Well so much for the waiting game! Two straight days of above 200 points on the DOW and a new all-time high for the NASDAQ clearly declared an end to the waiting game Part II.

Relative values advanced in all three market capitalization classifications. Small cap was the lead component with a 1.6 point gain advancing to 114.9% Fv followed by Large cap with a gain

Ticker	Name	Relative Value
IVV	iShares Core S&P 500 ETF	107.2%
IJH	iShares Core S&P Mid-Cap ETF	119.9%
IJR	iShares Core S&P Small-Cap ETF	114.9%

Figure 1: U.S. Market Capitalization Fair Values for major capitalization categories.
Source: ISN

of 1.5 points. It was rational for Small cap to advance the most because it was the classification that had the lowest gain for the year; it needed to catch-up to the market. The same logic follows for Mid cap being the highest in relative Fv only 0.1 points away from entering a cautionary level for overvaluation; it moved the least in relative fair value, 1.2 points; it needed a rest.

Expectations going forward are to see both Large cap and Small cap to remain within the fair value trading range (80% Fv to 120% Fv) and above 100% Fv. We also believe Mid cap relative values have a higher probability to move back toward 100% Fv rather than continuing into Over valuation (120% Fv).

Sector Valuations

All large cap sectors remained above 100% FV, while Industrials and Utilities swapped places again for the #1 spot. Industrials advanced 2.9 points to 115.2% Fv while Utilities remained flat at 115.1% Fv. Even with a 2.9 point advance Industrials were not in the lead. That honor was taken by Materials with a 4.3 point gain reaching 111.8% Fv. Information Technology also made a respectful advance of 3.5 points advancing to 109.0% Fv. Financials gave up some of their position dropping 2.2 points to 106.8% Fv. This was a rationale move as we have been stating for

U.S. LARGE CAP		
Name	**Relative Value**	**Under/Over**
Consumer Discretionary	104.4%	
Consumer Staples	110.7%	
Energy	105.2%	
Financials	106.8%	
Health Care	103.0%	
Industrials	115.2%	
Information Technology	109.0%	
Materials	111.8%	
Telecommunication Services	104.5%	
Utilities	115.1%	

Figure 2: U.S. Large Cap Sector Relative Fair Valuations for major sector classifications.
Source: ISN

some time that expectations for financial enterprises, especially banks are too high.

Mid cap Financials are now overvalued as a group at 132.0% Fv with two sectors, IT and Materials in cautionary range. Expectations for Financials is well beyond the sectors ability to deliver. This area has a high probability of seeing merger activity and some major corrections in values may occur over the next 6 months. Telecommunications gave up some ground

U.S. MID CAP		
Name	**Relative Value**	**Under/Over**
Consumer Discretionary	118.8%	
Consumer Staples	93.3%	
Energy	86.6%	
Financials	132.0%	
Health Care	114.4%	
Industrials	118.9%	
Information Technology	124.3%	
Materials	123.3%	
Telecommunication Svcs	92.9%	
Utilities	130.2%	

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

retreating to 92.9% Fv. Two other sectors joined Telecom under 100% Fv, Consumer Staples and Energy. Energy remains the lowest in relative fair value at 86.6% Fv. The sector has experienced softness in the Mid cap area throughout the year.

Small cap sectors are all above 100% Fv and four are in cautionary space (> 120% Fv). Utilities retained the #1 slot at 125.5% Fv. The big gains in relative fair value were posted by Materials adding 7.3 points reaching 124.5% Fv. Energy gave up points retreating to 102.6% Fv and became the closest to fair value after Health Care advanced 2.7 points.

It is clear that the market expects value gains throughout the market with some level of uncertainty within Mid cap Energy. Otherwise, optimism prevails.

U.S. SMALL CAP		
Name	Relative Value	Under/Over
Consumer Discretionary	108.2%	
Consumer Staples	121.9%	
Energy	102.6%	
Financials	120.5%	
Health Care	106.5%	
Industrials	116.3%	
Information Technology	115.7%	
Materials	124.5%	
Telecommunication Services	112.5%	
Utilities	125.5%	

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

Industry Valuations

Two industry groups remain slightly below 100% Fv, Food & Staples Retailing, and Pharmaceuticals & Biotechnology. Both industry groups are within 3.1 points of fair value so they are close. The highest in relative fair value is Semiconductors joined by Banks and Insurance in cautionary range. Banks advanced 6.5 points to 123.0% Fv. This advance appears to be part of the elevated expectations across all capitalization classifications, Large, Mid and Small, focused on banks. There is a strong belief, not shared by us, that the industry will see better performance due higher interest rates and reduced regulation.

U.S. Industry Group All Market Cap		
Name	RelativeValue	Under/Over
Automobiles & Components	112.8%	
Banks	123.0%	
Capital Goods	118.7%	
Commercial & Professional Servic	119.7%	
Consumer Durables & Apparel	117.3%	
Consumer Services	113.5%	
Diversified Financials	109.2%	
Food & Staples Retailing	96.9%	
Food Beverage & Tobacco	112.1%	
Health Care Equipment & Service	116.4%	
Household & Personal Products	104.5%	
Insurance	126.1%	
Materials	121.4%	
Media	108.5%	
Pharmaceuticals & Biotechnology	97.0%	
Real Estate	108.4%	
Retailing	104.3%	
Semiconductors and Semiconduc	126.5%	
Software & Services	109.7%	
Technology Hardware & Equipme	115.7%	
Transportation	107.1%	

Figure 5 U.S. Industry Group Relative Fair Valuations, Source: ISN