

Did An Irresistible Force Meet An Immovable Object?



- *Irresistible Forces & Immovable Objects*
- *Sector & Market Analysis*
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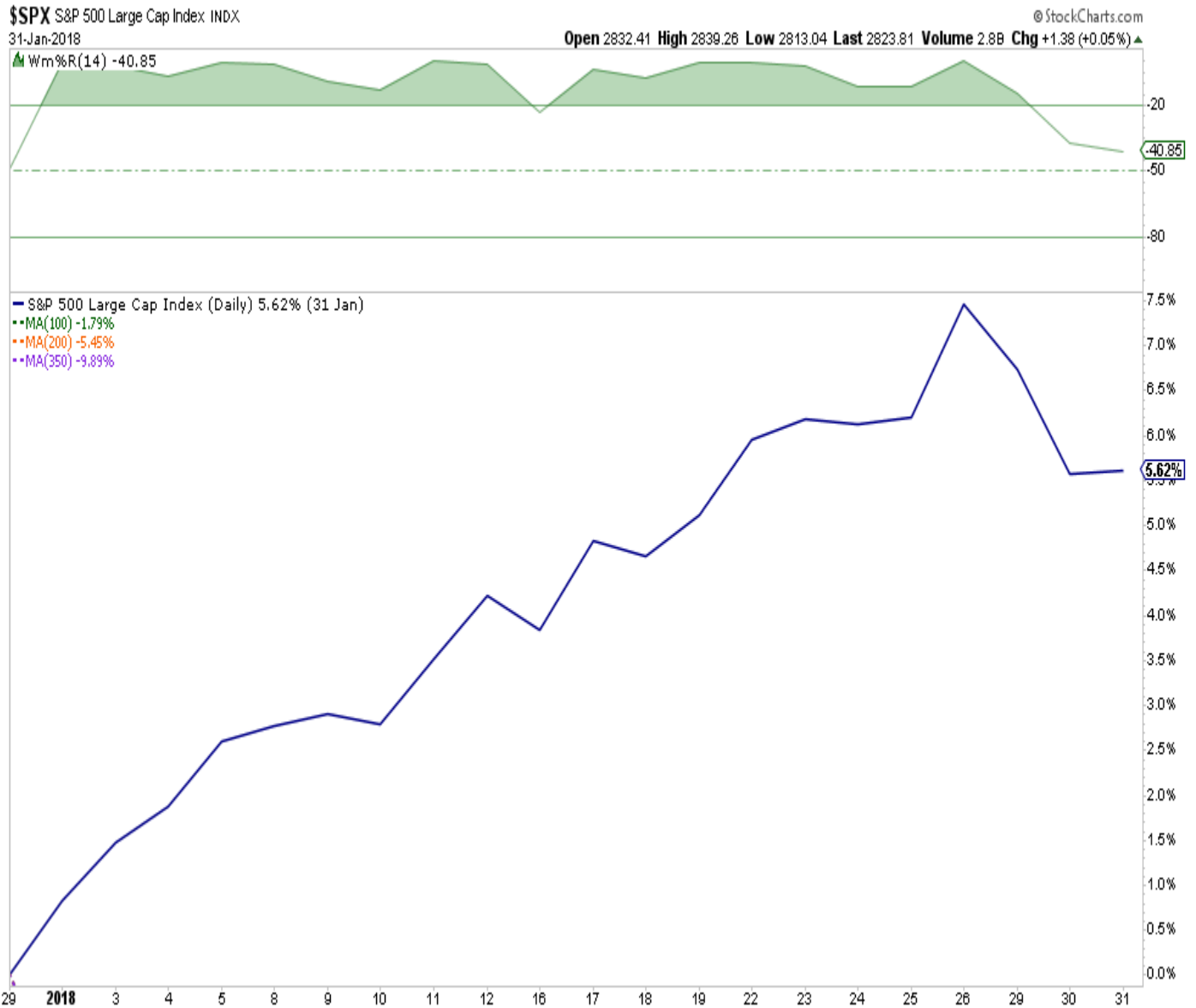
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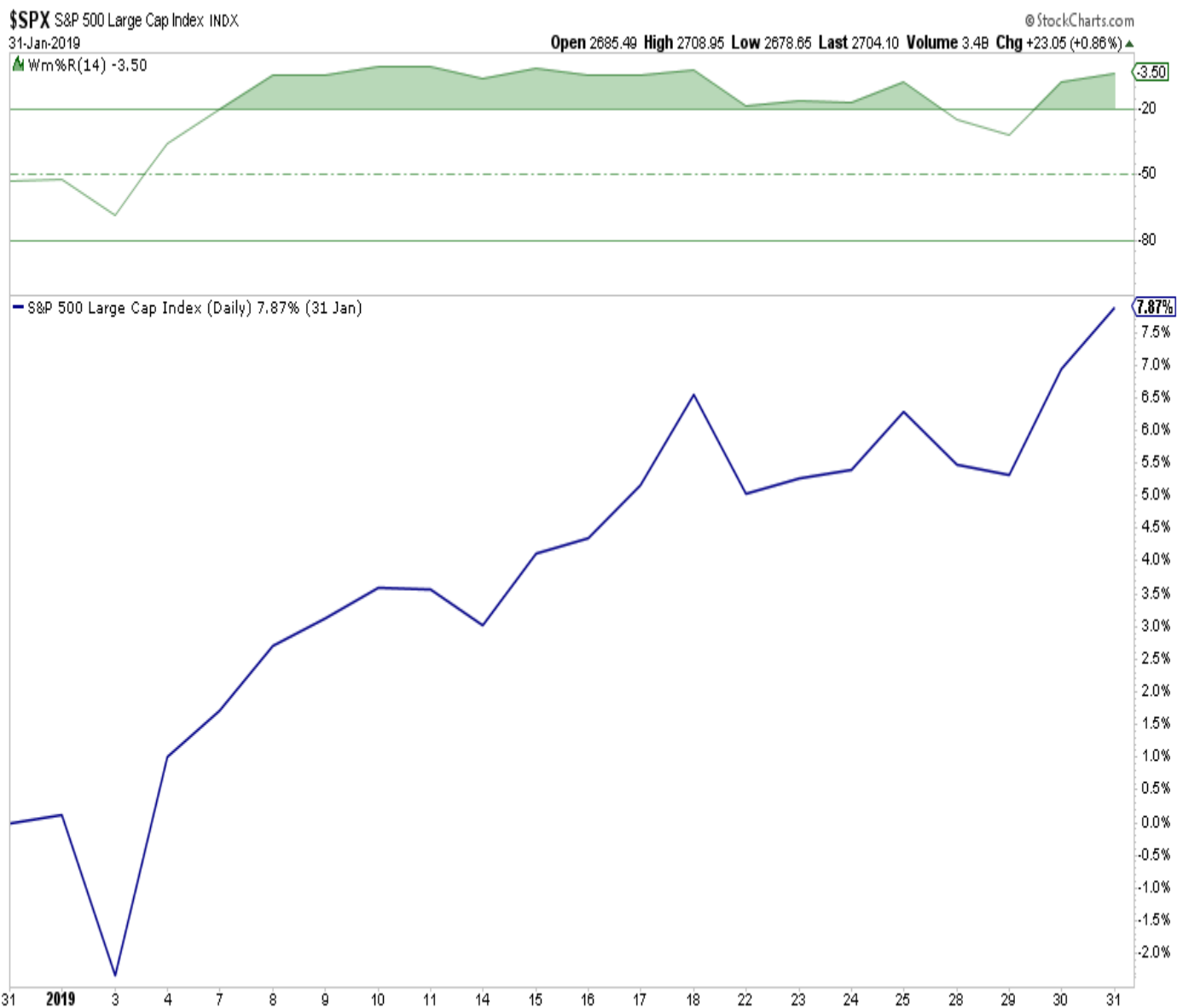
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Since the day after Christmas, the markets have been in a surge very similar to what we saw in January of 2018.

Here is January 2018



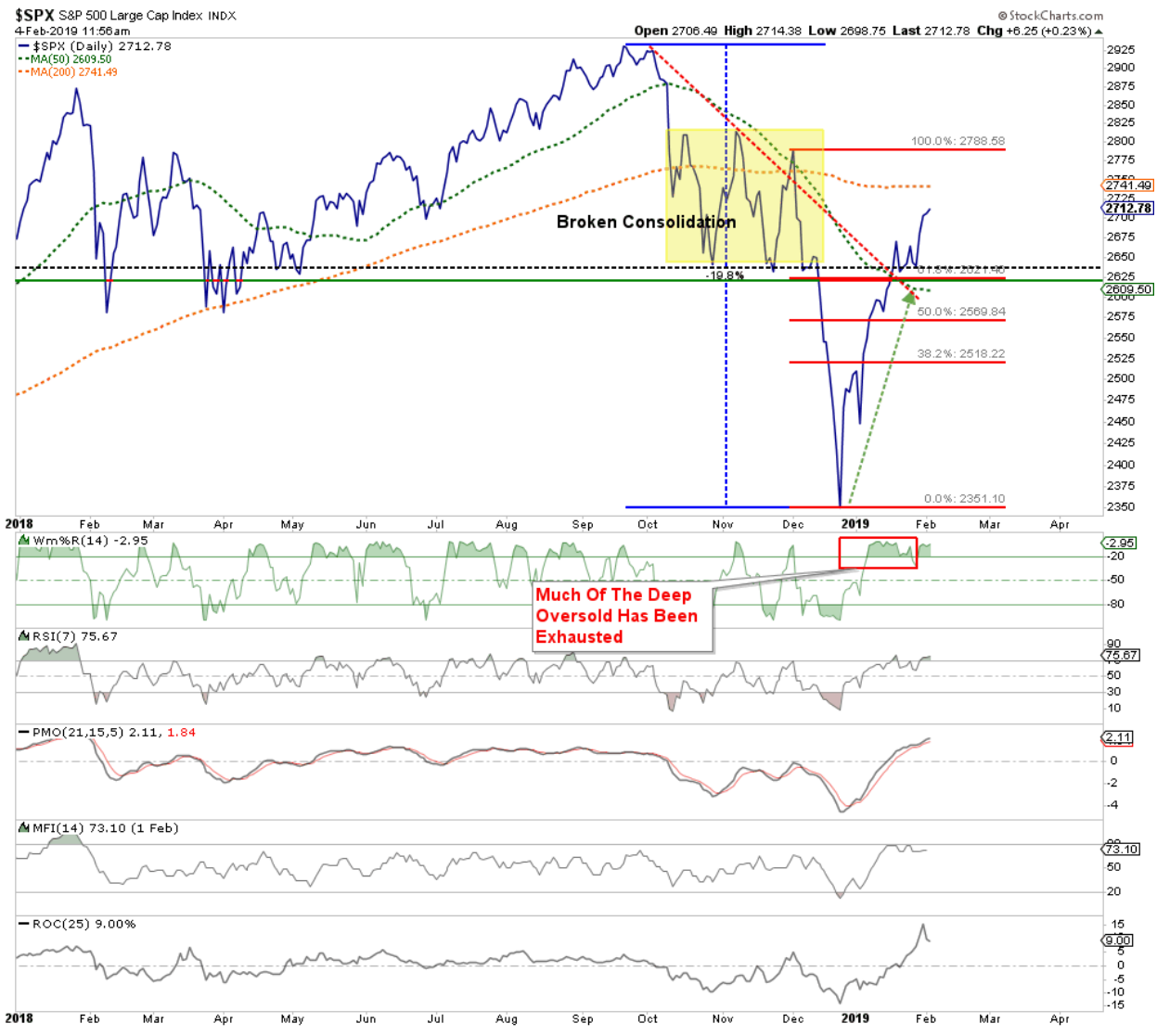
And 2019



Of course, in February 2018, the rally ended.

While I am not suggesting that the markets are about to suffer a 10% correction, I am suggesting, as I wrote this past week, is that the markets have been *"Too Fast & Too Furious."*

"Short-term technical indicators also show the violent reversion from extreme oversold conditions back to extreme overbought."



As we have discussed previously, price movements are very much confined by the "physics" of technicals. A couple of weeks ago, we drew out what we expected to be the movement over the market over the next couple of weeks.

Don't forget to grab a cup of coffee and start your trading/investing day with me as I kick off my new radio show.
Streaming Live On The Web

We said then the most likely target for the rally was the 200-dma. It was essentially the level at which the "irresistible force would meet the immovable object."

The chart below is updated through Friday afternoon:



As noted, we lifted profits at the 200-dma and added hedges to the Equity and Equity Long/Short portfolios. (If you are reading this as a non-RIA PRO subscriber you can see our 3-live portfolios at the site use [code PRO30](#) for a 30-day free trial.)

What will be critically important now is for the markets to retest and hold support at the Oct-Nov lows which will coincide with the 50-dma. A failure of that level will likely see a retest of the 2018 lows.

A retest of those lows, by the way, is not an "outside chance." It is actually a fairly high possibility. A look back at the 2015-2016 correction makes the case for that fairly clearly.



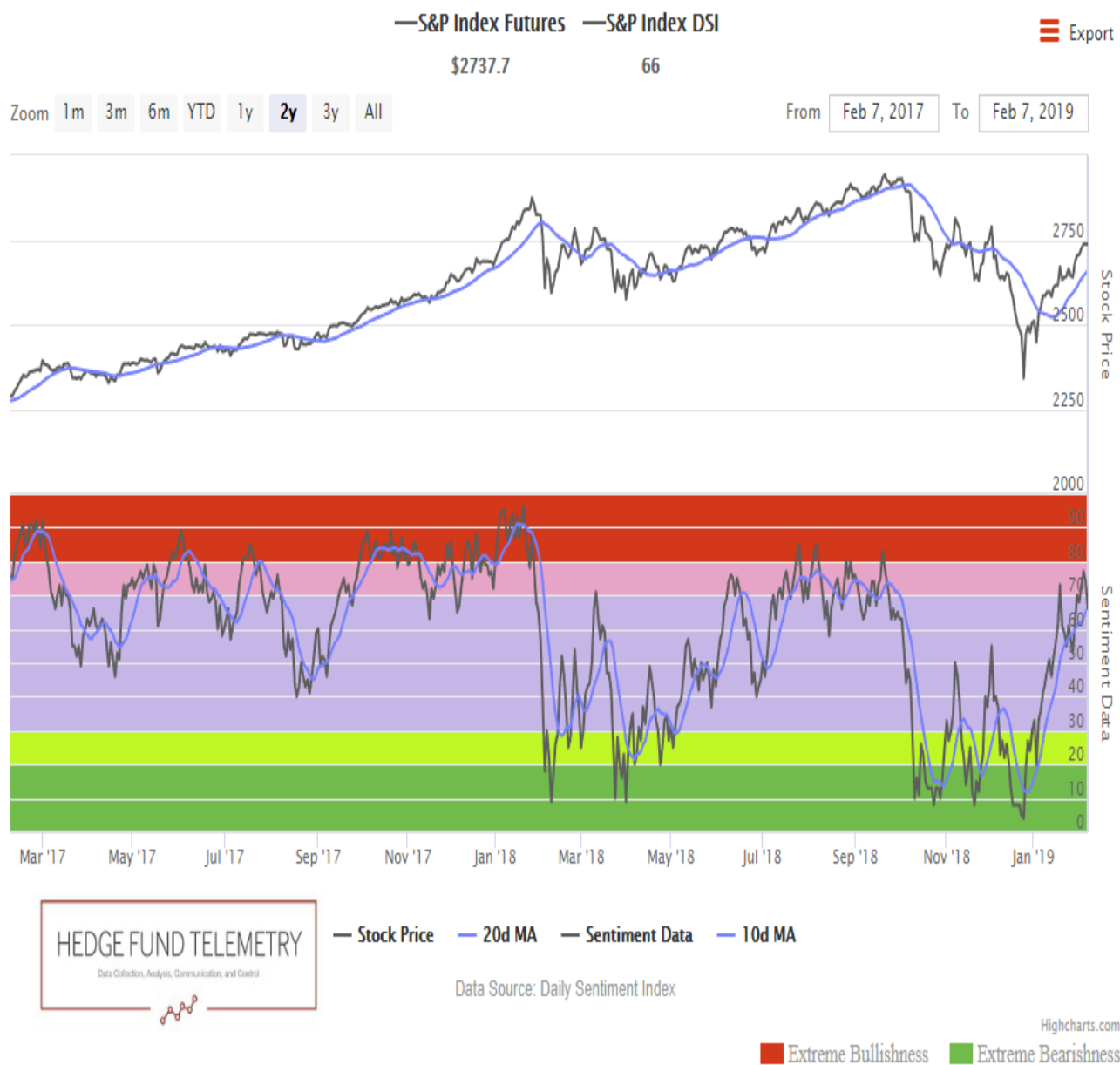
But even if a retest of lows doesn't happen, you should be aware that sharp market rallies are not uncommon, but almost always have a subsequent retracement.

The point here is that the move off of the December lows is likely now complete, for now.

Thomas Thornton from Hedge Fund Telemetry had a great note out this past week on this point.

"The strong move off the lows in December is complete. As you have seen I've moved from a very high exposure level of 90% net long from mid December to now net short. Various internals are overbought, sentiment is back in the elevated zone, and price targets have been achieved. There have been 45 new DeMark sell signals and only 2 buy signals so far in February. Recall in December there were 225 buy signals and 25 sell signals which had an average gain together of 11.5%

since. In January there were 72 total signals with the majority 53 sells/19 buys with only a gain of 0.5% since. **It's telling me a shift is coming and that's lower. How low? As of now, I'm not saying new lows but higher lows but that could change if some Trend Factor levels break and we see downside Countdowns start."**



Sentimentrader also recently noted market performance when the VIX hits a 3 month low with the S&P under the 200 day. Performance is very negative going forward.

S&P 500 when < 200-day avg and VIX hits 3-month low below 20 (1990-2019)

Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain;
Z-Score of +/- 2 suggests significance; ● = Signal dates



Signals	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
1990-05-04	4.0	4.8	8.3	5.1	1.9	-9.3	12.5
1994-06-03	-0.3	-0.4	-3.0	0.3	2.8	-2.4	15.7
1994-06-13	-0.8	-2.6	-2.3	0.0	1.5	-2.6	15.6
1994-06-15	-1.6	-2.8	-1.4	0.1	1.8	-2.3	16.5
1994-06-16	-2.7	-3.8	-1.5	0.7	2.8	-1.5	16.3
1994-07-22	1.1	0.9	2.0	1.8	3.0	2.6	22.2
1994-07-29	-0.3	0.8	3.6	1.4	1.7	2.6	22.8
2001-06-05	-2.2	-5.5	-5.0	-5.4	-11.7	-9.8	-21.0
2001-06-21	-0.9	-3.8	-3.7	-6.4	-18.6	-7.1	-19.9
2001-06-29	-2.1	-1.8	-1.1	-6.2	-12.6	-4.2	-20.2
2001-07-02	-4.5	-1.8	-1.7	-8.7	-13.4	-5.8	-23.0
2002-03-01	2.9	3.0	0.4	-4.0	-5.7	-18.9	-26.2
2008-04-25	1.1	-0.7	-0.9	-5.4	-10.0	-35.0	-38.7
2008-05-01	-0.8	1.0	-1.7	-8.8	-10.1	-34.0	-37.7
2008-05-02	-1.8	0.8	-2.6	-10.8	-10.9	-32.5	-35.8
2008-05-12	1.6	-1.3	-4.9	-11.7	-7.0	-33.7	-35.3
2008-05-14	-1.3	-0.7	-3.5	-13.8	-8.7	-36.2	-36.6
2008-05-15	-2.1	-1.6	-4.5	-12.5	-9.2	-40.1	-38.0
2019-02-01							
2019-02-04							
2019-02-05							
Median	-0.9	-1.0	-1.7	-5.4	-7.9	-8.2	-20.6
% Positive	28%	33%	22%	33%	39%	11%	39%
Risk	-1.2	-2.1	-3.8	-6.1	-12.6	-21.9	-23.0
Reward	0.7	0.8	1.0	1.0	1.9	1.9	1.9
Z-Score	-2.1	-2.3	-3.1	-5.1	-6.0	-3.4	-5.1

Signs Of Caution

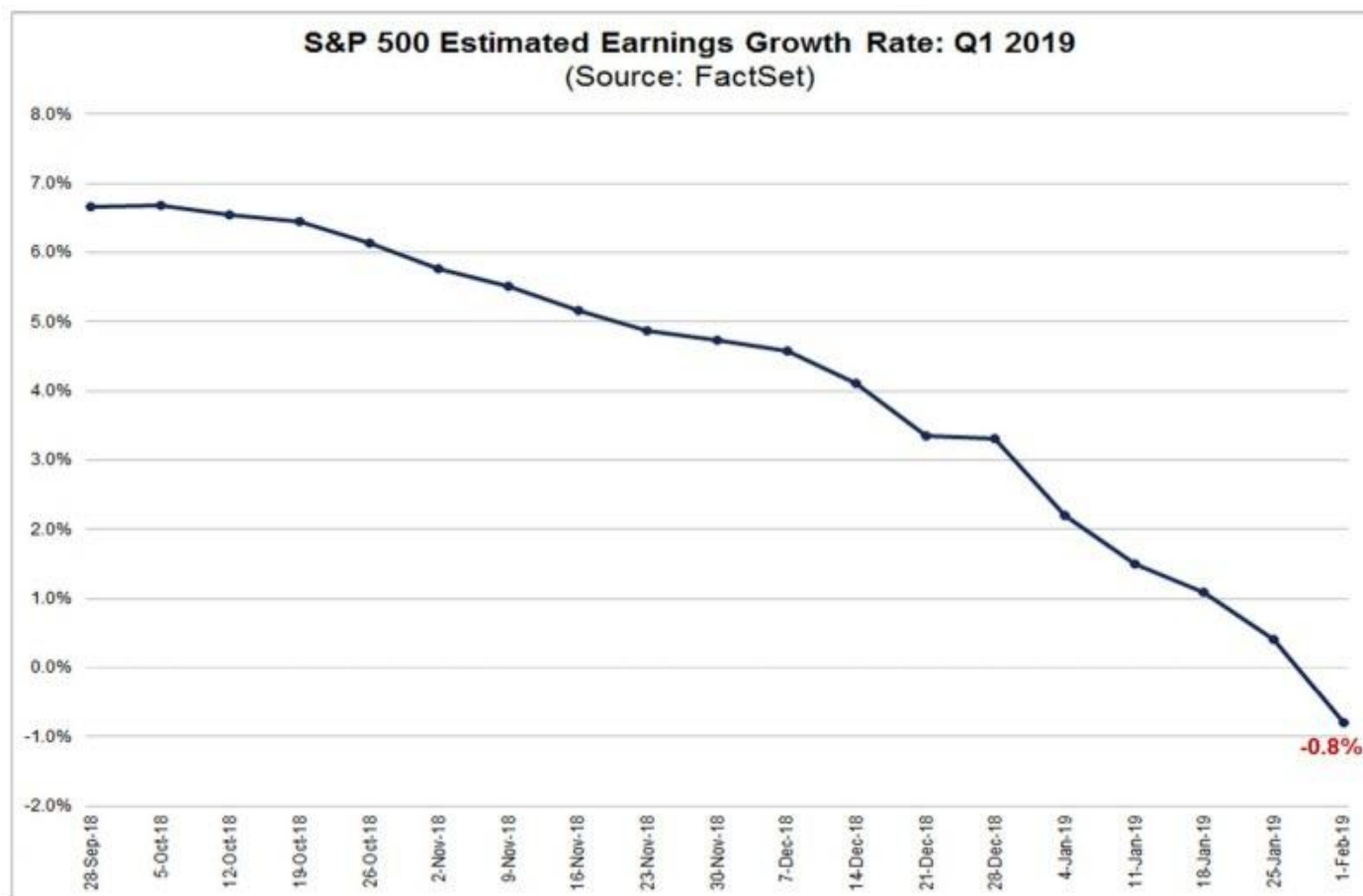
As we noted last [Tuesday](#), there are a litany of things that are worth paying attention to. To wit:

"It is too early to suggest the ?bear market of 2018? is officially over.

But, the rally has simply been ?Too Fast, Too Furious,? completely discounting the deteriorating fundamental underpinnings:"

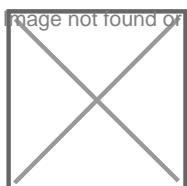
- [Earnings estimates](#) for 2019 have sharply collapsed as I previously stated they would and still have more to go. In fact, as of now, the consensus estimates are suggesting the first year-

over-year decline since 2016.



- Stock market targets for 2019 are way too high as well.
- Despite the Federal Reserve turning more dovish verbally, they DID NOT say they actually WOULD pause their rate hikes or stop reducing their balance sheet.
- Larry Kudlow said the U.S. and China are still VERY far apart on trade.
- Trump has postponed his meeting with President Xi which puts the market at risk of higher tariffs.
- There is a decent probability the U.S. Government winds up getting shut down again after next week over "border wall" funding.
- The effect of the [tax cut legislation has disappeared](#) as year-over-year comparisons are reverting back to normalized growth rates.
- [Economic growth](#) is slowing as previously stated.
- Chinese economic has weakened further since our previous note.
- European growth, already weak, will likely struggle as well.
- Valuations remain expensive

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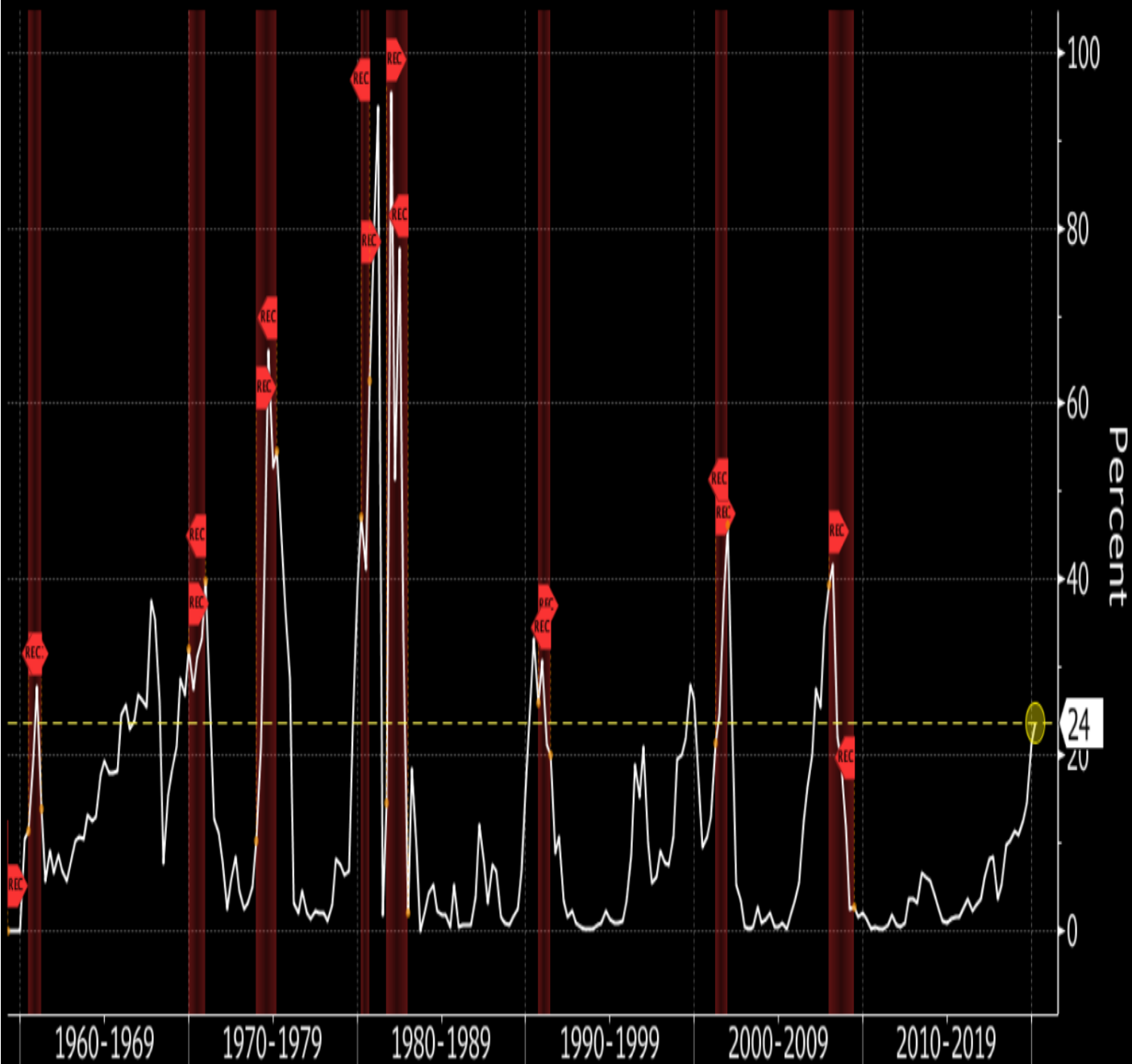


Despite recent comments that "recession risk" is non-existent, there are various indications which suggest that risk is much higher than currently appreciated. The New York Federal Reserve recession indicator is now at the highest level since 2008.

So You're Saying There's a Chance

New York Fed recession-probability indicator is at highest level since 2008

■ Probability of U.S. recession in next 12 months (NSA)



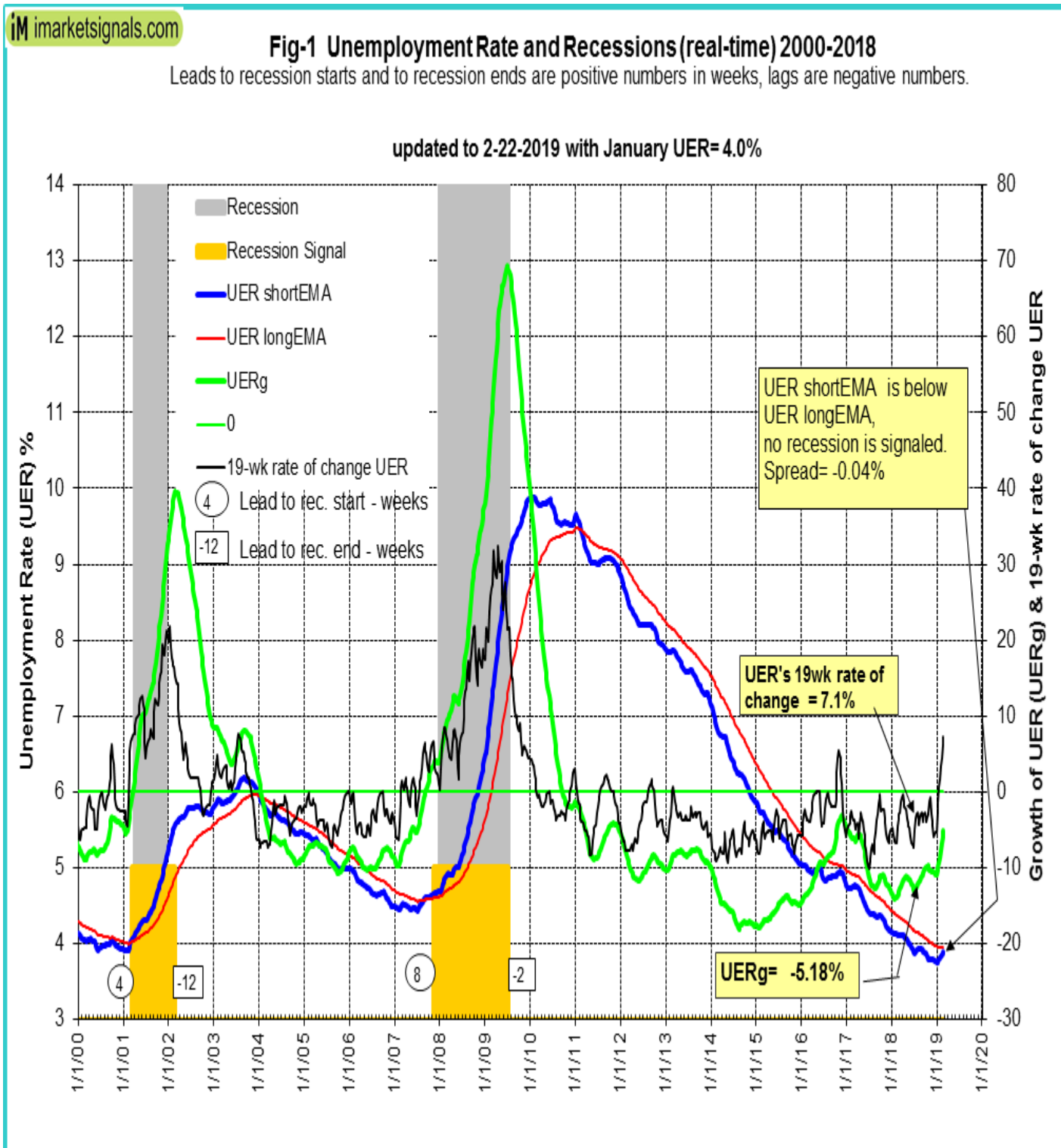
Source: Bloomberg, Federal Reserve Bank of New York

Bloomberg

Also, as noted by [George Vrba](#) recently, the unemployment rate may also be warning of a recession as well.

"For what is considered to be a lagging indicator of the economy, the unemployment rate provides surprisingly good signals for the beginning and end of recessions. This model, backtested to 1948, reliably provided recession signals."

The model, updated with the January 2019 rate of 4.0%, does not signal a recession. However, if the unemployment rate should rise to 4.1% in the coming months the model would then signal recession."



The point here is that ignoring the "risks" leaves you "exposed." If you think its going to rain, you carry an umbrella.

This is why we recently raised cashed and added hedges to portfolios - just in case it rains. **And, right now, it seems to be sprinkling a bit.** As John Murphy via StockCharts.com noted on Friday:

"It looks like the 200-day averages that we've all been watching have managed to contain the 2019 rally. Chart 1 shows the **S&P 500** pulling back from that red overhead resistance line. That's not too surprising considering the steepness of the recent rally which put stock indexes in a short-term overbought condition. The upper box in Chart 1 shows the more sensitive **9-day RSI line** falling to the lowest level in a month after reaching overbought territory above 70. That also shows loss of upside momentum. The lower box shows **daily MACD lines** in danger of turning negative for the first time in a month. All of which suggests that the early 2019 stock rally has failed its first attempt to regain its 200-day moving average."



However, one of the biggest "warning flags" we are watching currently, and why we have taken a more cautious stance in portfolios, is because "bonds ain't buyin' it."

As shown in the chart below, the market has not only broken out of its rising wedge, but yields have been dropping sharply as "risk on" is rotating to "risk off."



While the bulls clearly took charge of the market in late December, the question is whether or not they can maintain control.

The weight of macro-evidence is going to weigh on the markets sooner than later which is why we are opting to hedge risk and hold on to higher levels of cash currently.

The [rally we discussed on December 25th](#), has hit all of our targets, and then some.

Don't be greedy.

See you next week.

Market & Sector Analysis

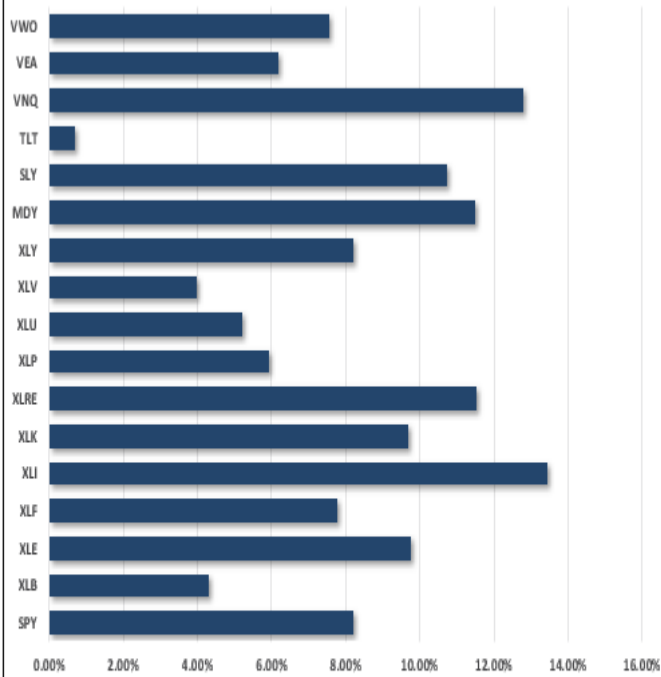
Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

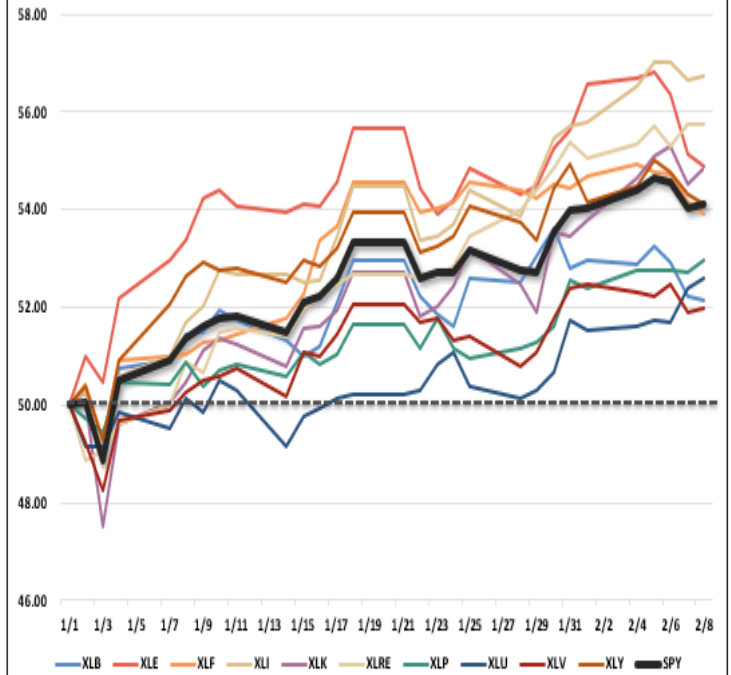
3 Month SPY Price										SPY RISK INFO				ZACKS		REAL INVESTMENT ADVICE	
										Item	T 2-Yr	T 1-Yr.	YTD	% Diff			
														YTD/T1-YR			
										Price Return	17.99%	4.98%	8.22%	64.98%			
										Max Drawdown	-20.47%	-20.47%	-3.00%	-85.34%			
										Sharpe	0.77	0.14	6.45	44.24			
										Sortino	0.87	0.19	8.46	44.05			
										Volatility	13.45	16.91	16.67	(0.01)			
Daily VaR-5%	(10.38)	(23.45)	82.43	(4.51)													
Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00													
S&P 500 Fundamental Analysis										S&P 500 Market Cap Analysis							
Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low	Item	12-M Ago	Current	% Chg					
Dividend Yield	1.93%	1.67%	1.95%	14.36%	2.17%	1.67%	(10.32%)	16.77%	Shares	2,450.2	2,420.8	(1.20%)					
P/E Ratio	20.24	20.82	16.85	(23.53%)	21.57	16.67	(21.9%)	1.09%	Sales	57,634	62,137	7.81%					
P/S Ratio	3.00	3.52	3.18	(10.91%)	3.52	2.35	(9.84%)	35.24%	SPS	23.5	25.7	9.12%					
P/B Ratio	3.46	4.00	3.86	(3.64%)	4.15	2.82	(6.98%)	36.98%	Earnings	7,813	9,221	18.01%					
ROE	15.22%	15.97%	18.12%	11.86%	18.12%	15.01%	0.00%	20.70%	EPS TTM	3.7	4.6	23.53%					
ROA	2.83%	3.01%	3.43%	12.29%	3.43%	2.82%	0.00%	21.49%	Dividend	1.4	1.6	10.96%					
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	(5.83%)	5.48%	1.20	17.99	154.63	12.50	(88.4%)	9.0%	3.4%	5.55%	3.21	17.63					
Materials	(3.80%)	2.65%	1.32	15.28	21.86	13.82	(30.1%)	11.5%	2.2%	6.57%	4.66	14.65					
Industrials	(0.72%)	9.61%	1.12	16.79	22.21	14.02	(24.4%)	15.5%	2.0%	6.34%	5.23	14.94					
Discretionary	8.11%	9.96%	0.99	22.14	27.47	19.96	(19.4%)	27.9%	1.3%	4.32%	4.73	20.38					
Staples	(0.99%)	7.13%	0.60	18.24	22.83	17.95	(20.1%)	25.9%	3.0%	5.31%	3.90	17.76					
Health Care	10.95%	14.98%	0.95	16.81	20.62	15.93	(18.5%)	28.4%	1.7%	5.81%	6.31	15.82					
Financials	(5.12%)	13.37%	1.22	12.53	18.41	11.69	(31.9%)	11.8%	2.2%	7.68%	5.68	11.46					
Technology	14.86%	20.37%	1.19	17.99	21.83	14.47	(17.6%)	37.2%	1.6%	5.45%	5.10	17.40					
Telecom	5.66%	10.21%	0.88	18.92	26.97	19.96	(29.8%)	18.3%	1.0%	5.00%	4.96	21.49					
Utilities	19.70%	3.15%	0.33	18.22	20.25	15.54	(10.0%)	11.2%	3.4%	5.54%	3.55	17.34					
Real Estate	18.20%	3.00%	0.81	19.37	24.47	17.87	(20.9%)	9.4%	3.3%	5.16%	4.26	18.38					
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	270.47	(1.88%)	259.80	17	4.11%	274.01	50	(1.29%)	(5.19%)	(7.98%)	15.70%	Sell					
Mid Cap	337.41	(1.56%)	319.28	18	5.68%	347.08	224	(2.79%)	(8.01%)	(9.81%)	18.62%	Sell					
Small Cap	66.41	(3.18%)	63.32	18	4.89%	70.44	275	(5.72%)	(10.11%)	(15.13%)	17.96%	Sell					

Performance Analysis

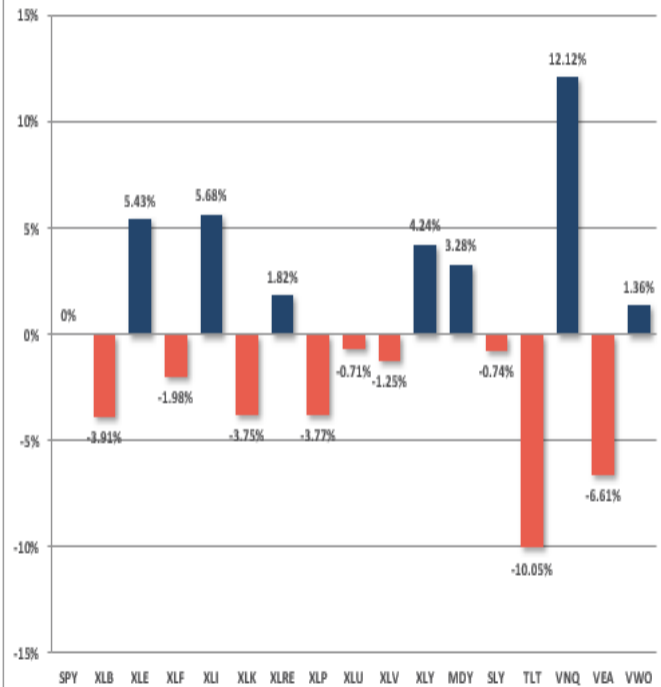
Year To Date Performance



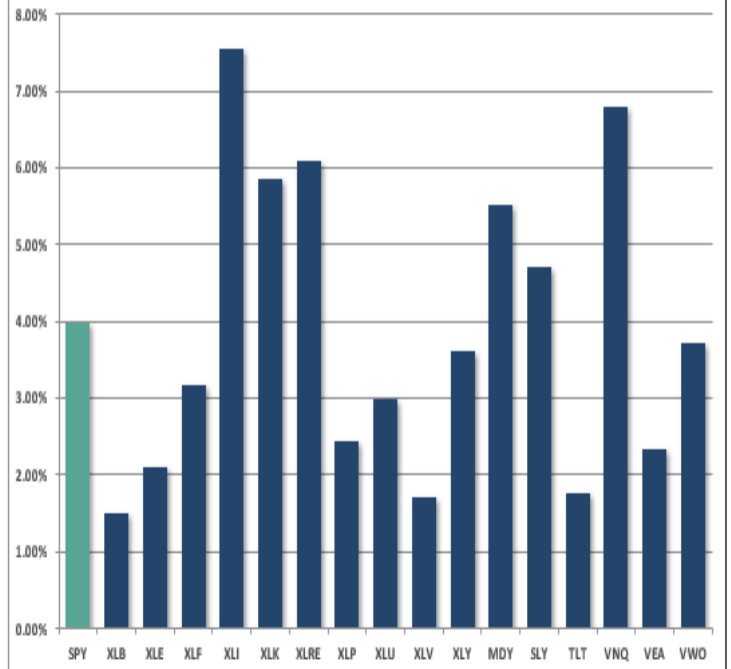
YTD Price - S&P Sectors Recalibrated To \$50/share



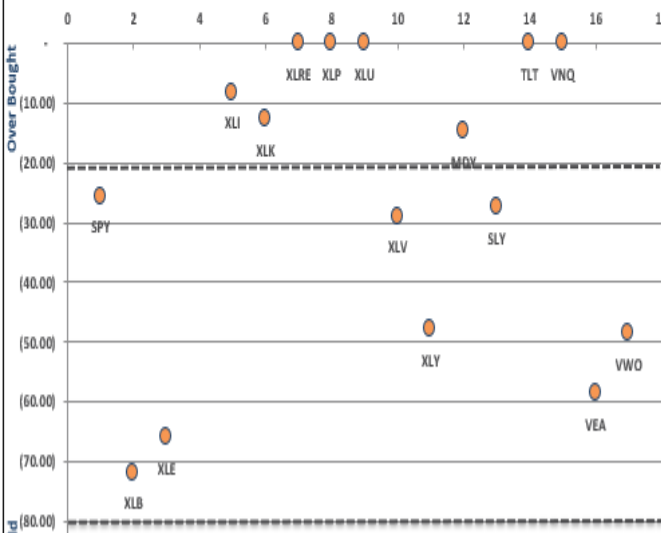
Year To Date Performance Relative To S&P 500



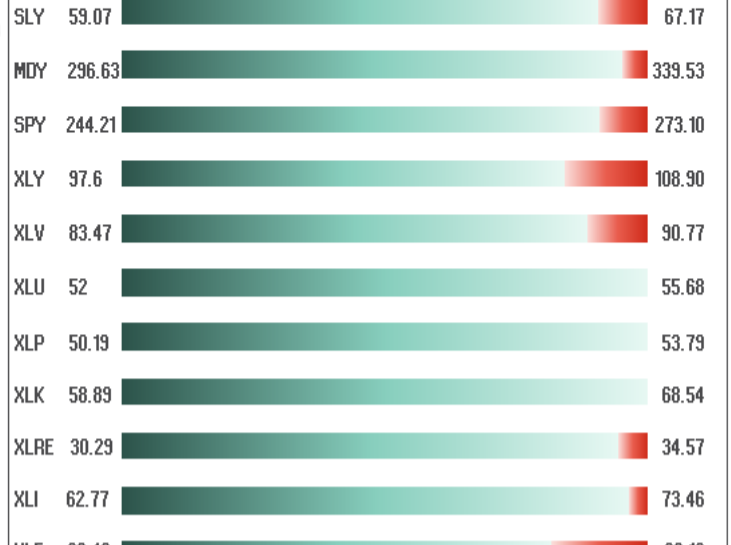
Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		TICKER	ETF NAME	Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
BENCHMARK		IVV	ISHARS-SP500	272.13	0.16	4.52	(1.31)	(6.01)	3.21	263.82	276.06	3.15%	-1.42%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	52.70	(1.67)	(3.69)	(3.29)	(4.87)	(13.00)	52.38	55.60	0.61%	-5.21%	SELL
		XLE	SPDR-EGY SELS	62.94	(3.16)	(3.02)	(5.00)	(9.56)	(8.80)	62.53	69.58	0.65%	-9.54%	SELL
		XLF	SPDR-FINL SELS	25.67	(1.62)	0.26	(2.87)	(3.09)	(10.47)	25.24	26.65	1.71%	-3.68%	SELL
		XLI	SPDR-INDU SELS	73.07	1.50	3.14	2.81	1.25	(4.21)	68.55	72.59	6.59%	0.66%	SELL
		XLK	SPDR-TECH SELS	67.99	1.82	2.49	0.99	(2.46)	3.81	64.67	69.37	5.14%	-1.99%	SELL
		XLP	SPDR-CONS STPL	53.79	0.91	(0.33)	(2.74)	5.51	(3.06)	53.17	53.46	1.18%	0.63%	SELL
		XLU	SPDR-UTIL SELS	55.68	1.91	0.09	2.77	9.64	11.45	54.18	53.53	2.77%	4.02%	BUY
		XLC	SPDR-COMM SV SS	45.73	(0.68)	(0.70)	3.20			43.70	46.72	4.65%	-2.11%	SELL
		XLV	SPDR-HLTH CR	89.94	(1.05)	(2.09)	(0.97)	3.88	6.34	89.00	89.65	1.06%	0.32%	SELL
		XLY	SPDR-CONS DISCR	107.13	(0.21)	(2.08)	2.02	(0.75)	3.04	103.77	108.92	3.24%	-1.65%	SELL
	SIZE	SLY	SALOMON LEASING	66.41	0.08	(0.75)	(1.54)	(8.50)	0.50	64.28	70.17	3.32%	-5.36%	SELL
MDY		SPDR-SP MC 400	337.41	0.61	0.67	0.61	(2.94)	(1.28)	323.25	345.40	4.38%	-2.31%	SELL	
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	100.93	0.15	0.66	1.14	0.65	(0.34)	96.88	101.41	4.18%	-0.47%	SELL
	Dividend	SDY	SPDR-SP DIV ETF	95.98	0.63	(0.24)	0.12	3.63	2.99	93.34	94.95	2.83%	1.09%	SELL
	Real Estate	XLRE	SPDR-RE SELS	34.57	1.16	3.62	4.63	8.92	11.68	32.72	32.73	5.65%	5.62%	SELL
	International	EEM	ISHARS-EMG MKT	42.16	(1.56)	(1.01)	4.39	3.22	(12.39)	40.51	41.65	4.08%	1.23%	SELL
		EFA	EMG MKT FREE AS	62.02	(1.18)	(2.89)	(0.18)	(1.87)	(12.79)	61.13	64.45	1.46%	-3.78%	SELL
	IXUS	ISHARS-CR INT S	55.91	(1.20)	(2.38)	1.06	(1.07)	(12.46)	54.66	57.49	2.28%	-2.74%	SELL	
FI	Intermediate Duration	TLT	ISHARS-20+YTB	122.35	0.99	(3.34)	7.98	6.06	0.53	119.04	118.65	2.78%	3.12%	BUY
	International	BNDX	VANGD-TTL INT B	54.89	0.13	(3.26)	1.97	6.28	(1.54)	54.61	54.61	0.52%	0.51%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	84.79	(0.03)	(3.44)	3.13	4.17	(3.40)	83.17	84.68	1.95%	0.14%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.90										



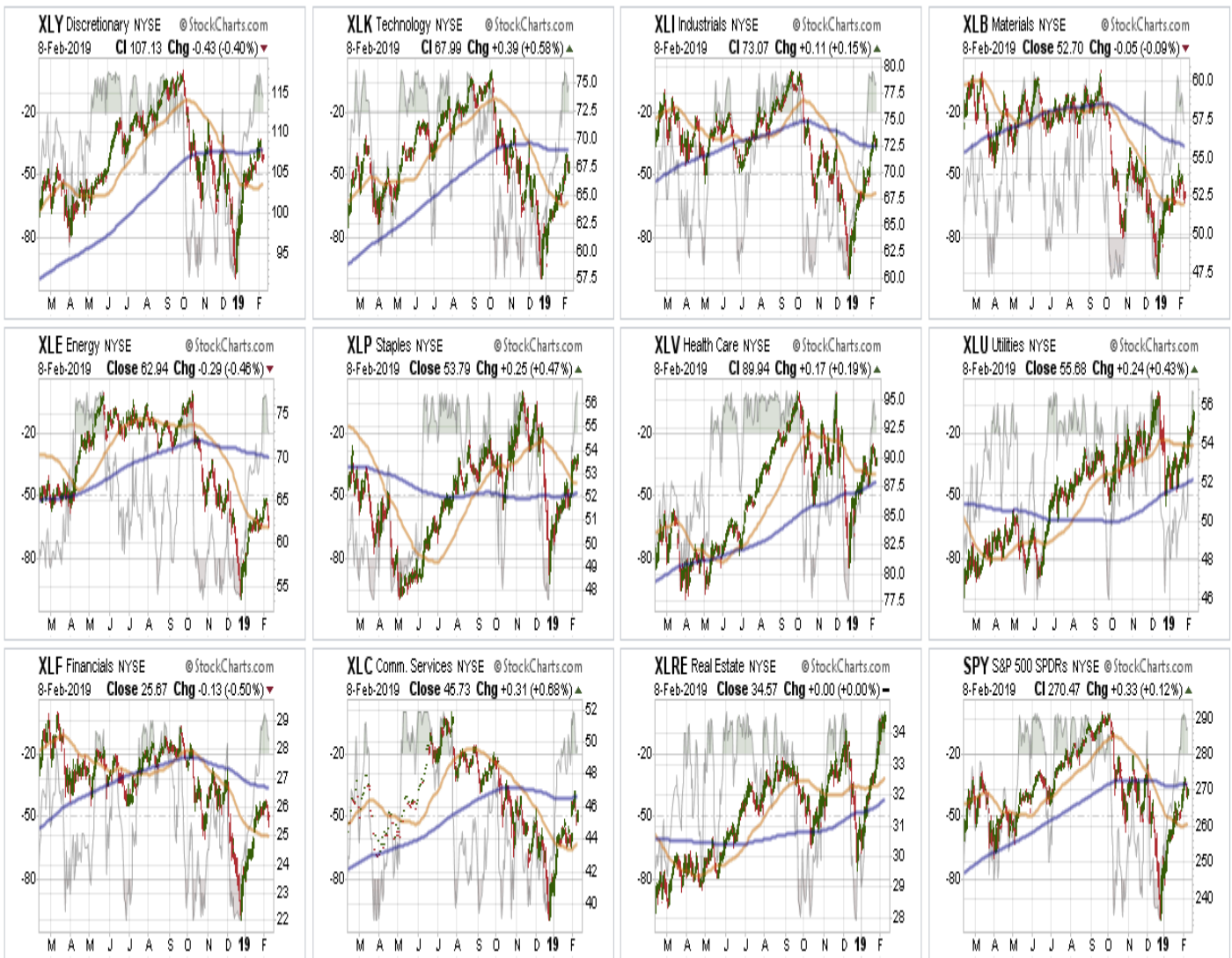
REAL INVESTMENT ADVICE

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

This past week:



Discretionary, Technology, Materials, Energy, Financials, and Communications - Two weeks ago, I noted that all of these sectors climbed above their respective 50-dma's which are all negatively crossed below their 200-dma. While these sectors have had very respectable rallies, they are now all very overbought short-term. If you are long, take profits and rebalance portfolio risks accordingly. All positions should maintain a tight stop at the running 50-dma.

Current Positions: *XLP, XLB, XLK, XLF - Stops moved up to 50-dmas.*

Industrials and Staples - Industrials has rallied hard in recent weeks with earnings season and climbed above its 50 and 200-dma. Likewise, Staples also has regained its 50-dma which remains above its 200-dma. Both sectors are extremely overbought with this rally, therefore rebalance holdings accordingly.

Current Positions: *XLP, XLI - Stops moved up to 200-dmas.*

Health Care and Real Estate are both above their respective 50- and 200-dma's. Real estate exploded higher last week, which is interesting considering the "offensive" move in the markets, but so have bond prices. (*Non-confirmation of bullish move in stocks*). Health Care, has held its ground above the 50- and 200-dma as well. Both sectors are extremely overbought so stops should be raised to just below their respective 200-dma's.

Utilities bounced off the 200-dma and has pushed above the 50-dma. Like Health Care, Real Estate and Staples, the defensive positioning suggest the rally in stocks may be short-lived.

Current Positions: XLU Stop is \$54



Small-Cap and Mid Cap - both of these markets are currently on macro-sell signals but did rally above their respective 50-dma's. 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," both markets are now back to extreme short-term overbought conditions. Look for a pullback to reduce some of the overbought condition before adding exposure with tight-stops at the 50-dma.

Current Position: None

Emerging, International & Total International Markets -

Note: We have added IXUS to our watch list which combines Emerging and International Markets.

Last week, Emerging Markets puled back to its 200-dma after breaking above that resistance. With the 50-dma turning up we have been looking for an opportunity to add exposure. In the short-term emerging markets are extremely overbought so we will want to see the 200-dma hold before taking on exposure.

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.

Current Position: *None, Looking to add 1/2 position in EEM*

Dividends, Market, and Equal Weight - Not surprisingly, given the rotation to "defensive" positioning in the market, dividend-based S&P Index continues to outperform other weighting structures. The overall market dynamic remains negative and markets are pushing into very tough levels of overhead resistance. Early last week we took profits and reduced back to our target portfolio weightings. Stops are moved up to the running 50-dma's.

Current Position: *RSP, VYM, IVV*

Gold ? We have been discussing a pullback in Gold to add exposure to portfolios. Gold remains very-overbought short-term, BUT given the short-term pullback and break above recent highs, the entry point for Gold has been pushed up to \$122.50 with stops lowered to \$120.

Current Position: *GDX (Gold Miners)*

Next Position: *GLD - Buy Target: \$122.50, Sell-Stop: \$120*

Bonds ?

Note: We have added HYG (High Yield) and BNDX (International Bonds) to our watch list.

Three weeks ago, we noted that the pullback in bonds to support occurred we added to our bond holdings.

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

With bond prices about to breakout of consolidation, it suggests a substantial move higher in price, or lower yields, is likely on the way.

High Yield Bonds, representative of the "risk on" chase for the markets have surged back to all-time highs after the rout last year. International Bonds, also another area of very "high risk" have surged off to the moon as well.

These two areas are the very definition of "risk appetite" by investors and given the extreme overbought conditions is suggestive the recent run in the markets may be closer to a corrective phase in February.

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

(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.)

		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	Looking To Add
XLP	Staples	OB	Stabilizing	Neutral	Hold			X			Hold Position
XLV	Health Care	OB	Stabilizing	Neutral	No Position					X	Above 50 & 200 DMA
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	Above 50-DMA
MDY	Mid Caps	OB	Negative	Negative	No Position					X	Above 50-DMA
EEM	Emerging Mkt	OB	Negative	Improving	Trade Oppty					X	Looking To Add With Pullback
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	Buy @120			X			Trading Opportunity
RSP	SP500 Equal Wgt	OB	Negative	Negative	Hold			X			Above 50-DMA
SDY	SP500 Dividend	OB	Stabilizing	Negative	Hold			X			Above 50-DMA
IVV	SP500 Market Wgt	OB	Negative	Negative	Hold			X			Above 50-DMA
TLT	20+ Yr. Bond	Rising	Positive	Improving	Hold			X			Added To Bond Holdings
HYG	Corporate High Yield	OB	Improving	Improving	No Position			X			Way Too Overbought Currently
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position			X			Way Too Overbought Currently

LEGEND: X = THIS WEEK ⇒ PREVIOUS DECLINING ⇐ PREVIOUS IMPROVING X No Position

Portfolio/Client Update:

Two weeks ago, we noted the rally has pushed into the our maximum resistance zone. Also, as expected the markets did make it to the 200-dma but ran into tough resistance at the first attempt to move higher.

We are likely going to have another couple of attempts next week as the bulls aren't ready to give up the chase just yet. We are continuing to watch the risk carefully and have been working on repositioning portfolios over the last couple of weeks.

- **New clients:** We are adding the core positions and our fixed income 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 will be added accordingly as needed.
- **Equity Model:** We added a short-hedge to our portfolios to hedge against market risk. With portfolios already defensively positioned, we are in good shape for any corrective process

that may start.

- **ETF Model:** *We reduce our "core" holdings back to target model weight.*

There are some changes afoot, as noted above, which could indeed reverse the current bearish trend of the market. However, we are a long way from that happening and the downside risk currently dwarfs the upside reward.

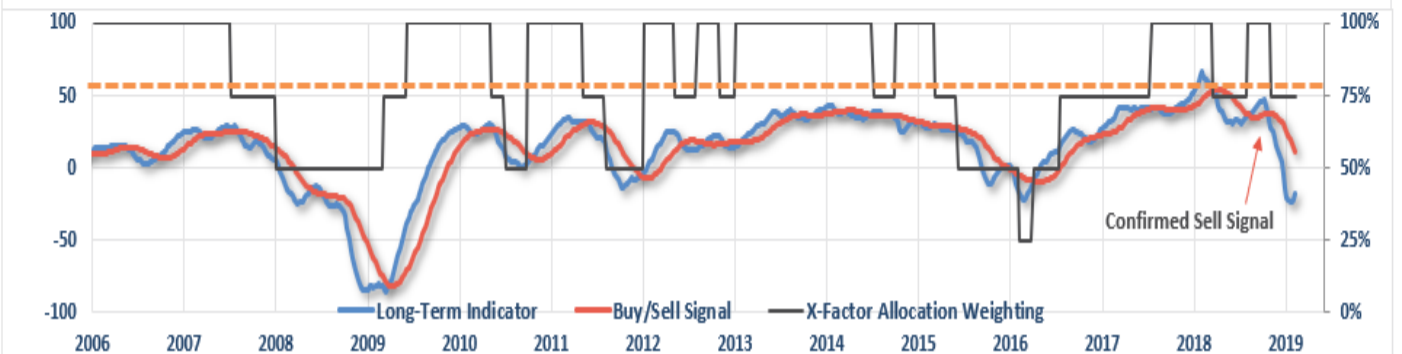
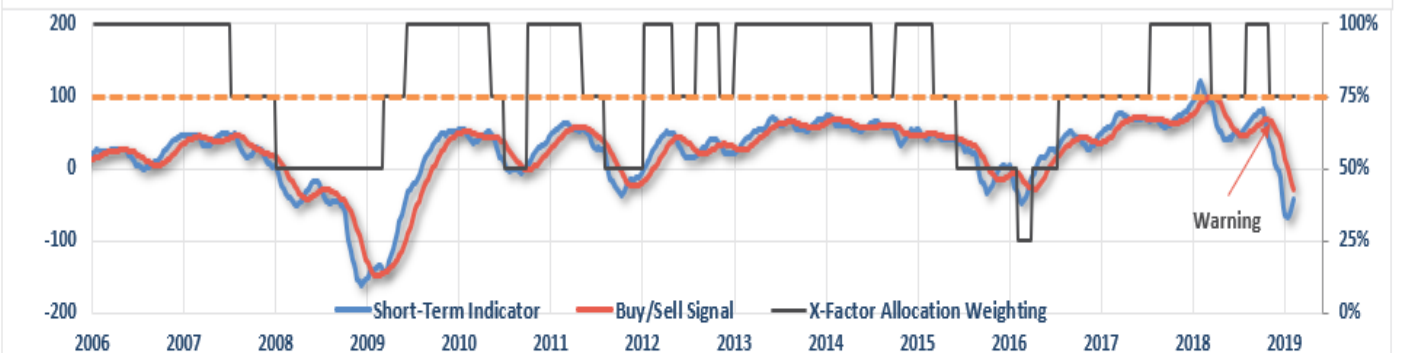
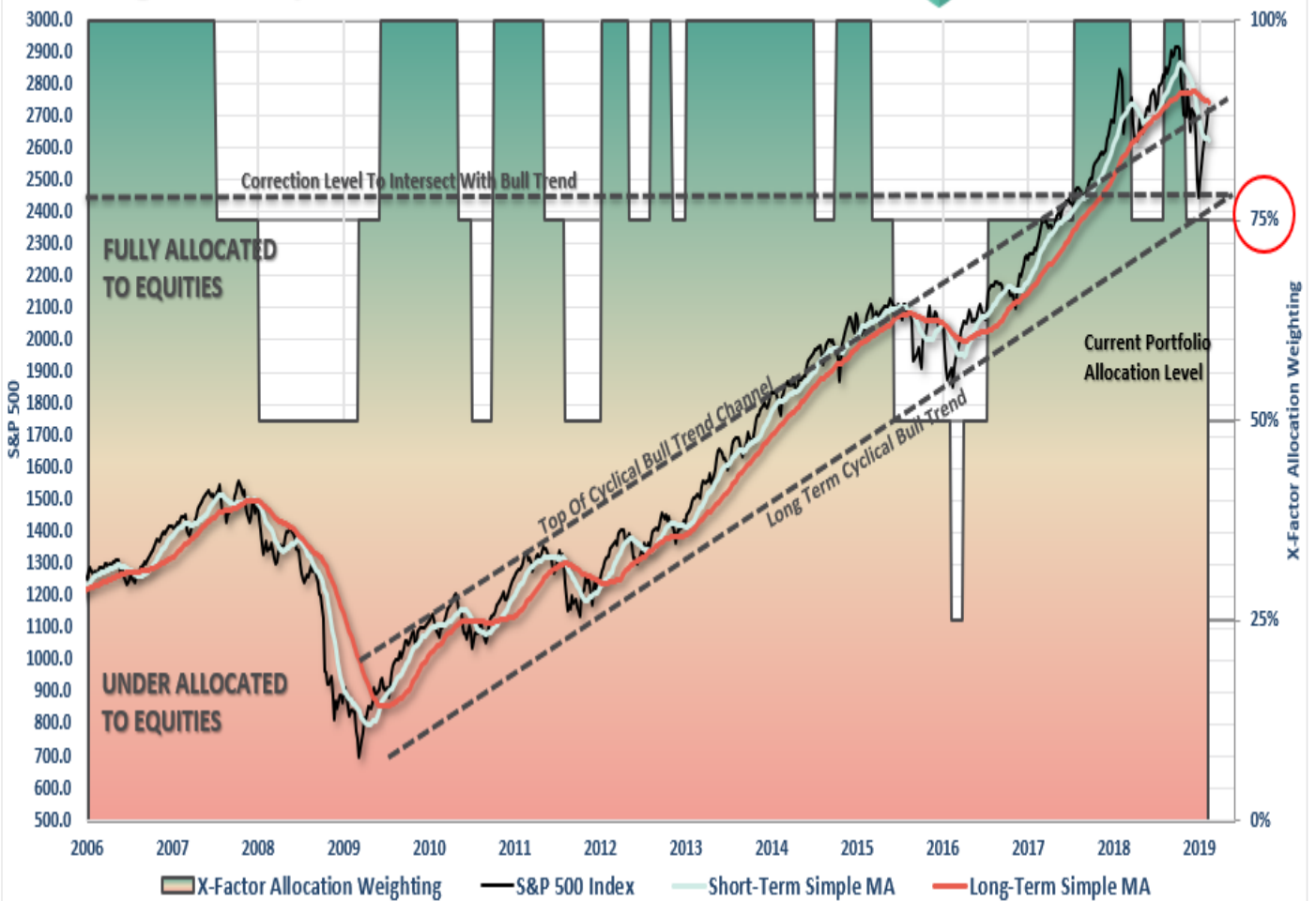
Note for new clients:

It is important to understand that when we add to our equity allocations, ALL purchases are initially *?trades?* that can, and will, be closed out quickly if they fail to work as anticipated. This is why we *?step?* into positions initially. Once a *?trade?* begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment. **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

Risk Management Analysis



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.

401k Plan Manager Allocation Shift

Looking For Support

Over the last several of weeks, we have watch a sharp rally in stocks as Washington, The Fed, and Global Central banks have put their best foot forward to provide a "put" underneath stock prices following the rout last year.

That rally ran into our target resistance at the 200-dma last week and stocks are taking a breather. We continue to recommend taking some action in plans if you haven't done so already.

- If you are **overweight equities** - reduce international, emerging market, mid, and small-capitalization funds on any rally next week. Reduce overall portfolio weights to 75% of your selected allocation target.
- If you are **underweight equities** - reduce international, emerging market, mid, and small-capitalization funds on any rally next week but hold everything else for now.
- If you are at **target equity allocations** hold for now.

Continue to use rallies to reduce risk towards a target level with which you are comfortable.

Remember, this model is not ABSOLUTE - it is just a guide to follow.

Unfortunately, since 401k plans don't offer a lot of flexibility and have trading restrictions in many cases, **we have to minimize our movement and try and make sure we are catching major turning points.**

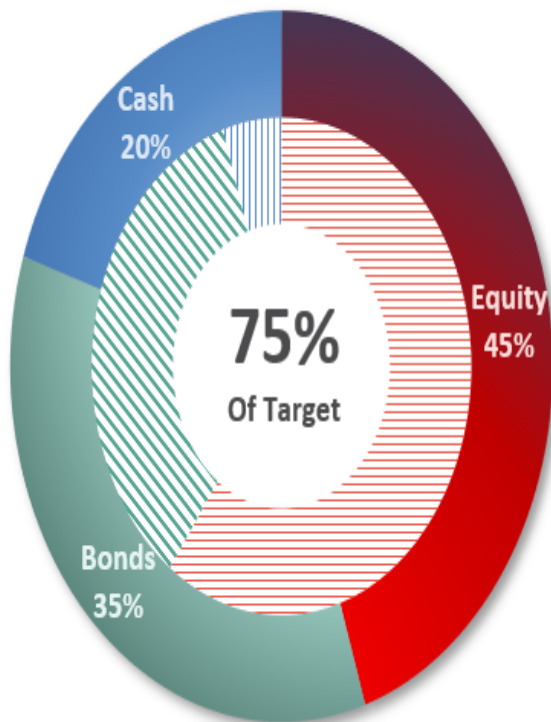
We want to make sure that we are indeed within a bigger correction cycle before reducing our risk exposure further.

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. **(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.

401k Selection List