Market Overview

Macro

1) Earnings, revenue and economic data confirm a weakening economy and recession is close at hand

2) FED is tightening into a recession and will exacerbate the negative affects

3) European and Chinese Markets still have more turbulence ahead

As the numbers keep coming in it's becoming very clear that the economy is slowing. There is a rise in U.S. Car-Payment delinquencies, diminished consumer expectations and the Cleveland FED financial stress index climbed to 1.92 (a level previously associated with the 2011 market turmoil, 2008-2009 financial crisis and the Asian crisis of 1998). In each of the past cases where the financial stress index was this high if the market internals improved the immediacy of the downside concerns eased significantly, which we are not seeing in any significant way at this time.

Bonds

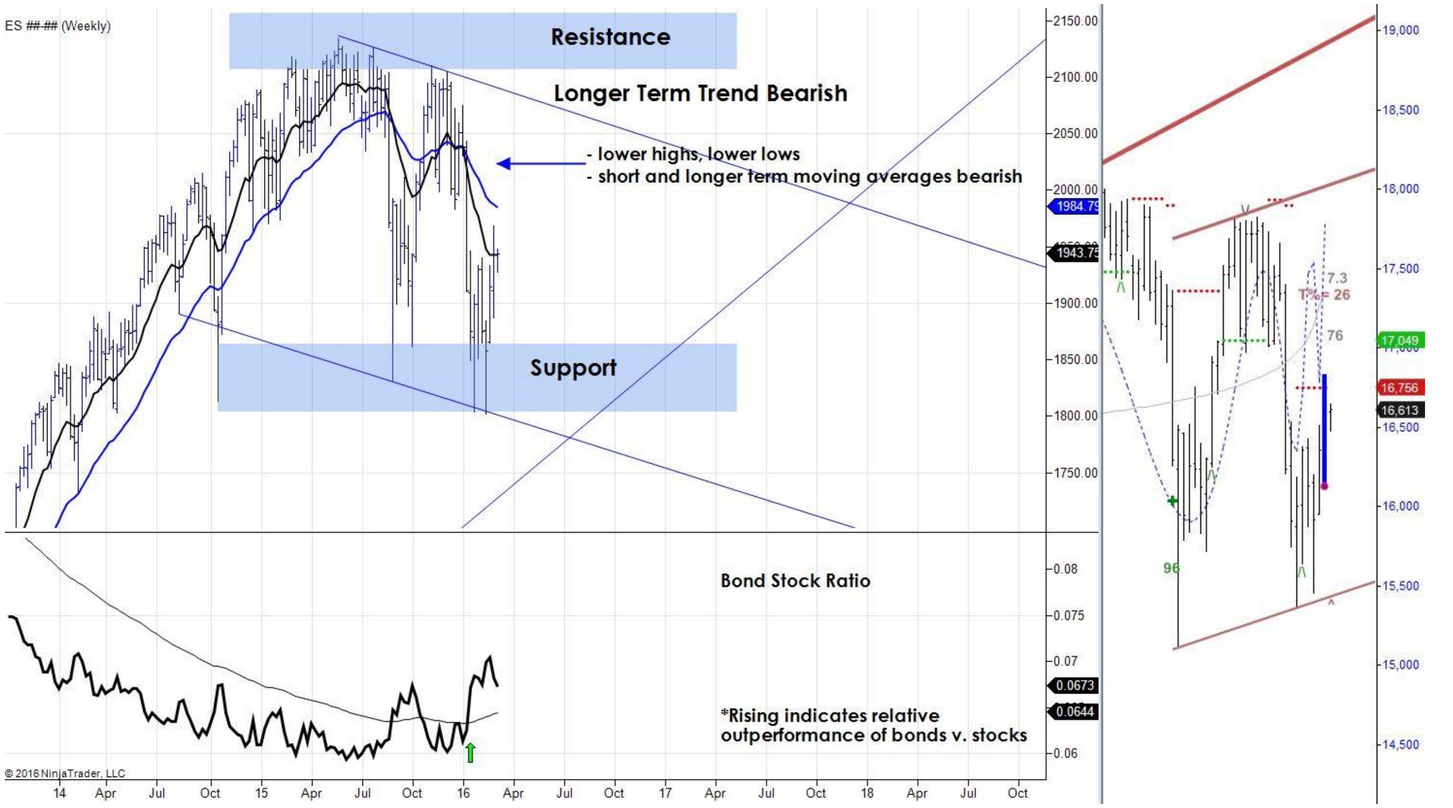
The Credit markets still have elevated spread levels indicating worries about the oil contagions effect on energy companies' ability to handle their current debt obligations. The US Treasury Yield Curve had some slight flattening as rates fell during last month's stock selloff. This has been flattening recently. If it does invert it could be a very clear sign that the recession has begun. Until the Government Bond : High Yield Bond credit spread starts to rebound we see it hard for stocks to assume any type of meaningful rally in the medium term. Our position in TLT (20 year treasury ETF) has proven to be a solid hedge against the recent stock market turbulence.

Stocks

Most indexes rebounded from a very pessimistic down cycle. This is because the market does not just go up or down persistently every day. The market moves in cycles, the last few weeks we finally got the "bounce" we expected to the 1950-1975 level on the S&P500. The longer term trend of stocks is becoming more "bearish" and confirmed into a bear market as every passing day closes. For now we see no real opportunity to hold stocks, but if certain areas become significantly undervalued (-25% or more) we will consider taking some conservative positions in those areas.

Commodities and Forex

The very pronounced decline in oil prices appear to be stabilizing. We have been getting significant signals that crude oil prices could bottom soon and range between the $30-$45 for the next few quarters going forward. Gold has seen some healthy price action and if it has a moderate retracement from its most recent high we might consider taking a very small position as a hedge for inflation or the effects of negative interest rates.

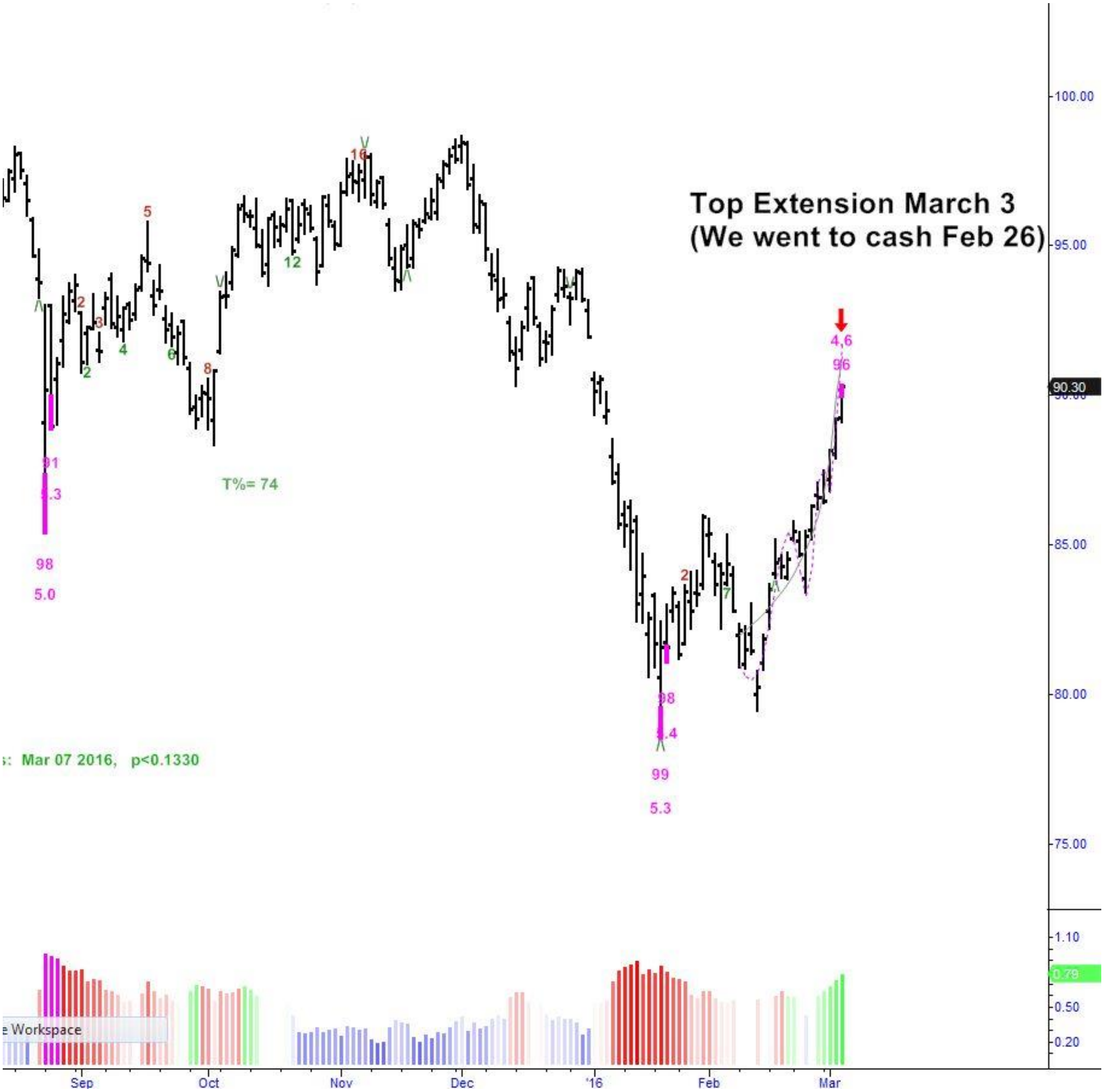


S&P 500 : Short Term

"Calm before the REAL storm"

As we noted in our January update, the market saw very persistent selling and got to the point where the over pessimistic sentiment of the market registered "VERY EXTREME" in our model. In the short term this was a good sign for a moderate "relief rally". We wanted to use this expected move to get a small return posted before moving into cash. As of Friday the 26th we achieved that move and we also had confirming compression signals (as denoted in the right panel of the above chart) that the market condition has even more potential for significant downside.

Our long term model still supports an additional 25% - 35% decline in S&P 500 and the duration still remains at 2018 being the longest we expect this decline to play out.



The signals that we have been waiting for have just begun to pop up. These signal tell us that our decision to go to cash will help us sidestep some substantial losses if the market reverses and continues towards its 30% or more correction.

Let's take a look at some of the key summary points over the last month:

- Worst January Stock Performance in history
- Power Income (PWRIX - CASH Position since June 2015)
- Power Dividend (PWDIX – re-invested since March 11, 2016)
- JCN's Growth Strategy gas moved to a cash position since February 2016
    - We are still holding positions of TLT (US treasuries)
    - We are considering taking small positions in GLD to take advantage of new emerging trends in gold prices

Score Card (YTD Performance as of 12/1/2016)

S&P 500	**-4.61%**
NASDAQ Composite	**-8.06%**
Dow Jones	**-4.46**
Russell 2000	**-8.42%**
Bonds (TLT)	**+8.43%**
Gold (GLD)	**+16.17**
Volatility Index (VIX)	**+10.38%**

Closing Thoughts

Please keep in mind that we continue to strive to control all that we can control. Volatility is simply a part of life. None of us have control of this , only how we respond to it. What you are seeing in the charts that I send each month is that we are aware of more than simply the "price" of the market. These charts demonstrate that we are cognizant of not only the current market but also its relationship to others. One of the signals that we read that resulted in our getting out of harm's way was executed on the 26th of February. In this brief time we have measured extensions(end of trend events) Gold , Treasuries , Mid-Caps and Small Caps. What I find of this is that although this may be bad for many, we see this as an opportunity.

Sincerely,

John Neyland

John Neyland

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