Smart Sector® Strategy

NOVEMBER 2023

Catastrophic Stop Update

The NDR Catastrophic Stop model combines time-tested, objective indicators designed to identify high risk periods for the equity market. The model (chart right) deteriorated from last month and entered November raising cash.

Figure 1: Smart Sector® Catastrophic Stop Sell Model

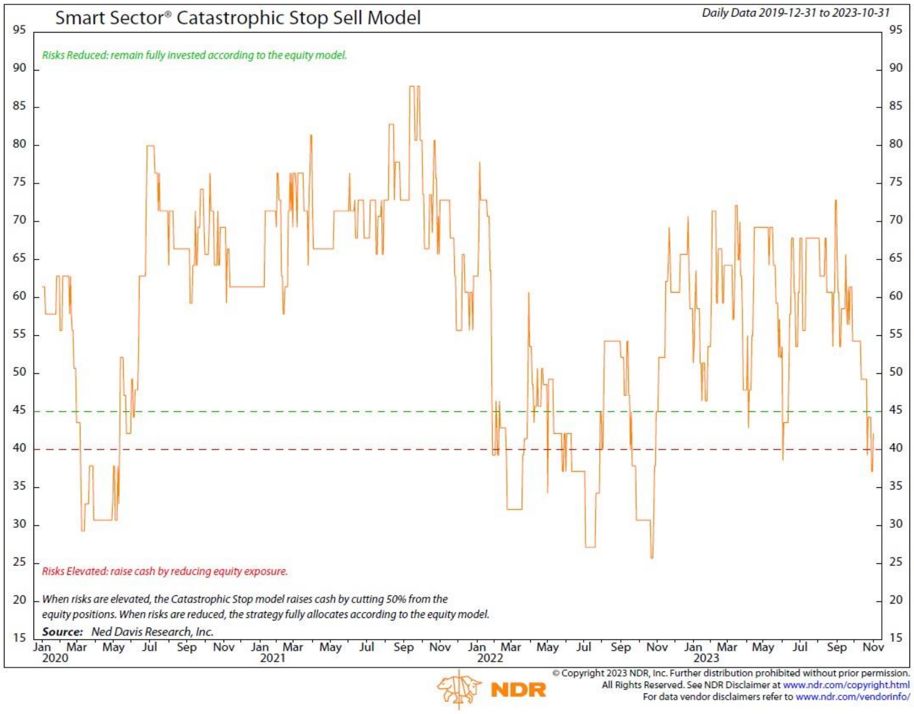
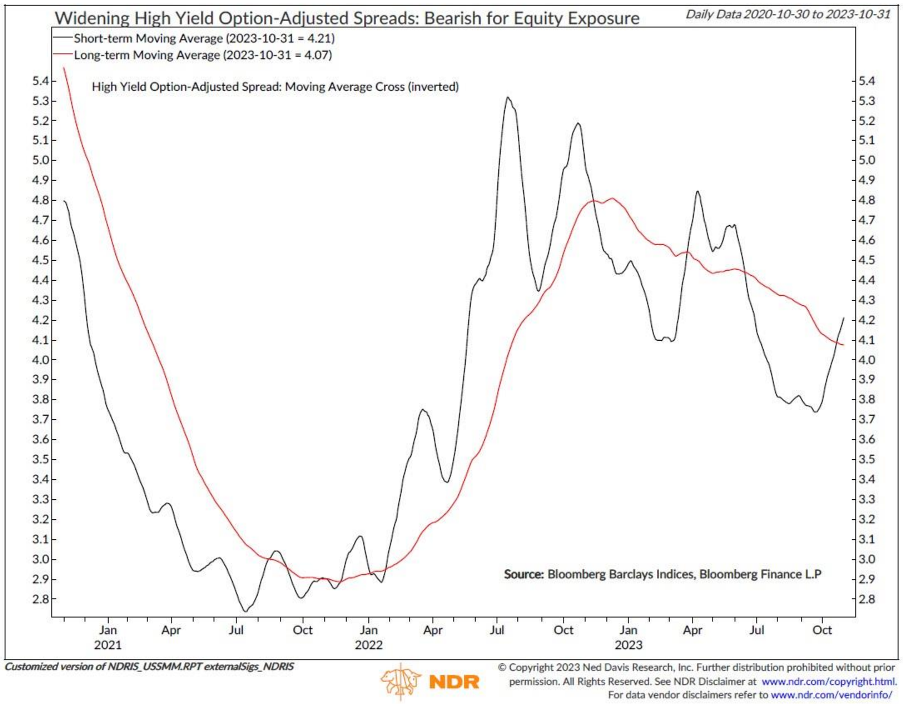


Figure 2: Widening High Yield Option-Adjusted Spreads: Bearish for Equity Exposure



The deterioration in the model was driven by widening high-yield option-adjusted spreads, which moved bearish for equity exposure (chart left). This was confirmed by technicals—five of seven price-based measures are now bearish. For now, the weight of the evidence recommends a reduced allocation to equity sectors according to the model.

U.S. Market Update

For the third month in a row, the S&P 500 Total Return Index declined in October, dropping about 2.1%. Breadth remained weak—10 of the 11 S&P 500 sectors posted negative returns for the month—and only Utilities had modest positive gains. Despite oil prices remaining elevated, the Energy sector went from the top performer in September to the worst performer in October (chart below).

As the stock market pulled back in the third quarter, short-term breadth gauges deteriorated—that is the nature of technical indicators. Technical indicator deterioration does not occur in a vacuum. Macro conditions appear less favorable heading into 2024. With the backup in yields, investors appear to be accepting the Fed's position on rates being "higher for longer."

A year-end rally is supported by seasonals. The question is a matter of degree and timing. Market studies show November is historically up 63% of the time by an average of 1.1% and December is up 71% of the time by an average of 1.4%. The market is moderately oversold, but not extremely so. Some deeper oversold readings may be needed first. Watch the quality of any rallies to glean whether the cyclical bull is resuming, or if the market is going through a topping process.

In response to the Catastrophic Stop's sell signal, each of the sector allocations were reduced by approximately 50%, with the proceeds placed into the SPDR Bloomberg 1-3 Month T-Bill ETF (which currently has a 30-day SEC yield of 5.25%). The sector model remained with a mix of cyclical and defensive leadership during the month. Entering November, the sector model is overweight Communication Services, Utilities, Materials, and Industrials. Information Technology dropped to market weight, while Energy and Real Estate improved to market weight. Health Care and Financials joined Consumer Discretionary and Consumer Staples at underweight. Over-weightings, neutral weightings, and under-weightings are relative to the sector benchmark allocations assuming 50% cash holdings.

Figure 3: S&P 500 GICS Sector Monthly Performance (09/30/2023 -10/31/2023)

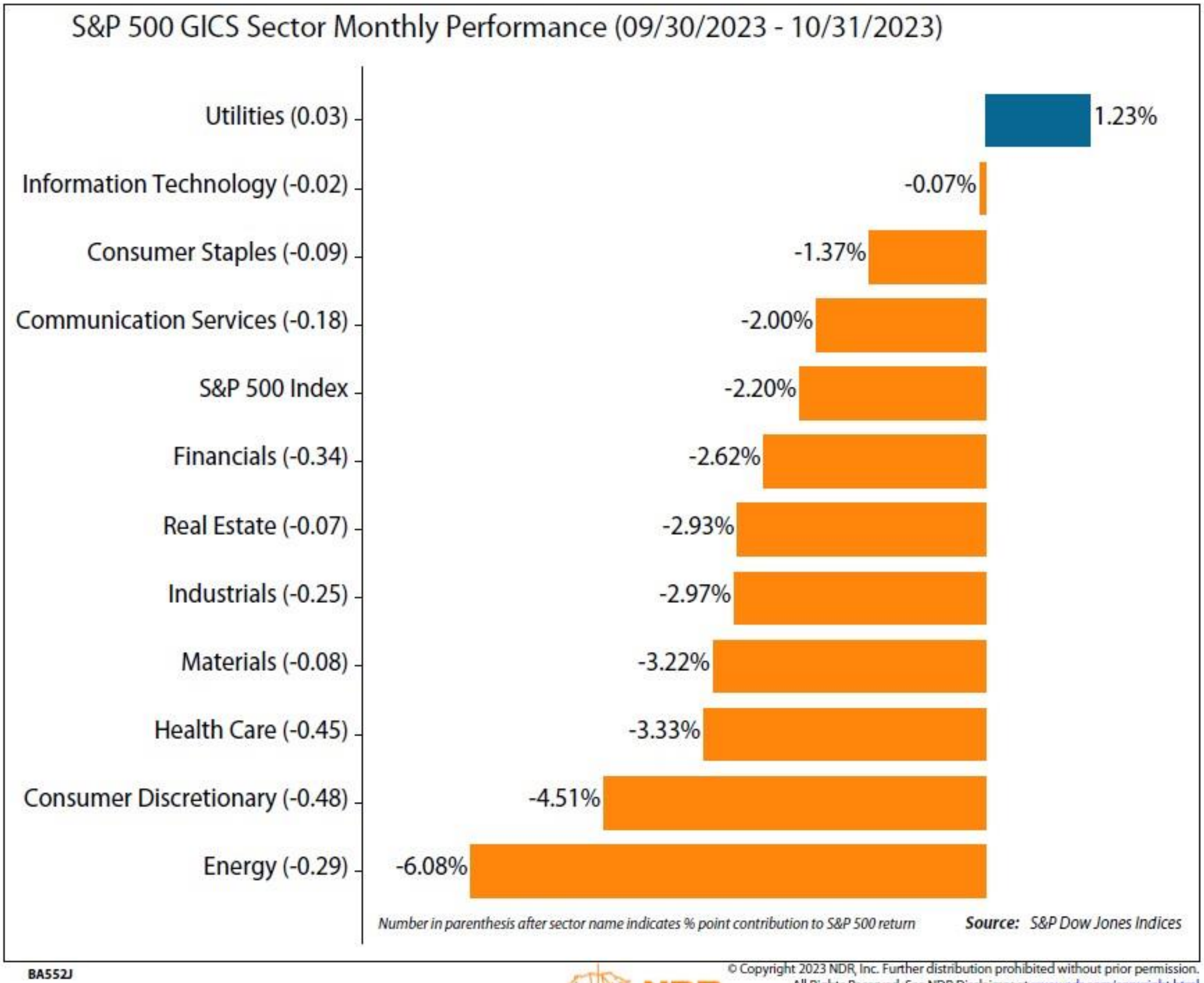
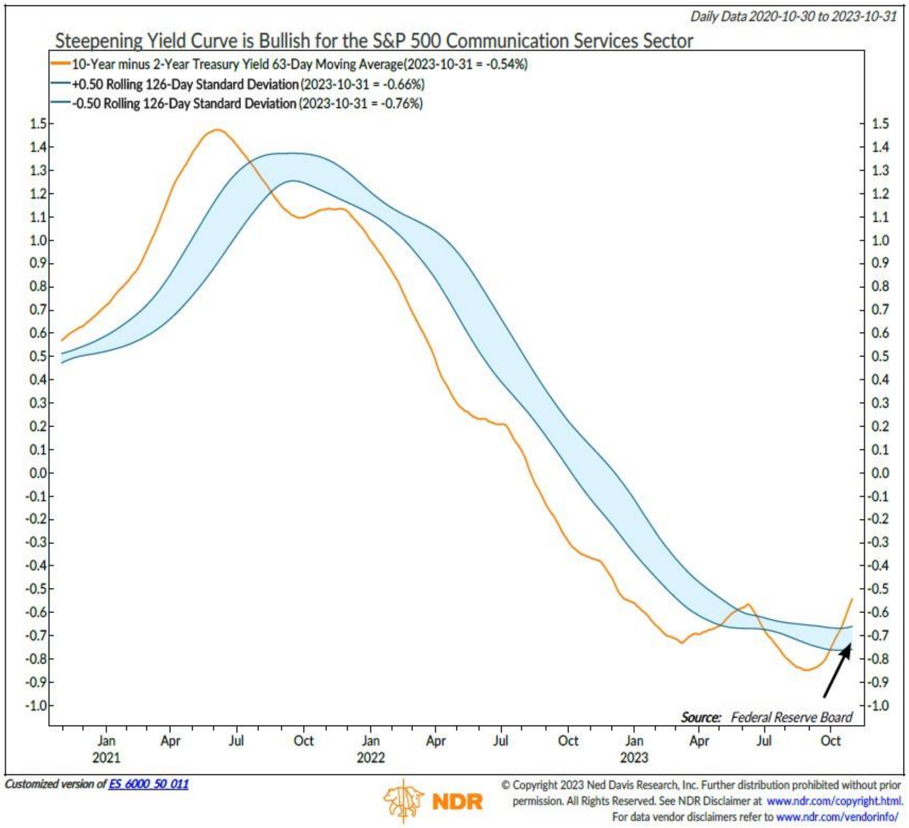
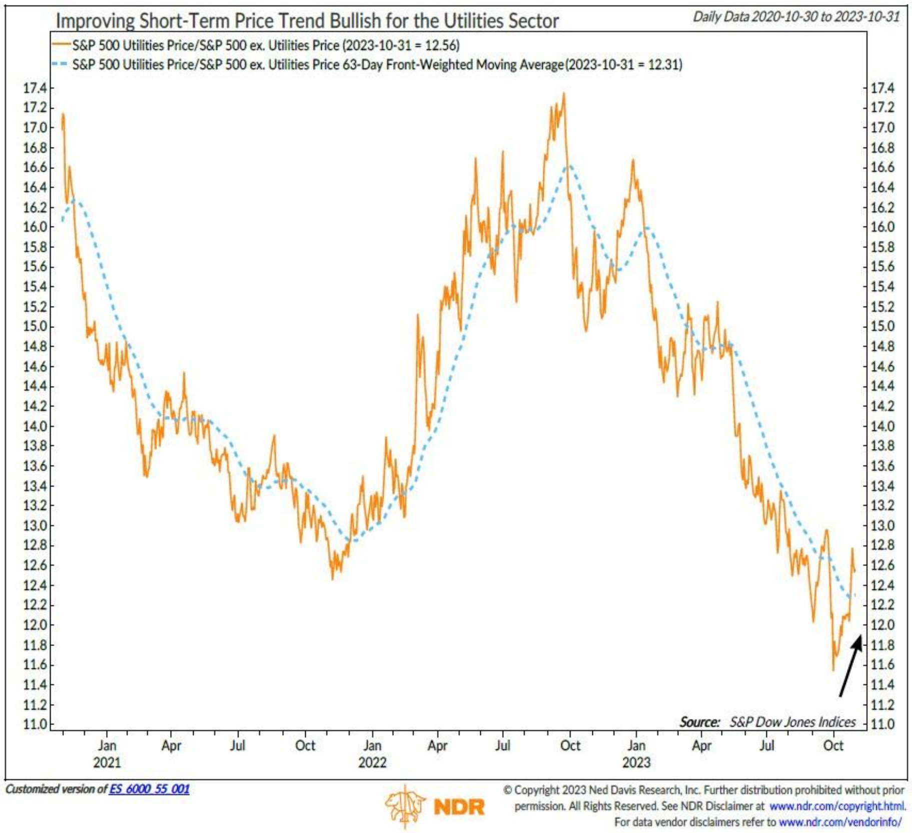


Figure 4: Steepening Yield Curve is Bullish for the S&P 500 Communication Services Sector



The Communication Services sector's allocation remained the largest overweight. The 10-2 yield curve moved bullish for the sector (chart right), joining the Communication Services' option-adjusted spread, valuation, and earnings revision breadth indicators. This was confirmed by internal (price-based) indicators, as five of six indicators remained bullish, including strong relative price momentum.

Figure 5: Improving Short-Term Price Trend Bullish for the Utilities Sector



The Utilities sector's allocation remains overweight. The copper/gold ratio and weak manufacturing PMI remain headwinds for the sector, and oil price trends are now neutral. But capacity utilization, valuation, and yields on investment grade utilities remain bullish. All seven internal (price-based) indicators are now bullish—a reversal measure and short-term price trends improved to a bullish level (chart left).

Figure 6: Weak Earnings Surprises are Bearish for the S&P 500 Consumer Discretionary Sector

Consumer Discretionary's allocation was steady and remains the largest underweight. On a fundamental basis, valuation, consumer credit conditions, and housing starts remained bullish for the sector. However, long-term rates, discretionary spending, and weak earnings surprises remain headwinds (chart right). Four of the six price-based measures remain bearish.

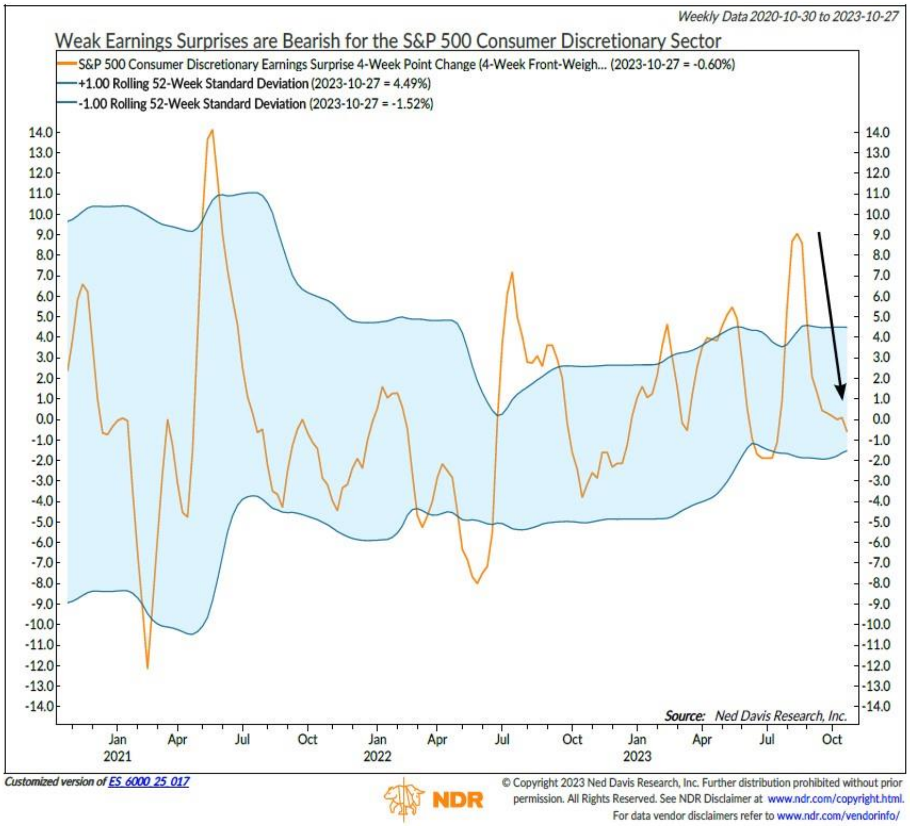
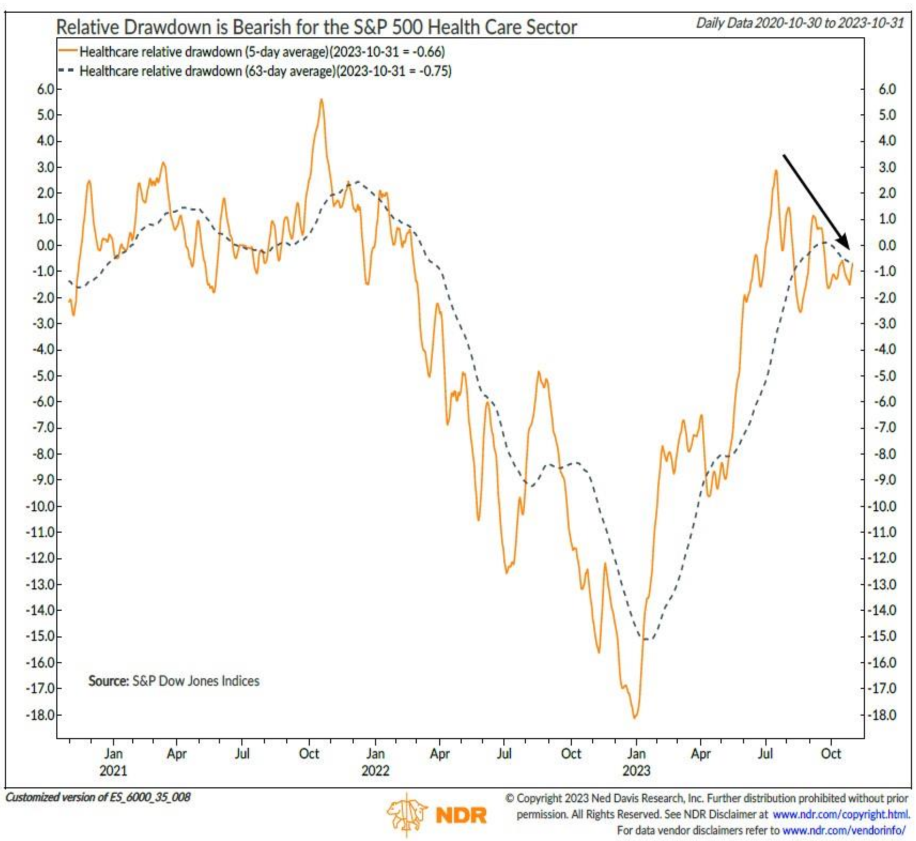


Figure 7: Relative Drawdown is Bearish for the S&P 500 Health Care Sector



The Health Care sector's allocation was downgraded to underweight. On a fundamental basis, indicators are mixed. New construction and health care personal expenditures are bullish for the sector. But earnings revision breadth flashed bearish, joining valuation, option-adjusted spreads, and consumer inflation as negative offsets. Technicals are confirming—five of the six price-based measures are now negative, including price reversals and relative drawdown (chart left) which moved bearish during the month.

Summary

Entering November, the sector model remained with a mix of cyclical and defensive leadership. The sector model is overweight Communication Services, Utilities, Materials, and Industrials. Information Technology dropped to market weight, while Energy and Real Estate improved to market weight. Health Care and Financials joined Consumer Discretionary and Consumer Staples at underweight. The sector model uses sector-specific indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.

NDR Strategists contributing to this publication: Brian Sanborn, CFA, Ed Clissold, CFA, Rob Anderson, CFA, Thanh Nguyen, CFA, Tim Hayes, CMT, Joe Kalish

For more information, please contact us at:

Day Hagan Asset Management

1000 S. Tamiami Trl

Sarasota, FL 34236

Toll Free: (800) 594-7930

Office Phone: (941) 330-1702

Website: https://dayhagan.com/ or https://dhfunds.com/

Strategy Description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.

- Each of the sector models utilizes sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.

- Sectors are weighted relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested *unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered,* whereupon the equity-invested position is trimmed to 50%.

- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

For more information, please contact us at:

Day Hagan Asset Management

1000 S. Tamiami Trl

Sarasota, FL 34236

Toll Free: (800) 594-7930

Office Phone: (941) 330-1702

Website: https://dayhagan.com/ or https://dhfunds.com/

Ned Davis Research Disclaimer:

The data and analysis contained within are provided "as is" and without warranty of any kind, either express or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do

not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The Smart Sector® Strategy is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.

DISCLOSURES

Past performance does not guarantee future results. No current or prospective client should assume future performance of any specific investment or strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals and economic conditions may materially alter the performance of your portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for a client's portfolio. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. There can be no assurances that a portfolio will match or outperform any particular benchmark.

Day Hagan Asset Management is registered as an investment adviser with the United States Securities and Exchange Commission. SEC registration does not constitute an endorsement of the firm by the Commission, nor does it indicate that the adviser has attained a particular level of skill or ability.

References to "NDR" throughout refer to Ned Davis Research, Inc. Clients engaging in this strategy will be advised by Day Hagan and will not have a contractual relationship with NDR. Day Hagan purchases signals from NDR, and Day Hagan is responsible for executing transactions on behalf of its clients and has discretion in how to implement the strategy.

NDR is a registered as an investment adviser with the Securities and Exchange Commission (SEC). NDR serves as the Signal Provider in connection with this strategy. The information provided here has not been approved or verified by the SEC or by any state or other authority. Additional information about NDR also is available on the SEC's website at https://www.adviserinfo.sec.gov/. This material is provided for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or to participate in any trading strategy. NDR's strategies, including the model discussed in this publication, are intended to be used only by sophisticated investment professionals.

There may be a potential tax implication with a rebalancing strategy. Re-balancing involves selling some positions and buying others, and this activity results in realized gains and losses for the positions that are sold. The performance calculations do not reflect the impact that paying taxes would have, and for taxable accounts, any taxable gains would reduce the performance on an after-tax basis. This reduction could be material to the overall performance of an actual trading account. NDR does not provide legal, tax or accounting advice. Please consult your tax advisor in connection with this material, before implementing such a strategy, and prior to any withdrawals that you make from your portfolio.

There is no guarantee that any investment strategy will achieve its objectives, generate dividends or avoid losses.