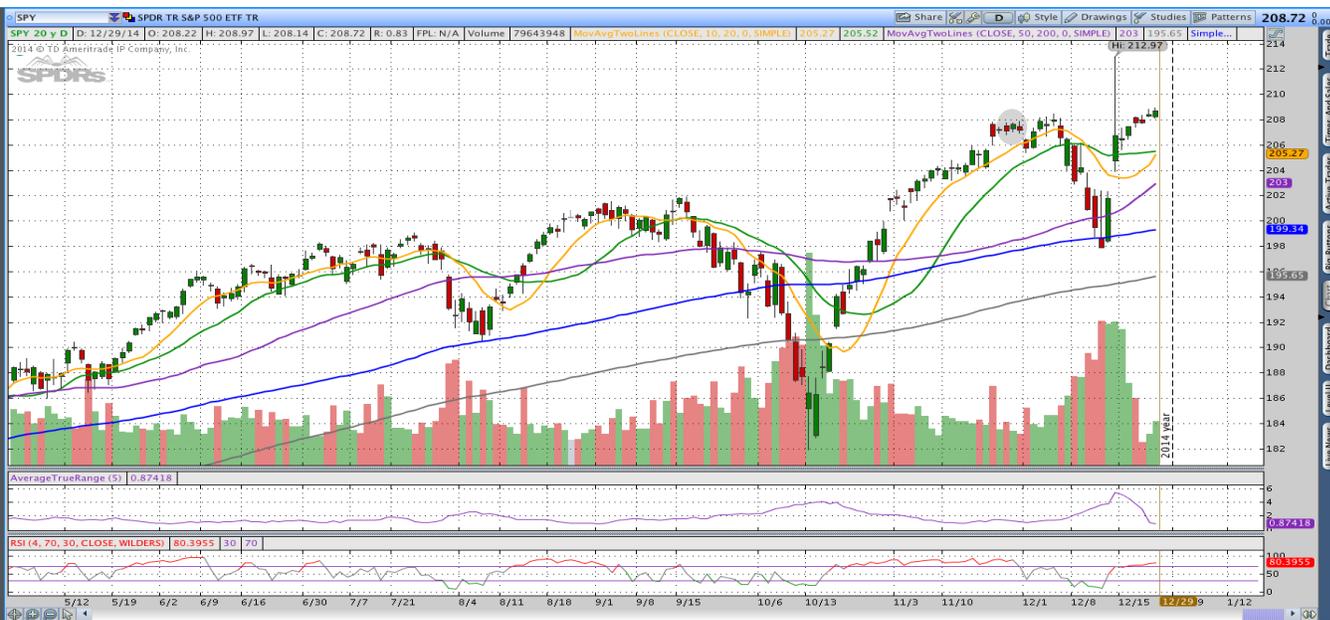


Market Momentum



Note: All rankings presented in this newsletter are generated prior to the month end close. As a result, the actual positions taken by the systems may vary.

Basic System

The Basic Rotation System covers a broad range of markets with limited granularity and overlap.

Schwab System

The Schwab Rotation System trades a diversified group of Charles Schwab Commission Free ETF's.

Positions

Actual and hypothetical returns will be available after January 1st. Current and planned positions are disclosed in the newsletter.

Santa Claus, U.S. Equities, Gold, and the Russian Crisis

If we lived in Russia and traded an ETF Rotation System, we might have been long Gold in December.

December started out as a rocky month for the rotation system. At the beginning of the month, the basic system took a position in \$SPY near an all time high. Shortly after taking the position, \$SPY sold off and the position was down a few percent on the capital invested. Fortunately, \$SPY recovered and went ex-dividend at the end of the month.

There were some big fundamental happenings during the month as well. The price of oil continued a precipitous decline while the dollar continued to march higher and the Russian Ruble collapsed.

Russia is experiencing bad times and the average person knows it. Any Ruble denominated savings lost a significant amount of value and people have been racing to convert their Ruble's into physical property. The reason for the conversion is intuitive. Fiat currencies have no intrinsic value, but physical goods have intrinsic value. The Russian people were effectively hedging the Ruble decline. Gold also has intrinsic value, but that doesn't mean that it always makes sense to hold it. It only makes sense to hold Gold when it's appreciating relative to fiat currencies. In the U.S. we usually think of Gold as being measured in Dollars, but physical

Gold has a market price in all currencies.

While the Gold discussion is interesting, commodities and Gold (measured in Dollars) headed lower in December partially due to a strong Dollar. It's worth noting that the move in the Dollar we're watching today really began in July.

Next month is January and the Rotation Systems will begin their first full year of trading. I'm always interested in feedback and suggestions so please let me know if there's something you'd like to see done differently. See the email address listed below.

Basic Rotation System

Basic Markets ETF Rotation System

Prices as of December 29, 2014

Symbol	Description	Exposure	Last	Week % Change	Month % Change	3 Month %	AvgROC.3.6.12	Positions
SPY	SPDR TR S&P 500 ETF TR	US Equities	208.72	0.13	0.73	6.21	8.76	Dec
VTWO	VANGUARD RUSSELL 2000 ETF	US Equities	96.7	0.3	2.99	9.56	6.3	Jan
VNQ	VANGUARD REIT ETF INDEX	Real Estate	82.45	0.55	2.33	14.13	17.41	Dec/Jan
AGG	ISHARES CORE US AGGREGATE BOND ETF	US Bonds	109.97	0.21	-0.58	0.61	1.61	
TLT	ISHARES 20+ YR TREASURY BND ETF	US Bonds	125.34	0.75	2.33	6.49	13.69	
PCY	POWERSHARES EMERGING MARKETS SOV DEBT	Int'l Bonds	28.21	-0.28	-2.35	-1.23	-0.08	
BWX	SPDR BARCLAYS INTERN TREASURY BD ET	Int'l Bonds	55.22	-0.74	-2.07	-3.21	-5.8	
DJP	BARCLAYS BK PLC IPATH BLMBG COMDTY IDX	Commodities	30.27	-0.88	-7.2	-11.34	-16.92	
GLD	SPDR GOLD TR GOLD SHS ETF	Gold	113.67	-1.01	1.39	-0.82	-5.27	
EEM	ISHARES MSCI EMERGING MKTS ETF	Int'l Equities	39.18	-0.61	-5.59	-5.09	-7.28	
EFA	ISHARES MSCI EAFE ETF	Int'l Equities	61.79	-0.72	-3.44	-1.42	-6.23	
VEU	VANGUARD INTL EQUITY INDEX	Int'l Equities	47.41	-0.57	-3.6	-1.92	-5.98	



The Russell 2000 (\$VTWO) has had been strong over the past few months and is likely to be held in January. After trading sideways during 2014, price recently made a new high. Hopefully we'll see some follow through in January if the system takes a position.

December was a rocky month for risk assets and we definitely felt some pain with the \$SPY position. Risk assets around the world were generally lower. Emerging markets in particular took a hit, which makes sense considering they hold Russian stocks.

U.S. Treasury bonds had a great 2014 and continue to hold up well. While many people are predicting a rise in interest rates during 2015 and a decline in Bond prices, nobody knows for sure what will happen. Well, maybe the Fed does . . . and possibly Goldman. At this point, however, the price of the long term Treasury (\$TLT) hasn't broken

down and the market is still strong.

Gold and commodities continue to show a good amount of weakness at the same time that we've seen a strong dollar. The Dollar is broadly stronger than the other majors (Euro, Swiss Franc, Yen) in a trend that began during the summer. I recently saw a CNBC article discussing the Dollar strength. The contrarian in me suspects the trend is mature and likely to end as soon as CNBC picks up on it, but for now it continues.

At the end of December, the system is likely to swap the \$SPY position for \$VTWO and continue to hold \$IYR.

ETF Fees:

ETF's charge a small fee (generally under 1%), which covers administration and management. However, there are multiple ETF's for every market from different providers. Going forward, the Basic ETF Rotation System will be transitioning to Vanguard ETF's due to lower fees. The reason for the change is to minimize all costs and increase returns.

Schwab Commission Free Rotation System

Schwab Commission Free ETF Rotation System

Prices as of December 29, 2014

Symbol	Description	Last	Week % Change	Month % Change	3 Month %	AvgROC.3.6.12	Positions
SCHB	SCHWAB US BROAD MARKET ETF	50.54	0.18	0.98	6.51	8.47	
SCHA	SCHWAB US SMALL CAP	55.83	0.38	2.69	8.58	6.31	
SCHH	SCHWAB SCH US REIT ETF	39.66	0.51	2.99	15.64	19.71	Dec/Jan
RWO	SPDR GLOBAL REAL ESTATE ETF	48.44	0.19	0.74	9.79	10.15	Jan
SCHZ	SCHWAB AGGREGATE BOND ETF	52.2	-0.04	-0.31	0.69	1.79	
SCHR	SCHWAB INTM TERM US TREASURY ETF	53.36	0.07	-0.85	0.64	1.25	
TLO	SPDR BARCLAYS LONG TERM TREASURY ET	72.35	0.4	2.14	5.77	12.28	Dec
SCHP	SCHWAB US TIPS ETF	54.089	0.15	-1.17	-0.43	-0.2	
PGX	POWERSHARES PFD PORT	14.63	0.34	-0.54	1.39	3.51	
SGOL	ETFS GOLD TRUST	115.93	-1.02	1.41	-0.77	-5.23	
USCI	UNITED STATES COMMODITY INDEX SUMMERH	48.63	-0.14	-8.07	-11.11	-14.33	
SCHF	SCHWAB INTL EQUITY ETF	29.32	-0.58	-5.05	-3.39	-7.13	
SCHE	SCHWAB EMERGING MARKETS EQUITY	23.855	-0.48	-7.18	-5.6	-6.01	
SCHC	SCHWAB INTERNATIONAL SMALL CAP EQUITY	28.79	-0.35	-4.57	-6.28	-10.5	
PCY	POWERSHARES EMERGING MARKETS SOV DEBT	28.21	-0.28	-2.35	-1.23	-0.08	
BWX	SPDR BARCLAYS INTERN TREASURY BD ET	55.22	-0.74	-2.07	-3.21	-5.8	



U.S. Real Estate (\$SCHH) is the top performing asset for the Schwab Rotation System. \$SCHH pays a quarterly dividend and we received 0.2701 / share in December.

During December, the Schwab Rotation system was long Real Estate (\$SCHH) and the Long Term U.S. Treasury (\$TLO). Both markets are on track to post positive performance for the month, but the Long Term Treasury is on track to fall out of the top two. December was a volatile month for risk assets and while the performance of U.S. Equities wasn't exceptionally poor, risk assets around the world took a good hit. Specifically, most international asset classes are

down on the month. The Emerging Market Equities ETF took a solid hit, which makes sense considering it holds Russian and similar Equities.

The Dollar was broadly stronger during December as evidenced by the decline in Commodities and mediocre performance in Gold. It looks like the system will hold positions in Real Estate (\$SCHH) and International Real Estate (\$RWO) for January 2015.

Position Sizing:

The systems presented in this newsletter have been backtested and designed to work by taking positions in the top two markets. Each position was equal to 50% of account equity during testing. The addition of a third market (top three rather than top two) had the effect of decreasing both portfolio volatility and returns. The Top 2 method employed here is intended to maximize returns.

Position Summary & Estimated Returns

December Positions			Est. Dec.
Symbol	Description	Last	Return
SCHH	SCHWAB SCH US REIT ETF	38.51	2.99%
TLO	SPDR BARCLAYS LONG TERM TREAS	70.84	2.14%
IYR	ISHARES US REAL ESTATE ETF	78.12	1.43%
SPY	SPDR TR S&P 500 ETF TR	208.72	0.73%
January Positions			Existing or
Symbol	Description	Last	New
SCHH	SCHWAB SCH US REIT ETF	39.66	Existing
RWO	SPDR GLOBAL REAL ESTATE ETF	48.44	New
VTWO	VANGUARD RUSSELL 2000 ETF	96.7	New
IYR	ISHARES US REAL ESTATE ETF	77.02	Existing

Despite a rocky start to the month, it looks like December will end up in positive territory. The amounts shown above are estimated returns for the December positions. However, the amounts shown are not realized and do not include dividends. During December all of the ETF's held paid dividends.

Shortly after January 1st, the actual and hypothetical results will be posted at www.thetatrend.com

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