

The great waiting game has reestablished itself solidly within the U.S. market. Last month we mentioned the waiting game and wondered if it was going to continue; the answer is now, yes.

Relative values have hardly moved since March for the large cap classification. In March, relative fair value was at 105.7%. The capitalization classification has only moved 0.7 FV points.

Ticker	Name	Relative Value
IVV	iShares Core S&P 500 ETF	105.0%
IJH	iShares Core S&P Mid-Cap ETF	117.6%
IJR	iShares Core S&P Small-Cap ETF	110.5%

Figure 2: U.S. Market Capitalization Fair Values for major capitalization categories.
Source: ISN

Mid cap dropped slightly more than 1 FV point from 118.7% in March, and now resides at 117.6%. Small cap experienced the largest change dropping from 113.3% to 110.5%, a 3.2 FV point movement.

Sector Valuations

All large cap sectors remained above 100% FV, but the top position moved from Industrials to Utilities. Utilities increased by 1.8 FV points to 113.3% FV. It was one of three sectors experiencing an increase in relative fair value. The other two sectors were Consumer Discretionary and Consumer Staples.

Consumer Discretionary moved up from 100.5% FV to 103.0% FV, a 2.5 FV point increase and well within fair value trading range. Consumer Staples increased an equal amount up from 108.4% FV to 110.9% FV.

Energy experienced no change remaining consistent at 106.2% FV while the remaining six sectors moved back closer to 100% FV. The

largest drop was in Financials. This is no real surprise as banks had earlier moved rapidly into overvalued territory only to retreat into fair value trading range. Financials gave up 6.4 FV points sliding back to 104.6% FV.

Name	Relative Value	Under/Over
Consumer Discretionary	103.0%	
Consumer Staples	110.9%	
Energy	106.2%	
Financials	104.6%	
Health Care	100.4%	
Industrials	112.3%	
Information Technology	105.5%	
Materials	107.5%	
Telecommunication Services	106.9%	
Utilities	115.1%	

Figure 1: U.S. Large Cap Sector Relative Fair Valuations for major sector classifications.
Source: ISN

All sectors remained well within fair value trading ranges and all were above the 100% FV level. Overall, this group was just 5 points above 100% FV.

Mid cap market classification stocks overall experienced a slight drop of 1.1 FV points to 117.6% FV. This slight change overall was much different than the movements experienced on an

U.S. MID CAP		
Name	Relative Value	Under/Over
Consumer Discretionary	119.1%	
Consumer Staples	92.3%	
Energy	86.4%	
Financials	126.5%	
Health Care	111.0%	
Industrials	114.4%	
Information Technology	119.3%	
Materials	119.3%	
Telecommunication Svcs	88.4%	
Utilities	129.9%	

Figure 3: U.S. Mid cap Sector Relative Fair Valuations for major Sector Classifications. Source: ISN

U.S. Markets Relative Fair Value

individual sector basis. Seven of the ten sectors gave up ground with Financials surrendering the most. Just as in the large cap classification, this was a change in expectations within the banking industry. Financials had moved into overvalued territory at 132.1% FV and dropped to a cautionary level of 126.5% FV. Health Care and Industrials gave up nearly as much with both moving back closer to fair value. Health Care retreated from 115.7% FV to 111.0% FV. Industrials moved from a high of 118.9% FV to 114.4% FV. Industrials was getting close to a cautionary level (120% FV) and as a result of the drop, has reduced valuation pressure on the sector.

Consumer Discretionary gained in relative FV terms and is getting close to a cautionary position at 119.1% FV while Utilities is just 0.1 FV points from being overvalued. Utilities is at 129.9% FV increasing 2.9 FV points from 127.0% FV. Telecommunications was the other sector that advanced, but it is well below 100% FV at 88.4% FV, up 2.2 FV points.

U.S. SMALL CAP		
Name	Relative Value	Under/Over
Consumer Discretionary	102.6%	
Consumer Staples	119.8%	
Energy	105.1%	
Financials	114.9%	
Health Care	103.8%	
Industrials	110.9%	
Information Technology	110.6%	
Materials	117.2%	
Telecommunication Services	110.7%	
Utilities	124.6%	

Figure 4 U.S. Mid cap Sector Relative Fair Valuations for major Sector Classifications. Source: ISN

Small cap classification dropped 3.2 FV points. However, individual sectors moved much more. The largest movement took place in Materials which moved from 127.2% FV to 117.2% FV. This was a welcome relief from

U.S. Industry Group All Market Cap		
Name	RelativeValue	Under/Over
Automobiles & Components	105.9%	
Banks	116.5%	
Capital Goods	114.4%	
Commercial & Professional Service	115.8%	
Consumer Durables & Apparel	119.4%	
Consumer Services	110.0%	
Diversified Financials	107.5%	
Food & Staples Retailing	94.9%	
Food Beverage & Tobacco	111.7%	
Health Care Equipment & Service	114.2%	
Household & Personal Products	104.8%	
Insurance	123.6%	
Materials	116.5%	
Media	105.2%	
Pharmaceuticals & Biotechnology	94.9%	
Real Estate	109.3%	
Retailing	102.8%	
Semiconductors and Semiconduc	120.2%	
Software & Services	106.2%	
Technology Hardware & Equipme	111.4%	
Transportation	102.0%	

overvaluation pressure because the sector was only 2.8 FV points away. It was the most overvalued sector in the Small cap classification.

Financials also received some relief, moving from 123.6% FV to 114.9% FV. Telecom and Utilities both climbed significantly. Telecom advanced 7.8 FV points to 110.7% FV and Utilities advanced 6.4 FV points to 124.6% FV. Overvaluation pressures increased on Utilities as it is only 4.4 FV points away from being overvalued. It is well within the cautionary range. The only other sector that moved in a positive direction was Consumer Staples. It advanced 4.4 FV points to 119.8% FV.

Industry Valuations

Industry groups acted rationally this month. The most overvalued group dropped in relative fair value and the most undervalued group advanced. The most overvalued group was insurance at 125.5% FV and it declined to 123.6%

U.S. Markets Relative Fair Value

FV while Food increased from 93.2% FV to 94.9% FV. It was reassuring that Insurance did not continue into overvalued territory and relieved some of the valuation pressure that had been building due to interest rate expectations earlier in the year.