

RAM® Score = -19.66↑  
 Mapper Score™ = 30%↑ 70%↓ 0%↔



## USA FINANCIAL TRENDING REPORT

- **What may Black Monday, 1987, teach us about our current state of market volatility?**
- **How may the U.S. GDP shed light on the depth of a stock market crash and/or recession?**
- **Has the stock market already revealed its new Trading Channel and Support Line?**

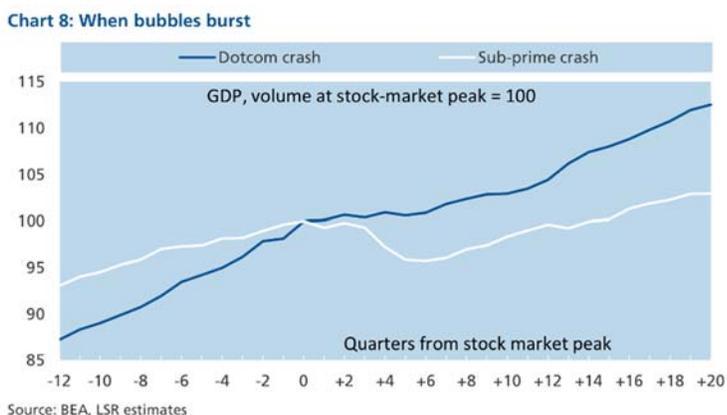
Twenty-eight years ago (to the day) on Monday, October 19, 1987, the Dow Jones Industrial Average (DJIA) historically plummeted -22.6% that single day – Now referred to as Black Monday.

It was by far the largest one-day percentage drop in U.S. stock market history. No doubt this was a scary time for the stock market. However, both the DJIA and the S&P 500 finished the year 1987, in positive territory, up over +2% each...

**Now isn't that interesting?!?**

**And, what can it teach us?!?**

1. Keep in mind that on a timeline, 1987 lands in the heart of what we now consider the “Buy & Hold Era”, spanning from 1980–2000. During this 20 year span, **the market only incurred 3 negative return years** (1981, 1990, 1994), with the other 17 years (including 1987) posting positive returns. That’s not to say that today’s risk management techniques couldn’t have aided investors further during that timeframe, but back then, risk management was relatively unheard of.
2. As scary as Black Monday was, the U.S. economic growth ultimately remained resilient, with the Gross Domestic Product (GDP) continuing as positive – never going negative. **This is arguably the most important fact.**
3. Obviously, the stock market has an effect on the economy and vice versa. And the stock market can, in fact, impact the economy to the point of recession. However, **economic experts do not generally consider recessions triggered by stock market crashes to be “particularly bad”<sup>1</sup>, or at least not as bad as those triggered by the economy.**
4. Lombard Street Research recently created a chart to compare and contrast the effects of GDP during the Dotcom Bubble of 2000 (Dotcom Crash) against the Financial Crisis of 2008-09 (Sub-Prime Crash). GDP continued to rise during the year 2000, but took-it-on-the-chin during 2008-09 (see chart to right).



So the itching question is, **“How’s the U.S. GDP reflecting today?!?”** The good news is that it has remained positive (so far).

You’ll notice that during 1987, GDP continued positive, while during 2008-09, GDP turned negative. **Today, GDP remains positive** (see chart below left).

<sup>1</sup> October 19, 2015, Business Insider, “Everyone forgets the most important thing about the Black Monday stock market crash of 1987”.

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This does not mean that the market declines and volatility we have recently experienced (including the current negative RAM® Score calculation) will not ultimately lead to a recession or continued bear market... That is yet to be determined.



But it is an important and encouraging data combination that leads many experts to contend that we are not on the brink of the next Financial Crisis or a similar downturn of such historic significance.

As we've discussed in previous Trending Reports, the U.S. economic data has remained fairly strong or satisfactory, while global and international economic pressures have generated the majority of the negative impact on the U.S. stock market. The results have been interesting as we continue to track the market and S&P 500 with its developing trends...

As you may recall (see chart below right) from last month's Trending Report... The S&P 500 fell below its Trading Channel "support line" during mid-August (black line). Then it rapidly declined, looking to push

through the most recent "significant low" (red line = a further level of support) similar to what we experienced leading in to the Financial Crisis... But then it abruptly stopped just short!

Now it appears the market may be struggling to reestablish its footing and possibly even reestablish a new and growing Trading Channel (blue lines). I would consider it premature to hang-my-hat on a newly established Trading Channel emerging at this new stepped-down level, but the evidence has been numerically and visually mounting since late August or early September.

Price History



This accumulating data and undercurrent is further validated by an increasing (albeit still negative) RAM® Score of -19.66. Whereas last month RAM Score was -35.62.

Most importantly, through all of the trials & tribulations, each of the various Portformulas risk management components (which vary individually by the model selected) have been automatically reapplied each month and performed exactly as prescribed.

Best of Investing,  
Mike Walters, CEO



P.S. All things economic could also get real messy depending upon the outcome of our lawmakers handling the ever-recurring governmental debt ceiling debacle.

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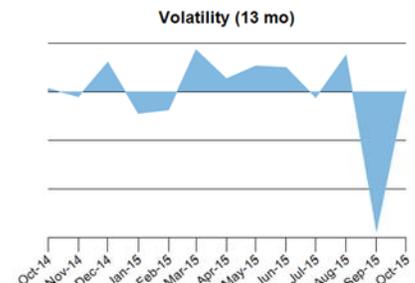
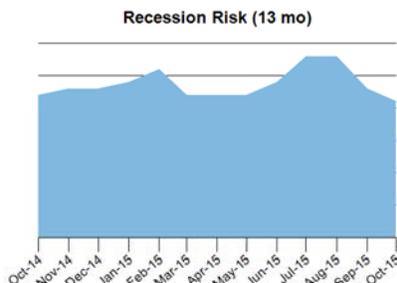
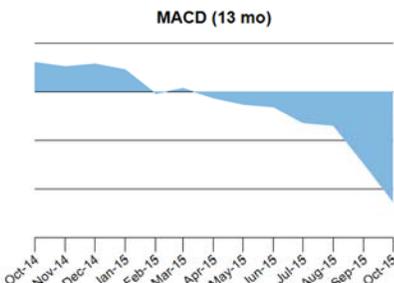
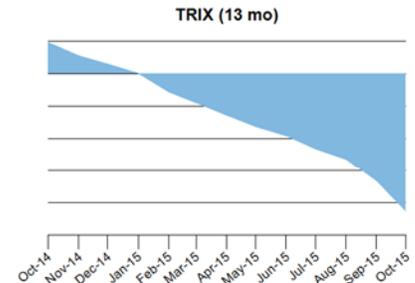
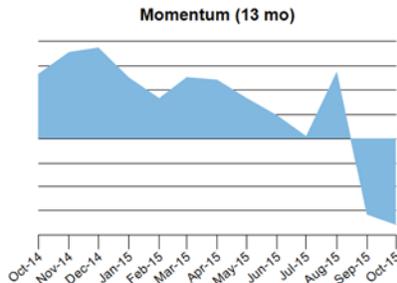
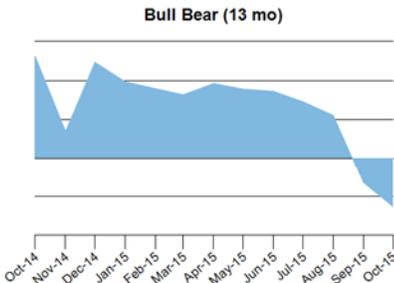
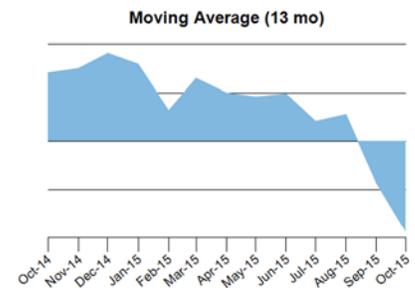
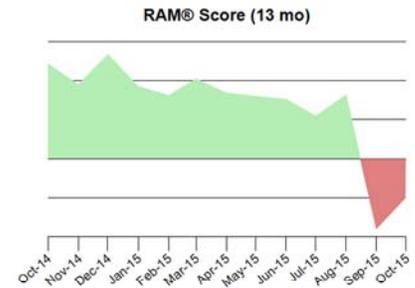
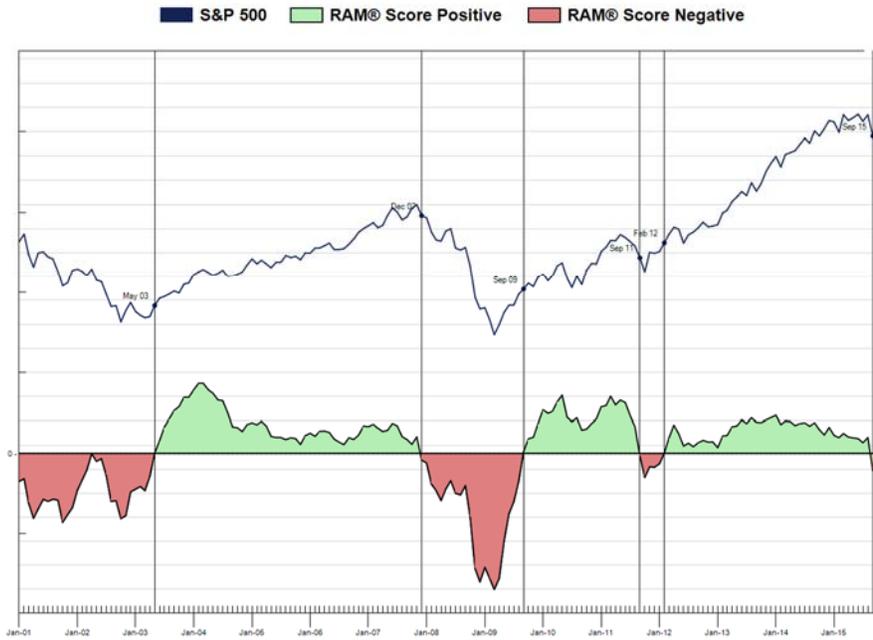
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**1 RAM® Score** is a patented “trending” tool that takes into account several dynamic U.S. market and economic indicators. It features a core baseline which allows for correlation between these multiple indicators so that they may be combined together for an overall RAM® Score. As a trending tool, we believe that a positive RAM® Score means odds are stacked in favor of equity investments while a negative RAM® Score means odds are stacked against equity investments.

**2 Fundamental Focus Series** investment strategies use RAM® Score plus qualitative & quantitative qualification criteria to select targeted holdings across multiple indexes. **Investing Note:** We believe there are significant seasonal trends that historically occur in the market. The **RAM® Score** identifies what we view as the trends or “changing seasons”. And then the **Fundamental Focus Series** seeks to act upon such trends and only own the stocks that meet our qualification criteria.



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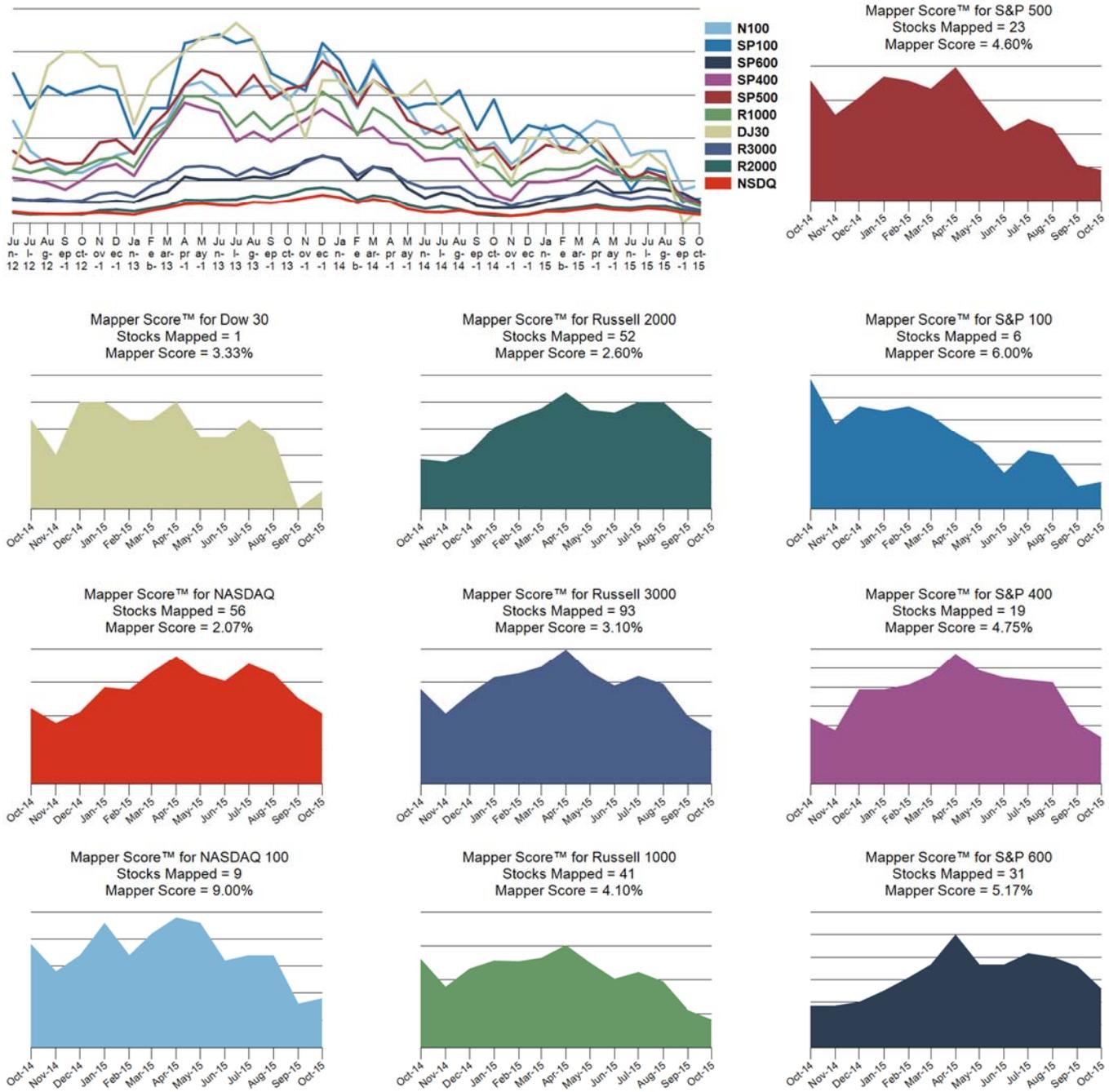
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**3 Mapper Score™** is a proprietary “trending” tool that takes into account several dynamic components of the underlying stocks represented within an index. It identifies certain strengths of individual stocks contained within an index and tracks how many meet minimum requirements. As a trending tool, we believe that the higher the percentage of qualifying stocks, the greater the strength of the overall index. **4 Technical Focus Series** investment strategies use Mapper Score™ plus momentum & technical qualification criteria to select targeted holdings within a single index. **Investing Note:** We do not believe that all stocks within an index are automatically worthy of ownership. The **Mapper Score™** illustrates how many stocks we view as “worthy of consideration” within each index. And then the **Technical Focus Series** seeks to only own the stocks that meet our qualification criteria.



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**5 Portformulas**® investment strategies & scoring mechanisms do not guarantee that the markets will increase when scores are strong or decrease when the scores are weak. But we believe the long term correlation may be valuable for investing... Combining the trending features of RAM® Score & Mapper Score™ with our intricate Fundamental & Technical Focus Formulaic Investing™ Strategies results in a uniquely logical approach to investing that is exclusively available through Portformulas®.

Please note that there are a number of important disclosures that must be considered before investing in Portformulas. Please read the information and disclosures contained in Portformulas' hypothetical carefully before investing. Any performance figures referenced herein are hypothetical and are not indicative of future results. Purchases and sales of securities within Portformulas' various strategies may be made without regard to how long you have been invested which could result in tax implications.

**RAM Score and Mapper Score General Disclosures**

The RAM Score and Mapper Score illustrations do not represent any particular Portformula strategy nor are they intended to recommend any Portformula strategy or the RAM Score feature. The information contained herein simply attempts to illustrate how our firm's RAM Score feature and Mapper Score operate. The RAM Score feature can be applied to many Portformula models at no additional cost. The Mapper Score is simply an analytical informational tool.

RAM Score was not developed until January 2010. Prior to January 2010, clients were utilizing RAM Score's predecessor, RAM. Clients utilizing RAM may have had different results than those reflected above. RAM Score movement prior to 2010 is hypothetical and based on retroactive application of RAM Score's indicators to market and economic conditions existing at the time. Portformulas was not managing assets prior to 2007.

It is important to understand that RAM Score is only a tool designed to assist our firm's management of your account. RAM Score does not guarantee any specific results or performance and even with RAM Score on your account, it is possible that your account will lose value. RAM Score moves assets into or out of the market based on various economic and market indicators. It is possible that the market will move positively while you are not invested or negatively while you are invested, resulting in losses. Any Portformula strategy may underperform or produce negative results.

Just because Portformulas maps a stock does not mean that the stock will be held in a model. Client accounts may hold fewer stocks than those referenced in the Mapper Score illustration. Mapper Score has no impact on performance.

The RAM Score illustration utilizes the S&P 500 index because it is a well-known index and provides a recognizable frame of reference. The Mapper Score analysis uses the referenced indices because they are relevant comparisons across certain Portformula models. The indices referenced herein are not publicly available investment vehicles and cannot be purchased. Furthermore, none of the indices referenced herein have endorsed Portformulas in any way.

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