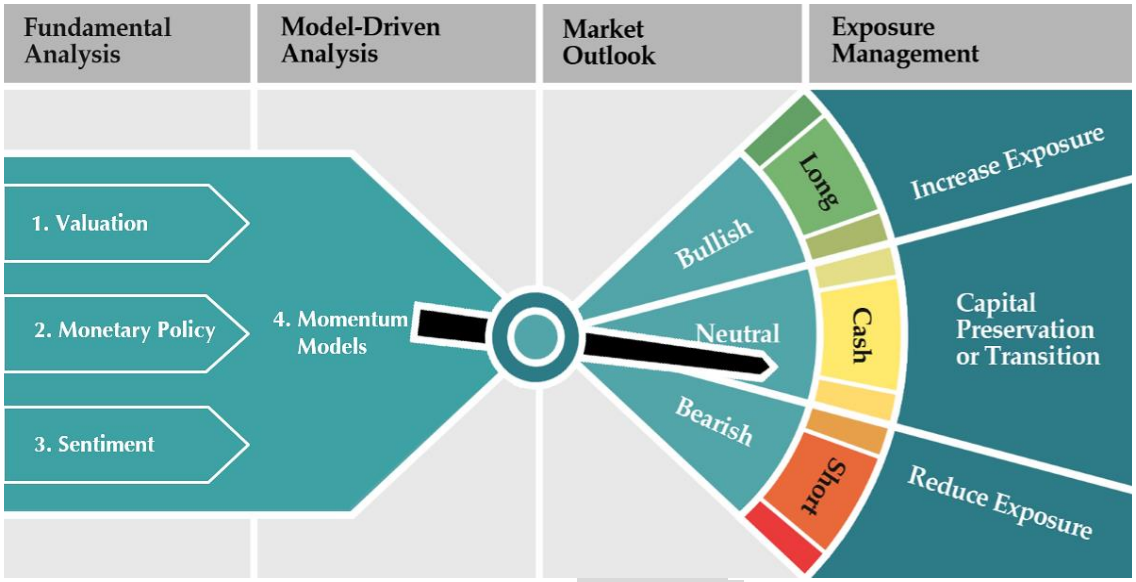
Broadmark Investment Process

The S&P 500 finally broke out of the sideways trading range and began its correction in late August with a "flash crash" and resulted in the first 10% correction in a number of years. The S&P 500 returned -6.44% in the third quarter. The Federal Reserve kicked the rate hike can down the road on weaker than expected global growth. The type of market we are observing now is not new. At present, we are waiting for confirmation that we have put in a bottom and that we will see upward movement in prices. Our volume and breadth indicators have historically done a good job of identifying a new uptrend.



A brief look at the four pillars of our investment process show improvement in valuation following the correction. Credit spreads widened during the quarter reaching a danger zone but has begun to improve at this writing. **Monetary factors** remain a focus as every bear market and recession began with deteriorating credit conditions.

Sentiment, which we view from a contrarian perspective, has improved to the positive following the correction. There is so much pessimism that bad news is viewed as a positive. Many of our sentiment indicators have reached extreme levels of bearishness. At the same time corporate insiders have picked up their buying, a good sign.

Momentum is an important part of our process and helps identify entry and exit points into the market. We are watching net breadth and net volume for an indication if the correction is over and prices are moving higher again, or if we will test the highs and then experience another leg lower.

The central theme is that much of the problems and risks we observed earlier in the year have been corrected. We will increase exposure on improvement in our momentum models provided credit conditions do not continue to deteriorate.