

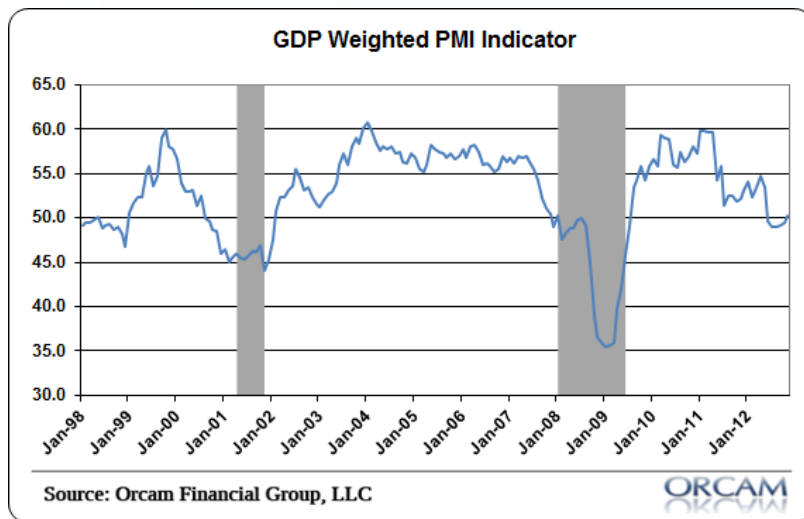


10 For Tuesday

A brief run-down of (most) everything that matters in the world of investing and economics....

1. Global PMI's Are Improving

The globally weighted PMI has moved back into growth territory for the first time since May of this year. The expansion was led by strong resurgences in the USA, Brazil and India. While the global outlook remains somewhat murky there are signs that the global economy is gaining some traction here.



(Figure 1—GDP Weighted PMI)

Cullen O. Roche

Founder

Orcam Financial Group, LLC

cullenroche@orcamgroup.com

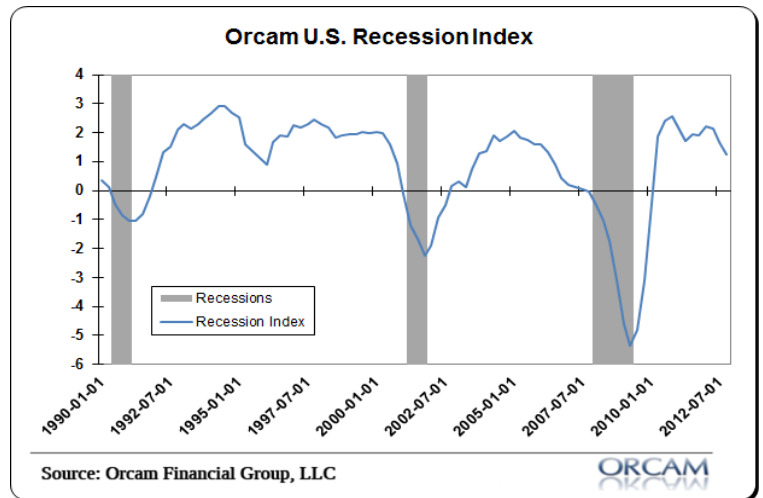
“Failure to prepare is preparing to fail.”

-Coach John Wooden

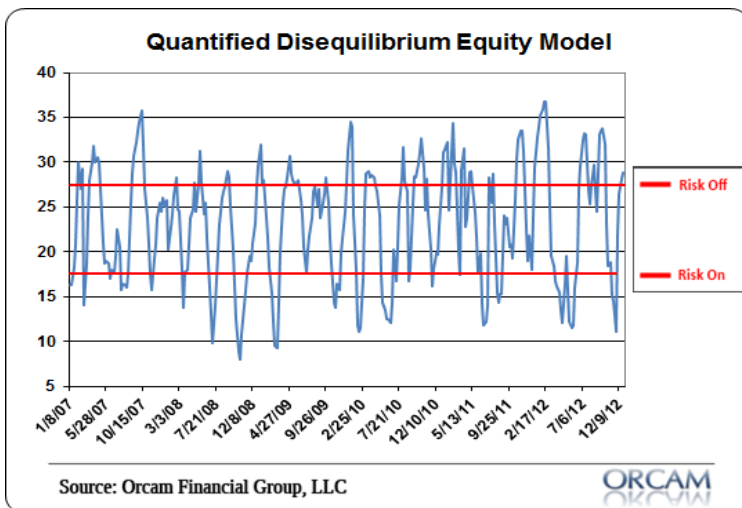
2. Recession Risk in the USA Remains Low

The Orcam Recession Index continues to point to modest growth in the USA. This diffusion index shows that the rate of change in the USA, while slowing, is still firmly positive leading me to believe that the risk of recession in the USA is currently low.

3. Market Timing Indicators Remain Positive



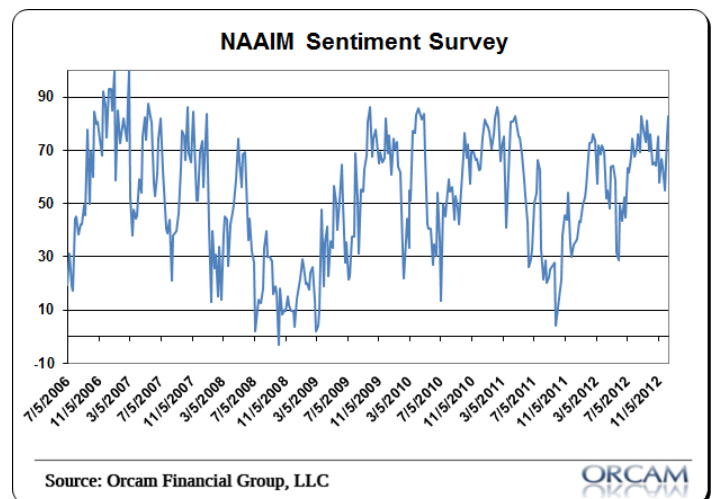
(Figure 2—US Recession Index)



(Figure 3—QD Model)

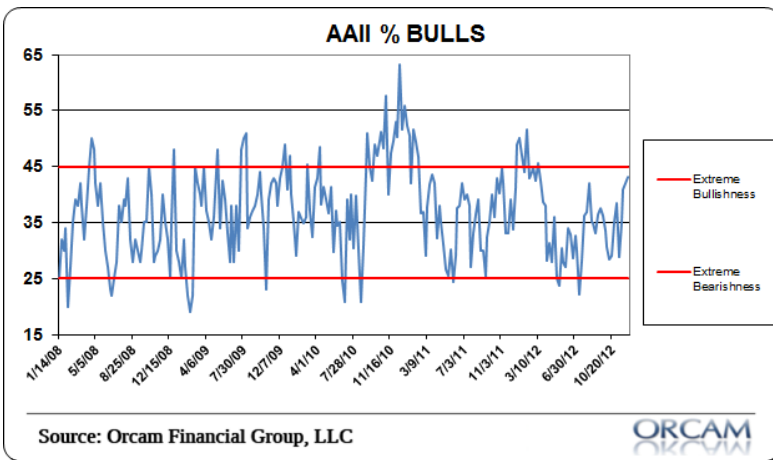
4. Fund Managers Are Very Bullish

One of the three keys in our "year-end rally" thesis was increasingly bullish fund managers who would likely chase the markets into the end of the year. This appears to be confirmed by the recent NAAIM Survey which showed a huge jump in money manager bullishness. The most recent reading of 82.91 is near the upper end of the historical levels.



(Figure 4—NAAIM Survey)

5. Small Investors Are Not Excessively Bullish

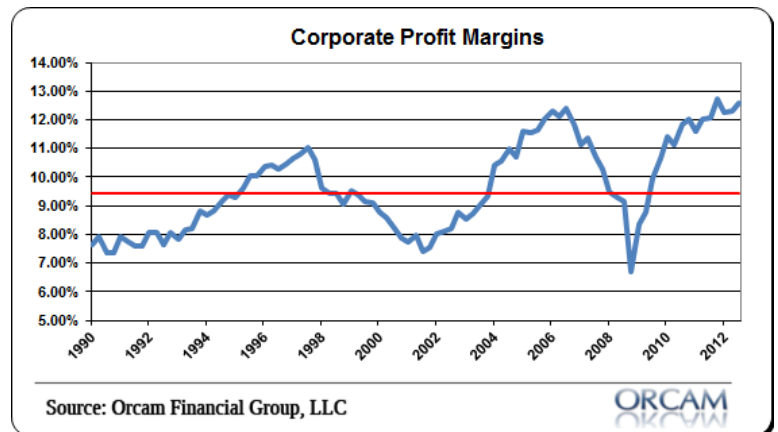


The fund manager survey would deeply alarm me were it not for inconsistencies in other surveys. For instance, the small investor survey via AAI is showing increasingly bullish sentiment readings, but not alarmingly high levels.

(Figure 5—AAII Sentiment Survey)

6. Corporate Profits Margins Remain Fat

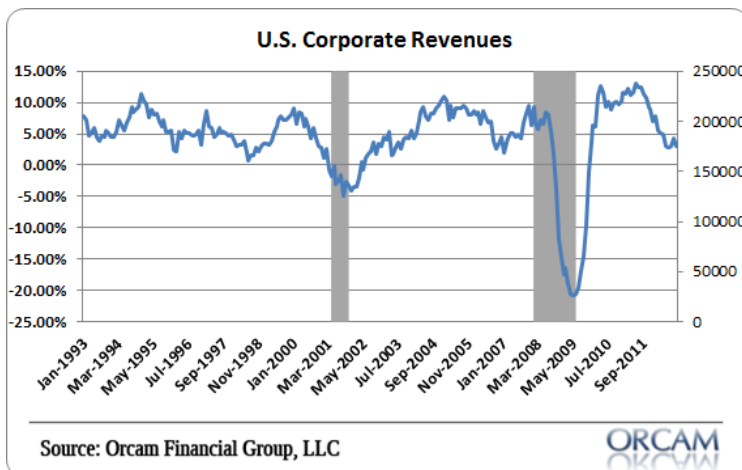
Corporate profit margins remain extremely wide though the risk is clearly to the downside. This mean reversion tends to be a multi-year process. Thus far, there are only modest signs of margin stress.



(Figure 6—Corporate Profit Margins)

7. Revenues Are Modestly Expanding

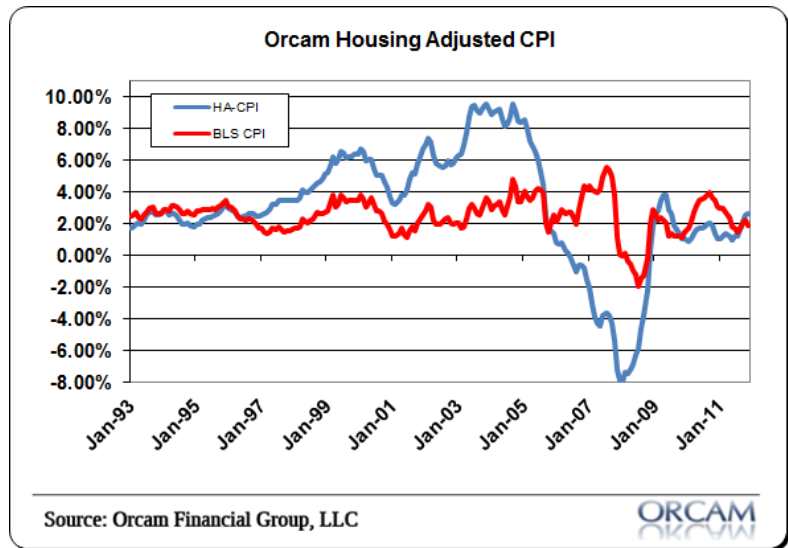
Corporate revenues are the lifeblood of profits. Though revenues are declining from previously double digit levels they are still growing at a 3% rate. At this point in the business cycle, growth is growth! And with margins at cyclical highs profits are likely to remain modestly in expansionary territory.



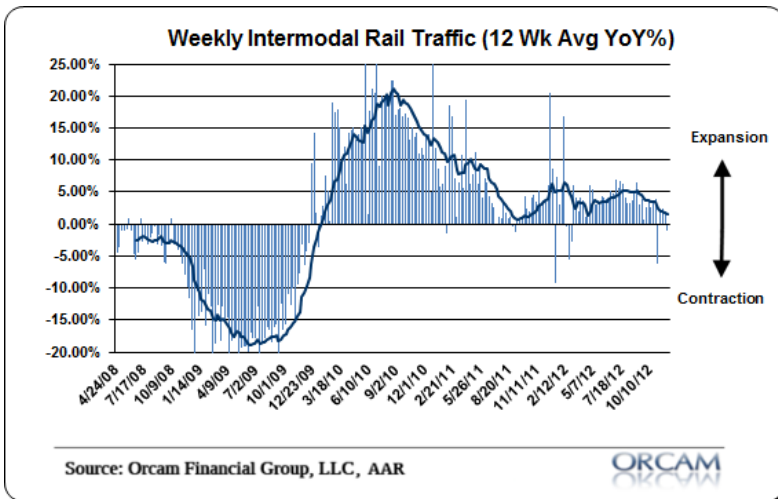
(Figure 7—US Corporate Revenues)

8. Inflation Remains Benign

The latest inflation readings are still consistent with a benign inflation environment. Historically, inflation has averaged 3.5%. The latest reading of 1.8% in the BLS CPI and 2.6% in the Orcam HA CPI are both consistent with a low inflationary environment. Other independent gauges confirm these readings.



(Figure 8—CPI vs Orcam HA CPI)



(Figure 9—Rail Traffic)

10. Market Valuations Are Slightly Above Average

U.S. Stocks remains just modestly overpriced using total market value relative to GNP. This indicator, a favorite of Warren Buffett's, is historically inexpensive below 80. The current reading of 93.4 is above average, but well off historical highs.



(Figure 10—US Stock Market vs. GNP)

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