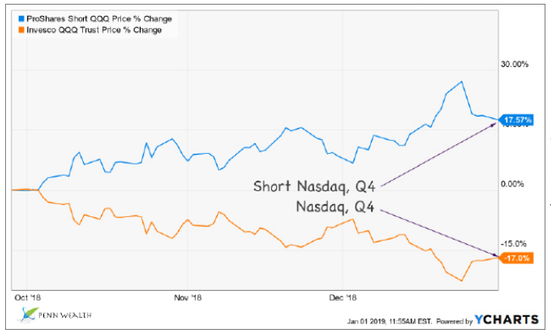
"...the longer one holds an inverse ETF, the greater the tracking error. Look for inverse funds with a low tracking error...and try to take your profits earlier rather than later."

When you do feel a market downturn coming, the last thing you want to do is scramble to find something that makes sense. Instead, you want to have a quiver full of inverse fund arrows you can pull out when needed. On the last two pages of this article, we have identified some of our favorites, identified by the benchmark they are designed to short.

Rumblings of a trade skirmish with China over that country's theft of American intellectual property were present going into 2018. Perhaps we didn't realize just how much the real or threatened tariffs would hurt the communist state, but had we picked up CHAD, the **Direxion Daily CSI 300 China Bear Fund**, we would have gained 28.75% over the course of a very ugly year in the markets.



And what about the oil and gas markets? It's hard to believe, but at the start of the fourth-quarter, crude futures were sitting above $75 per barrel, with experts calling for more pain at the pump (due to the OPEC/Russian cuts and the Iranian sanctions). Wrong. By the end of the year, crude had fallen to $45.81 per barrel, and DUG, the **ProShares UltraShort Oil & Gas ETF** was up 36.18%. (It actually gained 69% in Q4! Interesting side note: when oil hit $45 per share, we took the opposite bet and picked up OIL—a long etf—in the Intrepid Trading Platform.)

What are the risks with trading inverse ETFs?

Certain well-known investors and market gurus have been calling for a big correction since the end of 2016. Had they put their money where there mouth is, they would have taken a bath in inverse ETFs for 90% of the period between then and now. Especially if they had double-or triple-downed on the 2X or 3X inverse ETFs. As the name implies, these move in the opposite direction of their respective benchmark at twice or three times the speed. Of course, you can place stop protection on inverse ETFs, but the moves are often so rapid that investors stop out well below their trigger price.

Another important challenge to understand when dealing with inverse funds is a phenomenon known as tracking error. While an inverse ETF may be designed to track a specific benchmark, these investments are still derivatives. This means that they rely on some type of financial "middle man" (typically a mathematical formula) to help assure they are effectively dependent upon the price of the underlying asset. Tracking error measures that effectiveness.

Here's what that means for investors: Generally, the longer one holds an inverse ETF the greater the tracking error. Look for inverse funds with a low tracking error (this number can be found in the company's data on the holding, or you can simply overlay the fund symbol on a chart alongside the benchmark index and check the inverse alignment—as we did with our ProShares short NASDAQ fund), and try to take your profits earlier rather than later. This is why we typically buy inverse ETFs inside of the ***Intrepid Trading Platform*** rather than the ***Dynamic Growth Strategy*** (our ETF portfolio)—the Intrepid is designed to notch quick gains.

Thinly-traded inverse ETFs—and there are plenty of them on the market—pose yet another risk to investors. If the volume traded within a certain ETF is very low, it is much more susceptible to wild swings in price. Before trading an inverse fund, take a look at its assets under management and compare that figure to other funds in the space. The greater the AUM, the greater the liquidity. And getting stuck in an illiquid investment can cause some serious problems.

Here's the bottom line with respect to inverse fund risks: yes, investors must be very cautious with their use, but don't buy into the blanket condemnation many pundits espouse via their hyperbolic headlines (one recent headline read "*Why Inverse ETFs are a Terrible Hedge*"). If a certain benchmark has a severe downturn, a high-quality inverse ETF based on that benchmark will almost assuredly do very well during that period.

What are some good (inverse) ideas for 2019?

Now that we have a good grasp on the concept of inverse funds, and are aware of the risks, let's consider application: what are some real-world ways to take advantage of inverse funds over the course of the year ahead?

One trend we definitely see developing is the Fed's reduction of their tightening policy. Mid-year 2018, most Fed watchers predicted three to four interest rate hikes in the cards for 2019. Although we called for just two to three, we have now reduced that expectation even further: we predict zero to one rate hikes for the year.

While the central bank won't admit to being swayed by markets, the underlying strength of the global economy is a data point they explicitly watch. And the global economy is slowing down precipitously. Also, expect the Fed to slow down on the $50 billion per month ($600 billion per year) balance sheet reduction program. Since tightening (via interest rate hikes and balance sheet reductions) helped strengthen the US dollar, letting up on the gas pedal should lead to a weakening of the US currency.

Looking at the spreadsheet on the following page, we see that the **Invesco DB US Dollar Bearish ETF** (ticker UDN), has a negative 6.21% return over the past year. If the dollar does indeed weaken, expect UDN to have a very good year.

Another trend to play is the global slowdown. EFZ is the **ProShares Short MSCI EAFE fund**. The MSCI EAFE index is designed to measure the market performance of *developed markets* outside of North America. As our outlook on international developed markets—Europe in particular—is rather dour, this $58 million fund might be a good way to play a global slowdown.

It is easy to feel helpless when global and domestic markets are tumbling. If used properly, inverse ETFs can be an effective way to realize gains and hedge other holdings. They can also provide a nice respite to all of that flashing red on the screen.

INVESTMENT INTELLIGENCE

From the Universe of Inverse ETFs (sorted by benchmark)...

Benchmark (Inverse of)	Symbol	Name	AUM ($M)	Exp Ratio	52 wk Low	Price	52 wk High	1-year Return	RSI	Inception Date
Agriculture	ADZ	DB Agriculture Short ETN	$0	0.75	$21.13	$37.00	$39.50	6.32%	71	2008-04-14
Base Metals	BOS	DB Base Metals Short ETN	$1	0.75	$13.07	$20.69	$22.02	4.49%	50	2008-06-16
Basic Materials	SMN	ProShares UltraShort Basic Materials	$8	0.95	$23.46	$36.31	$40.16	32.74%	54	2007-01-30
Biotech	BIS	ProShares UltraShort Nasdaq Biotech	$32	0.95	$15.38	$22.85	$27.62	5.18%	54	2010-04-06
Broad US Market	HDGE	AdvisorShares Ranger Equity Bear ETF	$140	2.72	$7.22	$8.48	$8.99	7.53%	54	2011-01-26
China	CHAD	Direxion Dly CSI 300 Chn A Shr Br 1X ETF	$66	0.85	$27.67	$40.30	$41.12	28.75%	58	2015-06-17
Commodities	DDP	DB Commodity Short ETN	$1	0.75	$37.66	$45.93	$61.00	3.19%	26	2008-04-28
Currencies, Foreign vs US$	UUP	Invesco DB US Dollar Bullish	$505	0.76	$23.09	$25.64	$26.12	5.91%	38	2007-02-20
Currencies, US Dollar	UDN	Invesco DB US Dollar Bearish	$29	0.76	$20.76	$20.86	$23.27	-6.21%	47	2007-02-20
Dow Jones Industrial Avg	DOG	ProShares Short Dow30	$256	0.95	$53.83	$61.57	$66.03	3.57%	55	2006-06-19
Emerging Markets	EUM	ProShares Short MSCI Emerging Markets	$110	0.95	$16.23	$20.39	$21.76	14.61%	50	2007-10-30
Euro Currency	EUFX	ProShares Short Euro	$9	0.97	$38.37	$43.08	$43.66	7.72%	46	2012-06-26
Europe, Asia, Far East	EFZ	ProShares Short MSCI EAFE	$58	0.95	$23.78	$29.68	$30.59	16.27%	57	2007-10-23
Financials Sector	SEF	ProShares Short Financials	$18	0.95	$21.68	$25.35	$27.12	10.35%	58	2008-06-10
Gold	DUST	Direxion Daily Gold Miners Bear 3X ETF	$106	1.08	$19.04	$22.99	$48.79	-3.27%	38	2010-12-08
High Yield	SJB	ProShares Short High Yield	$129	0.95	$22.45	$23.61	$24.12	2.47%	55	2011-03-21
Japan	EWV	ProShares UltraShort MSCI Japan	$9	0.95	$22.75	$34.65	$36.73	29.89%	62	2007-11-06
NASDAQ	PSQ	ProShares Short QQQ	$517	0.95	$28.99	$34.46	$37.22	-2.32%	54	2006-06-19
Natural Gas	GASX	Direxion Daily Nat Gas Rltd Bear 3X ETF	$7	1.08	$14.90	$47.46	$79.35	127.80%	62	2015-12-03
Oil & Gas	DUG	ProShares UltraShort Oil & Gas	$18	0.95	$27.88	$48.26	$58.54	36.18%	61	2007-01-30
Real Estate	REK	ProShares Short Real Estate	$10	0.95	$15.03	$16.79	$17.94	4.62%	59	2010-03-16
Retail Stores	EMTY	ProShares Decline of the Retl Store ETF	$6	0.65	$29.57	$36.82	$40.43	11.18%	59	2017-11-14
Rising Interest Rates	RISE	Sit Rising Rate ETF	$60	1	$23.59	$24.09	$25.50	1.37%	25	2015-02-18
Russell 2000	RWM	ProShares Short Russell2000	$288	0.95	$36.82	$46.51	$49.93	11.59%	59	2007-01-23
S&P 500	SH	ProShares Short S&P500	$1,923	0.89	$27.08	$31.45	$33.59	4.94%	56	2006-06-19
Semiconductors	SSG	ProShares UltraShort Semiconductors	$5	0.95	$13.75	$20.45	$23.76	-0.76%	51	2007-01-30
Small Caps	SBB	ProShares Short SmallCap600	$4	0.95	$29.00	$37.12	$39.59	8.41%	60	2007-01-23
Technology	REW	ProShares UltraShort Technology	$7	0.95	$10.55	$15.26	$17.75	-9.98%	53	2007-01-30
Treasuries, 20-year	TBF	ProShares Short 20+ Year Treasury	$429	0.91	$21.81	$22.41	$24.43	3.25%	26	2009-08-18
Yield Curve	FLAT	iPath® US Treasury Flattener ETN	$5	0.75	$60.69	$66.29	$68.94	7.34%	84	2010-08-09

Data current as of year-end, 2018

Multiline Retail

Target Corp

There was no logical reason for Target shares to plummet in the fourth-quarter, but it sure opened up a nice buying opportunity.

It wasn't long ago that we were urging investors to steer clear of multiline retailer Target (TGT $60-**$63**-$90) due to poor management and failure to execute on a questionable strategy. Former CEO Gregg Steinhafel simply didn't get it. Now, under the leadership of Brian Cornell, the "upscale discounter" appears back on track. All we were waiting for was an opportunity to jump back in at a reasonable price. That came with a vengeance, thanks to the nightmare that was Q4 of 2018.

On 21 Dec 2018, within three days of Target hitting its low (on the Nightmare Before Christmas shortened trading session), we swooped in and purchased the company for the Intrepid Trading Platform—at $62.39 per share. It is a company we know intimately, and we knew that investor emotions had just created a fantastic buying opportunity.

> "...THIS PARTICULAR TARGET STORE WAS PART OF A NEW URBAN STRATEGY OF OPENING SMALLER OUTLETS IN DENSE AREAS AND AROUND COLLEGE CAMPUSES.

Why the Intrepid and not the Global Leaders Club?

Just because we see a company grossly undervalued does not mean it belongs in the Penn Global Leaders Club. While nothing should be set on "auto-pilot" (just ask Fed Chair Powell), this strategy holds forty companies an investor could realistically walk away from (i.e. not monitor on a regular basis) and still sleep at night. While we do believe in Cornell and his strategy, we are looking for a potentially shorter-term gain rather than a long-term holding via our Target investment. Our first target price of $78 per share would equate to a 25% profit.

Catalysts going forward.

We recently found ourselves in downtown Denver, along a cool one-mile stretch known as the 16th Street Mall, and happened across an eclectic Target store on the corner. It wasn't like any of the Target stores we had been in before. For some reason, it brought back memories of a famous investment book from the '80s entitled "*One Up on Wall Street*, written by famed Fidelity fund manager Peter Lynch. I recall him beseeching would-be investors to "kick the tires" on potential investments. For example, he would ask his wife what it was about her favorite clothing stores that kept her coming back.

After a little research, I found out that this particular Target store was part of a new urban strategy of opening smaller outlets in dense (think downtowns) areas and around college campuses to drive foot traffic and build on demographic trends. Perhaps an Amazon might be able to pull off a store like the one on 16th Street, but (Penn Wealth stock) Walmart would not have been able to.

Target serves a niche clientele; dare we say a market nestled between Walmart and Whole Foods. Or between (the soon to be liquidated) Sears and Macy's. Busy professionals who want a comfortable environment to pick up what they need on the way home. And that is a really large niche, armed with plenty of disposable income.

That is part of what made the fourth-quarter downturn so bizarre. Here you had a company executing on the right fundamental moves, from omnichannel marketing to new store designs, yet the share price plummeted from $90 down to $62. Forget efficient market hypothesis, that was simply a mistake. And one we jumped on.

Financials.

As further evidence that Target was not overvalued, it has a tiny P/E ratio near single digits, a steadily-growing revenue stream, and a rock solid net income. Like clockwork, the company earns right around $3 billion every year, on sales of around $75 billion annually.

Despite what the economy does over the next year or two, Target remains in an excellent position with respect to its product mix and its solid client base. So, we will collect our 4% dividend yield (the 10-year Treasury is at 2.7%) until we reach our price target.

Symbol: TGT

Class: Large-Cap Value

Sector: Consumer Discretionary

Industry: Multiline Retail

Purchase Price*: $62.39

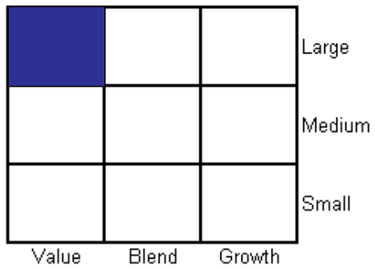
Dividend Yield*: 4%

*As of purchase date, 21 Dec 2018

Target can trace its roots back to the Dayton Dry Goods Company, founded in 1903 as a strictly Presbyterian merchandiser (no alcohol, no Sunday business activity, etc.). Dayton launched Target in 1962, using the moniker to differentiate the new retailer from its parent company. In 1975, the Target discount chain became Dayton-Hudson's (the firm bought jeweler J.B. Hudson in 1929) top grossing unit, with over $500 million in sales. Today, Target is one of North America's largest retailers, with 1,800 stores across the U.S. TGT has a market cap of roughly $36 billion.

Suitable for the Intrepid Trading Platform

Morningstar Style Box™



Getting ready for Black Friday. Courtesy: Target

Target got crushed with the great retail selloff of the fourth quarter. We actually timed this purchase pretty close to perfectly, getting in the week it hit its 52-week low.

See disclaimers on the back cover of The Report. This is not a solicitation to invest. Always consult your financial professional before making an investment.

Precious Metals

SPDR® Gold Trust

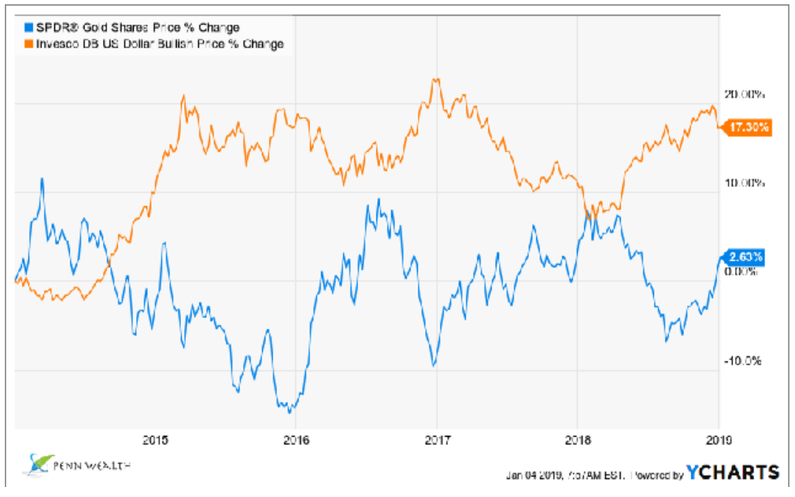
In addition to being a non-correlated asset, the table is setting up nicely for a big gold rally in 2019.

Admittedly, we haven't been big fans of gold as an investment for a number of years. Perhaps it has something to do with all of those clownish commercials featuring a guy in a bad suit standing in front of a green screen video of a giant vault. Had you taken this actor's advice five years ago and put all of your IRA assets in gold, you would now be 2.63% richer.

Nonetheless, we do see the table setting up nicely for a big rally in 2019 for this precious metal, first used as a store of value some 2,700 years ago. And our rationale is built on a multi-faceted foundation: fiscal, monetary, and geopolitical issues are all forming a nice catalyst for gold prices to rise over the next twelve months, perhaps longer.

The US dollar has been strong, but we see that changing this year. Increased fiscal restraint by the US (we use that term loosely) and massive quantitative easing by the European Union has helped the dollar gain strength over the past few years. We anticipate, however, that the Fed is about done hiking interest rates and will slow down on the unwinding of the massive, $4 trillion balance sheet it built up after the financial crisis. Both of those actions will lead to a weaker dollar; and a weakening dollar typically means rising gold prices (see graph).

Gold does not like fiscal responsibility. For example, if the United States ever passed a balanced budget amendment stating that the government could not spend more than it takes each year, gold prices would probably plummet. However, with a president who has talked about a $1 trillion infrastructure spend, and the Democrats back in control of the House, does anyone really believe we will have a modicum of fiscal responsibility coming from D.C? More than likely, especially as growth slows, the federal debt will continue to grow, the deficit will rise, and budget battles will rage—to gold's benefit.



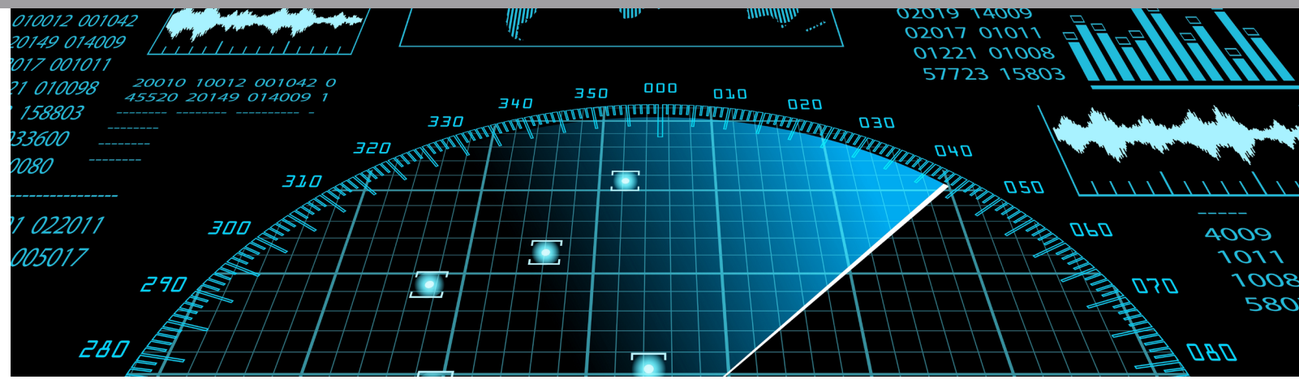
Finally, it is fair to say that gold thrives on chaos. And there is a sense that chaos, both domestically and around the world, will increase in 2019. From ugly battles in D.C., to a hard Brexit, to disruption in the Middle East, expect a troubling year ahead. Also, we can always count on the EU leaders in Brussels to do the wrong thing. Investors will seek a safe haven amongst the carnage, and gold typically serves well in that role.

The best vehicle.

Forget the jug-head actor in the gold commercials: buying physical gold within your IRA account is a stupid idea, plain and simple. Furthermore, buying physical gold *at all* doesn't make much sense. If a breakdown of society is coming, it would make more sense to have an easier-to-barter currency such as silver (and about a year's supply of MREs). As an investment, either to simply grow in value or to hedge a long equity portfolio, the best bet is to buy into the $33 billion SPDR® Gold Trust (GLD), currently selling for $121/share.

GLD's size is simply enormous, meaning it is extremely "tradable" and very liquid. We can even place a stop on GLD in case it quickly turns south for some unforeseen reason (like a sudden wave of responsibility in Washington). If we expect gold to go up in value this year (we do), then GLD is the ideal addition to a portfolio.

How much do we expect the precious metal to rise in 2019? We believe it will rise above $1,500 per ounce, which would reflect a 15% jump from here—with the same for GLD shares. Even if the market does rise double-digits this year, 15% is a nice annual return. And, based on recent volatility, the more non-correlated assets we can add to our portfolio the better.



UNDER THE RADAR

Four companies being ignored—or missed—by the financial press

1 *iPath S&P 500 VIX Short-Term Futures ETN*

Alternatives

Inverse funds can be an effective way to play a market downturn, or to hedge your long positions against a down market. But what about volatility? There are often spells in which volatility is disconcertingly quiet—a trader's worst scenario. However, it is a condition guaranteed to rear its head with a vengeance, typically after investors have been lulled into a false sense of security. To play wild swings in the market, either to the upside or downside, one option is the iPath S&P 500 VIX Short-Term Futures ETN (VXXB $26-**$51**-$58). Currently up 86% YTD, the fund thrives in chaos. Just use caution—and stops.

2 *First Trust NASDAQ Cybersecurity ETF*

Technology: Comp Software

Let's face it, the global cybersecurity threat is only going to get worse. With state-sponsored players in China, North Korea, and Russia, there is a hyper-critical need for American companies to protect their systems from hack attacks. From an investment standpoint, the NASDAQ was hammered in the fourth quarter of 2018, taking down virtually all players. CIBR contains such industry juggernauts as Palo Alto Networks, Fortinet, Trend Micro, Cisco Systems, and Raytheon. While shares of this dynamic ETF were flat last year, we expect major gains in 2019. We placed a stop loss on the position at $19.75/share. (See the "Trading Desk.")

3 *Semtech Corp*

Semiconductors

Semtech Corp (SMTP $31-**$49**-$61) is a mid-cap ($3 billion) semiconductor manufacturer and a leading supplier of high performance analog and mixed-signal semiconductors and advanced algorithms. Now that the official description is out of the way, let's talk about how the company might impact you: Its wireless charging products eliminate the need for cables and cords to charge all of your electronic gadgets. Its LoRa® technology is a direct competitor to Wi-Fi and cellular, and will help power the Internet of Things (IoT). The company's protection products group provides a shield for your devices from a variety of electronic threats. Semtech earned $48 million on $608 million in sales over the TTM.

4 *Ternium SA*

Basic Materials: Steel

While based out of Luxembourg, Ternium SA (TX $26-**$29**-$42) has steelmaking operations across Latin America, with a total production capacity of over 11 million metric tons per year. This is a play on the construction boom in many Latin American countries, to include Brazil, Mexico, Argentina, and Columbia. This $5 billion mid-cap is a cash cow. With a tiny PE ratio of just 4, the company earned $1.4 billion on $11.77 billion in revenues over the trailing twelve months. Furthermore, the company gives shareholders a 3.82% dividend yield. Ternium has been profitable every year for the past ten years.

Trading Desk

Actions we have taken at the Penn Trading Desk, plus a look at what other Wall Street analysts have to say...

THE FOURTH QUARTER DOWNTURN LED TO SOME IMPRESSIVE VALUES IN THE MARKET. NEEDLESS TO SAY, WE WENT SHOPPING.

Penn: Open OIL in ITP

US light crude hit its lowest level since 2017, falling into the $40s for the first time since August of that year. Concerns over global growth, oversupply, and Mexico's plans to double production over the six years all played a role in the drop. We believe the mid-$40s is the lower band of the channel, which is why we opened this position in OIL @ $48.72 with crude sitting at $47/bbl. Our initial target price is $59 per share, and our stop loss is $39 per share.

Penn: Open TGT in ITP

Target (TGT $61-**$62**-$90) is one of the largest multiline retailers in the US, with over 1,800 stores nationwide. We have given the company's former CEO, Greg Steinhafel, a lot of grief in the past over his tone-deaf attitude toward the 2013 hack, but Brian Cornell has done a strong job in remaking the company's image. We have followed TGT for over 20 years, and we know when it is undervalued. It is undervalued.

Penn: Open CIBR in DGS

Let's face it, the global cybersecurity threat is only going to get worse. With state-sponsored players in China, North Korea, and Russia, there is a hyper-critical need for American companies to protect their systems from hack attacks. From an investment standpoint, the NASDAQ was hammered in the fourth quarter of 2018, taking down virtually all players. CIBR contains such industry juggernauts as Palo Alto Networks, Fortinet, Trend Micro, Cisco Systems, and Raytheon. While shares of this dynamic ETF were flat last year, we expect major gains in 2019. We placed a stop loss on the position at $19.75/share.

Penn: Close TBT in DGS

It was an idea that has run its course, but it made perfect sense at the time. We picked up TBT, the ProShares UltraShort 20+ Year Treasury ETF, as the Fed set sail on its great rate hike expedition. As rates rise, values of bonds fall; the longer the bond, the greater the fall. And TBT, which goes up twice as fast as long bond values fall, was following the script. Then Q4 hit. All of a sudden, as the market fell with a vengeance, the idea that the Fed would slam on the brakes became a popular theme—TBT fell in lockstep with the markets. Seeing no catalyst for near-term growth, we yanked TBT from the Dynamic Growth Strategy and replaced it with...

Penn: Open GLD in DGS

While we have not liked gold as an investment for years (it is essentially flat over the past five years, by the way), we do see a number of factors aligning in 2019 to push gold values up. A weaker dollar, political turmoil at home, and geopolitical challenges all bode well for gold prices. To that end, we have used the proceeds from TBT in the Dynamic Growth Strategy to open a position in the SPDR® Gold Trust, symbol GLD, at $122.34/share. Our target growth rate for the year is 15%.

Penn: Open MDT in GLC

Medtronic (MDT $76-**$84**-$100) is a $114 billion leader in the design, manufacture, and marketing of medical devices. Based on their healthy array of existing and upcoming devices (their recent pickup of Covidien was a smart move) and their undervalued stock price, we added MDT to the Global Leaders Club at $83.89/share, with an IPT of $100.

Penn: Open STZ in ITP

We love Constellation's (STZ $150-**$156**-$237) move into Canopy Growth, and we couldn't resist picking this booze company up near its 52-week low following a warning on lower-priced wine sales. The selloff was completely unwarranted. Our IPT on the stock is $200. Our stop loss is $125.

INVESTMENT INTELLIGENCE

Oil looks to be at the lower band of a channel

Opened OIL in ITP

We've covered Target for over 20 years; it is grossly undervalued

Opened TGT in ITP

NASDAQ stocks are down while the cyber threat is up

Opened CIBR in DGS

With the specter of the Fed pausing on rate hikes, TBT fell in lockstep with markets

TBT's run is over (for a long while)

Weekly Business Report

E-Commerce

Blue Apron just became a penny stock

When I was a relative "kid" in the 1980s, I had a subscription to a weekly newspaper called *The Penny Stock News*. It listed all of the publicly-traded stocks with share prices below $10. One issue I recall highlighted a company called The Puerto Rican Cement Company, which had just risen some 5,000% in price, moving from something like a dime up to five bucks or so per share. Home meal kit provider Blue Apron (APRN $1-**$1**-$5) should be so lucky (to be trading at $5). They would, however, now qualify to be an entry in *The Penny Stock News*, as their share price fell to $0.87 on Tuesday.

It was a slow-moving train wreck from the start. With so much competition, what were the owners thinking? They could have stayed private and eked out a nice living for themselves, outside of the spotlight of the investing public. There was just too much competition in the space, with no real unique value proposition (UVP) for any one of these companies.

We said back in September of 2017 that the company's only hope was to find a deep-pocketed buyer, such as Walmart (WMT) or another grocery chain. Well, Walmart has started their own meal kit business, Albertson's has purchased Blue Apron competitor Plated, and Kroger (KR) acquired Home Chef, so it is not looking good for the new penny stock—not that they have shown any real interest in being acquired anyway.

It's easy for founders to be blinded by the perceived value of a company they started, but there is no excuse for investors not to consider a company's unique value (or selling) proposition. If the products or services can't justifiably stand out from the competition in any meaningful way, what would be the catalyst for purchasing shares? A question that investors who got in on the IPO of Blue Apron are probably asking themselves right now.

Happiness Index

Christmas shopping rose a healthy 5.1%, but another metric is even more impressive

$850 billion. That is the amount Americans spent during the 2018 holiday shopping season. That figure represents a 5.1% increase over last year—and the strongest number in six years, according to Mastercard SpendingPulse. But there is an even more impressive number in the report: online sales rose nearly 20% from last year. This means that retailers who have embraced this new online reality should continue to excel, while those who have put forth a halfhearted effort into building their online presence will continue to struggle.

Besides the obvious winners such as Amazon (AMZN), which retailers have done the best with this strategic shift? Walmart (WMT) and Target (TGT) have both put a massive effort into their respective online shopping experience. The worst? Sears (SHLD), Kmart (SHLD), and Marshalls (TJX).

With the beaten-down market, there are a lot of great opportunities in retail, but beware of the shops who have not "figured it out" yet; the future of the retailing experience, that is. We expect big winners to include: Amazon, Walmart, Target, Best Buy (BBY), and Macy's (M)—though that last example could end up going either way. Of course, all of that online ordering requires a shipper to deliver it to your door. Here, we like FedEx (FDX), hands down. It happens to be on sale right now as well!

East/Southeast Asia

Hack gives Li'l Kim information on nearly 1,000 defectors in South Korea

When dealing with a mentally unstable, mercurial dictator who happens to be the leader of a socialist state, there really is only one strategic plan: containment and constant pressure at all levels. There can never be a lasting deal with a madman. We don't doubt that, for a brief tract of time, Kim Jong-un liked Donald Trump, and was willing to make a deal with the West, but that time is over. He will need to feign overtures to end the economic containment of his country, but he will never give up his war-fighting capabilities or end his electronic warfare against the civilized world.

With respect to the latter, the South Korean Unification Ministry announced that a malware hack has allowed the release of the names, birth dates, and addresses of 997 North Koreans who had previously defected to the South. The Ministry, whose raison d'être is to support a "one Korea" solution, apologized for the lapse and has notified the defectors. That should comfort them (considering the fact that Kim's half-brother was killed in Kuala Lumpur).

Investors need to understand this point: there will be times at which it appears all is relatively calm on the Korean peninsula, but that is a mirage. South Korea has a vibrant economy which happens to be the 11th largest in the world, but North Korean spies permeate the fabric of society in the South. The theft of intellectual property by the North on the South rivals only the IP theft of American technology by the Chinese. Fortunately (or unfortunately for the poor souls who live in the North), Li'l Kim doesn't have the economic infrastructure to do much with that technology—except undermine the South Korean economy as much as possible.

Domestic and International Headlines

Economics: Work & Pay

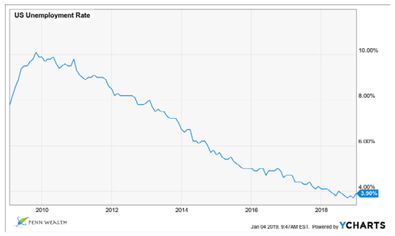
The US had stellar jobs growth in December, but how will the Fed respond?

Expectations were for 176,000 new jobs created in the month of December. The economists got it wrong by some 77%. The US added a whopping 312,000 new jobs in the last month of 2018, and 419,000 new workers entered the workforce. That latter fact helped drive unemployment back up to 3.9% (from 3.7%), but any way you parse the numbers, the report was great.

Of that 312,000 figure, 301,000 new private sector jobs were created. Of course, any time we get a strong jobs report we must now be concerned that the Fed will use this as rationale for yet another rate hike, but futures stayed steady (the Dow was up around 300) after the number came out. Inflation is not on the horizon, and the global economy is slowing; those are the data points the Fed should be looking at, not a rosy jobs number.

If Powell and company continue to blather on about two more rate hikes in 2019, any market gains won't hold. If they simply shut up about predicting new rate hikes, the market will cheer. Back to the jobs report: the December figure capped off the creation of a whopping 2.6 million new jobs in 2018—an impressive feat.

Don't expect another 312k number soon. If we could maintain an average of 150,000 to 200,000 new jobs created each month in 2019, it will be a good year. If the Fed presses pause on any further rate hikes, the markets will have a year of double-digit gains. Could once, just once, the eggheads at the Fed celebrate a good jobs report and keep their respective mouths shut about more rate hikes?



Multiline Retail

It is official: Sears is dead. But it didn't have to go down this way

I loved shopping as a kid. Back in the '70s, my favorite stores were TG&Y (a five & dime), Andersen's Books, and Sears (SHLD $0.12—**$0.19**-$4). I did have a real beef with Sears, however. I would inevitably find something to spend my hard-earned allowance on, fall in love with it, and then be told I had to wait a week or two for it to be shipped in to the store (silly little consumer, don't you know that's just the floor model?).

That is a fitting memory, as it ultimately turned out to be one of the reasons Sears will be liquidated—as go-getting juggernauts like Amazon (AMZN) began delivering items at breakneck speed (and ultra-low prices), Sears refused to strategically change its ways. Furthermore, its top shareholder, Eddie Lampert, was much more interested in the value of Sears' real estate holdings than actually creating a 21st-century shopping experience.

On Tuesday, the 8th of January, Sears executives made a request of the bankruptcy judge: let us liquidate and shutter our stores. It is a sad end to a story that began back in 1886, when Richard Warren Sears purchased a shipment of unwanted watches from a local jeweler, selling them to his fellow railroad station agents for a nice profit.

The company was a blessing to rural farmers and their families, who were no longer at the mercy of local merchants. In that respect, ironically, they were much like the Amazon of their heyday. The Sears catalog brought over 300 pages of goods to Americans across the fruited plain, with no-haggle pricing and non-preferential service. In 1906 the company started trading on the exchange, and by the end of World War II it had become the world's largest retailer.

Yet once again, we go back to our mantra of leadership. If management at Sears had channeled the same spirit that the company had when it took market share from local retailers via its catalog, it could still be a thriving entity. Instead, it allowed Eddie Lampert, a Goldman Sachs trader-turned-hedge fund manager, to take control. That was the beginning of the end. Now, over 50,000 Sears and K-Mart employees will lose their jobs, and Richard Sears' company will become a memory.

Do you want to be a trader, an investor, or both? While we knew the end was near, SHLD was selling for $0.17/sh on Christmas Eve. On the first trading day of 2019, it was at $0.49/sh—a 188% gain. Shares now sit at $0.21.

Road & Rail

Penn member Union Pacific spikes on new COO announcement

Within the Industrials sector, Union Pacific (UNP $121-**$150**-$166) is our one railroad position in the Penn Global Leaders Club. There are a number of reasons we like the rail, including CEO Lance Fritz's exemplary leadership. While it is rare for an addition other than a CEO to matter to investors, the announcement of Jim Vena as the company's new chief operating officer was the catalyst for a nearly 10% spike in UNP shares on Tuesday.

Vena has forty years of experience with Canadian National Railway (CNI); for rail watchers, that means one thing: he served under the infamous Hunter Harrison. While the draconian leader Harrison is now deceased, UNP investors are hoping that his "precision scheduled railroading" mindset lives on in Vena. (Harrison would watch his tracks in "real time," and was known for calling an engineer personally if a shipment was behind schedule.)

UNP's version of this efficiency standard is called Unified Plan 2020, a strategy designed to "increase operating efficiency and reduce network complexity." Between Fritz and Vena, there is little doubt that we own the right railroad moving forward.

The rails are very sensitive to the state of the economy, both domestically and globally. Right now, two issues are front and center: a potential global economic slowdown and the odds of the US-Mexico-Canada Trade Agreement passing a hostile House of Representatives. We believe there will be an ugly fight on purely political grounds, but the deal will be ratified. On the global front, we believe the slowdown will be relatively mild. We remain neutral to bullish on the rails.

We have been—and remain—bullish on shares of Tesla. We are in some pretty good company. Photo courtesy: Tesla.

Pharmaceuticals

Bristol-Myers Squibb to buy biotech Celgene in $74 billion deal

Going into the trading day, biotech firm Celgene (CELG $59-**$88**-$110) was valued at $46.5 billion. All of that changed with Bristol-Myers Squibb's (BMY $47-**$48**-$70) $74 billion plan to buy the firm. Under the terms of the deal, BMY will pay CELG owners $50 in cash for each share of the company they own, along with a 31% stake in BMY after the deal closes.

We hate to lose another great publicly-traded biotech firm, but the deal makes great sense for Bristol. The merged entity will have nine blockbuster drugs, with each bringing in over $1 billion in sales annually. Considering BMY's annual revenue has been in the $20 billion range, that is huge.

This acquisition is part of an overall strategy at the company to beef up its oncology business—last year it bought cancer drug developer Juno Therapeutics in a $9 billion deal.

Bristol-Myers Squibb is in the Penn Global Leaders Club as a "pharmaceuticals" holding. This deal is a great example of why we are constantly looking for up-and-coming biotech companies to buy within the Penn New Frontier Fund (we currently hold four biotechs in the portfolio).

e-Commerce

Jeff Bezos lost $65 billion overnight, but should investors be worried?

At the end of 2018, Amazon (AMZN $1,237-**$1,653**-$2,051) founder and CEO Jeff Bezos retained his title as the world's richest person, and it wasn't even close. Bezos finished the year out with a cool $130 billion or so under his belt, in one form or another. The world's second richest person, Bill Gates, came in at a paltry $90 billion (though it should be noted that most of these ultra-wealthy individuals give away enormous amounts of their wealth each year to charitable organizations).

Bezos may just move down about six notches on the list this year, however, as one action will separate him from half of his wealth: he and his wife MacKenzie have announced their divorce. Under Washington state law, assets gained over the course of a marriage are split down the middle, with each side getting half.

Actually, the divorce appears quite amicable, and the two will continue their joint work on the Day One Fund, their charitable organization. The two have been married for 25 years; he is 55, she is 48.

Amazon dropped a bit on the news, but this is a company we fully expect to (as amazing as it sounds) double in size over the next several years. It will be interesting to watch the proceedings, however, to see how Bezos's control of 16% of outstanding AMZN shares are affected. This is going to be one complex split from a financial standpoint. Further complicating matters, photos of Bezos with an apparent love interest have surfaced on the cover of the weekly tabloids.

Automotive

In good company: Tesla's second-largest shareholder knows a thing or two about business

We have been—and remain—a long-term bull on electric vehicle maker Tesla (TSLA $245-**$336**-$387). We argue that, were it not for the dynamic catalyst in the form of Elon Musk, other car companies would still be in the fossil fuel stone age. It took real leadership for Musk to create this new company, and we find it rather cowardly for the likes of Ford and GM to come along and claim that "we were here first!"

Of course, most of the blowhard talking heads of the industry continue to write off the firm as a failure, due in good measure to some sick combination of hubris, jealousy, and lack of vision. Leaders put their money where their mouth is, however, and we just found out that Tesla's second-largest shareholder happens to be a legendary name in tech.

According to a regulatory filing with the SEC, Oracle (ORCL) founder and sixth-richest person in the world, Larry Ellison, owns around three million shares of firm through his revocable trust. At the company's current share price, those shares are worth in excess of $1 billion. Pretty good company for founder Musk, who owns 20% of Tesla's outstanding shares.

If we want to talk about risk, let's talk about Ford and GM losing market share around the globe. How risky are those investments, despite their fat dividend yields? We are rooting for both, and both are making inroads into autonomous vehicle technology, but they have each made a number of missteps recently.

At least Musk is passionate about what he is doing—reminiscent of the first generation Busch, or the first generation Ford.

Media & Entertainment

Fortnite parent pocketed $3 billion in 2018—expect an IPO one of these days

It isn't a publicly-traded company (yet), but if it were, Epic Games would have a value of $15 billion or so. That is due, in great measure, to its Fortnite release, which happens to be the world's most popular video game.

Despite being "free" to players, once sucked into the game the 125 million or so gamers it currently boasts can buy digital items for their characters, such as outfits and dance moves. But how much can these nickel and dime purchases really yield for the company? According to insider reports, Epic grossed a $3 billion profit in 2018. Not revenues; gross profit.

Epic, which Chinese conglomerate Tencent Holdings purchased a 48% stake in six years ago, just made another big move: it launched the Epic Game Store. Online gaming is now a $100 billion industry, and there are no signs of player fatigue—at least for the industry overall. Individual games, of course, can lose a fickle audience overnight.

Odds are great that the Cary, North Carolina-based Epic will eventually offer an IPO. In the meantime, investors can get an indirect piece of the action by buying TCEHY.

Looking for a way to ride the latest video game wave? The top publicly-traded companies in the space are Activision Blizzard (ATVI), Take-Two Interactive (TTWO), and Electronic Arts (EA). The latter happens to be on sale: its stock is down roughly 50% from July highs.

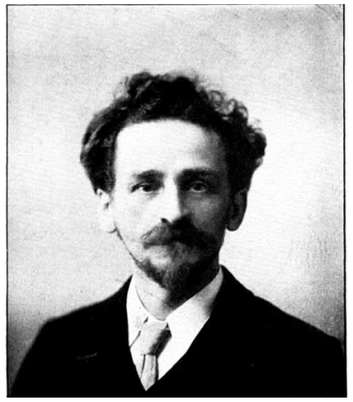
South Asia

Foxconn's India plans are another warning shot to China

The seductive concept of an emerging market with 1.4 billion potential new customers lured American companies to China. Now, more and more of these companies are realizing that conducting business in a communist country is fraught with dangers and pitfalls.

The latest move comes from Taiwanese electronics parts-maker Foxconn, which just announced plans to begin producing high-end Apple (AAPL) iPhone parts in India. Foxconn is an enormous company. As the world's leading contract electronics manufacturer, the company employs nearly one million workers and generates an annual revenue of $160 billion. India is a democratic republic, with no plans to take over the world (economically or otherwise), and with an equally-impressive 1.3 billion citizens. Expect more companies to follow Foxconn to this "safer" environment.

Quotes of the Week *(For more, visit our blog at PennWealth.wordpress.com)*



Public Domain

Aspirations

"You will become as small as your controlling desire; as great as your dominant aspiration."

—James Allen

1920; Public Domain

Character

"Be less curious about people and more curious about ideas."

—Marie Curie

Public Domain

Action Environment

"Know the true value of time; snatch, seize, and enjoy every moment of it. No idleness, no laziness, no procrastination: never put off till tomorrow what you can do today."

—Philip Stanhope,
4th Earl of Chesterfield

INVESTMENT INTELLIGENCE

Penn Strategies

Penn Strategic Income Portfolio

Penn Strategic Income Portfolio (sorted by classification)

Asset Class	Classification	Sym	Yield	Name	52 Wk Low	Price	52 Wk High	1-yr return	Stop	Duration
Allocation	Balanced Open End	BALFX	**2.01%**	American Funds American Balanced F1	$26.04	**$27.09**	$28.13	8.84%		5.90
Income	Bank Loan	SRLN	**4.85%**	SPDR® Blackstone / GSO Senior Loan ETF	$44.37	**$45.89**	$47.69	1.71%		N/A
Allocation	Convertibles	CWB	**5.91%**	SPDR® Blmbg Barclays Convert Secs ETF	$45.13	**$48.84**	$54.99	-0.49%		N/A
Taxable Bond	Corporate Bond	LQD	**3.64%**	iShares iBoxx $ Invmt Grade Corp Bd ETF	$111.25	**$113.75**	$121.18	-2.39%		8.27
Worldwide Bond	Emerging Markets Bond	PCY	**4.86%**	Invesco Emerging Markets Sov Debt ETF	$25.56	**$26.79**	$29.63	-4.65%		N/A
Corporate Bond - High Yield	High Yield Bond	HYT	**8.69%**	BlackRock Corp High Yield	$8.95	**$9.83**	$11.07	-3.35%		N/A
Government Bond - Treasury	Intermediate Government	GOVT	**1.96%**	iShares US Treasury Bond ETF	$24.05	**$24.79**	$25.00	1.47%		5.79
Income	Intermediate-Term Bond	BOND	**3.46%**	PIMCO Active Bond ETF	$100.80	**$103.05**	$105.83	1.08%		5.65
Growth and Income	Intermediate-Term Bond	TOTL	**3.40%**	SPDR® DoubleLine Total Return Tact ETF	$46.63	**$47.55**	$48.50	1.52%		4.56
Income	Multisector Bond	NFLT	**4.77%**	Virtus Newfleet Multi-Sect Bd ETF	$22.19	**$23.64**	$25.29	-2.00%		N/A
Corporate Bond - High Yield	Nontraditional Bond	HYZD	**5.31%**	WisdomTree Interest Rt Hdg Hi Yld Bd ETF	$21.10	**$23.09**	$24.42	0.64%		-0.01
Corporate Bond - General	Nontraditional Bond	IGIH	**4.76%**	Xtrackers Inv Grd Bd Intst Rt Hdg ETF	$20.99	**$22.81**	$24.99	-2.57%		N/A
Growth and Income	Preferred Stock	PFF	**6.11%**	iShares US Preferred Stock ETF	$33.26	**$35.36**	$38.22	-1.79%		4.60
Equities	Regulated Electric Utilities	EIX	**4.09%**	Edison International	$45.50	**$59.32**	$71.00	-1.05%	$44.00	N/A
Specialty - Real Estate	REIT	ADC	**3.54%**	Agree Realty Corp	$43.74	**$60.91**	$63.00	27.97%		N/A
Specialty - Real Estate	REIT	O	**4.10%**	Realty Income Corp	$47.25	**$64.29**	$66.91	26.53%		N/A
Specialty - Real Estate	REIT	VNQ	**4.54%**	Vanguard Real Estate ETF	$71.08	**$77.75**	$84.55	2.60%		N/A
Growth and Income	Short-Term Bond	IGSB	**2.45%**	iShares Short-Term Corporate Bond ETF	$50.59	**$51.80**	$52.25	1.63%		2.70
Worldwide Bond	World Bond	TPINX	**6.44%**	Templeton Global Bond A	$11.21	**$11.45**	$12.13	1.17%		-1.34

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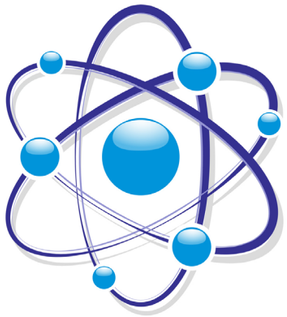
INVESTMENT INTELLIGENCE



Penn Strategies

Penn Dynamic Growth Strategy

Penn Dynamic Growth Strategy (sorted by specialty)

Specialty	Symbol	Name	Function	Style	52 wk Low	Price	52 wk High	1-year Return	RSI	Notes
Aerospace & Defense	ITA	iShares US Aerospace & Defense ETF	Satellite	Industry	$160.29	$181.80	$218.83	-6.23%	55	
Commodities	DBC	Invesco DB Commodity Tracking	Satellite	Sector	$14.32	$15.32	$18.65	-7.94%	54	only in IRA accts to avoid K-1 filing
Consumer Staples	XLP	Consumer Staples Select Sector SPDR® ETF	Satellite	Sector	$48.33	$51.63	$58.95	-6.11%	46	
Cybersecurity	CIBR	First Trust NASDAQ Cybersecurity ETF	Satellite	Thematic	$21.84	$24.49	$28.92	1.80%	55	
Emerging Markets	IEMG	iShares Core MSCI Emerging Markets ETF	Satellite	Strategy	$45.35	$49.03	$62.70	-14.97%	58	
Emerging Markets	BIKR	Rogers AI Global Macro ETF	Satellite	Strategy	$22.80	$23.93	$30.84	N/A	N/A	
Energy	XLE	Energy Select Sector SPDR® ETF	Core	Sector	$53.36	$62.01	$79.42	-16.66%	54	
Health Care	VHT	Vanguard Health Care ETF	Satellite	Industry	$148.31	$164.64	$181.92	3.80%	53	
Industrials	XLI	Industrial Select Sector SPDR® ETF	Satellite	Industry	$59.92	$67.87	$80.96	-12.91%	55	
Large-Cap Blend	PKW	Invesco BuyBack Achievers ETF	Satellite	Market Cap	$48.95	$54.58	$63.49	-10.41%	53	
Large-Cap Growth	RPG	Invesco S&P 500® Pure Growth ETF	Core	Market Cap	$93.10	$104.44	$121.47	-4.49%	56	
Large-Cap Value	USMV	iShares Edge MSCI Min Vol USA ETF	Core	Strategy	$49.50	$53.34	$57.67	2.03%	51	100 least vol S&P stocks; rebal qtrly
Mid-Cap Blend	NFO	Invesco Insider Sentiment ETF	Satellite	Market Cap	$53.28	$58.54	$67.18	-6.72%	52	
Mid-Cap Growth	IWP	iShares Russell Mid-Cap Growth ETF	Core	Market Cap	$105.97	$119.63	$137.73	-3.90%	57	
Mid-Cap Value	VOE	Vanguard Mid-Cap Value ETF	Core	Market Cap	$89.59	$100.06	$117.97	-10.78%	54	
Precious Metals	GLD	SPDR® Gold Shares	Satellite	Commodity	$111.06	$121.80	$129.52	-2.90%	64	
Real Estate	ICF	iShares Cohen & Steers REIT ETF	Satellite	Strategy	$88.40	$98.78	$106.14	5.75%	53	
Small Cap Growth	IJT	iShares S&P Small-Cap 600 Growth ETF	Core	Market Cap	$151.27	$170.77	$209.28	-1.78%	56	
Technology	XLK	Technology Select Sector SPDR® ETF	Satellite	Sector	$57.57	$63.54	$76.27	-2.93%	51	
Utilities	XLU	Utilities Select Sector SPDR® ETF	Satellite	Sector	$47.37	$53.23	$57.18	8.94%	47	

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INVESTMENT INTELLIGENCE

Penn Strategies

Penn Global Leaders Club

Penn Global Leaders Club (sorted by sector/industry)

Sector	Industry	Symbol	Company	1-Yr Low	Price	1-Yr High	Stop	Mkt Cap ($M)	Rev TTM ($M)	Prft Mgn TTM	Free $ Flow TTM ($M)	PE Ratio
Basic Materials	Chemicals	EMN	Eastman Chemical Co	$67.40	**$76.90**	112.45		$10,765	10,137	15.16%	$857	7
Communication Services	Interactive Media & Services	FB	Facebook Inc	$123.02	**$143.80**	218.62		$413,251	51,896	37.58%	$17,450	22
Communication Services	Media & Entertainment	DIS	Walt Disney Co	$97.68	**$112.65**	120.20		$167,699	59,434	21.20%	$9,830	13
Communication Services	Telecom Services	T	AT&T Inc	$26.80	**$30.87**	39.29		$224,672	164,439	20.40%	$20,614	6
Consumer Cyclical	Home Improvement Stores	HD	The Home Depot Inc	$158.09	**$179.41**	215.43		$202,649	105,595	10.00%	$10,072	20
Consumer Cyclical	Restaurants	MCD	McDonald's Corp	$146.84	**$182.37**	190.88		$140,591	21,202	24.56%	$4,056	28
Consumer Cyclical	Specialty Retail	AMZN	Amazon.com Inc	$1,265.93	**$1,640.56**	2,050.50		$802,182	220,957	4.03%	$13,361	92
Consumer Defensive	Discount Stores	DG	Dollar General Corp	$85.54	**$116.06**	118.45		$30,510	25,105	7.24%	$1,465	17
Consumer Defensive	Discount Stores	WMT	Walmart Inc	$81.78	**$94.84**	109.98		$275,535	511,879	1.01%	$18,428	55
Consumer Defensive	Grocery Stores	KR	The Kroger Co	$22.85	**$28.43**	32.74		$22,680	124,102	2.99%	$1,163	7
Consumer Defensive	Packaged Foods	GIS	General Mills Inc	$36.42	**$41.80**	60.69	None	$24,944	16,278	12.48%	$2,054	12
Energy	Oil & Gas Equipment & Services	SLB	Schlumberger Ltd	$34.99	**$41.74**	80.35		$57,802	32,815	-2.00%	$3,469	N/A
Energy	Oil & Gas Integrated	CVX	Chevron Corp	$100.22	**$112.54**	133.88		$215,039	154,945	9.17%	$14,295	15
Energy	Oil & Gas Refining & Marketing	MPC	Marathon Petroleum Corp	$54.29	**$64.87**	88.45		$44,816	85,226	4.59%	$3,054	8
Financial Services	Banks - Global	RY	Royal Bank of Canada	$65.76	**$72.79**	87.10		$104,731	33,073	29.14%	$12,043	11
Financial Services	Capital Markets	LAZ	Lazard Ltd	$33.54	**$36.86**	60.00		$4,352	2,818	11.72%	$550	15
Financial Services	Credit Services	COF	Capital One Financial Corp	$69.90	**$80.94**	106.50		$38,338	27,507	13.75%	$12,218	11
Financial Services	Credit Services	V	Visa Inc	$111.02	**$138.06**	151.56		$313,642	20,609	49.98%	$11,995	31
Healthcare	Biotechnology	AMGN	Amgen Inc	$163.31	**$200.56**	210.19		$127,801	23,319	9.44%	$10,448	53
Healthcare	Biotechnology	CELG	Celgene Corp	$58.59	**$87.40**	107.29	$65.00	$61,115	14,727	19.64%	$4,182	22
Healthcare	Drug Manufacturers - Major	BMY	Bristol-Myers Squibb Co	$44.30	**$47.99**	70.05	$50.00	$78,329	22,037	6.50%	$3,713	54
Healthcare	Drug Manufacturers - Major	PFE	Pfizer Inc	$33.20	**$42.88**	46.47		$247,867	53,373	44.63%	$15,669	11
Healthcare	Medical Devices	MDT	Medtronic PLC	$76.41	**$84.84**	100.15		$113,944	30,378	7.44%	$4,864	51
Healthcare	Medical Instruments & Supplies	BAX	Baxter International Inc	$61.05	**$66.81**	78.38		$35,552	11,060	10.90%	$1,163	30
Healthcare	Medical Instruments & Supplies	STE	STERIS PLC	$82.88	**$110.00**	121.67		$9,295	2,696	11.72%	$314	30
Industrials	Aerospace & Defense	BA	Boeing Co	$292.47	**$352.90**	394.28		$200,407	96,943	10.41%	$13,558	21
Industrials	Aerospace & Defense	RTN	Raytheon Co	$144.27	**$159.17**	229.75		$45,296	26,481	9.33%	$1,792	19
Industrials	Aerospace & Defense	UTX	United Technologies Corp	$100.48	**$109.95**	144.15		$94,929	64,137	7.76%	$4,524	18
Industrials	Airlines	DAL	Delta Air Lines Inc	$45.08	**$48.56**	61.32		$33,294	44,030	8.07%	$2,693	10
Industrials	Integrated Shipping & Logistics	FDX	FedEx Corp	$150.94	**$170.99**	274.66		$44,636	68,716	7.23%	-$321	9
Industrials	Railroads	UNP	Union Pacific Corp	$121.22	**$153.21**	165.63		$112,884	22,525	51.90%	$4,919	10
Real Estate	REIT - Office	DLR	Digital Realty Trust Inc	$96.56	**$106.64**	125.10		$21,998	3,000	11.78%	$1,376	80
Real Estate	REIT - Residential	ESS	Essex Property Trust Inc	$214.03	**$249.43**	267.41		$16,479	1,392	27.01%	$747	44
Technology	Consumer Electronics	AAPL	Apple Inc	$142.00	**$152.29**	233.47	None	$722,677	265,595	22.41%	$64,121	13
Technology	Electronic Components	GLW	Corning Inc	$26.11	**$30.05**	36.56	$29.75	$24,052	10,892	-5.86%	$617	N/A
Technology	Semiconductor Equipment & Materials	AMAT	Applied Materials Inc	$28.79	**$34.78**	62.40		$33,340	17,253	19.20%	$3,165	11
Technology	Software - Application	ADBE	Adobe Inc	$179.34	**$237.55**	277.61		$115,956	9,030	28.69%	$3,763	46
Technology	Software - Infrastructure	MSFT	Microsoft Corp	$83.83	**$102.80**	116.18		$789,115	114,906	16.38%	$31,999	43
Utilities	Utilities - Diversified	EXC	Exelon Corp	$35.57	**$45.79**	47.40		$44,279	35,523	10.47%	$957	12
Utilities	Utilities - Regulated Electric	SO	Southern Co	$42.38	**$46.61**	49.43		$47,957	23,786	10.35%	-$1,246	20

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INVESTMENT INTELLIGENCE

Penn Strategies

Penn Intrepid Trading Platform

Penn Intrepid Trading Platform (sorted by company name)

Symbol	Company	Industry	52 wk Low	Price	52 wk High	Stop	Mkt Cap ($M)	Rev TTM ($M)	Profit Mgn TTM	PE
AYR	Aircastle Ltd	Rental & Leasing Services	$15.75	**$19.79**	$25.30		$1,509	$733	27.16%	8
AMAT	Applied Materials Inc	Semiconductor Equipment & Materials	$28.79	**$34.78**	$62.40		$33,340	$17,253	19.20%	11
ACQ.TO	AutoCanada Inc	Auto & Truck Dealerships	$8.36	**$11.56**	$23.86		$317	$3,101	-1.16%	N/A
BECN	Beacon Roofing Supply Inc	Building Materials	$24.97	**$34.16**	$63.92		$2,342	$6,418	1.54%	34
EIX	Edison International	Utilities - Regulated Electric	$45.50	**$59.32**	$71.00	$44.00	$19,327	$12,868	3.59%	42
ERJ	Embraer SA	Aerospace & Defense	$17.99	**$23.23**	$28.55		$4,260	$5,129	-2.32%	N/A
GMED	Globus Medical Inc	Medical Devices	$38.01	**$42.19**	$57.83		$4,155	$693	20.79%	30
GT	Goodyear Tire & Rubber Co	Rubber & Plastics	$18.79	**$21.27**	$36.07		$4,956	$15,670	3.11%	10
JCI	Johnson Controls International PLC	Engineering & Construction	$28.30	**$32.18**	$41.53		$29,736	$31,400	6.89%	14
NAVI	Navient Corp	Credit Services	$8.23	**$10.39**	$15.03		$2,680	$2,070	11.55%	11
NWL	Newell Brands Inc	Household & Personal Products	$15.12	**$20.40**	$32.58		$9,523	$15,177	-36.06%	N/A
PANDY	Pandora A/S	Luxury Goods	$9.56	**$10.80**	$29.16		$4,436	$3,596	N/A	N/A
STRT	Strattec Security Corp	Auto Parts	$28.12	**$34.60**	$46.40		$129	$454	2.93%	10
SYMC	Symantec Corp	Software - Application	$17.43	**$19.88**	$29.52		$12,701	$4,750	25.58%	11
TGT	Target Corp	Discount Stores	$60.15	**$69.61**	$90.39	$53.00	$36,325	$74,526	4.36%	12
TX	Ternium SA	Steel	$25.52	**$28.63**	$42.43	$23.50	$5,620	$11,766	11.58%	4
TRN	Trinity Industries Inc	Railroads	$18.99	**$21.87**	$39.35		$3,200	$3,611	18.57%	5

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INVESTMENT INTELLIGENCE

Penn Strategies

Penn New Frontier Fund

Penn New Frontier Fund (sorted by industry)

Symbol	Company	Price	Mkt Cap ($M)	Rev TTM ($M)	Profit Mgn TTM	Free $ Flow TTM ($M)	PE Ratio	Industry
AJRD	Aerojet Rocketdyne Holdings Inc	$36.64	$2,869	$1,986	3.11%	$244	49	Aerospace & Defense
BIIB	Biogen Inc	$333.21	$67,136	$13,234	24.08%	$4,855	22	Biotechnology
LGND	Ligand Pharmaceuticals Inc	$134.69	$2,863	$242	73.78%	$198	18	Biotechnology
NKTR	Nektar Therapeutics Inc	$41.01	$7,098	$1,249	59.71%	$747	N/A	Biotechnology
VRTX	Vertex Pharmaceuticals Inc	$188.16	$48,086	$2,829	22.87%	$1,060	75	Biotechnology
TEVA	Teva Pharmaceutical Industries Ltd	$18.45	$20,099	$19,693	-54.84%	$3,515	N/A	Drug Manufacturers - Specialty & Generic
GLW	Corning Inc	$30.05	$24,052	$10,892	-5.86%	$617	N/A	Electronic Components
ARW	Arrow Electronics Inc	$73.52	$6,409	$29,556	1.82%	-$27	12	Electronics Distribution
CTSH	Cognizant Technology Solutions Cor	$64.92	$37,590	$15,824	9.07%	$2,365	26	Information Technology Services
EPAM	EPAM Systems Inc	$130.48	$7,047	$1,737	8.60%	$202	50	Information Technology Services
ORBK	Orbotech Ltd	$58.35	$2,836	$1,036	14.62%	$172	19	Scientific & Technical Instruments
PLAB	Photronics Inc	$10.48	$702	$535	7.86%	$38	17	Semiconductor Equipment & Materials
UCTT	Ultra Clean Holdings Inc	$9.30	$363	$1,088	5.38%	$7	N/A	Semiconductor Equipment & Materials
LRCX	Lam Research Corp	$144.11	$22,363	$10,930	21.26%	$2,248	11	Semiconductor Equipment & Materials
AVGO	Broadcom Inc	$250.57	$102,050	$20,848	58.80%	$8,245	9	Semiconductors
HIMX	Himax Technologies Inc	$3.96	$682	$714	3.35%	-$51	29	Semiconductors
CVLT	CommVault Systems Inc	$61.08	$2,827	$711	-9.61%	$89	N/A	Software - Application
FTNT	Fortinet Inc	$73.27	$12,483	$1,711	7.05%	$561	106	Software - Application
SYMC	Symantec Corp	$19.88	$12,701	$4,750	25.58%	$966	11	Software - Application

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