Bull Run Reaches Exhaustion

- ***Bull Run Reaches Exhaustion***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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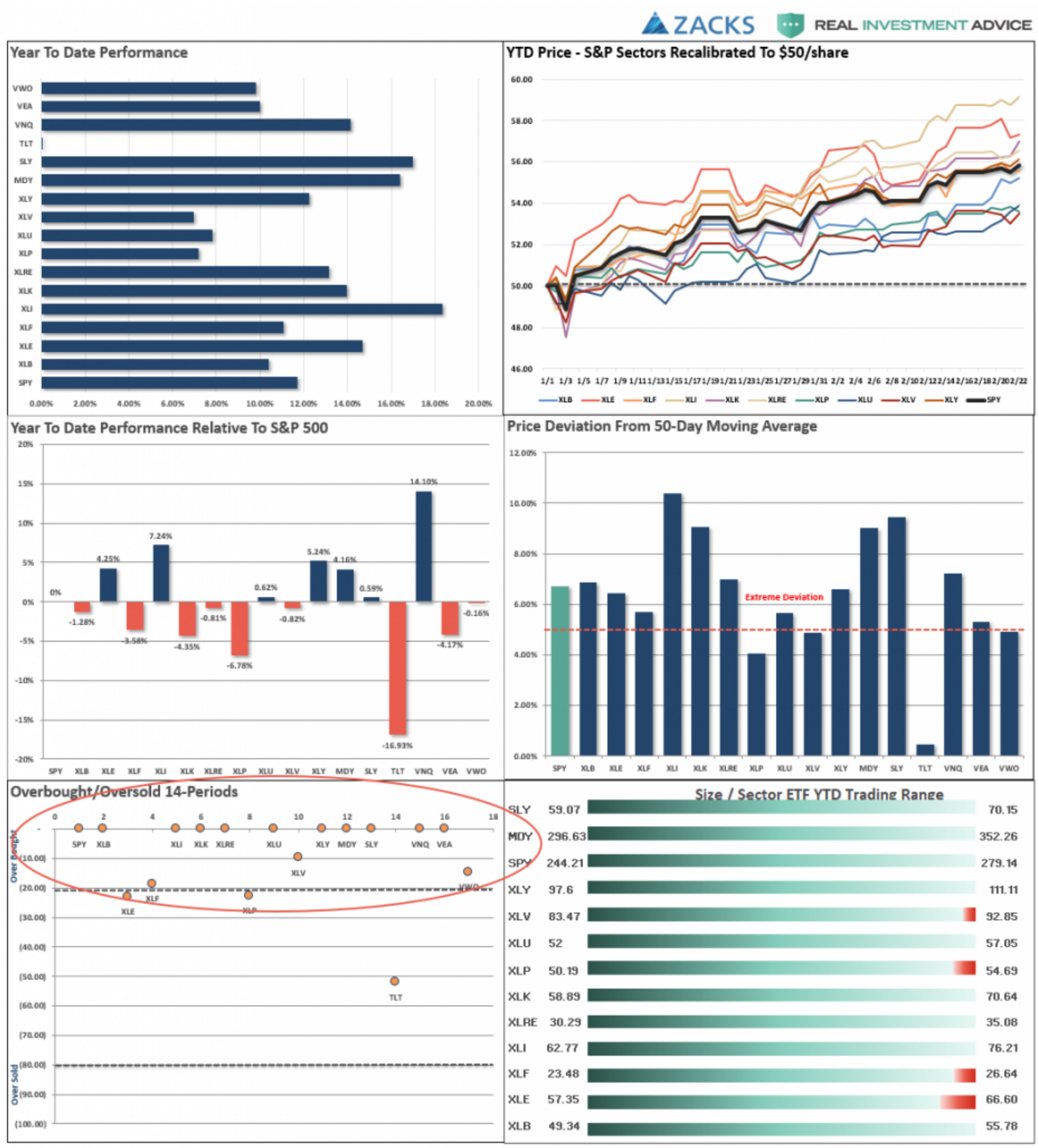
[On Tuesday,](#) we discussed a very important point with respect to the bull run so far.

> *"Despite the underlying economic and fundamental data, the markets have surged back to extremely overbought, extended, and deviated levels.&#2013266080;The chart table below is published weekly for our* ***[RIA PRO subscribers](#)*** *&#2013266080;**(use code PRO30 for a 30-day free trial)"***



> *"You will note that with the exception of bond prices, every market and sector is more than 5% above its 50-day moving average and year-to-date performance is pushing*

> *more historic extremes both in price and in extreme overbought conditions.&#2013266080;*
>
> *Those overbought conditions are more prevalent in the chart below.&#2013266080;**On virtually every measure, markets are suggesting the fuel for an additional leg higher in assets prices is extremely limited."***

Let me explain why this is important for investors to understand.&#2013266080;

While it is true that there is always a buyer and seller in every transaction it is the *?supply and demand?*&#2013266080;of those buyers and sellers **at a particular price point** which affects the overall price.&#2013266080;

For example, imagine two rooms of 100 individuals each that want to buy shares of ABC stock. Room *"A"* has 100 individuals who currently own ABC stock and Room *"B"* has 100 individuals with cash wanting to buy shares of ABC. The table below shows a very simplistic model of this process.

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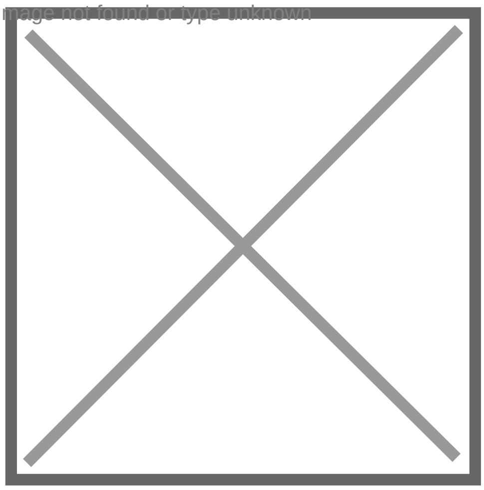
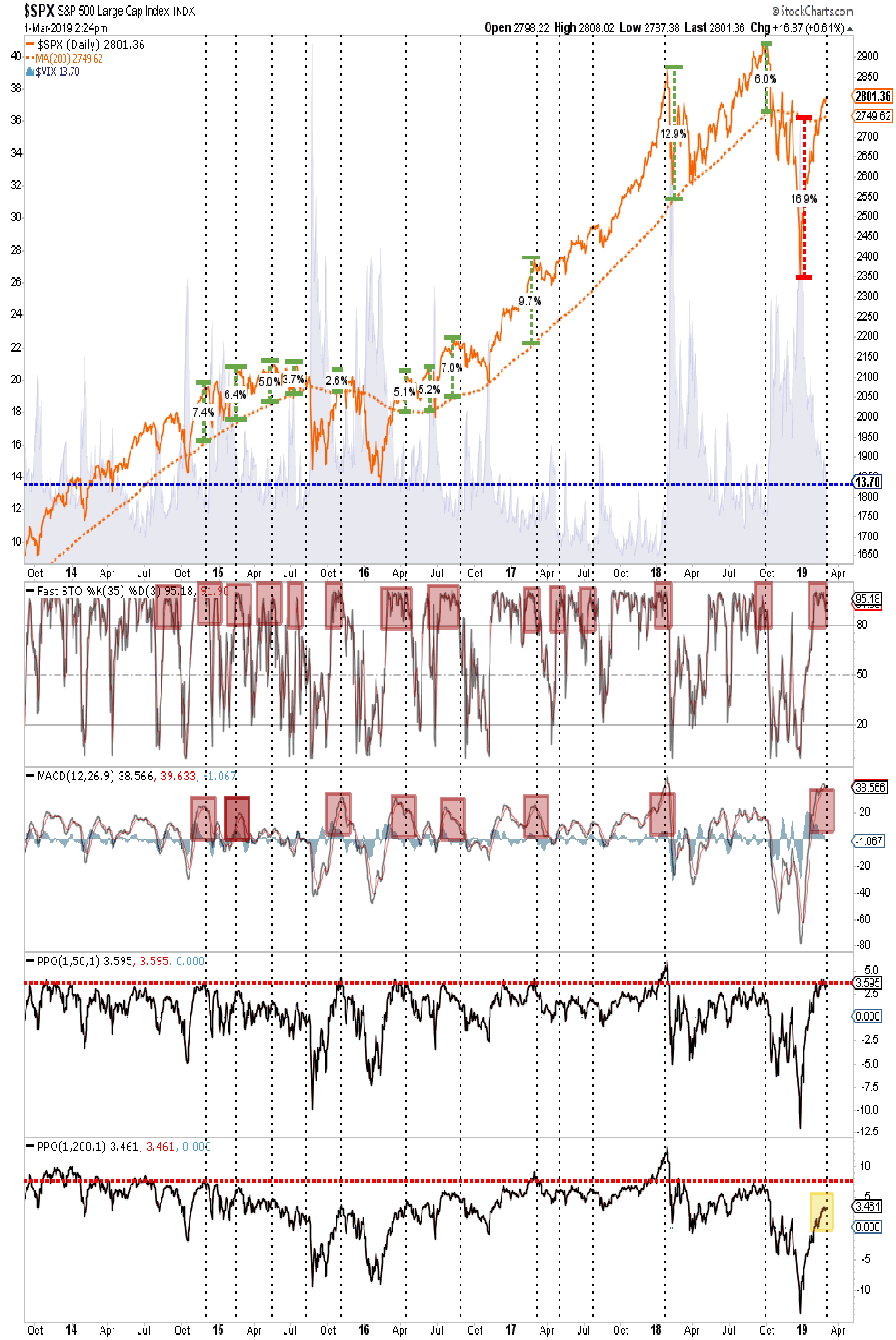


At $10 a share, there are numerous buyers but very few sellers. The demand for the shares drives the price higher which entices more sellers. **As long as the demand for shares outpaces the supply of sellers ? the price is pushed higher.** However, at some point, the price reaches a level that exhausts the supply of buyers. **The next price decline occurs as sellers must begin lowering prices to attract buyers.**

So, yes, while there is *"always a buyer for every seller"* the question is always *"at what price."&#2013266080;* The chart below is a short-term view of the market which illustrates the current backdrop.&#2013266080;

The chart below shows several methods I look at to try and determine if buyers are potentially reaching a point of&#2013266080;*?exhaustion?*&#2013266080;which might lead to a price reversal in the short-term. The top of the chart looks at the historical deviation between the price of the market as compared to the 200-dma. The bottom 4-indicators are measures of price movement and participation *(The bottom two panels are the number of stocks above the 50 and 200-dma.)*



$SPX S&P 500 Large Cap Index INDX
©StockCharts.com
1-Mar-2019 2:24pm
Open 2798.22 High 2808.02 Low 2787.38 Last 2801.36 Chg +16.87 (+0.61%)
$SPX (Daily) 2801.36
MA(200) 2749.62
$VIX 13.70
7.4%
6.4%
5.0%
3.7%
2.6%
5.1%
5.2%
7.0%
9.7%
12.9%
6.0%
16.9%
Fast STO %K(35) %D(3) 95.18, 91.90
MACD(12,26,9) 38.566, 39.633, -1.067
PPO(1,50,1) 3.595, 3.595, 0.000
PPO(1,200,1) 3.461, 3.461, 0.000
Oct
14
Apr
Jul
Oct
15
Apr
Jul
Oct
16
Apr
Jul
Oct
17
Apr
Jul
Oct
18
Apr
Jul
Oct
19
Apr

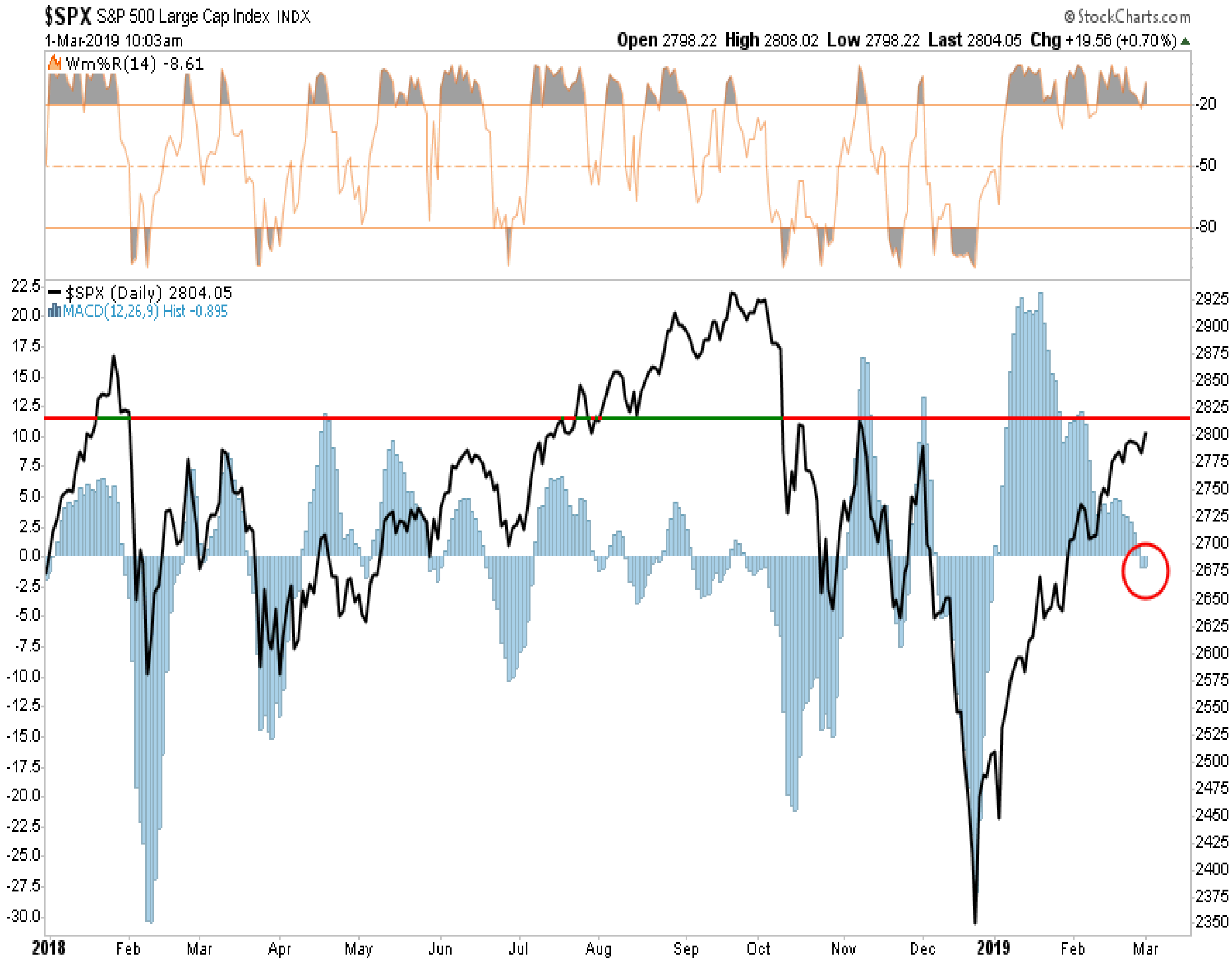
Don?t get too hung up on trying to understand all the nuances of the chart. **The important point, from a money management standpoint, is the determination of the potential risk/reward opportunity for allocating capital to the markets at any given time.**

As a portfolio manager, clients tend&#2013266080;*?not to like?*&#2013266080;having their capital invested in the markets only to almost immediately suffer a principal loss. **By using some measures to determine the current risk/reward outcome, the deployment of capital can be more effectively timed.**

While the majority of the chart *(except for stocks above their 200-dma)* is suggesting the market has reached levels where buyers have been more reticent, it is important to understand that just because the indicator has reached an extreme level ? the market will not necessarily fall apart immediately. **It is a warning sign that suggests further upside in the market is relatively limited compared to the downside risk which currently exists.**

The average correction that resolved the overbought condition, since the end of the last financial crisis, has been as little as -3% but as much as -20%.&#2013266080;

The chart below is a much shorter-term analysis which essentially shows the same thing. With markets currently on a very short-term sell-signal, and overbought, the risk/reward isn't exactly compelling.&#2013266080;



As I discussed in [?Visualizing Bob Farrell?s 10 Investing Rules:?]

> *?Like a rubber band that has been stretched too far ? it must be relaxed before it can be stretched again. It is the same for stock prices which are anchored to their moving averages.* ***Trends that get overextended in one direction, or another, always return to their long-term average.*** *Even during a strong uptrend or strong downtrend, prices often move back (revert) to a long-term moving average."*

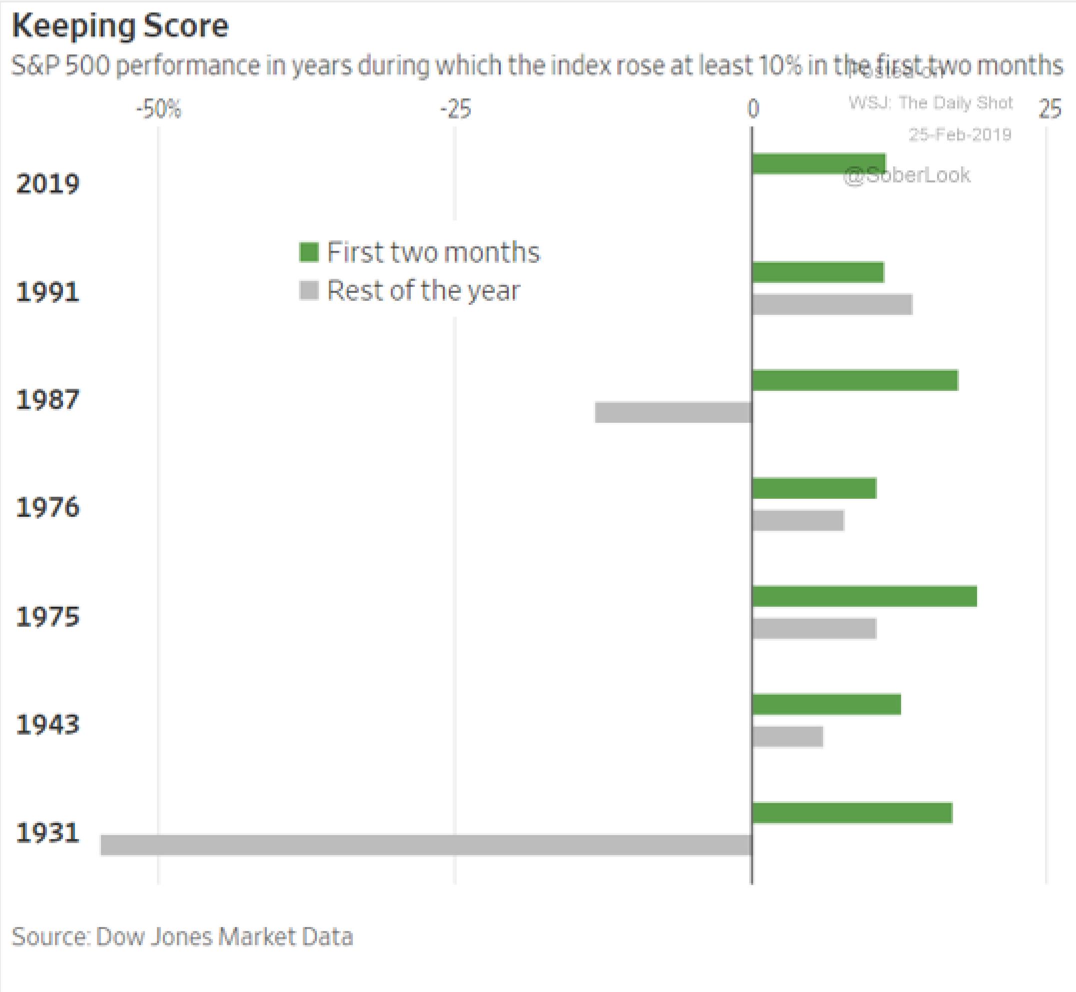
The chart below shows the S&P 500 with a 50- and 200-day moving average. The bottom of the chart shows two different measures of price momentum over differing time spans.

What is important to notice is that when the markets have gotten this extended previously, it has generally been a better opportunity to reduce portfolio risk *(take profits, rebalance risk)* rather than expanding it.&#2013266080;

This all supports the statement I made on Tuesday:

"The markets are not immune to the 'laws of physics.' While the price action is indeed bullish in the short-term, the shorter-term moving averages act like 'gravity' on prices. Given the current extension and deviation above the 50-dma the odds of a pullback, before a continued advance, is a high probability.

As shown in the table below, it is very likely that if you sold everything today, and went to cash, that you would miss little over the balance of the year. In other words, the bulk of the gains have likely been made for the year."



?What? I might miss out on a move higher??

This is a true statement, but at what risk?

Let's think about why stocks are rising at the moment?

A potential trade deal with China?&#2013266080;

Maybe, but we have known about that since December when the markets started rallying.

A more dovish Fed?

Okay, but we have also known about that for the last two months.

But the list of **what's NOT supporting the market's advance** continues to grow.

- *Earnings estimates&#2013266080;for 2019 have sharply collapsed as I previously stated they would and still have more to go.*
- *Stock market targets for 2019 are&#2013266080;way&#2013266080;too&#2013266080;high&#2013266080;as&#2013266080;wer*
- *Rising geopolitical tensions between India, Pakistan, Russia, China, Iran, etc.&#2013266080;*
- *The effect of the&#2013266080;tax cut legislation has disappeared&#2013266080;as year-over-year comparisons are reverting back to normalized growth rates.*
- *Economic growth is slowing.*
- *Chinese economic data has weakened further.*
- *European growth, already weak, continues to weaken.*
- *Valuations have returned to expensive levels.*

- *Stocks are technically very stretched as noted above.*
- *Long-term technical signals remain negative.&#2013266080;*
- *An uptick in the unemployment rate and rising continued jobless claims.&#2013266080;*
- *Clear stress on the consumption side of the equation from a sharp slow down in retail sales and personal consumption combined with a sharp uptick in the savings rate.*

As Doug Kass recently noted:

> *"As you all know, I couldn't disagree more with the notion of an efficient market nor that price is truth.* ***Emotion, liquidity, sentiment, positioning and the machines and algos are some of the many factors that create an artificiality in stock prices and run counter to natural price discovery.***
>
> *How else to explain the recent 450 handle rise in the S&P Index? And the similar drop from September to December, 2018?*
>
> ***Our job (or at least how I implement my strategy) is to develop a sense of fair market value or intrinsic value against the current price level for stocks. When the gap widens (and prices are substantially lower than that calculated value) I buy... and vice versa."***

Or simply:

> *"Price is what you pay, value is what you get."* - Warren Buffett

In the short-term the&#2013266080;markets can certainly remain extended for much longer than logic would predict, however, they can not stay overly extended indefinitely.&#2013266080;

The important point here is simply this.

While the Fed's dovish U-turn may have curtailed the 2018 bear market for now, the market is operating under the assumption the Fed has the same ability to support the financial markets as they did previously.&#2013266080;

The problem is the environment today is vastly different than it was in 2008-2009 .&#2013266080;&#2013266080;

- *Unemployment is 4%, not 10+%*
- *Jobless claims are at historic lows, rather than historic highs.*
- *Consumer confidence is optimistic, not pessimistic.*
- *Corporate debt is a record levels and the quality of that debt has deteriorated.*

- *The government is already running a $1 trillion deficit in an expansion not half that rate as prior to the last recession.*
- *The economy is extremely long is a growth cycle, not emerging from a recession.*
- *Pent up demand for houses, cars, and other durables has been absorbed and is starting to decline.*
- *Production and Services measures recently peaked, not bottomed.*

In other words, the world is exactly the opposite of what it was when the Fed launched&#2013266080;*?monetary accommodation?* previously. Logic suggests that such an environment will make further interventions by the Fed substantially less effective.

The only question is how long will it take the markets to figure it out?

Summary

Investing is alway about measuring risk versus reward.&#2013266080;**Currently, the risk to investors is a correction over the next couple of months followed by a rally into year end which culminates in a total return which is LESS than where you are today.**

I know. That is a hard concept to grasp when the media is telling you to NOT ONLY stay invested, but *?buy more?* as the *?bull market is back.?*

I can?t disagree that the long-term trend of the market remains bullish, which is why we continue to have portfolios allocated toward equity risk, but markets do not go straight up indefinitely.&#2013266080;There will be a correction of some magnitude in the near future which will allow for a safer entry of new capital into the markets.

Patience, however, will likely be tested before that opportunity presents itself.

Let me reiterate what we wrote two weeks ago:

> ***"The important point here is that from a contrarian standpoint, markets have gotten way ahead of the underlying fundamentals.*** *While the market may indeed end the year on a higher note, it will most likely not do that without lower prices first.*
>
> ***Statements like these are always misinterpreted to mean that we are 'bearish,'&#2013266080;hiding in cash, and have 6-cases of spam and a carton of Twinkies sitting on our desk."&#2013266080;***

Our job as investors, and portfolio managers, is to navigate the market, capitalize on opportunity when it is available, and preserve capital when risks exceed our thresholds.&#2013266080;

Currently, risk exceeds our threshold.

That is why we have once again added short-positions to our long-portfolios, closed out trading positions with nice profits, and are simply willing to wait for the next good opportunity to put capital at risk.

See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

SPY RISK INFO ZACKS REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	17.85%	2.59%	11.51%	344.67%
Max Drawdown	-20.47%	-20.47%	-3.00%	-85.34%
Sharpe	0.71	0.25	6.70	26.07
Sortino	0.86	0.31	8.48	26.07
Volatility	13.50	16.17	14.22	(0.12)
Daily VaR-5%	(10.57)	(20.74)	74.07	(4.57)
Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00

S&P 500 Fundamental Analysis

Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low
Dividend Yield	1.93%	1.67%	1.90%	12.39%	2.17%	1.67%	(12.32%)	14.15%
P/E Ratio	20.84	21.92	17.59	(24.65%)	21.57	16.67	(18.5%)	5.48%
P/S Ratio	2.99	3.53	3.26	(8.06%)	3.53	2.40	(7.46%)	36.17%
P/B Ratio	3.46	4.00	4.16	3.86%	4.15	2.82	0.28%	47.65%
ROE	15.22%	15.97%	19.05%	16.18%	19.05%	15.01%	0.00%	26.91%
ROA	2.83%	3.01%	3.50%	13.97%	3.50%	2.82%	0.00%	23.88%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,429.2	2,462.0	1.35%
Sales	58,571	63,251	7.99%
SPS	24.1	25.7	6.55%
Earnings	7,978	9,560	19.83%
EPS TTM	3.9	4.8	23.69%
Dividend	1.4	1.6	10.94%

S&P 500 Asset Allocation

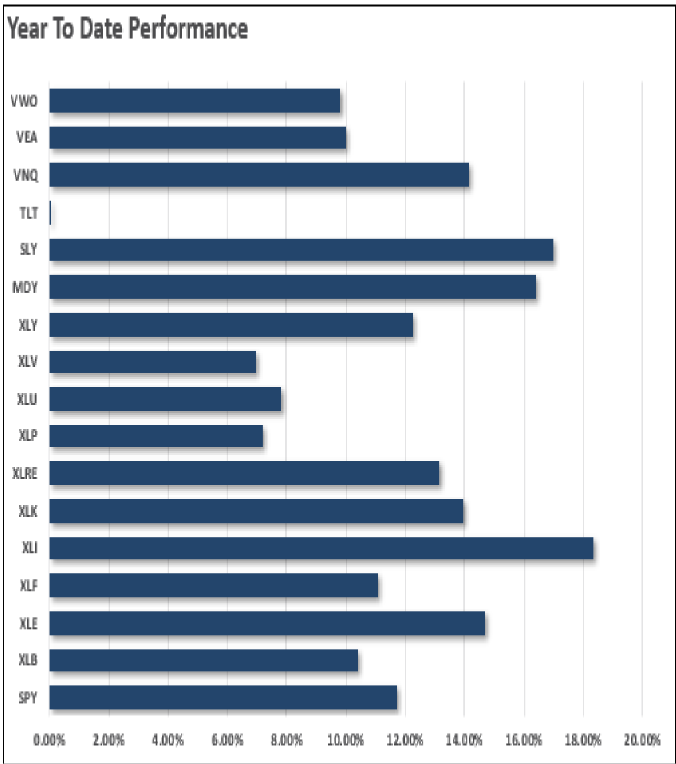
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(2.12%)	5.49%	1.20	16.16	156.27	12.49	(89.7%)	12.6%	3.4%	5.28%	3.26	17.49
Materials	(3.36%)	2.71%	1.32	15.83	21.86	13.82	(27.6%)	11.2%	2.1%	6.22%	4.69	14.55
Industrials	(1.48%)	9.73%	1.12	17.47	22.21	14.71	(21.3%)	15.6%	1.9%	5.75%	5.26	14.86
Discretionary	6.48%	9.94%	0.99	23.15	27.47	19.96	(15.7%)	28.0%	1.3%	4.19%	4.77	20.24
Staples	1.02%	7.12%	0.60	18.78	22.83	18.00	(17.7%)	26.3%	3.0%	5.25%	3.92	17.69
Health Care	9.22%	14.95%	0.95	17.19	20.62	15.93	(16.7%)	30.3%	1.7%	5.64%	6.30	15.74
Financials	(8.05%)	13.38%	1.22	13.03	18.41	11.69	(29.2%)	11.6%	2.1%	7.65%	5.71	11.40
Technology	7.73%	20.26%	1.19	18.76	21.83	14.47	(14.0%)	38.7%	1.6%	5.16%	5.13	17.29
Telecom	1.23%	10.07%	0.88	19.47	26.97	19.96	(27.8%)	18.2%	1.0%	4.89%	4.99	21.34
Utilities	18.87%	3.21%	0.33	19.00	20.31	15.58	(6.5%)	11.1%	3.4%	5.39%	3.57	17.34
Real Estate	15.54%	2.98%	0.81	19.53	24.46	17.86	(20.2%)	10.2%	3.4%	5.15%	4.29	18.28

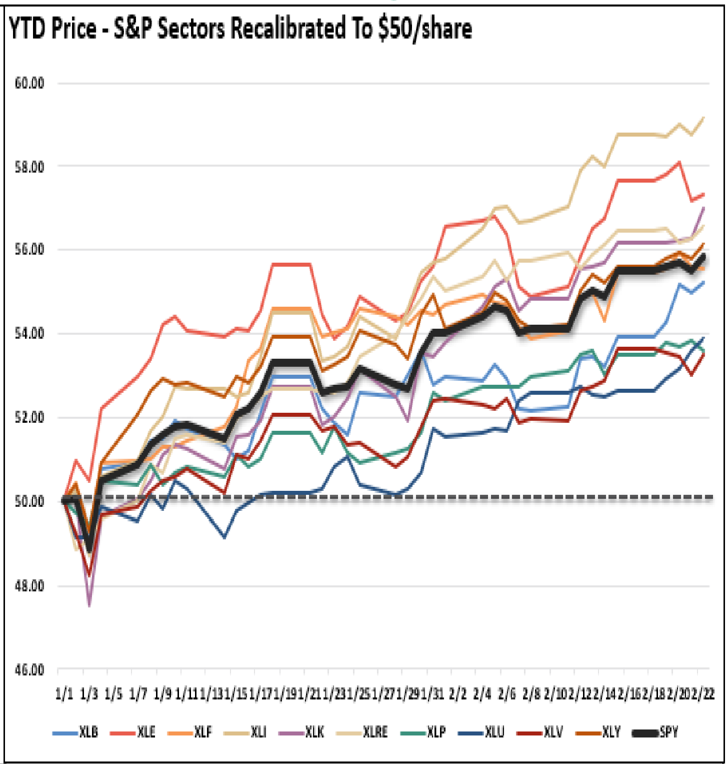
Momentum Analysis

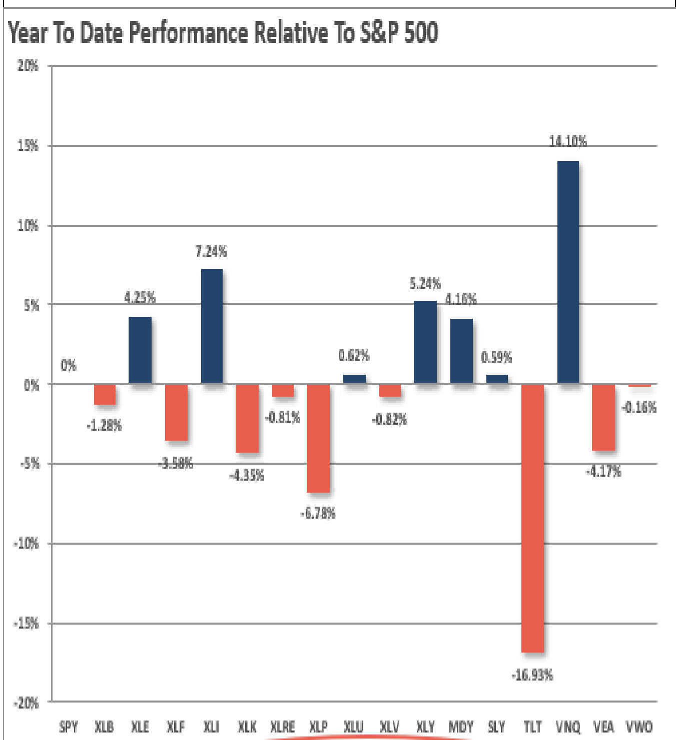
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	278.68	12.75%	263.73	32	5.67%	274.40	14	1.56%	(3.89%)	(5.19%)	19.22%	Sell
Mid Cap	348.22	16.00%	326.78	33	6.56%	346.74	11	0.43%	(5.75%)	(6.92%)	22.42%	Sell
Small Cap	69.19	17.39%	64.85	33	6.68%	70.33	275	(1.63%)	(7.79%)	(11.58%)	22.90%	Sell

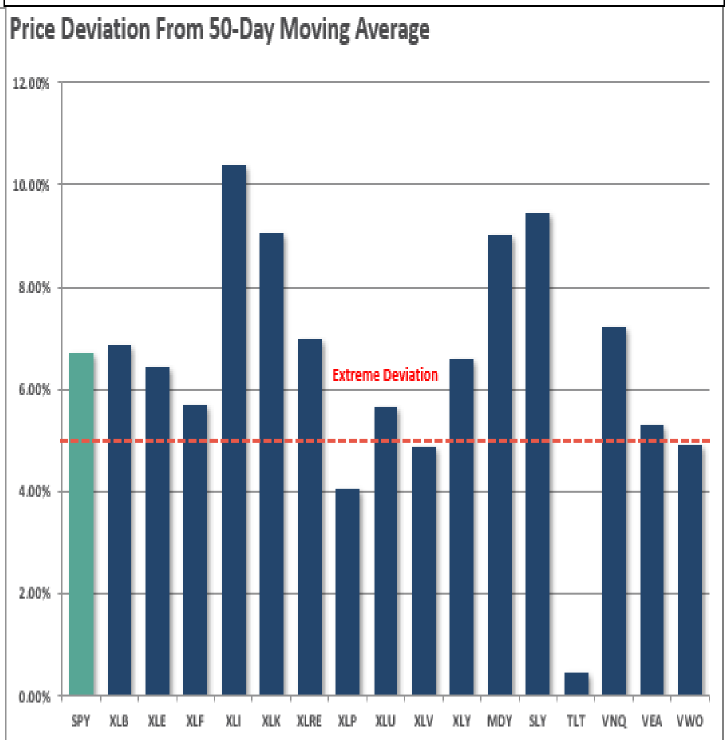
Performance Analysis

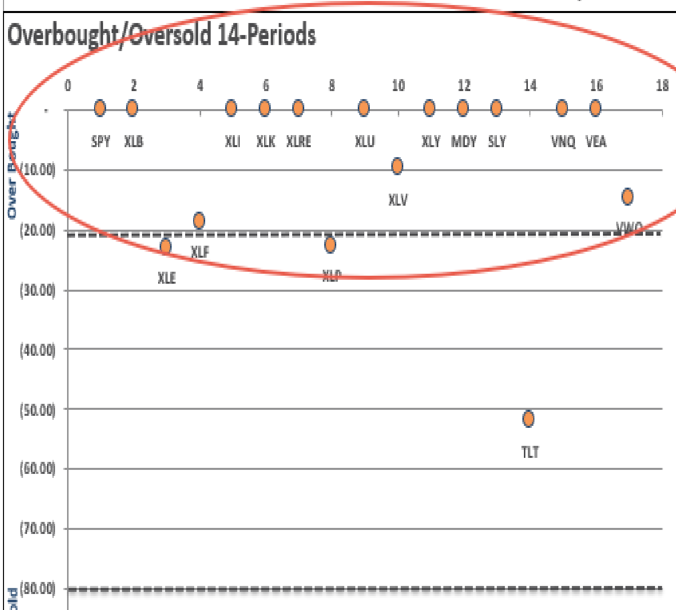
ZACKS REAL INVESTMENT ADVICE

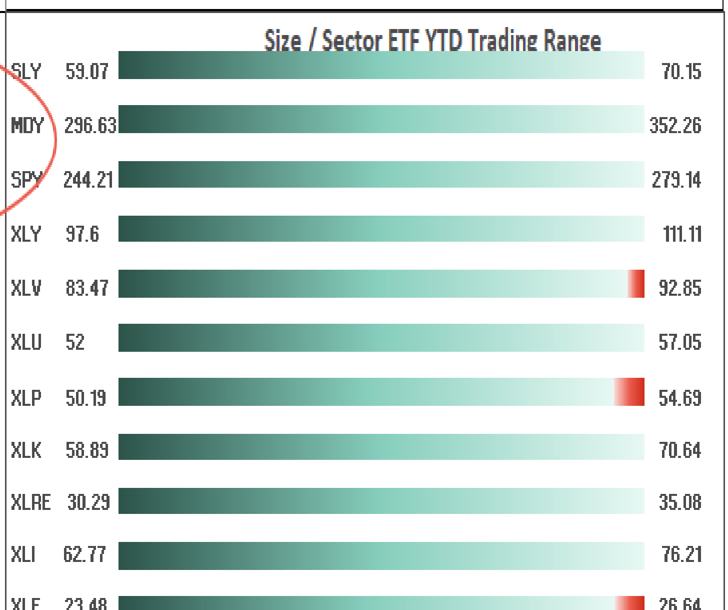












ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	280.82	0.59	4.98	1.01	(3.03)	1.48	264.91	276.18	6.01%	1.68%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	55.78	1.79	0.03	1.13	(2.39)	(10.47)	52.45	55.38	6.36%	0.72%	SELL
		XLE	SPDR-EGY SELS	65.76	(1.14)	(0.48)	(1.54)	(6.64)	(5.90)	62.44	69.02	5.31%	-4.73%	SELL
		XLF	SPDR-FINL SELS	26.46	(0.48)	(3.21)	(2.91)	(3.57)	(10.62)	25.21	26.61	4.95%	-0.57%	SELL
		XLI	SPDR-INDU SELS	76.21	0.09	3.78	4.04	1.25	(3.37)	69.26	72.76	10.04%	4.74%	SELL
		XLK	SPDR-TECH SELS	70.64	0.87	2.16	2.96	(0.96)	1.96	65.17	69.32	8.40%	1.91%	SELL
		XLP	SPDR-CONS STPL	54.43	(0.45)	0.24	(4.27)	3.14	(1.33)	52.98	53.63	2.75%	1.49%	SELL
		XLU	SPDR-UTIL SELS	57.05	1.81	2.02	1.61	8.48	11.83	54.40	53.82	4.87%	6.00%	BUY
		XLC	SPDR-COMM SV SS	46.07	(0.83)	(1.68)	1.34			43.99	46.51	4.73%	-0.94%	SELL
		XLV	SPDR-HLTH CR	92.55	(0.92)	(0.90)	(4.48)	3.03	6.98	89.20	90.10	3.76%	2.72%	SELL
		XLY	SPDR-CONS DISCR	111.11	0.36	(1.17)	1.87	(0.84)	3.43	104.54	108.89	6.28%	2.04%	SELL
	SIZE	SLY	SALOMON LEASING	70.15	0.65	2.05	1.26	(5.71)	2.86	64.53	69.91	8.71%	0.35%	SELL
		MDY	SPDR-SP MC 400	352.26	0.37	1.45	1.76	(1.62)	0.21	325.08	344.72	8.36%	2.19%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	104.53	0.09	0.73	1.81	1.20	0.49	97.46	101.45	7.25%	3.03%	SELL
	Dividend	SDY	SPDR-SP DIV ETF	99.63	0.55	1.25	0.84	4.20	5.36	93.71	95.27	6.32%	4.58%	SELL
	Real Estate	XLRE	SPDR-RE SELS	35.08	(0.37)	0.91	2.62	7.94	12.79	32.97	32.89	6.39%	6.66%	BUY
	International	EEM	ISHARS-EMG MKT	43.04	1.66	(2.99)	3.76	6.62	(14.92)	40.86	41.58	5.34%	3.51%	SELL
		EFA	EMG MKT FREE AS	64.12	0.19	(1.84)	1.14	1.03	(11.60)	61.28	64.22	4.63%	-0.15%	SELL
		IXUS	ISHARS-CR INT S	57.59	0.67	(2.10)	1.94	1.61	(12.33)	54.88	57.28	4.95%	0.54%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	121.57	(0.93)	(4.12)	4.40	5.08	1.43	120.13	118.69	1.20%	2.42%	BUY
	International	BNDX	VANGD-TTL INT B	55.03	(0.36)	(4.25)	(0.52)	3.64	0.24	54.66	54.63	0.68%	0.74%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	85.59	(0.37)	(3.58)	1.37	2.90	(2.41)	83.48	84.65	2.52%	1.11%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.98										

Sector & Market Analysis:

Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels

Sector-by-Sector

Discretionary, Technology, Industrials, Staples, Health Care, Utilities, Real Estate - &#2013266080;If you walked into a Baskin-Robins, famous for 33-flavors, and all they had was vanilla, what would you buy? This is a bit facetious, but it is the problem with the market currently. With everything looking the same, with all sectors extended, overbought, and starting to lose momentum, you only have a choice of *"vanilla"* currently.&#2013266080; If we are patient, more flavors will be available soon.

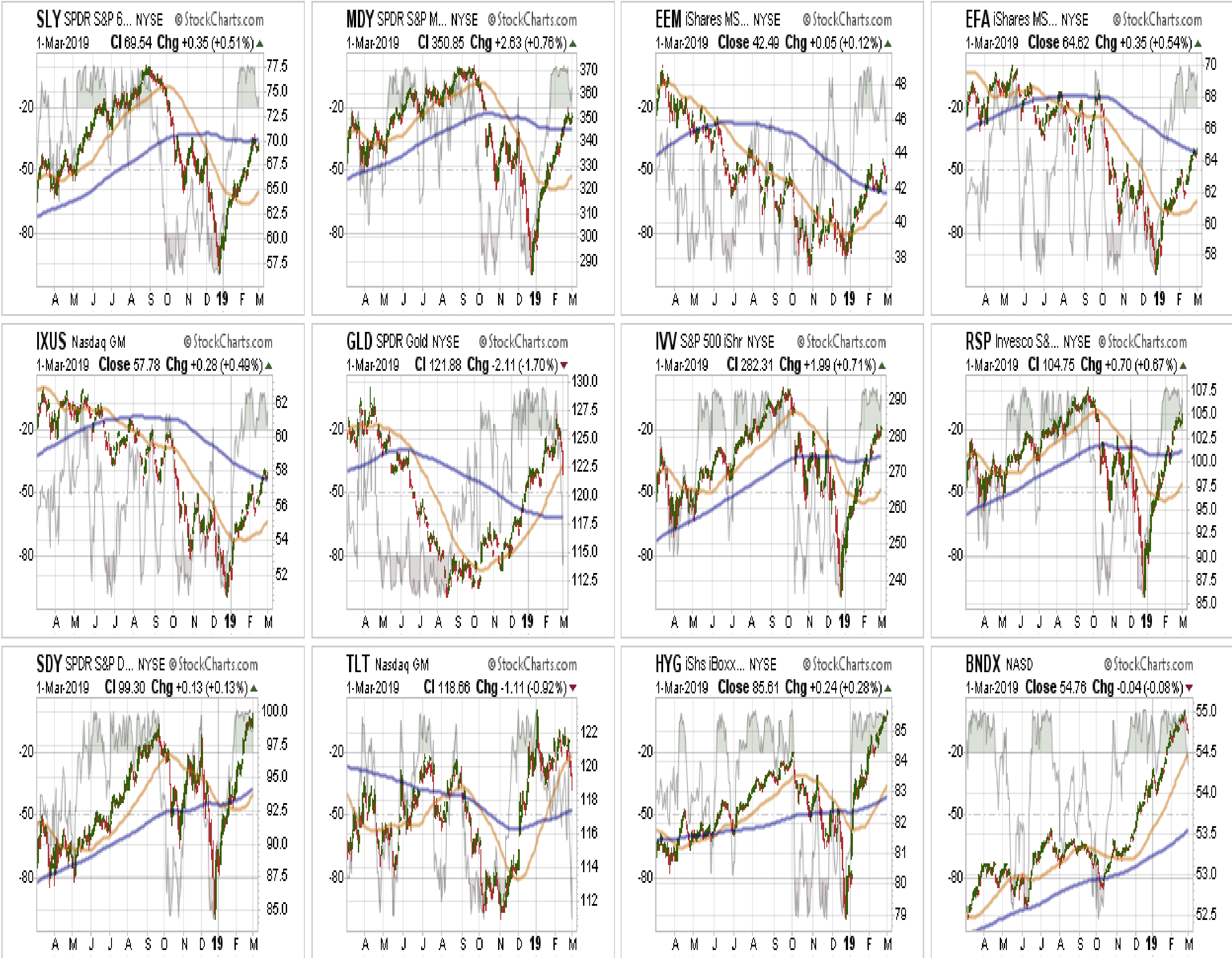
Current Positions:&#2013266080;*XLP, XLY, XLU, XLI, XLK, XLF - Stops moved from 50- to 200-dmas.*

Materials, Energy, Financials, and Communications - While other sectors of the market have performed much better, these sectors have rallied but have failed to climb above their respective 200-dma's. However, these sectors are also "vanilla" as their price action looks like every other sector of the market.

Current Positions:&#2013266080;*XLB - Stops moved up to 50-dmas.*

Importantly, all sectors of the market&#2013266080; are still operating within a bearish crossover of the 50- and 200-dma's. It all appears very *"toppy"* at the moment, so the right course of action is to take profits, rebalance risk, and wait for whatever happens next to determine the next course of action.&#2013266080;

Market By Market



Small-Cap and Mid Cap - both of these markets are currently on macro-sell signals but have rallied along with the entire market complex. Small-caps, however, failed to hold above the 200-dma which firms up resistance at that level. Mid-caps, however, are looking technically better by holding above the 200-dma. However, like everything else currently, both markets are extremely overbought and are vulnerable to signs of rising economic weakness. The overall trend remains negative and, while on short-term *"buy signals,"*&#2013266080;both markets are now back to extreme short-term overbought conditions. Take profits and rebalance risks accordingly, look for a pullback that reduces the overbought condition before adding exposure.&#2013266080;

Current Position: *None*

Emerging, International & Total International Markets&#2013266080;

As noted last week, Emerging Markets pulled back to its 200-dma after breaking above that resistance. We did add 1/2 position in EEM to portfolios last week understanding that in the short-term emerging markets were extremely overbought and likely to correct a bit. That corrective action is occurring with some of the overbought condition being reduced. With the 50-dma rapidly approaching a cross above the 200-dma, we will look to add to our position on a successful retest of support.&#2013266080;

Major International & Total International shares are extremely overbought but not performing nearly as well as Emerging Markets. Keep stops tight on existing positions, but no rush here to add new exposure. Emerging Markets are much more interesting.

Stops should remain tight at the running 50-dmas.&#2013266080;

Current Position: *Added 1/2 position in EEM*

Dividends, Market, and Equal Weight - These positions are our long-term "core" positions for the portfolio given that over the long-term markets do rise with respect to economic growth and inflation. Currently, the short-term bullish trend is positive and our core positions are providing the *"base"* around which we overweight/underweight our allocations based on our outlook.

Core holdings are currently at target portfolio weights.

Current Position:&#2013266080;*RSP, VYM, IVV*

Gold ? We have been discussing a pullback in Gold to add exposure to portfolios. Gold remains very-overbought short-term, however, the short-term pullback last week gives us an entry for a tactical position. Last week, we did add 1/2 position to IAU, and the further pullback in gold last week is approaching support at $121 which has pushed gold back to *"oversold"* conditions.&#2013266080;

Current Position: *GDX (Gold Miners), 1/2 position IAU (Gold)*

Bonds&#2013266080;?

Intermediate duration bonds remain on a buy signal after we increased exposure last month. We are holding our current bond allocation for the time being. However, the bond rout last week, which was greatly needed to reduce the overbought condition, has pushed bonds back to an extreme oversold condition. With strong support sitting at $118, we will look to take on a tactical trading position over the next couple of weeks.&#2013266080;

Current Positions: *DBLTX, SHY, TFLO, GSY*

High Yield Bonds, representative of the *"risk on"* chase for the markets have continued to push higher and are extremely overbought. Look for a "*risk off"* rotation sooner rather than later, which will correspond with an equity market sell-off, which could see high yield bonds contract rather sharply. The same holds for international bonds, which tends to lead domestic high yield, which has already turned lower last week.&#2013266080;

The table below&#2013266080;**shows thoughts on specific actions related to the current market environment.&#2013266080;**

(These are not recommendations or solicitations to take any action. This is for informational purposes only related to market extremes and contrarian positioning within portfolios. Use at your own risk and peril.)

REAL INVESTMENT ADVICE

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OB	Negative	Negative	Hold			X			Hold Position
XLK	Technology	OB	Negative	Negative	Hold			X			Hold Position
XLI	Industrials	OB	Negative	Negative	Hold			X			Hold Position
XLB	Materials	OB	Negative	Negative	Hold			X			Hold Position
XLE	Energy	OB	Negative	Negative	No Position					X	Add On Pullback
XLP	Staples	OB	Stabilizing	Neutral	Hold			X			Hold Position
XLV	Health Care	OB	Stabilizing	Neutral	No Position					X	Add On Pullback
XLU	Utilities	OB	Positive	Positive	Hold			X			Hold Position
XLF	Financials	OB	Negative	Negative	Hold			X			Hold Position
XLC	Telecom	OB	Negative	Negative	No Position					X	Not Enough History Yet
XLRE	Real Estate	OB	Positive	Positive	No Position					X	Take Profits
SLY	Small Caps	OB	Negative	Negative	No Position					X	Failed At 200-DMA
MDY	Mid Caps	OB	Negative	Negative	No Position					X	Above 200-DMA
EEM	Emerging Mkt	OB	Negative	Improving	Trade Oppty			X			Added 1/2 Position
EFA	International	OB	Negative	Negative	No Position					X	Above 50-DMA
IXUS	Total International	OB	Negative	Negative	No Position					X	Above 50-DMA
GLD	Gold	OB	Positive	Improving	Trade Oppty			X			Added 1/2 Position
RSP	SP500 Equal Wgt	OB	Negative	Negative	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	OB	Stabilizing	Negative	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	OB	Negative	Negative	Hold			X			Reduce to Target Weight
TLT	20+ Yr. Bond	Rising	Positive	Improving	Hold			X			Hold
HYG	Corporate High Yield	OB	Improving	Improving	No Position			X			Way Too Overbought Currently
BNDX	Int'l Bond Aggregrate	OB	Positive	Positive	No Position			X			Way Too Overbought Currently

LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING | X | No Position

Portfolio/Client Update:

As noted last week, the market was able to close the week above the 200-dma and is now in the process of testing the psychological resistance level of 2800.

Given the markets have had 10-straight weeks of advance, a week or two of corrective/consolidative action is likely. That corrective action **(which could just be sideways)** will provide additional opportunities to increase exposure to risk.&#2013266080;

- ***New clients:*** *We previously added core positions and our fixed income holdings to new portfolios. Since our "core" positions are our long-term holds for inflation adjustments to income production we can add without too much concern. Tactical positions for growth were added accordingly. As we talked about in the missive above, this includes IAU and EEM currently.&#2013266080;&#2013266080;*
- ***Equity Model:*** *We had previously swapped CVS for WBA as we like the "corner drug" store model. But on Friday, sellers turned their focus to WBA and we violated our stop-loss. On*

Monday, we will sell WBA. Overall, performance of positions are doing well, but many are very extended. However, since we are mostly carrying reduced weightings in portfolios, we will look to add to these positions on pullbacks that maintain support levels.&#2013266080;

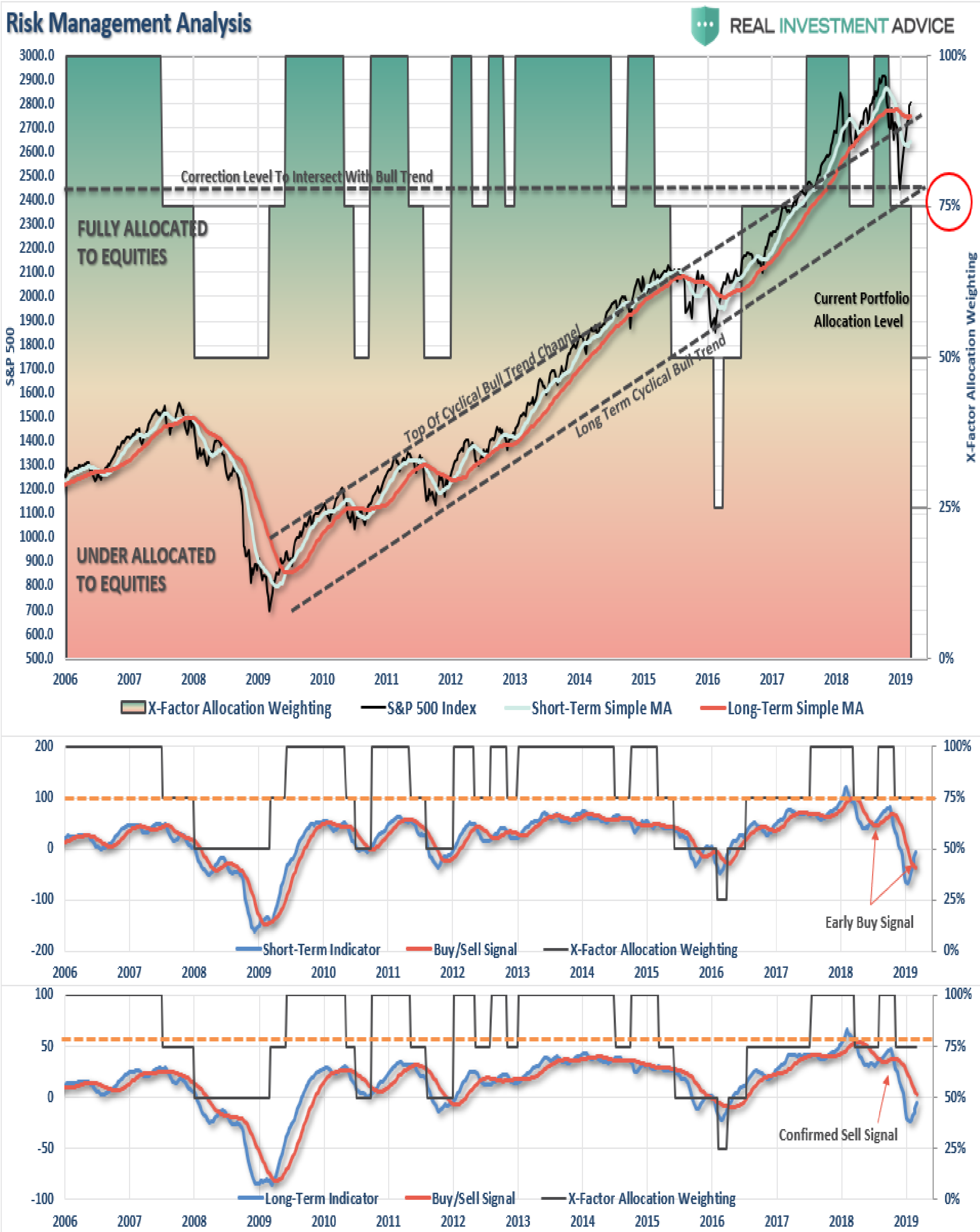
- ***ETF Model****: Added 1/2 position in IAU.*

Note for new clients:

It is important to understand that when we add to our equity allocations, ALL purchases are initially&#2013266080;*?trades?*&#2013266080;that can, and will, be closed out quickly if they fail to work as anticipated.&#2013266080;This is why we&#2013266080;*?step?*&#2013266080;into positions initially. Once a&#2013266080;*?trade?*&#2013266080;begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment.&#2013266080;**We will unwind these actions either by reducing, selling, or hedging, if the market environment changes for the worse.**

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. ***I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative***

to a positive trend. *Emotions keep us from taking the correct action.*

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Just Be Patient

As I noted last week:

> *"As shown in the 401k chart above, the short-term weekly 'buy' signal was triggered last week.* ***This is bullish but requires the lower signal to "confirm" the upper before we increase the portfolio model back to 100% target levels.***
>
> *Importantly, by the time weekly signals are triggered the market is ALWAYS very overbought or oversold.* ***Therefore, when signals are registered we don't immediately take action. Instead, like now with markets are extremely overbought on a short-term basis, we want to wait for some type of pullback to add exposure."***

As we have been discussing over the last several weeks, the sharp rally in stocks has gone too far, too quickly, so just be patient here and wait for a correction/consolidation to increase exposure.&#2013266080;

While it may seem like *"it will never come,"* that is always the case of a bull rally as it sucks investors into taking on risk at the wrong time. Patience always provides a better opportunity over the longer-term time frames.&#2013266080;

Therefore, there are no change to allocations this week. Continue to follow the model strategy for the time being.&#2013266080;

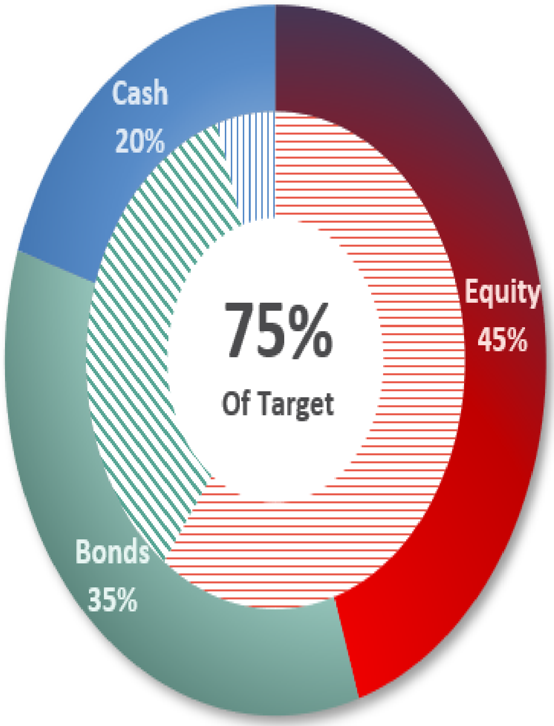
- *If you are* ***overweight&#2013266080;equities*** *- take some profits and reduce portfolio risk on the equity side of the allocation. This will provide an opportunity to use cash to add exposure post the pending correction/consolidation.*
- *If you are* ***underweight equities or at target -&#2013266080;****hold positions for now and wait for a better opportunity to increase allocations. Don't worry, you haven't missed anything.&#2013266080;*

If you need help after reading the alert; don?t hesitate to contact me.

Current 401-k Allocation Model

The 401k plan allocation plan below follows the K.I.S.S. principle. By keeping the allocation extremely simplified it allows for better control of the allocation and a closer tracking to the benchmark objective over time.&#2013266080;***(If you want to make it more complicated you can, however, statistics show that simply adding more funds does not increase performance to any great degree.)***

Current Portfolio Weighting



Current 401k Allocation Model

20.00% **Cash +** **All Future Contributions**

Primary concern is the protection of investment capital

Examples: *Stable Value, Money Market, Retirement Reserves*

35.00% **Fixed Income (Bonds)**

Bond Funds reflect the direction of interest rates

Examples: *Short Duration, Total Return and Real Return Funds*

45.00% **Equity (Stocks)**

The vast majority of funds track an index.
Therefore, select on ONE fund from each category.
Keep it Simple.

10% *Equity Income, Balanced or Conservative Allocation*
35% *Large Cap Growth (S&P 500 Index)*
0% *International Large Cap Dividend*
0% *Mid Cap Growth*

401k Choice Matching List

The list below shows sample 401k plan funds for each major category. In reality, the majority of funds all track their indices fairly closely. Therefore, if you don't see your exact fund listed, look for a fund that is similar in nature.

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