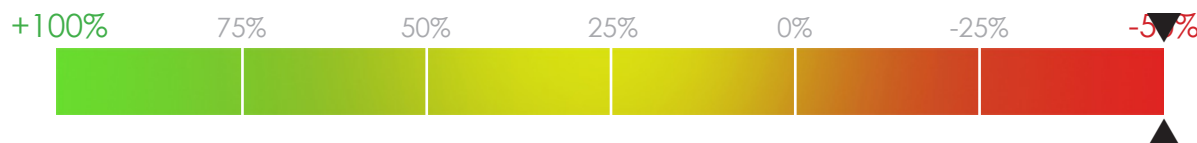


EDITOR: DICK STERN

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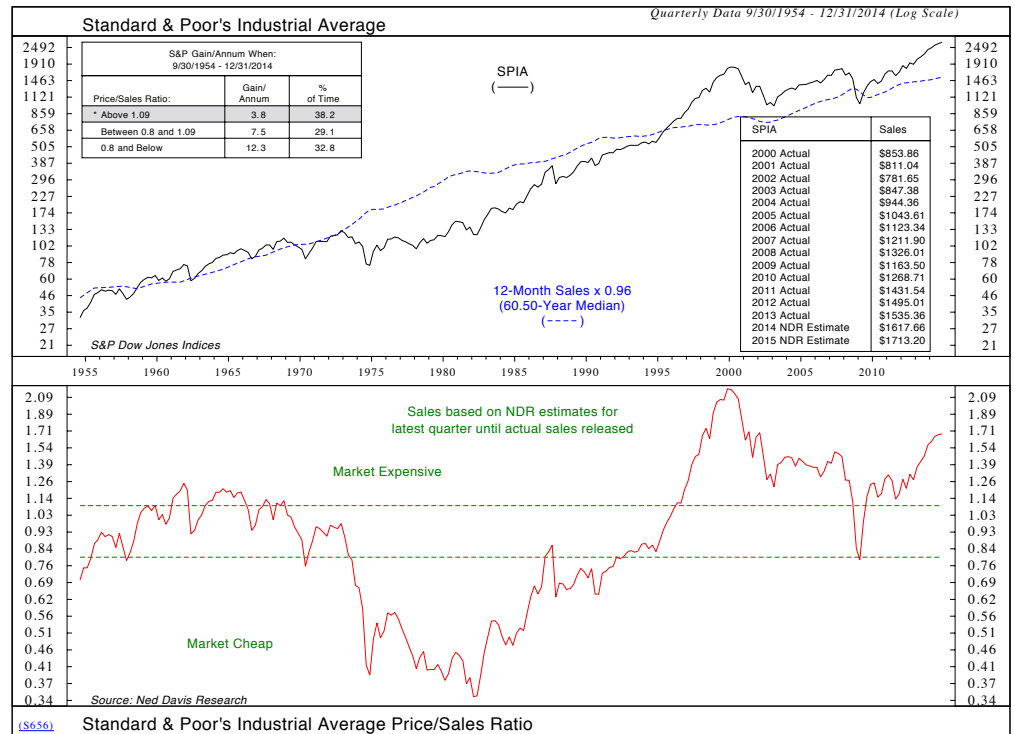


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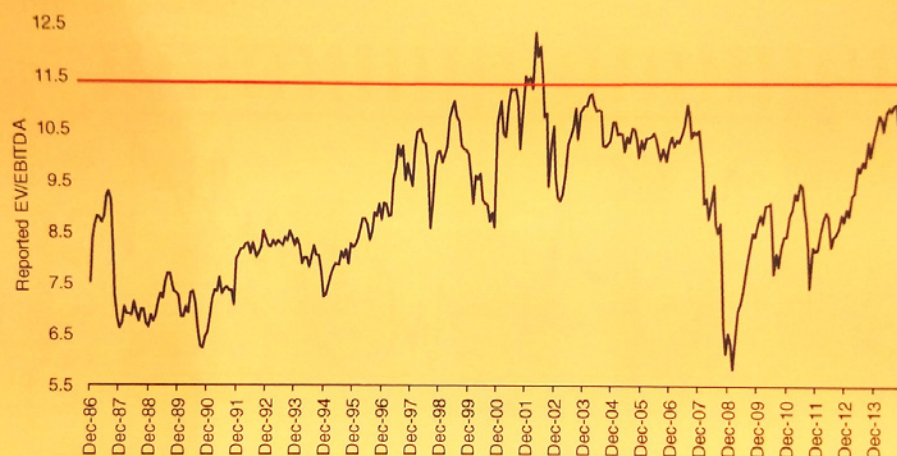
Overvalued Fundamentals Outline Big Picture

There is an ongoing debate amongst market participants on the overall valuation of the stock market. Some investors look at PE's, while others focus on earnings yields relative to bond yields. However, both methods have flaws. PE's can be easily manipulated, as was the case with IBM (the poster child for financial engineering on balance sheets). While stocks may appear cheap relative to bond yields, this too is manipulated as governments have distorted yields. Thus we choose to focus on objective approaches to analysis, which is our focus in this month's newsletter.

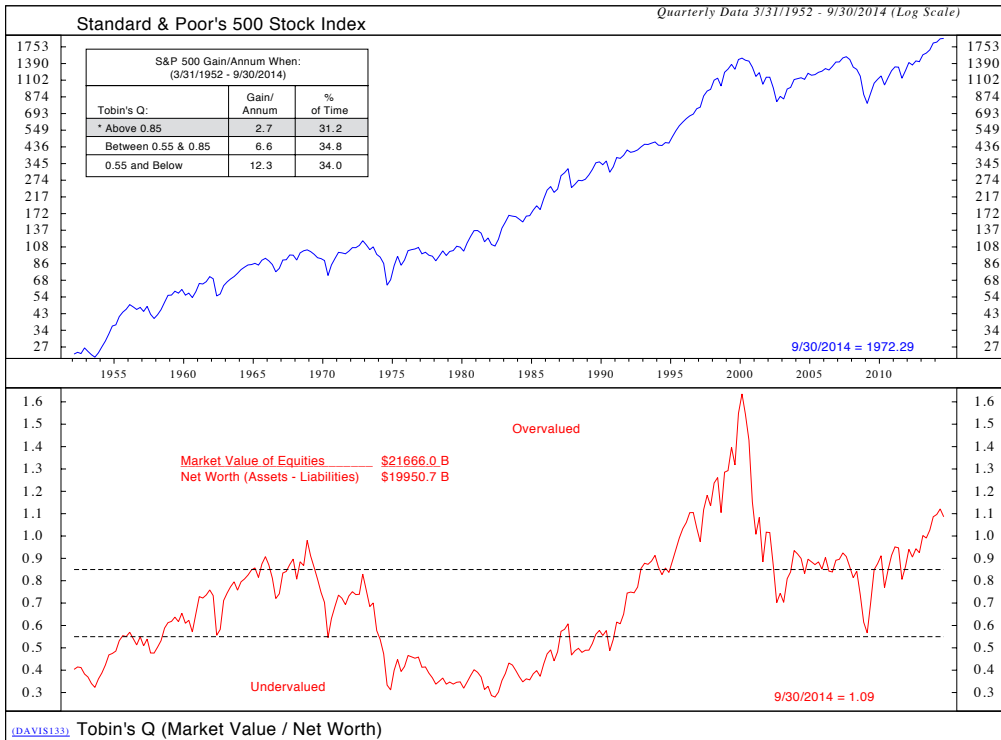
The price/sales ratio is an excellent tool for monitoring the market's worth. In general, it is very difficult to manipulate sales for more than a few quarters. 2000 registered the highest price/sales ratio in history (2.10). During 2008, the ratio was the lowest it has been within the last 20 years (.8). Currently the ratio is well above the 2007 level at a 1.7x, the second highest ratio in history.



MEDIAN EV/EBITDA RATIO IN THE US HAS RARELY BEEN HIGHER



Enterprise value/EBITDA is a standard approach used by private equity to determine how much the industry is paying for cash flow. We are currently witnessing the second highest valuation in history, only topped by 2000. Even more alarming, a single sector cannot be pinpointed for this distortion. In 2000, tech was the overvalued sector. In 2007, the financials were overvalued. At the present time **EVERYTHING** is overvalued!

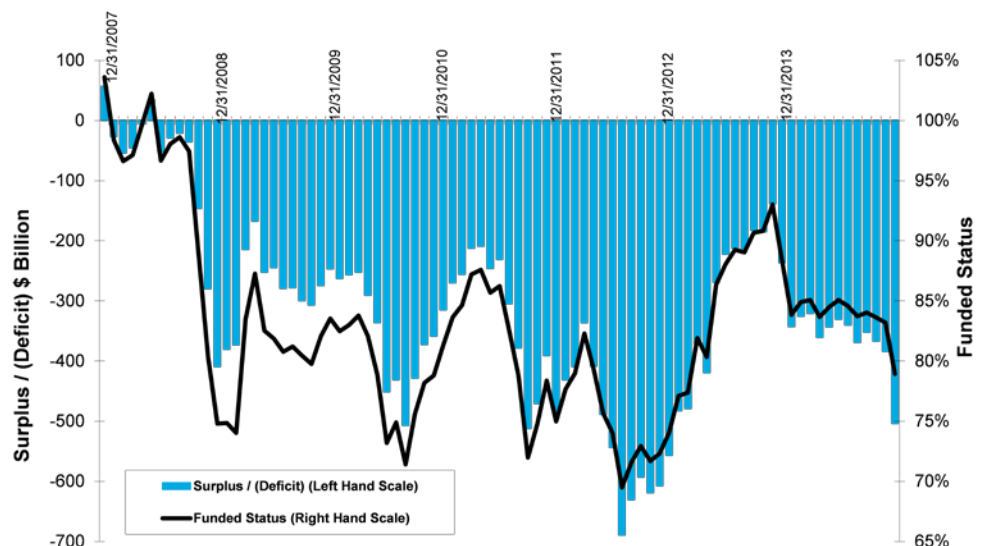


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Tobin's Q is determined by the value of the market divided by the net worth of the assets on corporate balance sheets. In simpler terms, what is the replacement value of the market? We are currently experiencing the second highest ratio in history at a 1.09. This suggests an excessively overvalued market.

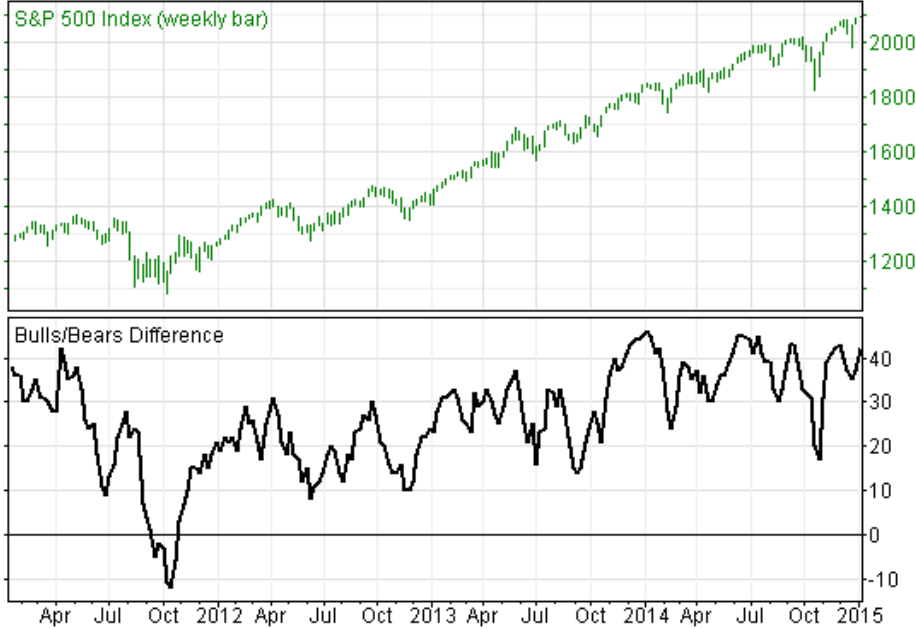
Mercer recently came out with a report analyzing pension liabilities of S&P500 companies. The report highlighted the fact that pension funding declined 9% in 2014, despite the fact that equity markets have maintained strong returns. The majority of the underfunding is derived from unusually low fixed-income yields and a move up in mortality rates. Instead of funding these liabilities, corporations have been manipulating their balance sheets by creating corporate buybacks to bolster earnings-per-share, thereby directly manipulating the PE. This creates larger unfunded liabilities. Investors should be aware that earnings are being artificially manufactured rather than growing organically.

Estimated aggregate surplus/(deficit) position and the funded status of all plans sponsored by companies in the S&P 1500



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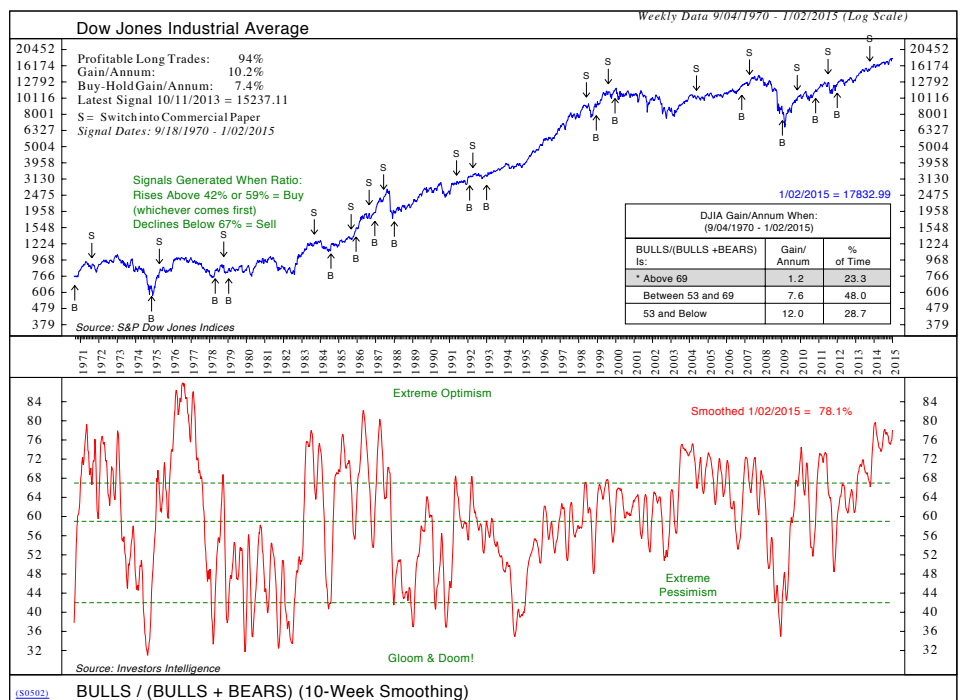
Difference: Bullish Advisors % less Bearish Advisors %: 30 Dec 2014



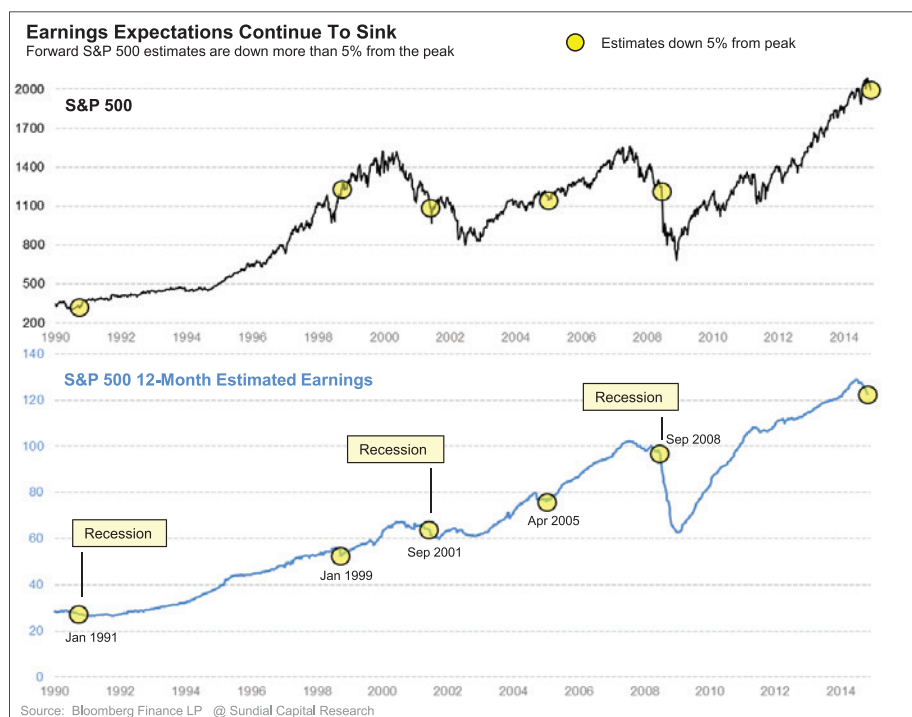
This chart, produced by Chartcraft and calculated every Wednesday, polls newsletter writers for their current bullish or bearish prognostications. The indicator is currently positioned at a 41.5, which is extremely bearish. Since such a large percentage of the members polled are bullish, we view this as bearish due to its optimistic reading.

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The infamous Investor's Intelligence bulls/bulls+bears indicator includes data from Investor's Intelligence-Chartcraft. Marty Zweig, a well-known market participant who is now deceased, tweaked the gauge. The current reading is at a 30-year high, which is a level not seen since the summer before the crash of 1987.



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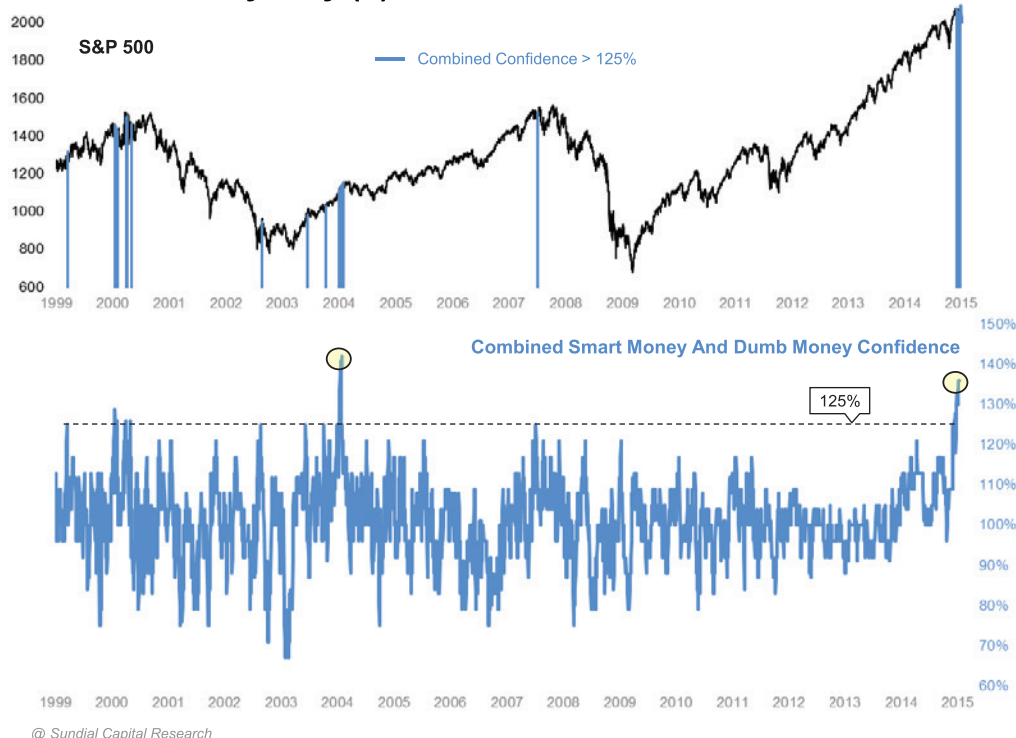


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For months, analysts have been steadily downgrading their forward earnings estimates for S&P500 companies. According to 12-month blended earnings estimates from Bloomberg, there has been a 5% decline in earnings expectations from the peak last fall. This is the largest decline from peak earnings seen since 2008. There have only been five other periods since 1990 when earnings dropped 5% or more from their peak, and three of these coincided with recessions. The only true incorrect signal occurred in 1991. While this indicator did give a negative signal at the end of 1991 due to the savings and loan crisis, the sentiment figures for the general stock market were as bearish as they could be. Furthermore, the mutual fund cash/asset ratio had spiked to a multi-decade high of over 11%. Currently, the cash/asset ratio is at a 40-year low at 3.1%.

Presently both Smart Money and Dumb Money investors are expecting a continued rally in stocks. Smart Money investors are those who have traditionally been good market timers, meaning they are usually at an extreme net long position when prices bottom. On the other hand Dumb Money investors are traditionally bad market timers who are usually at an extreme short position at the same time. These two groups almost always travel in different directions, so it's highly unusual to see both of them showing more than 60% confidence in a rally concurrently. This chart depicts the combined confidence levels, and one can clearly see how unusual such an occurrence is. The only comparable period occurred in late December 2003, following a huge rally from the bear market bottom. Soon after this point stocks plateaued and spent the next six months digesting their gains. There have only been two times when we have witnessed combined confidence higher than 125% after a multi-year rally; 2000 and 2007. The current reading causes immense concern.

Research - Everybody (?) Is Bullish



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CONCLUSION

From a historical perspective, equity markets are exceedingly expensive. Investors have become far too over-confident, as evidenced by the sentiment gauges highlighted in this issue of LMTR. Leverage on the NYSE continues to hit daily record highs, reinforcing the complacent nature of the market. In our opinion, when the market turns downward its force will be swift. We continue to maintain our 50% short position, which was established on December 15, 2014.

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BIO

Brad Lamensdorf, a seasoned money manager and market strategist, is the CIO of The Lamensdorf Market Timing Report, a newsletter designed to help investors improve performance via market timing by assessing the environment of the stock market using a variety of technical, fundamental and sentiment-oriented tools from powerful independent research firms. Many investors mechanically enter and depart the market without a true "game plan." Studies have shown that retail investors, in particular, are very poor market timers, tending to invest at or near market peaks and sell at or near market lows. The newsletter is designed to provide risk parameters for both professional and retail investors around the short-term stock market environment, giving subscribers better insight about when to allocate assets into or out of the equity markets.

Lamensdorf, a frequent guest commentator and analyst on major business networks including CNBC, CNN and Fox Business News, also serves as a Portfolio Manager and Principal of Ranger Alternative Management LP, a sub-advisor to the Advisor Shares Ranger Equity Bear Exchange Traded Fund (NYSE: HDGE). In this role, he conducts top-down technical evaluations of broader market liquidity, sentiment and breadth to help identify short and intermediate-term market trends, manage exposure and mitigate risk. HDGE was launched in 2011 and is the first and sole actively managed, short-only ETF in existence.

Lamensdorf, also has managed investment portfolios for the Hughes family and was principal of Tarpon Partners, managing a long/short fund that was up more than 200% gross over six years. Earlier in his career, he was an equity trader/market strategist for Taylor and Company, the Bass brothers' trading arm, co-managing a short-only strategy in a derivative format with national exposure. He also served as the in-house market timing strategist for the entire internal and external network of Bass managers.