

Is The "Sellable Rally" Done?


Real Investment Report

Is The "Sellable Rally" Done?



- *Is The Sellable Rally Done?*
- *Some Comments On The Fed Cutting Rates*
- *Sector & Market Analysis*
- *401k Plan Manager*

Follow Us On: [Twitter](#), [Facebook](#), [Linked-In](#), [Sound Cloud](#), [Seeking Alpha](#)



LUNCH & LEARN
LIMITED SEATING!

30 minutes on Medicare basics with Q&A

RIA
Advisors

REGISTER NOW

Are YOU: Age 60 and over. ? **Concerned about retirement health care expenses.** ?Recently retired, or planning to retire soon. ? Wanting to understand how to begin making important Medicare decisions.�

Then this "Lunch & Learn" is for you. [Class size is very limited so register now](#)

Is The Sellable Rally Done?

In last weeks missive, I noted the oversold condition of the market and the likelihood of a bounce:

"This week we are going to look at the recent sell-off and the potential for a short-term 'sellable' rally to rebalance portfolio risks into.

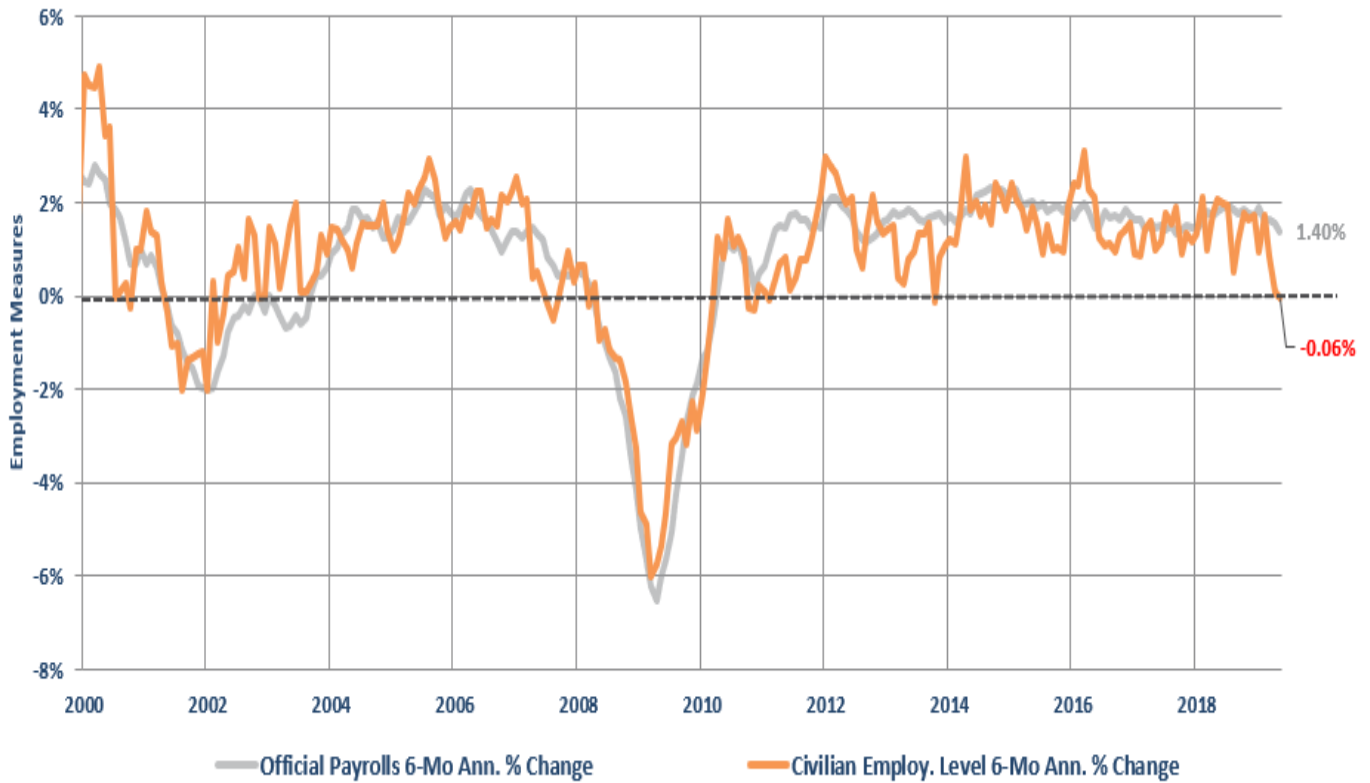
***The markets only need some mildly positive news at this point to spur a 'short-covering' rally. I would encourage you to use it to reduce risk, rebalance holdings, and raise cash until the 'trade war smoke' clears."*�**

The market did indeed rally last week. While the initial sell-off in the market was attributed to potential tariffs on Mexico, which were [indefinitely suspended on Friday](#), the real reason was the dismal employment report of just 75,000 jobs.�

"The�[economy added only 75,000 jobs in May](#),�about 100,000�[fewer than expected](#), a sign that the slowing that is showing up in other parts of the economy is now affecting the job market." - CNBC

A couple of months ago, I warned of the potential for weaker employment as the "household" survey had already dropped sharply. It is likely, that without some major natural disasters which spurred a temporary bump in hiring in 2018, that official employment rates are going to play catchup.�

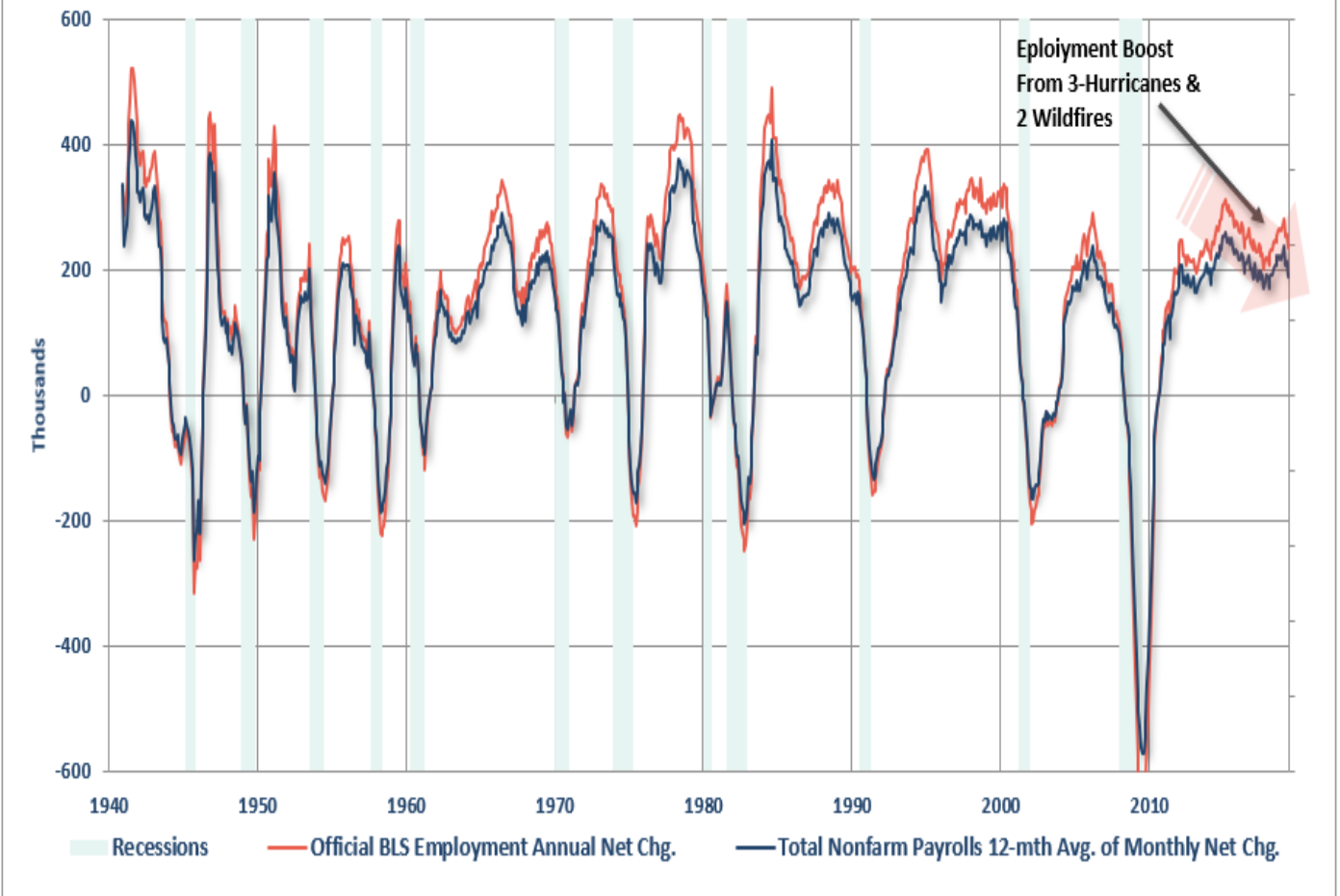
Employment Measures Comparison - 6 Mth. % Chg. Ann.



If we just use a **simple 12-month moving average of the non-seasonally adjusted data**, we get a better picture about what is actually happening in the economy. (NOTE: the official BLS measure consistently *OVERSTATES* employment during expansions and plays catchup during recessions.)

A Simpler Method For Looking At Employment

12 Month Average Of Non-Seasonally Adjusted Data



"So, why are the markets rallying?"�

Two words - Rate. Cuts.

REAL INVESTMENT ADVICE

Are your investments prepared for the next bear market?

SCHEDULE YOUR CONSULTATION TODAY

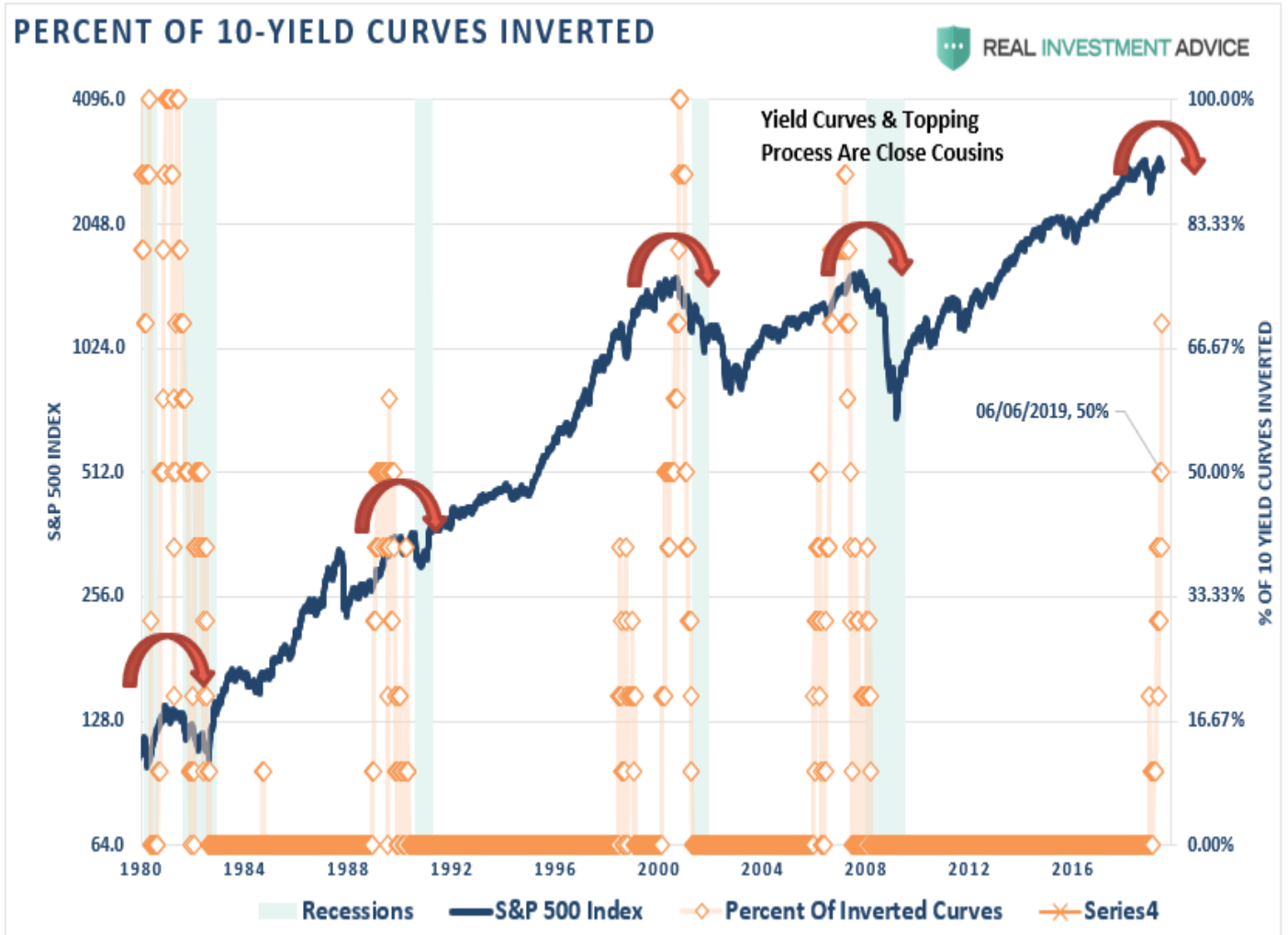
With employment weakening, along with a wide swath of economic data, stocks rallied sharply on Friday as the bond market priced in a certainty of a rate cut by the Federal Reserve.�

"Stocks initially sold off on the report but then moved higher as the market took the news as a sign the Fed would cut interest rates. In the Treasury market, yields, already in steep decline this week, fell further. The�2-year yield closely reflects expectations for Fed policy, and it fell to 1.77% from an intraday high of 1.89%. The 10-year yield, which influences mortgages and other loans, fell to a low of 2.059%."
- CNBC

There is a very important misconception at play here.�

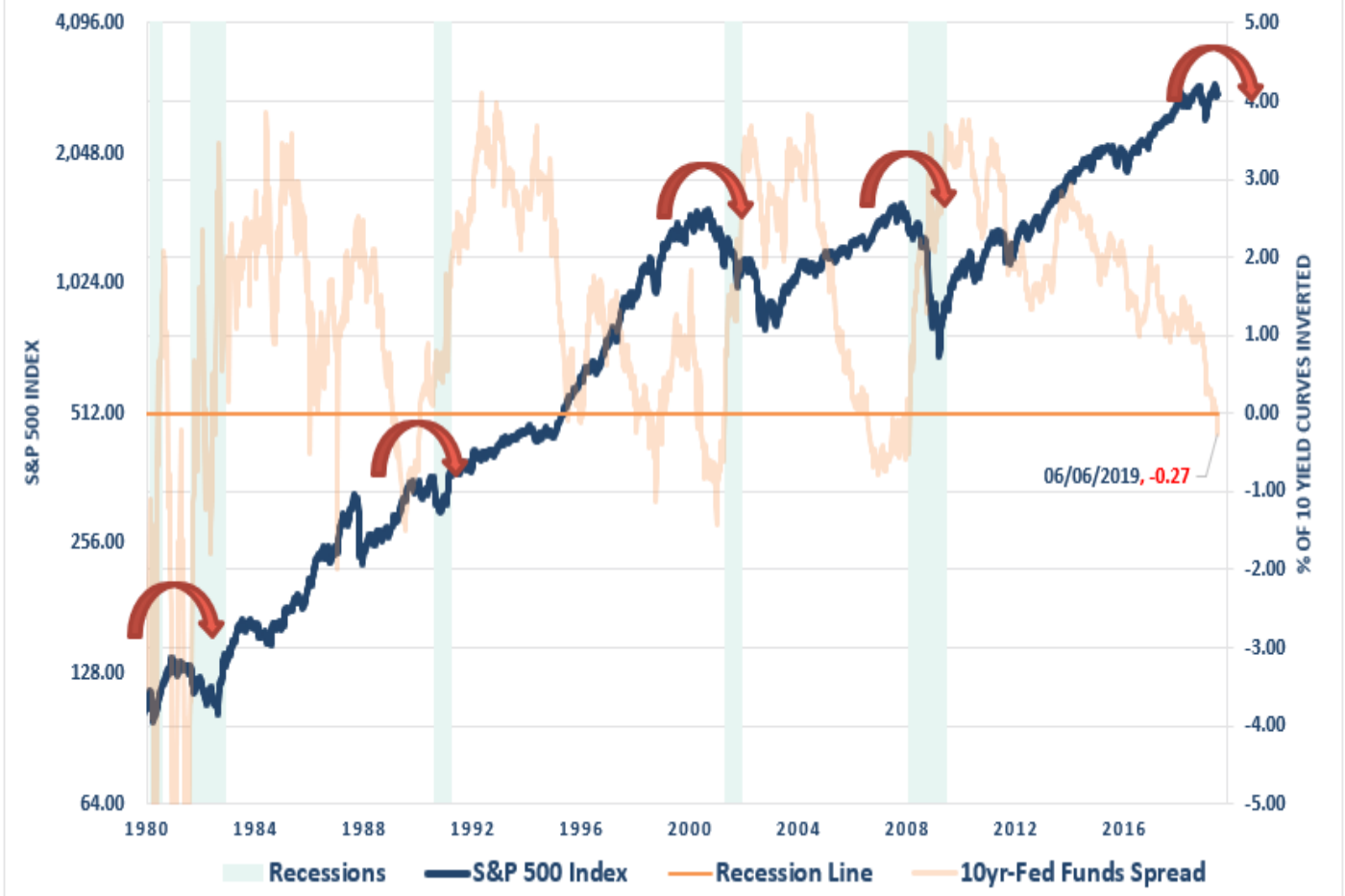
What the report implies is that the "economy" is just a reflection of whatever the stock market does. However, that is inaccurate. **Given that corporate profits are driven by the products they sell, and the price of stocks is based upon future expectations of the cash flows and earnings, ultimately the price of the market is slave to the direction of the economy.�**

Interest rates are the best predictor of the economic strength, and the yield curve has been screaming both "deflation" and "economic weakness" for months. (*We have repeatedly warned on this issue - [see here](#)*)



But more importantly, is the inversion of the Fed Funds rate to the 10-year Treasury.�

INVERSION OF 10-YEAR TO FED FUNDS RATE



Here is the MOST important point of both charts above. **Recessions don't kick in until these inversions are reversed.**

This is why David Rosenberg was absolutely correct last week when he stated:

"You don't go long the first rate cut, you go long on the last one."

This is because by the time the Fed quits cutting rates, the recession will be near its trough and the corresponding bear market in equities is almost complete.

Image not found or type unknown

As I stated, the rally this past week was expected. In fact, we alerted our [RIA PRO subscribers \(FREE 30-day trial\)](#) to a "trading opportunity" in the market on Monday. [To wit:](#)

- *SPY has corrected the overbought condition and is testing the 200-dma.*
- *The ?buy? signal in the lower panel was massively extended, as noted several weeks ago, which as we stated, suggested the reversal we have seen was coming.*
- *The correction last week has set up a **tradeable opportunity into June.***
- *Short-Term Positioning: Bullish*

- *Add 1/2 position with a target of \$290.*
- *Stop-loss remains at \$275*

The question to answer this week, is whether there is more left to this rally before the next decline?

More To Go

I think the answer to that question is "yes."

I recently interviewed [Charles Nenner](#) who is a practitioner/forecaster of long-term stock market cycles. As he correctly predicted in our discussion, this current rally would start at the end of May and last into July before the next more serious decline begins. (*Forecast begins around 1:30*)

His comments align much with ours from last week:

*"In the very short-term the markets are oversold on many different measures. **This is an ideal setup for a reflexive rally back to overhead resistance.**"*

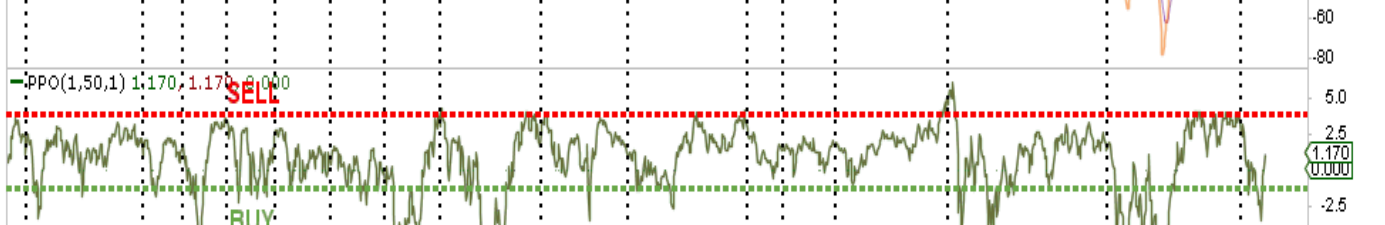
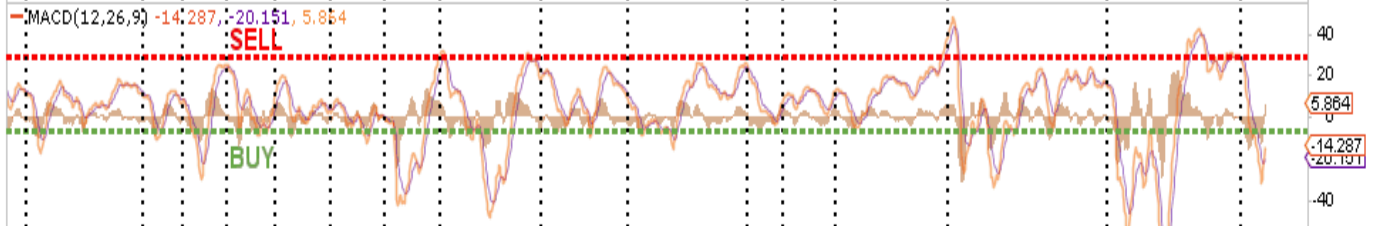
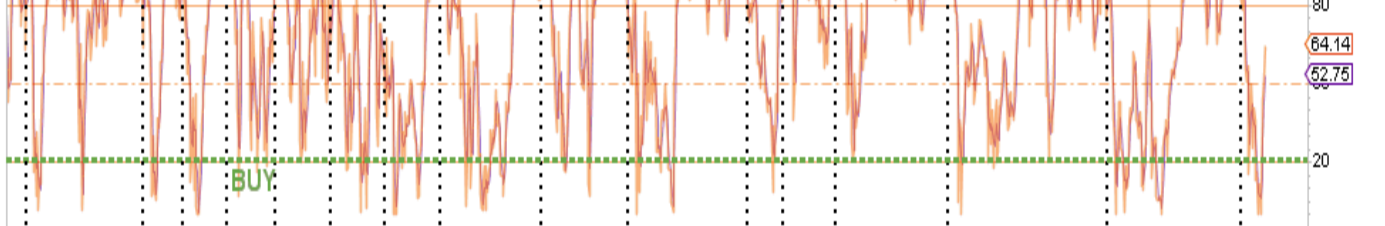
Chart updated through Friday's close:

\$SPX S&P 500 Large Cap Index INDX

© StockCharts.com

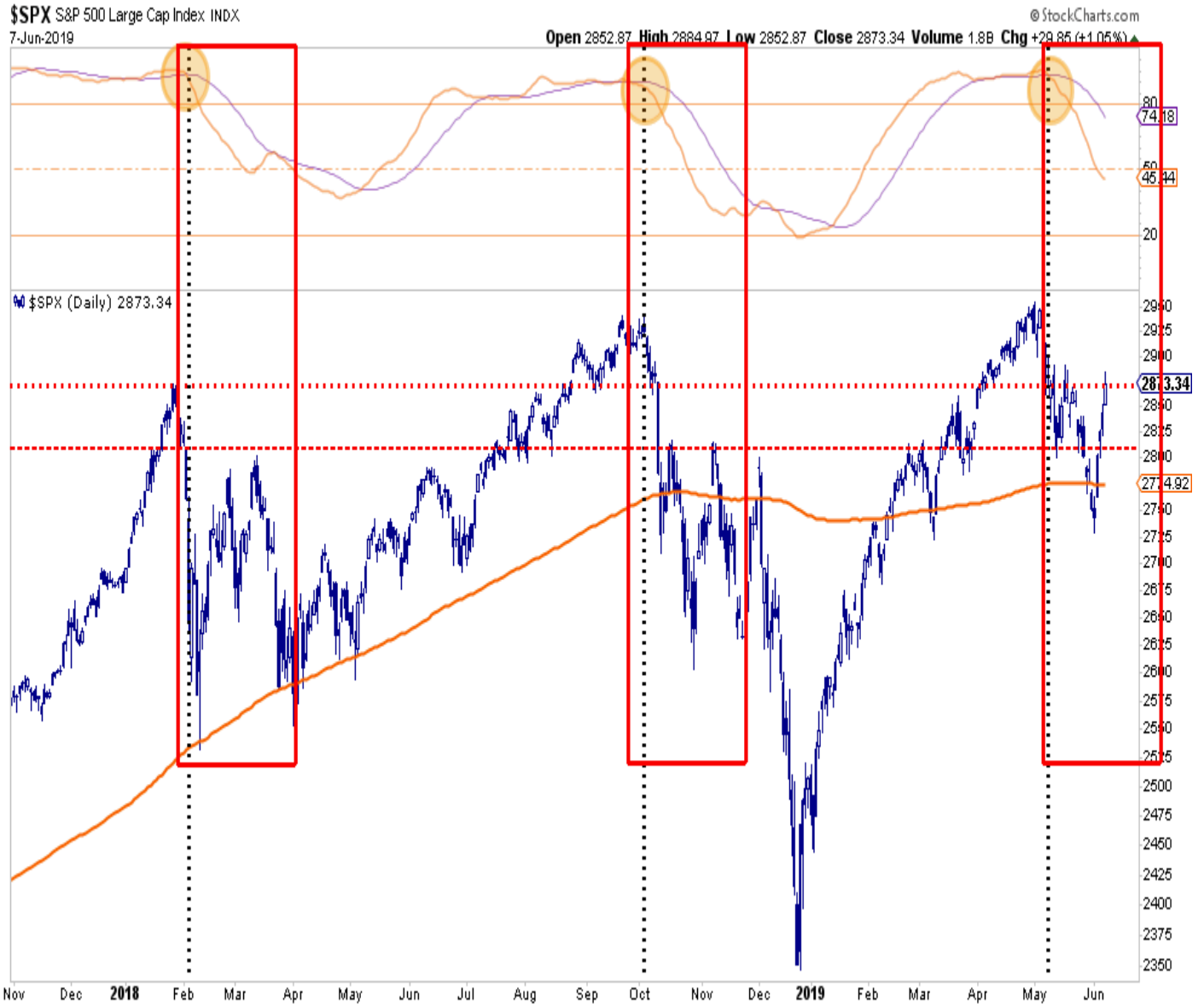
7-Jun-2019

Open 2852.87 High 2884.97 Low 2852.87 Close 2873.34 Volume 1.8B Chg +29.85 (+1.05%)▲



The markets have only reversed about half of the previously oversold condition which leaves some "fuel in the tank" for a continuation of the rally this coming week.�

However, that doesn't mean the "bull is back" and you should be complacent about your portfolio. **The�market remains on an important SELL signal as shown below.** The last two times the S&P 500 has triggered a similar sell signal, there were sharp, aggressive, rallies which were fully reversed just a few weeks later. **The current market action is extremely similar to those previous events.�**



The difference this time, is that many of the supports which drove the recoveries previously are either a) not present, or b) have already been priced in. As I said, while I think there is more to go in the short-term, it is highly likely the current rally will fail.

- While it's good that "potential" tariffs on Mexico were delayed, they were only a threat. **Tariffs are still in play with China and there has been NO progress on a trade deal.**
- **Earnings estimates are still far too high** going into the end of 2019 and 2020. [Read This](#)
- **Economic data has turned markedly weaker** both globally and domestically.�
- **Expectations for a positive effect from more QE and rates cuts are likely misplaced.** [Read This.](#)

- *At the end of September, Congress will face a debt ceiling and potential Government shutdown. **The subsequent \$4 Trillion continuing resolution will likely undermine confidence in economic sustainability as the deficit surges will past \$1.5 Trillion.***
- ***There are no current supportive tailwinds** (disaster recovery, tax cuts, etc.) to support economic growth.*

We remain primarily long-biased in our portfolios, but are also slightly overweight in cash, and portfolio weight in fixed income. We are also carrying some hedge by having overweighted "defensive" stocks a couple of months ago which have continued to provide outperformance.

There is a very good possibility this rally will continue next week as momentum and short-covering levels have been breached. However, if the market fails to set a new high and turns lower, the risk of a downside break will grow as we progress into summer. The weekly chart below, is also suggestive the recent rally is likely unsustainable as with a "sell signal" in place, and our volume signal back at extremely low levels, suggesting a lack of commitment from traders, and volatility still at elevated levels and rising, have marked the last two tops.



Remain cautious for now. The market is still at the same level as it was 18-months ago, and it is quite likely it will be at these levels, or lower, by the end of the summer.�

If you need help, or have questions, we are always glad to help. [Just email me.](#)

See you next week.

Market & Sector Analysis

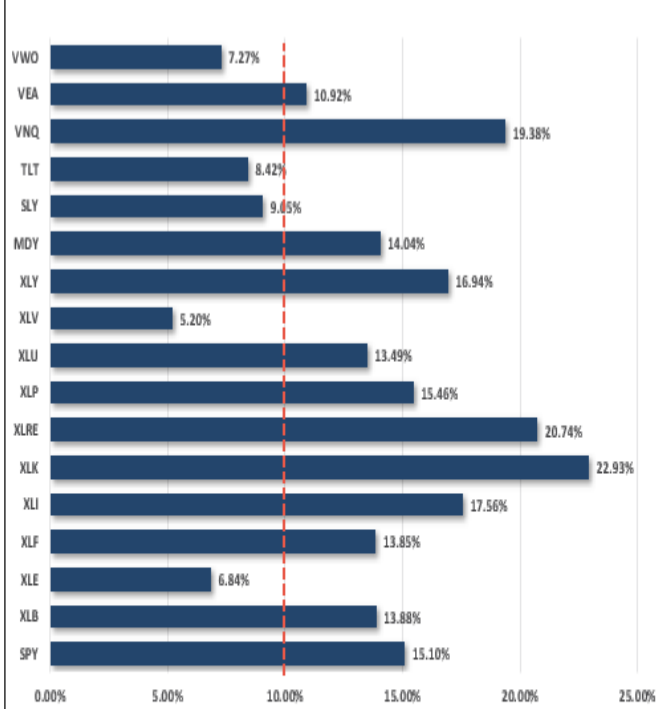
S&P 500 Tear Sheet

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	18.05%	3.71%	15.10%	307.34%			
										Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%			
										Sharpe	0.65	0.24	2.85	11.09			
										Sortino	0.75	0.38	3.76	8.97			
										Volatility	13.96	15.33	13.18	(0.14)			
Daily VaR-5%	(11.07)	(18.34)	18.30	(2.00)													
Mnthly VaR-5%	(12.72)	(24.09)	(1.14)	(0.95)													
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	1.86%	1.80%	1.90%	5.05%	2.18%	1.67%	(12.85%)	13.49%	Shares	2,433.1	2,388.1	(1.85%)					
P/E Ratio	20.55	20.49	17.88	(14.59%)	20.87	15.80	(14.3%)	13.18%	Sales	59,821	64,173	7.27%					
P/S Ratio	3.17	3.33	3.21	(3.68%)	3.56	2.54	(9.65%)	26.35%	SPS	24.6	26.9	9.30%					
P/B Ratio	3.60	3.86	3.96	2.46%	4.14	3.00	(4.37%)	31.81%	Earnings	8,438	9,548	13.15%					
ROE	15.59%	16.60%	18.54%	10.50%	18.69%	15.00%	(0.78%)	23.65%	EPS TTM	4.1	4.8	17.80%					
ROA	2.89%	3.13%	3.48%	10.14%	3.51%	2.81%	(0.90%)	23.69%	Dividend	1.5	1.6	9.28%					
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	(21.41%)	4.89%	1.20	16.02	156.27	12.49	(89.7%)	9.4%	3.8%	6.26%	3.61	14.31					
Materials	3.13%	2.63%	1.25	17.71	21.86	13.82	(19.0%)	10.2%	2.0%	5.63%	4.00	15.21					
Industrials	(1.32%)	9.45%	1.12	17.19	22.22	14.73	(22.6%)	16.2%	2.0%	5.84%	5.18	14.93					
Discretionary	4.33%	10.08%	1.02	23.56	27.60	20.11	(14.7%)	28.8%	1.3%	4.30%	4.81	20.55					
Staples	15.81%	7.40%	0.60	20.06	22.83	17.63	(12.1%)	27.1%	2.8%	5.02%	3.87	18.54					
Health Care	7.92%	14.21%	0.87	16.66	20.62	15.93	(19.2%)	30.2%	1.8%	6.04%	6.51	14.72					
Financials	(3.02%)	13.31%	1.25	12.94	18.42	11.68	(29.8%)	11.6%	2.1%	7.73%	5.81	11.22					
Technology	9.35%	21.15%	1.24	20.38	21.83	14.47	(6.6%)	39.0%	1.5%	4.97%	5.24	18.39					
Telecom	(6.93%)	10.01%	0.86	18.43	27.29	17.43	(32.5%)	17.6%	1.0%	5.48%	6.28	17.45					
Utilities	26.84%	3.44%	0.33	20.12	20.31	15.58	(0.9%)	10.5%	3.3%	4.90%	3.61	18.22					
Real Estate	16.94%	3.18%	0.74	20.26	24.47	17.10	(17.2%)	10.0%	3.2%	4.93%	4.28	19.32					
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	287.65	1.83%	286.90	1	0.26%	276.36	4	4.09%	3.81%	(2.48%)	23.05%	Buy					
Mid Cap	345.16	(0.07%)	349.52	50	(1.25%)	341.54	3	1.06%	2.34%	(7.74%)	21.34%	Buy					
Small Cap	65.40	(1.90%)	67.37	34	(2.93%)	67.74	26	(3.45%)	(0.54%)	(16.42%)	16.16%	Sell					

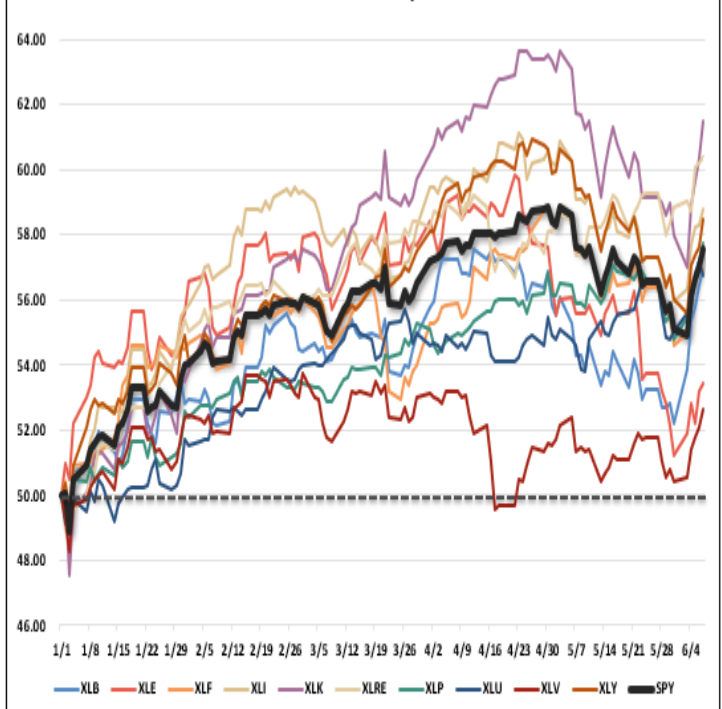
��

Performance Analysis

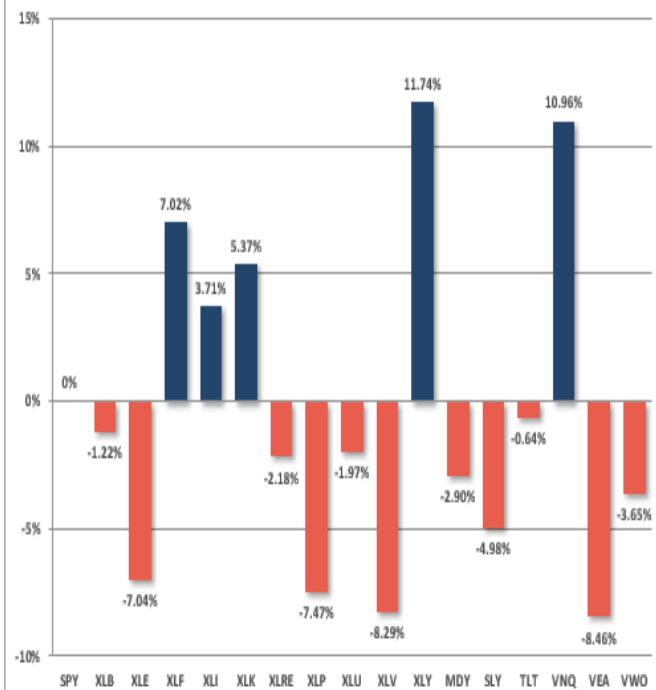
Year To Date Performance



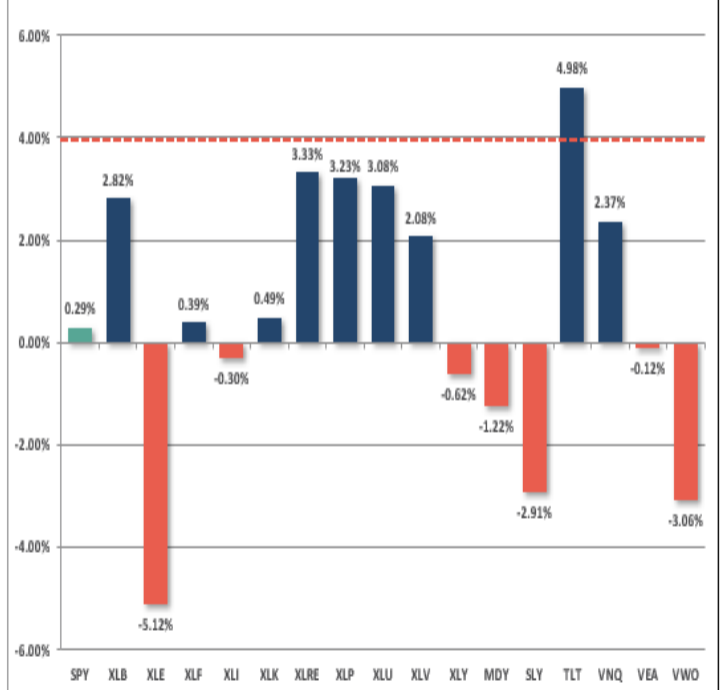
YTD Price - S&P Sectors Recalibrated To \$50/share



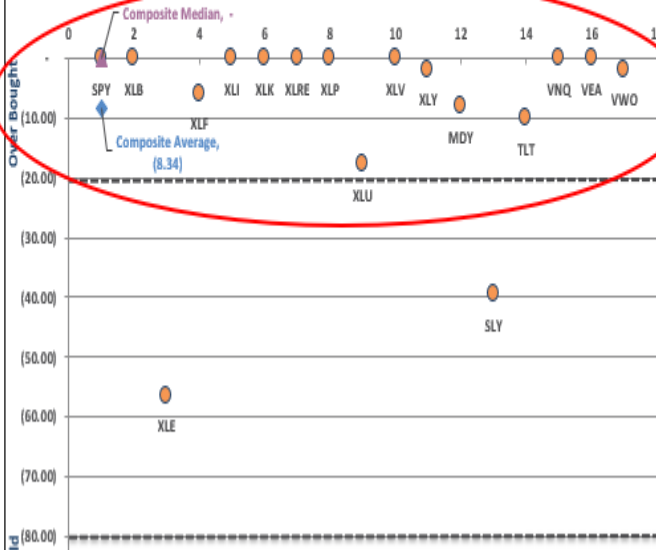
Year To Date Performance Relative To S&P 500



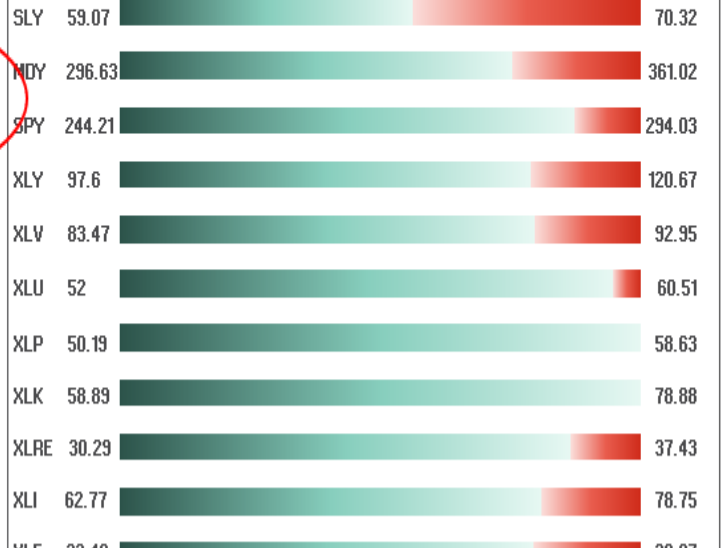
Price Deviation From 50-Day Moving Average



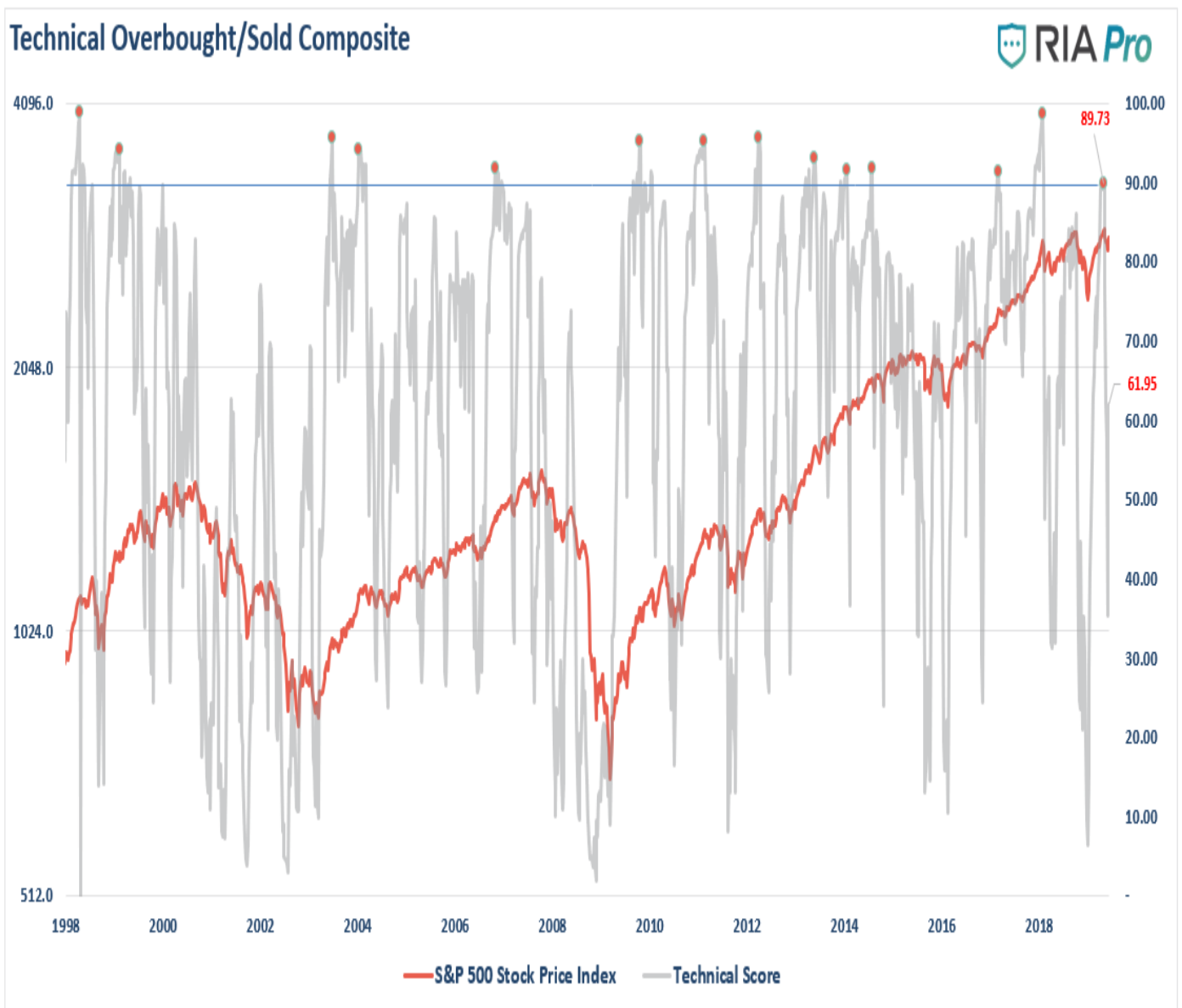
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



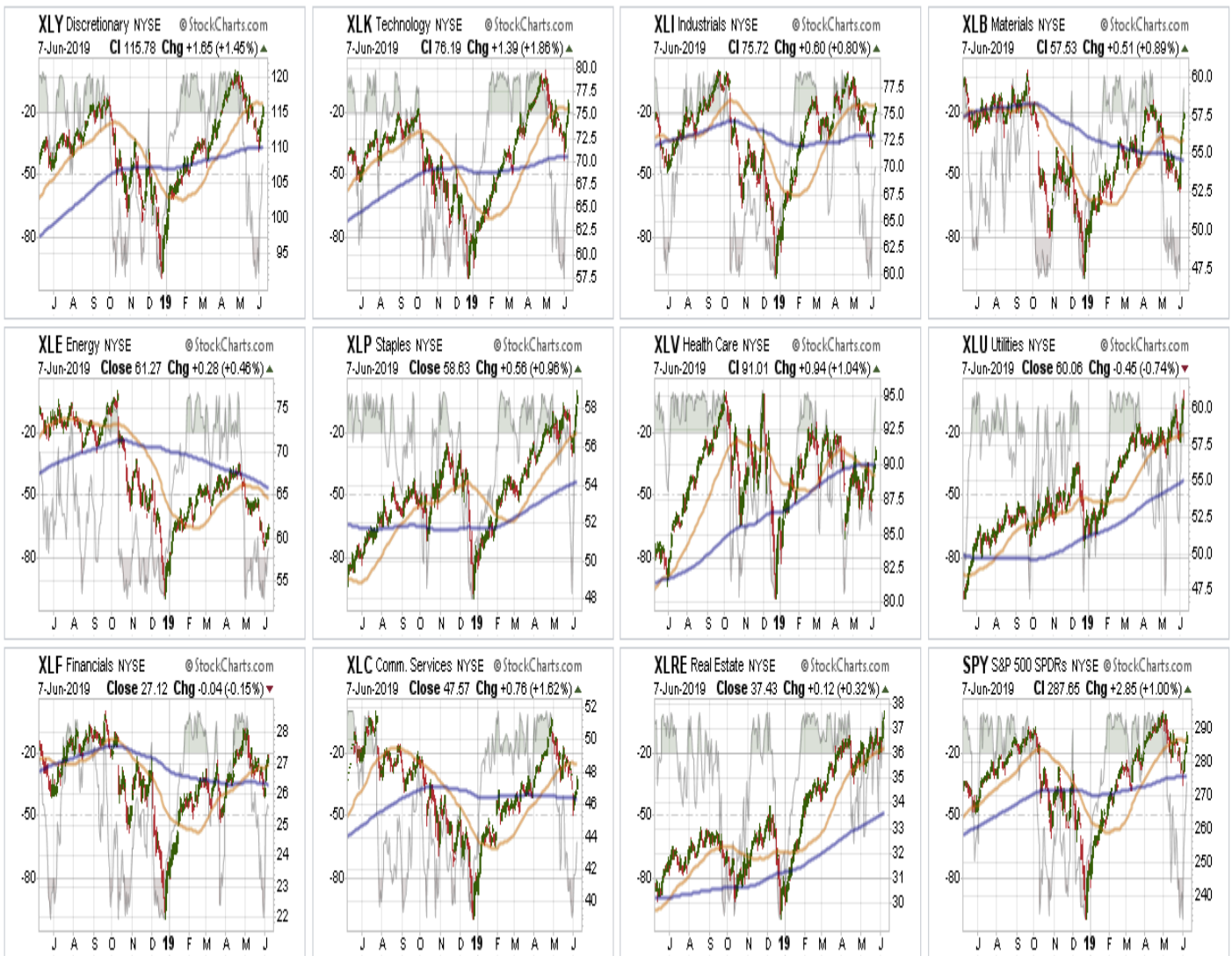
ETF Model Relative Performance Analysis

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					
TACTICAL	BENCHMARK	IVV	ISHARS-SP500	289.67	4.46	(0.11)	1.90	19.53	3.44	287.54	276.06	0.74%	4.93%	BUY
	SECTORS	XLB	SPDR-MATLS SELS	57.53	4.60	4.45	1.95	(1.15)	(8.86)	55.80	54.08	3.11%	6.37%	BUY
		XLE	SPDR-EGY SELS	61.27	(0.21)	(4.23)	(8.37)	(10.33)	(23.76)	64.89	64.55	-5.57%	-5.08%	BUY
		XLF	SPDR-FINL SELS	27.12	(0.19)	(1.20)	(0.06)	(0.53)	(6.86)	26.81	26.10	1.14%	3.89%	BUY
		XLI	SPDR-INDU SELS	75.72	0.63	(0.61)	0.44	2.11	(4.38)	75.56	72.43	0.21%	4.55%	BUY
		XLK	SPDR-TECH SELS	76.19	1.52	0.13	2.49	9.17	2.85	75.21	69.91	1.31%	8.99%	BUY
		XLP	SPDR-CONS STPL	58.63	0.97	2.42	5.29	(2.69)	11.91	56.40	54.72	3.96%	7.14%	BUY
		XLU	SPDR-UTIL SELS	60.06	(1.35)	3.74	1.32	(7.91)	19.91	58.25	56.00	3.11%	7.25%	BUY
		XLC	SPDR-COMM SV SS	47.57	(3.44)	(3.02)	(0.73)			48.26	45.99	-1.43%	3.43%	BUY
		XLV	SPDR-HLTH CR	91.01	(0.19)	2.48	(2.96)	(9.45)	3.58	89.64	89.72	1.53%	1.43%	SELL
XLY	SPDR-CONS DISCR	115.78	(0.10)	(1.17)	2.79	3.96	1.89	115.48	109.41	0.26%	5.82%	BUY		
SIZE	SLY	SPDR-SP SC 600	65.40	(1.03)	(4.43)	(4.83)	(6.19)	(15.00)	67.25	66.44	-2.75%	-1.56%	BUY	
	MDY	SPDR-SP MC 400	345.16	0.09	(1.95)	(1.78)	(1.68)	(8.79)	348.16	337.35	-0.86%	2.32%	BUY	
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	105.56	0.38	(0.29)	(0.79)	(0.93)	(1.96)	105.20	101.24	0.34%	4.27%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	100.17	0.02	0.34	(0.12)	(5.11)	3.07	99.47	96.39	0.70%	3.92%	BUY
	Real Estate	XLRE	SPDR-RE SELS	37.43	(1.83)	3.77	3.66	1.41	13.31	36.11	34.18	3.66%	9.50%	BUY
	International	EEM	ISHARS-EMG MKT	41.18	(3.31)	(1.79)	(6.31)	(12.62)	(14.55)	42.61	41.47	-3.36%	-0.70%	BUY
		EFA	ISHARS-EAFE	65.56	(1.05)	0.47	(1.37)	(5.63)	(10.33)	65.33	63.28	0.35%	3.61%	BUY
	IXUS	ISHARS-CR INT S	57.95	(1.71)	(0.02)	(2.55)	(6.72)	(11.80)	58.27	56.49	-0.54%	2.59%	BUY	
FI	Intermediate Duration	TLT	ISHARS-20+YTB	131.74	(4.53)	5.72	6.31	(10.40)	6.78	124.98	120.92	5.41%	8.95%	BUY
	International	BNDX	VANGD-TTL INT B	56.82	(3.84)	1.92	0.85	(16.39)	1.57	55.81	55.09	1.81%	3.14%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.10	(3.05)	(0.04)	(1.52)	(12.21)	(2.93)	86.11	84.73	-0.02%	1.61%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.23										

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



Improving - Financials and Staples

As we have noted over the last couple of weeks, the "defensive" rotation continues for now. We recommended previously to use weakness in the defensive areas to add exposure accordingly. We previously overweighted in staples, healthcare, and utilities.

It is too late to add further exposure here as the sectors are back to very overbought. Be patient as wait for a pullback over the next couple of months.

Current Positions: Overweight XLP, Target weight XLF.

Outperforming - Technology, Discretionary, Communications

While these sectors rallied sharply this past week, their outperformance over the market is waning quickly. Over the last several weeks, we have recommended taking profits and rebalancing portfolio risks accordingly. That remains the same recommendation this week given the reflexive rally we discussed last week when we stated:

"This should be done on a counter-trend rally back towards the 2800 level on the S&P index."

Current Positions: *1/2 weight XLY, Reduced from overweight XLK*

Weakening - Real Estate and Industrials

As noted two weeks ago, Real Estate has continued to attract buyers particularly as interest rates have fallen. That performance has improved this past week as yields have collapsed towards 2% on Treasuries. We continue to carry our current weight in Real Estate and are looking for some opportunities to overweight the sector. Industrials bounced this past week, but their relative performance continues to drag. We remain underweight industrials currently.�

Current Position: *XLRE, 1/2 XLI*

Lagging - Healthcare, Staples, Financials, Materials, Energy, and�Utilities

While these sectors are currently lagging the performance of the S&P 500, on a short-term basis, longer-term they have been strong winners. Importantly, that performance lag in Staples, Financials, Utilities, and Healthcare, have improved markedly over the last week.

As noted, we have slightly overweighted staples and utilities to go along with our overweight healthcare positioning currently.� where relative performance is improving as a "risk off" rotation occurs. While we are maintaining a 1/2 position in XLE, it is not performing well and we may be required to "cut it loose" if performance doesn't improve soon.�

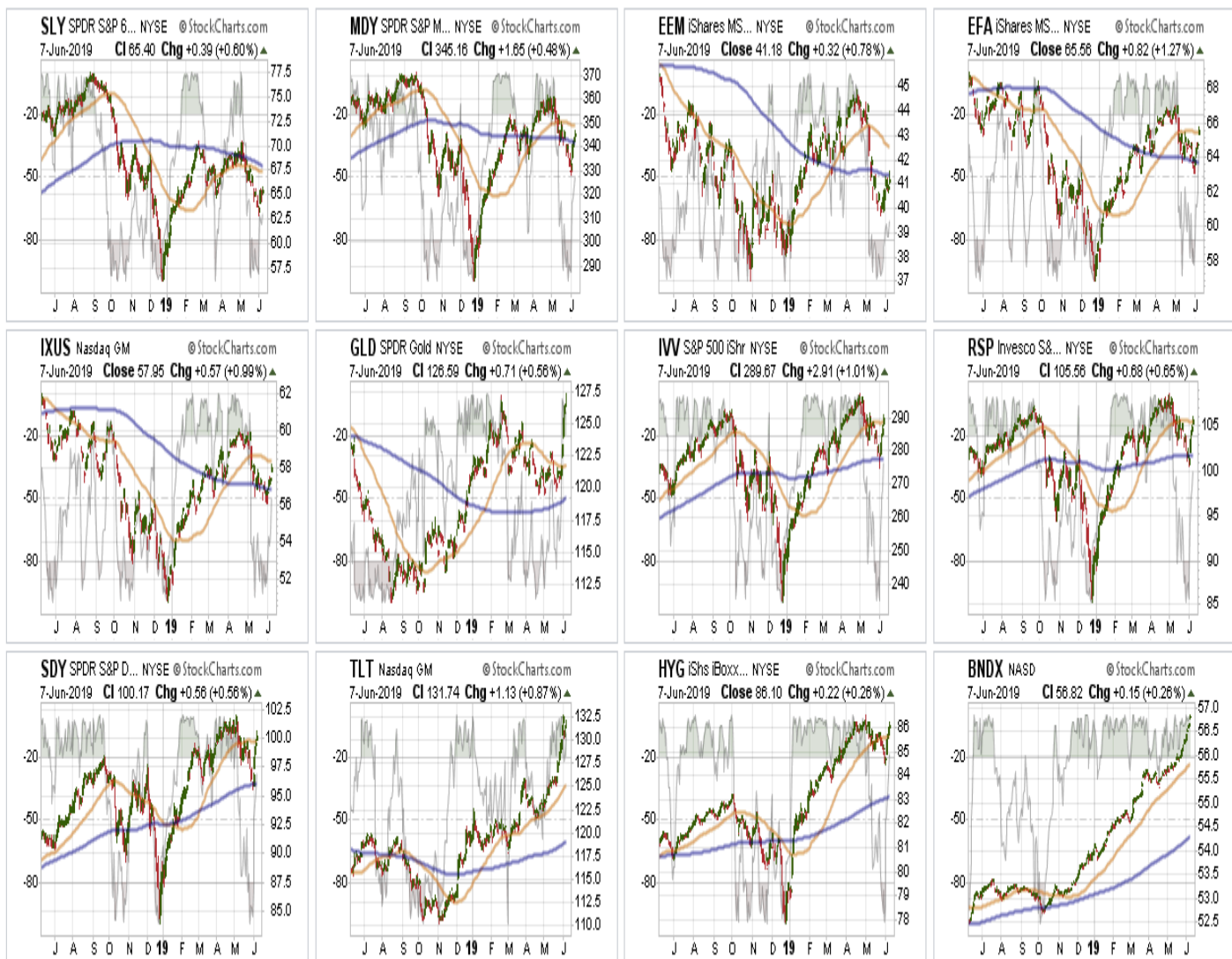
Importantly, let me reiterate our closing statement from last week:

All sectors are VERY OVERSOLD currently. Look for a rally in the next week to begin rebalancing risks and weightings accordingly. This could be your best, last chance, for the rest of the summer.

We may have some follow through rally this week, but use any further rise to take action accordingly.�

Current Positions: *1/2 XLB, 1/2 XLE, XLF, Overweight XLV, Overweight XLP,� Overweight XLU*

Market By Market



The rally this past week was very concentrated and has all the earmarks of a short-term "short-covering" rally.�

Small-Cap and Mid Cap - Small-cap and Mid-cap previously both failed to hold above their respective 50- and 200-dma which keeps us from adding a position in portfolios. Last week, Midcap rallied above the 200-dma but is heading into a lot of resistance. We will need to patient to see if there is any follow through. As noted, these sectors are mostly tied to the domestic economy and their lack of performance is concerning relative to the economic backdrop.�

Current Position:�*No position*

Emerging, International & Total International Markets�

As noted two weeks ago:

The re-institution of the "Trade War" kept us from adding weight to international holdings. We are keeping a tight stop on our 1/2 position of emerging markets but "tariffs" are not friendly to the international countries.�

Last week, we were stopped out of our emerging market position. We have no long exposure to international markets currently. However, industrialized international is challenging its 50-dma once again. It is too soon to take on exposure as the current trend remains concerning. However, we are

watching for an opportunity to add exposure if the technicals warrant the risk.

Current Position: *Sold 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.�

As we stated last week:

"That correction has continued for a second week, and all of our core positions are oversold. We should see a bounce in the markets next week and we will decide how to hedge our core positions."�

Current Position:�*RSP, VYM, IVV*

Gold ? With rates dropping sharply and deflationary pressures on the rise, Gold finally got a bid over the last couple of week. Gold is now challenging its highs from February of this year. Gold has provided a good hedge in our portfolios against the recent decline and a breakout above current levels would suggest substantially higher prices.�

Current Position: *GDX (Gold Miners), IAU (Gold)*

Bonds�?

As the beginning of May, we said bonds were setting up for a nice entry point to add additional bond exposure. Bonds bounced off the 50-dma holding important support last week. Bonds are now back to overbought, take some profits and rebalance weightings but remain long for now.

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

High Yield Bonds, representative of the "risk on" chase for the markets rallied sharply with the market this week as "shorts" were forced out of their holdings. Not surprisingly, the "junk" rally has taken the market from oversold back to fairly overbought. **Given the deteriorating economic conditions, this would be a good opportunity to reduce "junk rated" risk and improve credit quality in portfolios.�**

As we concluded last week:

All equity markets are VERY OVERSOLD currently. Look for a rally in the next week to begin rebalancing risks and weightings accordingly. This could be your best, last chance, for the rest of the summer.

That advice remains this week.�

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.)

�

						OVERWEIGHT	BUY	HOLD	REDUCE	SELL	RIA Pro
		Over Bought / Sold	50/200 DMA	Trend	Action						Notes
XLV	Discretionary	OB	Positive	Positive	Hold		X				Testing 50-DMA
XLK	Technology	OB	Positive	Positive	Hold		X				Testing 50-DMA
XLI	Industrials	OB	Positive	Neutral	Hold		X				Testing 50-DMA
XLB	Materials	OB	Positive	Neutral	Hold		X				Extreme Overbought
XLE	Energy	OS	Negative	Negative	Hold		X				Broke 200-DMA
XLP	Staples	OB	Positive	Positive	Hold		X				Extreme Overbought
XLV	Health Care	OB	Negative	Neutral	Hold		X				Testing March Resistance
XLU	Utilities	OB	Positive	Positive	Hold		X				Extreme Overbought
XLF	Financials	OB	Positive	Neutral	Hold		X				Testing April Resistance
XLC	Telecom	improving	Positive	Neutral	No Position					X	Technically Very Weak
XLRE	Real Estate	OB	Positive	Positive	Hold		X				Extreme Overbought
SLY	Small Caps	Neutral	Negative	Negative	No Position					X	Failed At 200-DMA
MDY	Mid Caps	Neutral	Positive	Neutral	No Position					X	Testing Overhead Resistance
EEM	Emerging Mkt	OS	Positive	Negative	No Position					X	Failed At 200-DMA
EFA	International	Neutral	Positive	Negative	No Position					X	Testing 50-DMA
IXUS	Total International	Neutral	Positive	Negative	No Position					X	Testing 50-DMA
GLD	Gold	OB	Positive	Neutral	Hold		X				Testing February Highs
RSP	SP500 Equal Wgt	Improving	Positive	Positive	Hold		X				Testing 50-DMA
SDY	SP500 Dividend	Improving	Positive	Positive	Hold		X				Testing 50-DMA
IVV	SP500 Market Wgt	Improving	Positive	Positive	Hold		X				Testing 50-DMA
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold		X				Testing May Highs
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Testing Previous Highs
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position					X	Extreme Overbought

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

Portfolio/Client Update:

From last week:

"We have continued to rebalance our risks and more to a more defensive positioning the short-term and are carrying additional cash in our portfolios."

As noted three weeks ago, we have shifted our focus from *risk taking* to *risk control*. *Capital preservation strategies* now replace *capital growth strategies*, and *cash* now becomes a favored asset class for managing uncertainty.

There are indeed some short-term risks in the market as we head into summer, so any positions added to portfolios in the near future will carry both tight stop-loss levels and will be trading positions initially until our thesis is proved out.

- **New clients:** *Our onboarding indicators are "risk off" currently, so new accounts will remain in cash for the time being. Positions that were transferred in are on our global review list and will be monitored for an opportunity to liquidate to raise cash to transition into the specific portfolio models.*
- **Equity Model:** *After taking profits recently, we are well positioned for the current volatility and rotation into defensive positioning. We are looking at adding selected exposure and are evaluating positions currently.*
- **ETF Model:** *We overweighted our exposure to defensive areas by adding Real Estate and overweighting Staples and Utilities. We are evaluating opportunities in some other areas of opportunity but are likely to hold flat into next week.*
- **In both the Equity and ETF Models:** *We increased the duration of bond portfolio by adding in 7-10 year duration holdings and hedge our risk with an increased weighting in IAU. Both bonds and gold are very overbought so we are looking for pullbacks to support to increase exposures.*

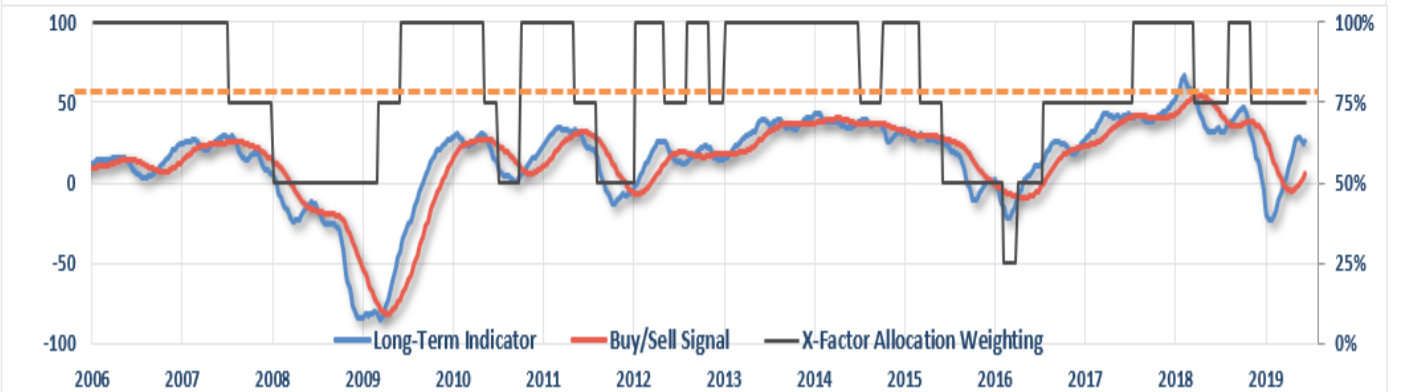
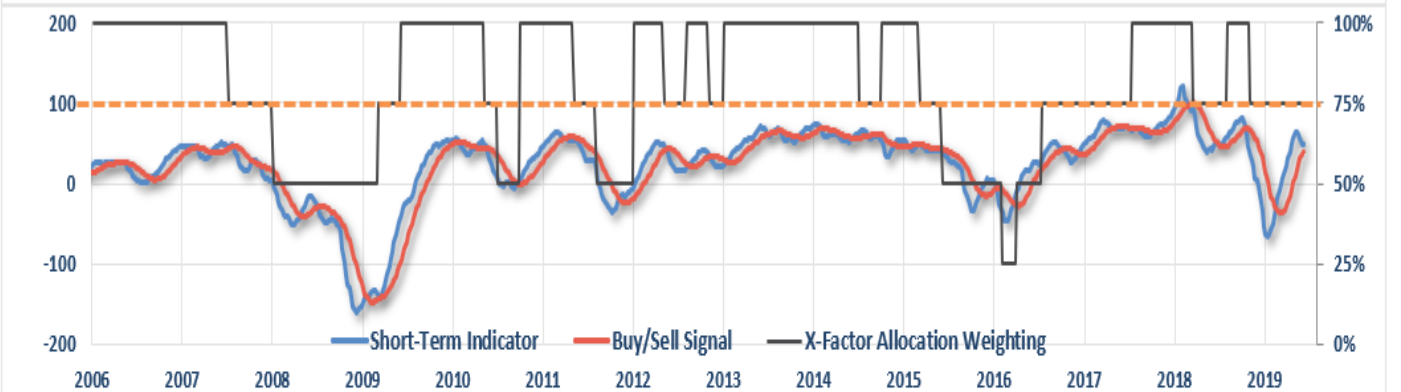
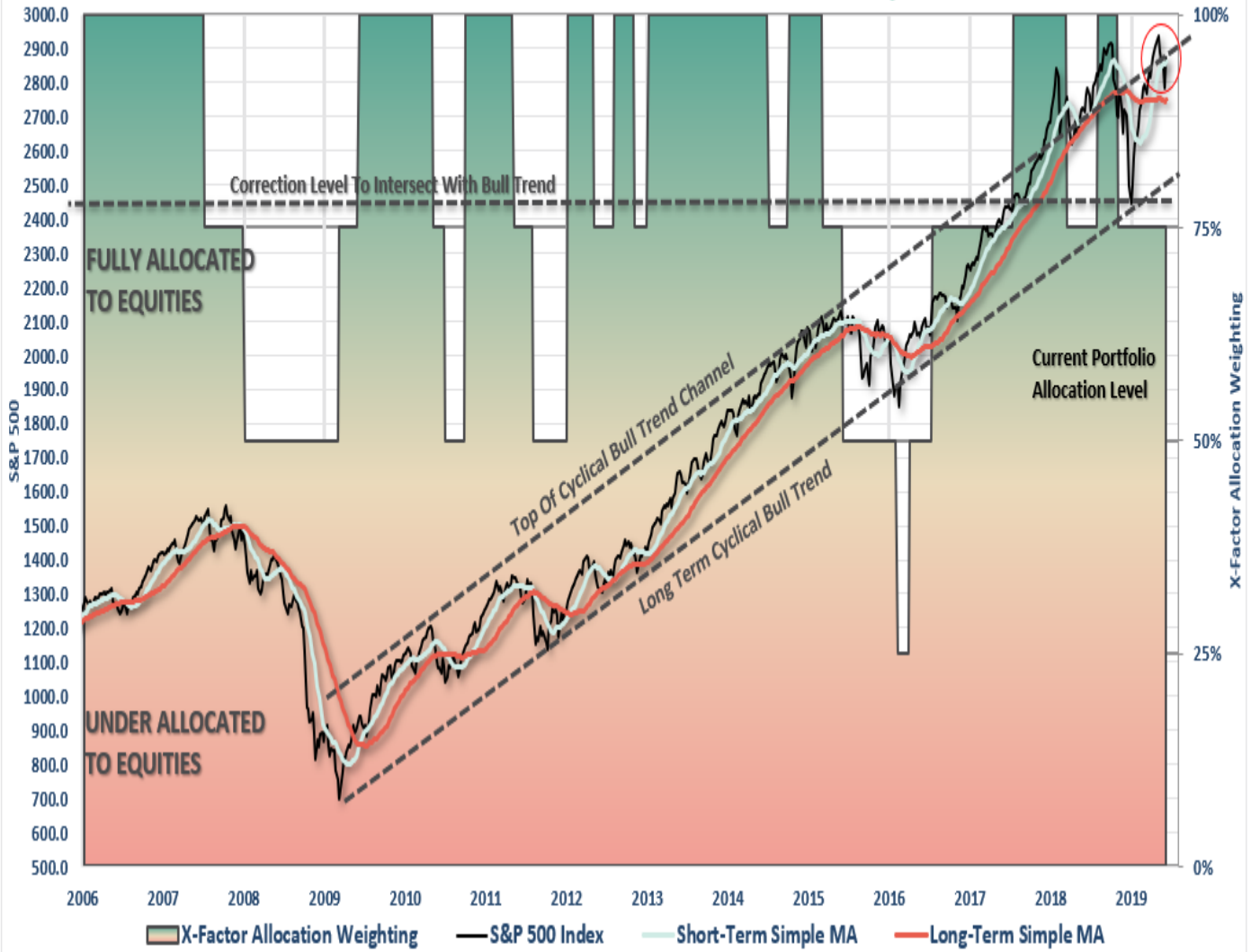
Note for new clients:

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

Short-Covering Rally As Expected

As noted last week:

"With the market deeply oversold short-term we are expecting a bounce which we can rebalance into and remain defensive.

I would again encourage you to read the commentary above, the bulls, along with the media, are betting on things which have a very low probability of actually occurring. The increasing 'trade war' will only succeed in advancing the next recession."

As reiterated in the main missive above this week, the "risks" still outweigh the "rewards" as we head deeper into the summer months. Importantly, don't mistake an oversold, short-covering, rally as a bullish sign. More often than not, it is a trap.

We have remained patient over the last several weeks. Last week we stated:

"Should get a bounce next week. On that bounce look to take the following actions."

- If you are **overweight equities** - take some profits and reduce portfolio risk on the equity side of the allocation. Raise some cash and reduce equities to target weights;
- If you are **underweight equities or at target** - rebalance risks, look to increase cash rather than buying bonds at the moment, and rotate out of small, mid-cap, emerging, international markets;

It is time take some action this coming week.

If you need help after reading the alert; don't hesitate to [contact me](#).

Thank You, 401k Plan Manager Is Almost Ready

Over the last couple of weeks, we have discussed the launch of our "live" 401k plan manager which will soon be available to [RIA PRO subscribers](#). You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more;

We are building models specific to company plans. So, if you would like to see your company plan included specifically, [send me the following](#):

- **Name of company**

- Plan Sponsor
- A print out of your plan choices. (*Fund Symbol and Fund Name*)

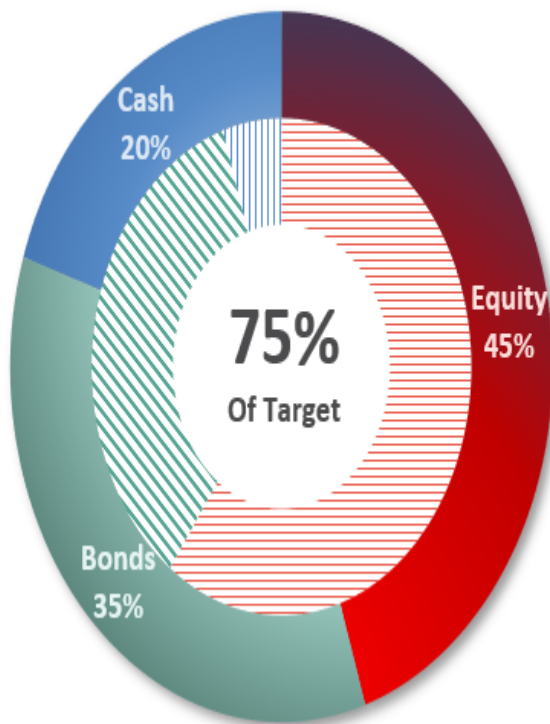
I have gotten quite a few plans, so keep sending them and I will include as many as we can. 2013266080;

If you would like to offer our service to your employees at a deeply discounted corporate rate [please 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