

The Bull Is Back...But Will It Stay?

The Bull Is Back... But Will It Stay?



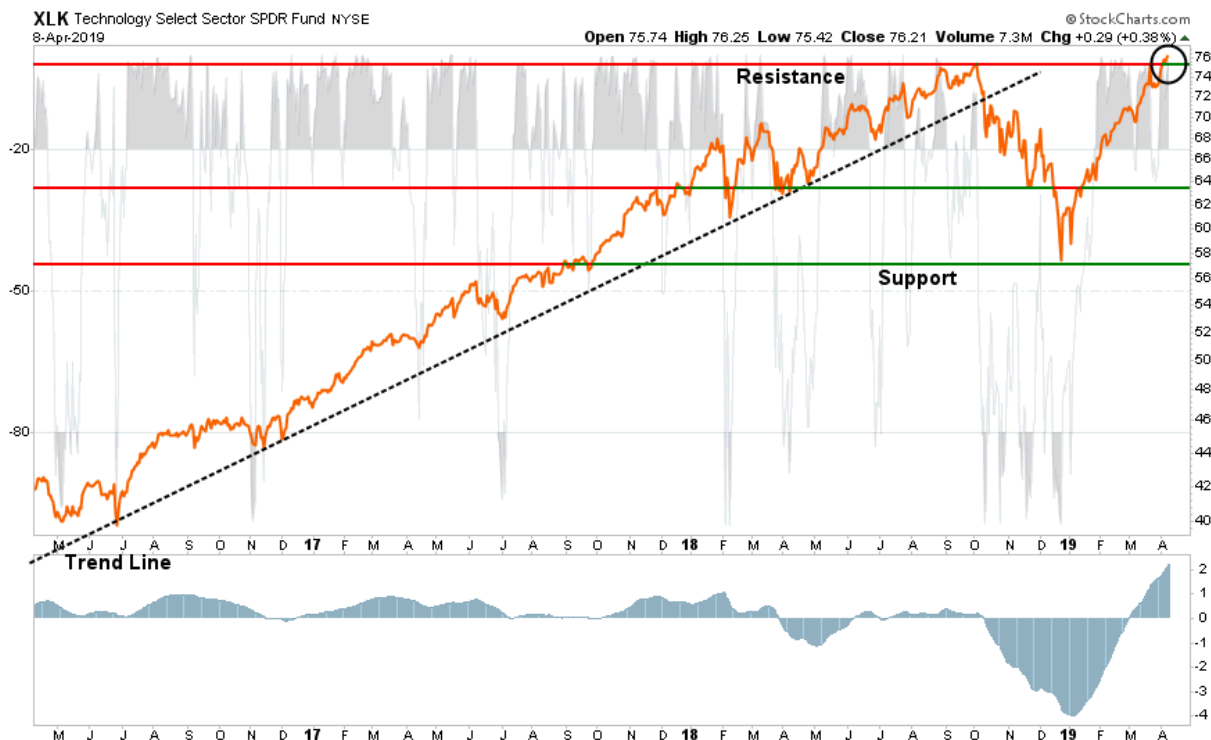
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The Bull Is Back...But Will It Stay?

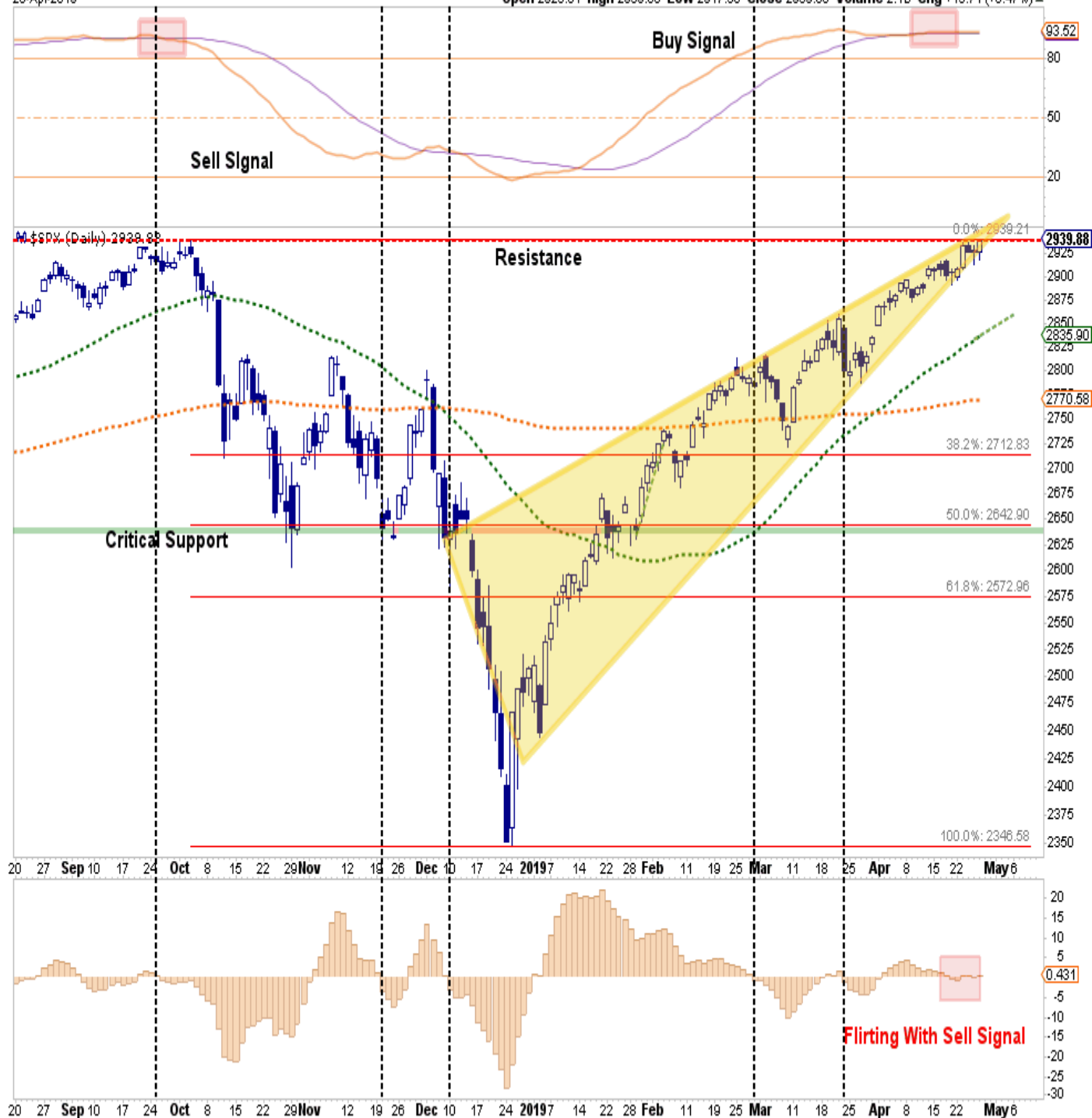
On Tuesday, the market broke out to all-time highs, but had failed to hold on to that level until a late surge on Friday. The breakout to "all-time highs" is something we have been discussing over the last several weeks both here and for our [RIA PRO subscribers](#) (Get A 30-Day Free Trial Now)�with Technology leading the charge.



Currently, XLK is on a ?Buy? signal (bottom panel), but that signal is ?crazy? extended.

However, the good news is that four sectors have broken out to all-time highs and technology is one of them.�This is suggesting the overall market will break out to new highs as well.

However, while that break to the upside was indeed bullish, the market remains very confined to a rising consolidation pattern and failed to close above the intraday all-time highs from last September. **With the markets trading on VERY light volume on Friday, combined short-term "sell signals" forming, and pushing more extreme overbought conditions, it is too early to completely remove all risk management controls in portfolios.**



Another reason not to completely throw "caution to the wind," is the market only requires roughly a 0.40% move in one direction or the other to break out of this very tight compression range.

The good news is a breakout, and a successful retest, to the upside will most likely lead to a continued move higher over the next month or so.

The not-so-good news is a confirmed break to the downside would result in a short-term correction ranging between a 3% decline to test the 50-day moving average, a 5.4% decline to the 200-day moving average, or a 7.7% decline back to the March lows.

While such a correction certainly falls within the realm of "ordinary" within any given year, and would provide a much better entry point for adding equity risk, clearly the risk outweighs reward at the moment and suggests higher levels of cash remains prudent.

Open 2925.81 High 2939.88 Low 2917.56 Close 2939.88 Volume 2.1B Chg +13.71 (+0.47%)▲



Looking at a longer-term chart, we can see the overbought condition becomes clearer. With the market testing the underside of the running bullish trend line from 2009, a negative divergence in relative strength, and a "sell signal" in place, the historical price action under these conditions also suggests caution.



While the "bull market" is indeed back with the break out to new highs, the question is "whether it will stay."

Bull market rallies of this magnitude and acceleration combined with diverging technicals have been met with decent corrections in every case previously;

Could this time be different? Sure, it just isn't wise to "bet on it."

Being patient will offer a much better entry point to add exposure to portfolios most likely sooner rather than later;

Millennial Soccer

One of the reasons given for the push to new highs, and [something we had previously said](#) was highly probable, were the "better than expected" earnings reports coming in.

As [noted by FactSet](#):

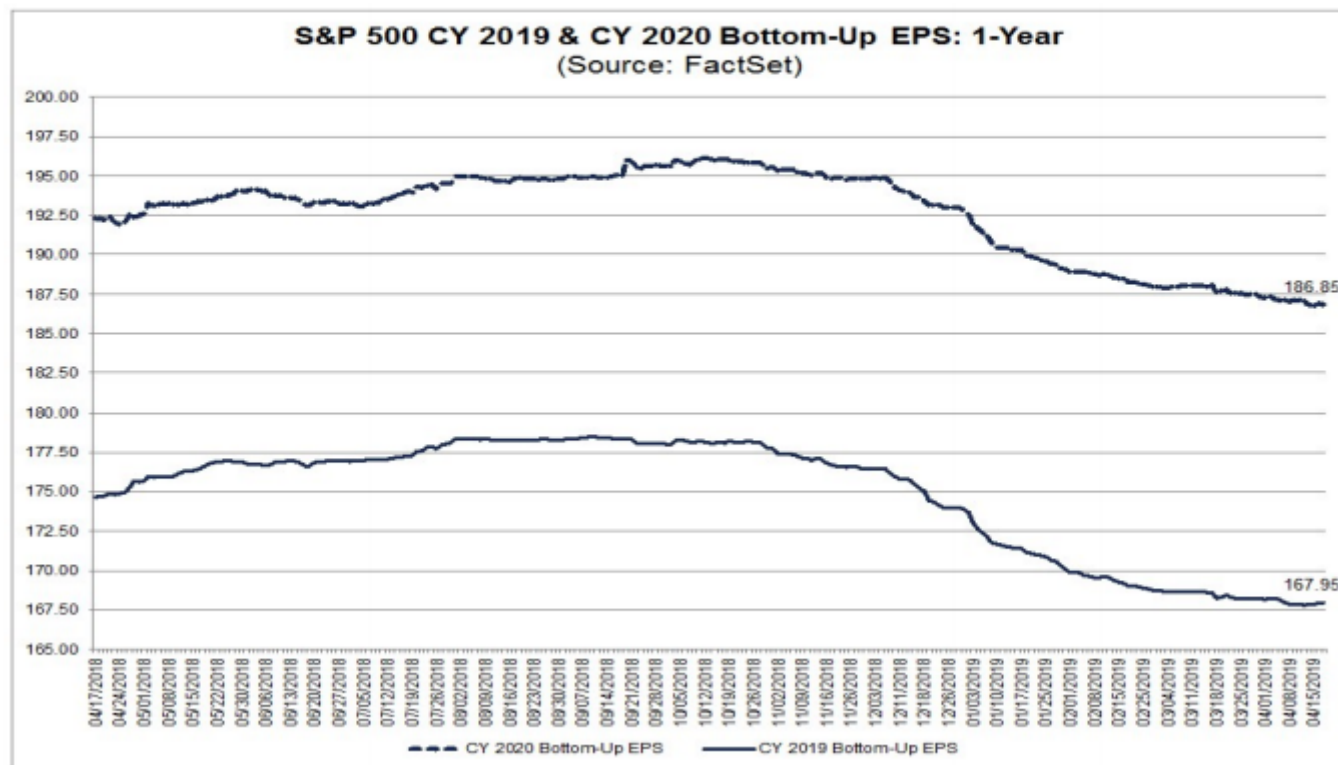
"Percentage of Companies Beating EPS Estimates (78%) is Above 5-Year Average

Overall, 15% of the companies in the S&P 500 have reported earnings to date for the first quarter. Of these companies, 78% have reported actual EPS above the mean EPS estimate, 5% have reported actual EPS equal to the mean EPS estimate, and 17% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (76%) average and above the 5-year (72%) average."

Wow...that's impressive and certainly would seem to be the reason behind surging asset prices.�

The problem is that "beat rate" was simply due to the consistent ?lowering of the bar? as shown in the chart below:

Bottom-up EPS Estimates: Revisions



As shown, beginning in mid-October last year, estimates for both 2019 and 2020 crashed.�

This is why I call it ?**Millennial Soccer**.?�

Earnings season is now a "game" where scores aren't kept, the media cheers, and everyone gets a *participation trophy* just for showing up.

Here is the problem for unwitting investors;

- Assume you buy company XYZ at \$100 based on forward earnings estimates of \$10/share; (FWD PE=10)
- Not a bad bargain.
- However, before earnings season begins, analysts drop their estimates to \$5/share. (PE=20)
- Not so good of a bargain;
- Company reports earnings of \$5.01/share which beat earnings expectations and everyone cheers;
- Unfortunately, you way overpaid for the value received.

This is why you really have to do your homework when buying individual companies; The problem with not paying attention and basing your investment decisions on **forward "operating" earnings** (which is another fictitious Wall Street marketing tool to manipulate earnings); is that consistently overpaying for investments leads to lower long-term returns;

To get a clearer understanding of what is going on with the market currently, let's take a look at the last fully reported quarter in earnings.

For the entire 2018 reporting year operating earnings per share rose from \$124.51 per share in Q4 of 2017 to \$151.60 in Q4 of 2018 for a 21.76% annual gain. Reported earnings also rose from \$109.88 to \$132.39 during the same period for an annualized gain of 20.49%.

That sounds pretty good;

But, before you get all excited, that surge included the benefit of the massive corporate tax reduction; **However, those gains aren't all that noteworthy when you consider that on an annualized basis 2017 operating earnings growth was 17.17% and reported earnings growth was 16.21% which was without the benefit of tax cuts.**

Not nearly as exciting as the media made it out to be is it?



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But the slowdown in earnings this quarter, which is expected to be a one-time anomaly before re-accelerating, is coming on the heels of a sharp slowdown in growth in the last two quarters.

Figure 15: The drop in Q1 EPS goes well beyond seasonal weakness but is expected to be followed by steadily rising earnings

Posted on
WSJ: The Daily Shot
05-Apr-2019
@SoberLook

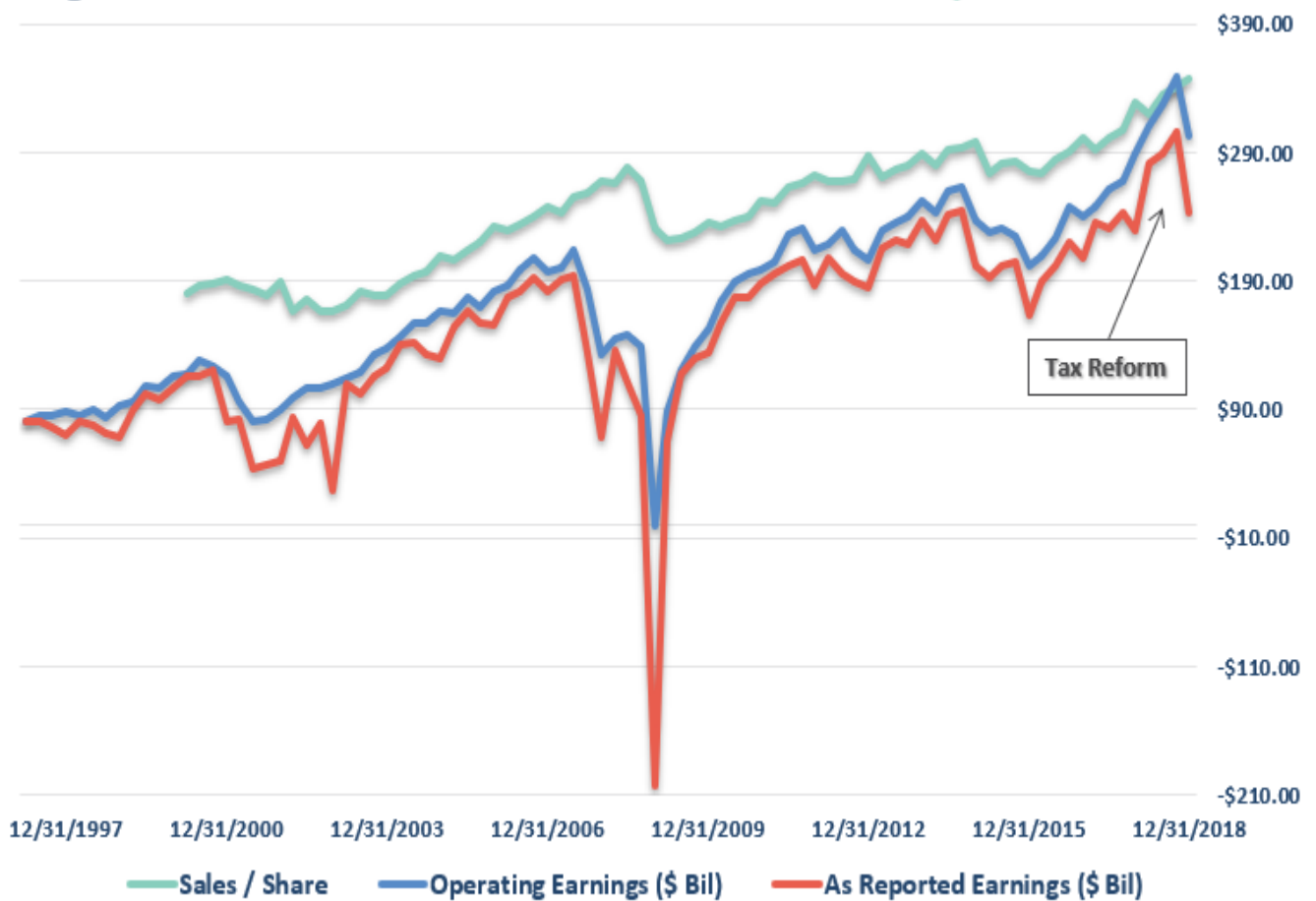


Source : Bloomberg Finance LP, Haver, Factset, DB US Equity Strategy

Note that while revenues have not yet turned negative, revenues tend to lag downturns in earnings. It is also worth noting that sharp downturns in earnings preceded the onset of recessions in 2001 and 2008.

Earnings Vs. Sales

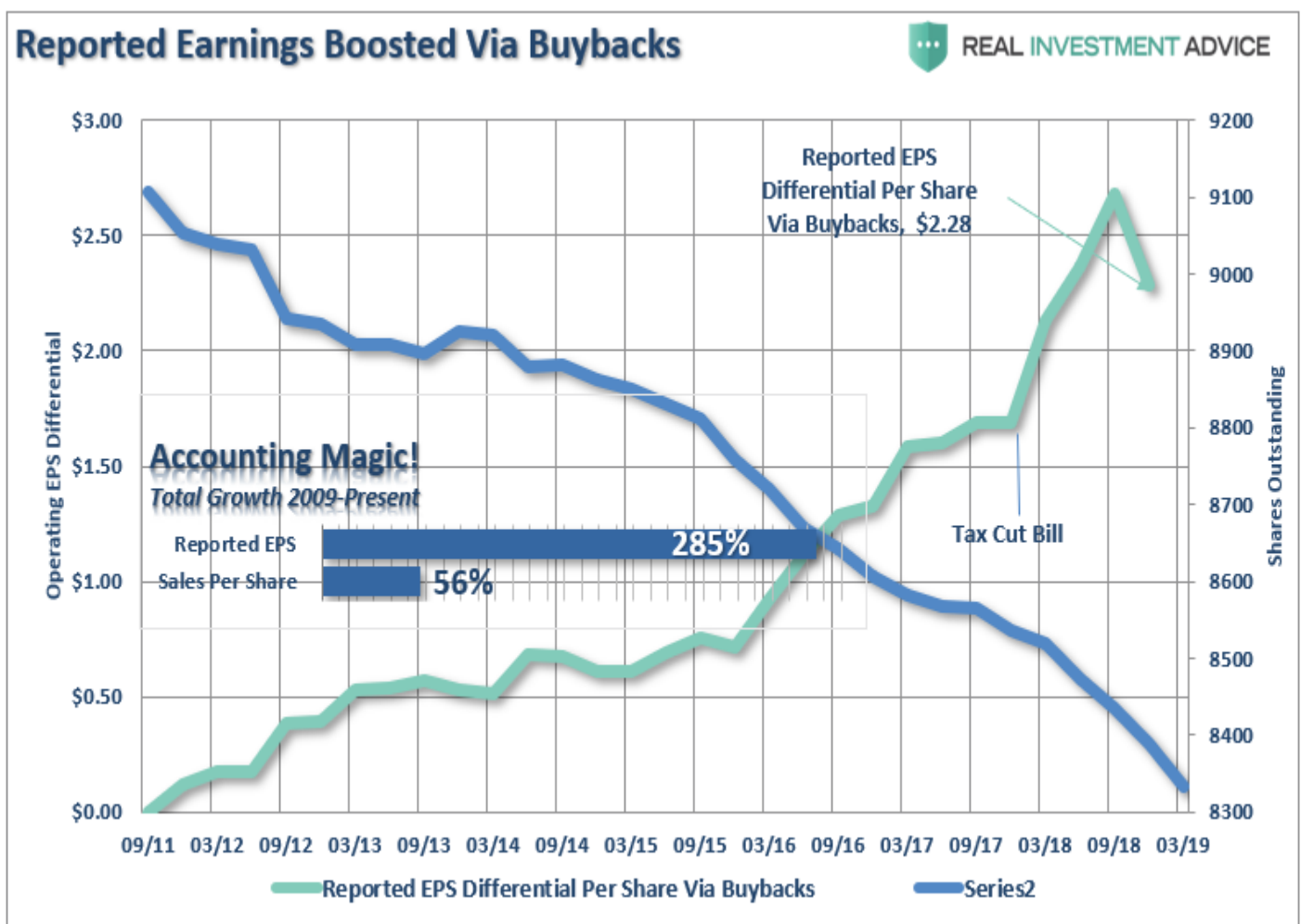
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More importantly, share buybacks have been doing a good chunk of the lifting for those "earnings beats." With corporations expected to set a new record in share repurchases again in 2019, the question will become how much *bang for the buck*; are they getting?

Since the recessionary lows, much of the rise in *profitability* has come from a [variety of cost-cutting measures](#); and accounting gimmicks rather than actual increases in top-line revenue. While tax cuts certainly provided the capital for a surge in buybacks, revenue growth, which is directly connected to a consumption-based economy, has remained muted.

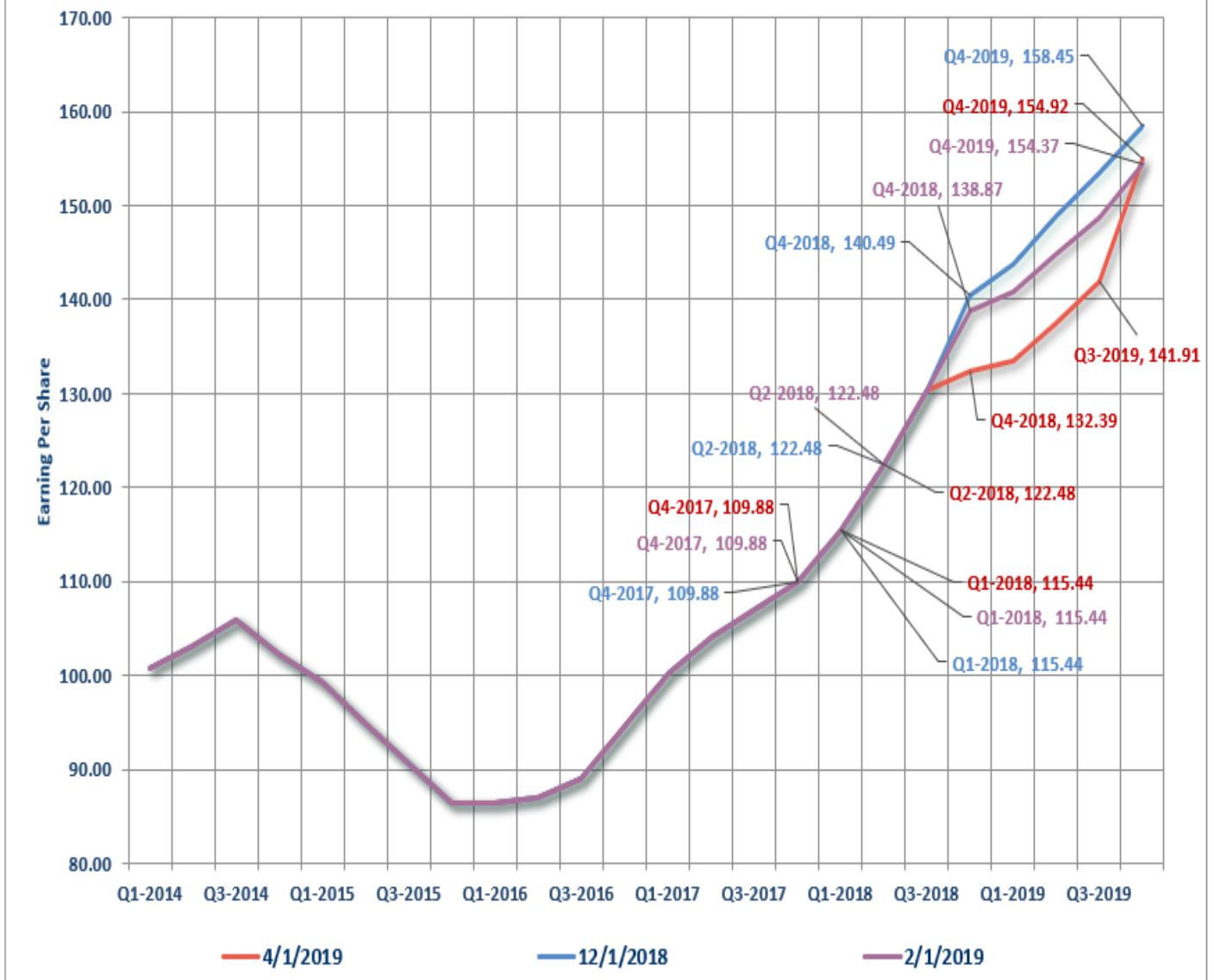
Importantly, since 2009, the reported earnings per share of corporations has decreased from 353% in Q2-2018 to just 285% in Q4. However, even with the recent decline, this is still the sharpest post-recession rise in reported EPS in history. **Moreover, the increase in earnings did not come from a commensurate increase in revenue which has only grown by a marginal 56% during the same period.** (Again, note the sharp drop in EPS despite both tax cuts and massive share buybacks. This is not a good sign for 2019.)



The reality is that stock buybacks create an illusion of profitability. Such activities do not spur economic growth or generate real wealth for shareholders, but it does provide the basis for with which to keep Wall Street satisfied and stock option compensated executives happy.

The next chart shows the slide in estimates just since December. Forward expectations have fallen as economic realities continue to impale overly optimistic projections. Just since February, the estimates for the front half of 2019 have plummeted.

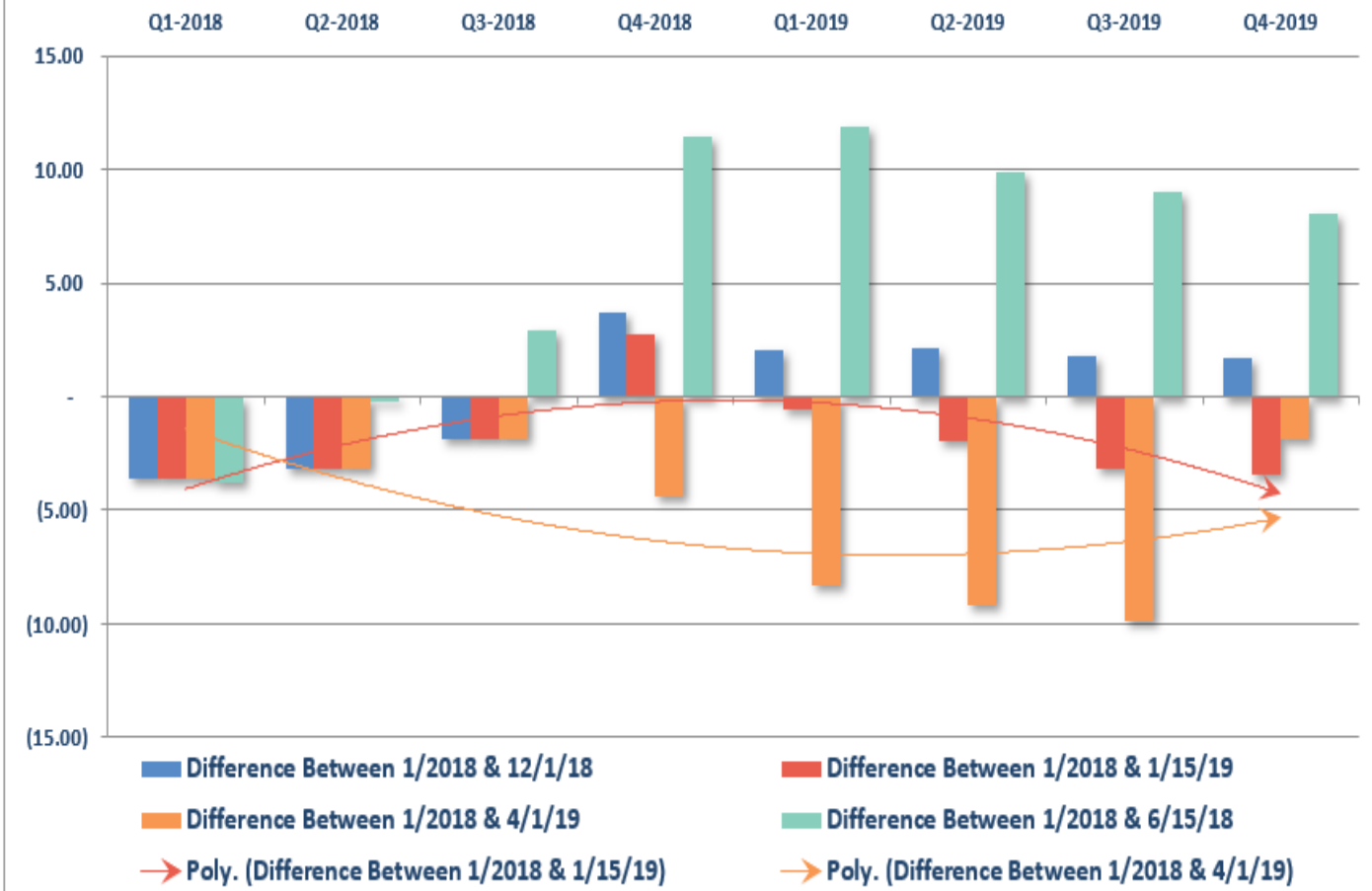
Estimates On The Decline



The chart below shows the changes in estimates a bit more clearly. It compares where estimates were on January 1st, 2018 versus June and December of 2018 and January and April of 2019. You can see the massive downward revisions to estimates from June of last year to April of this year. As I stated above, this is why a high percentage of companies ALWAYS beat their estimates. Had analysts been required to stick with their original estimates, the beat rate would be close to zero;

Earnings Estimates - The Fade Continues

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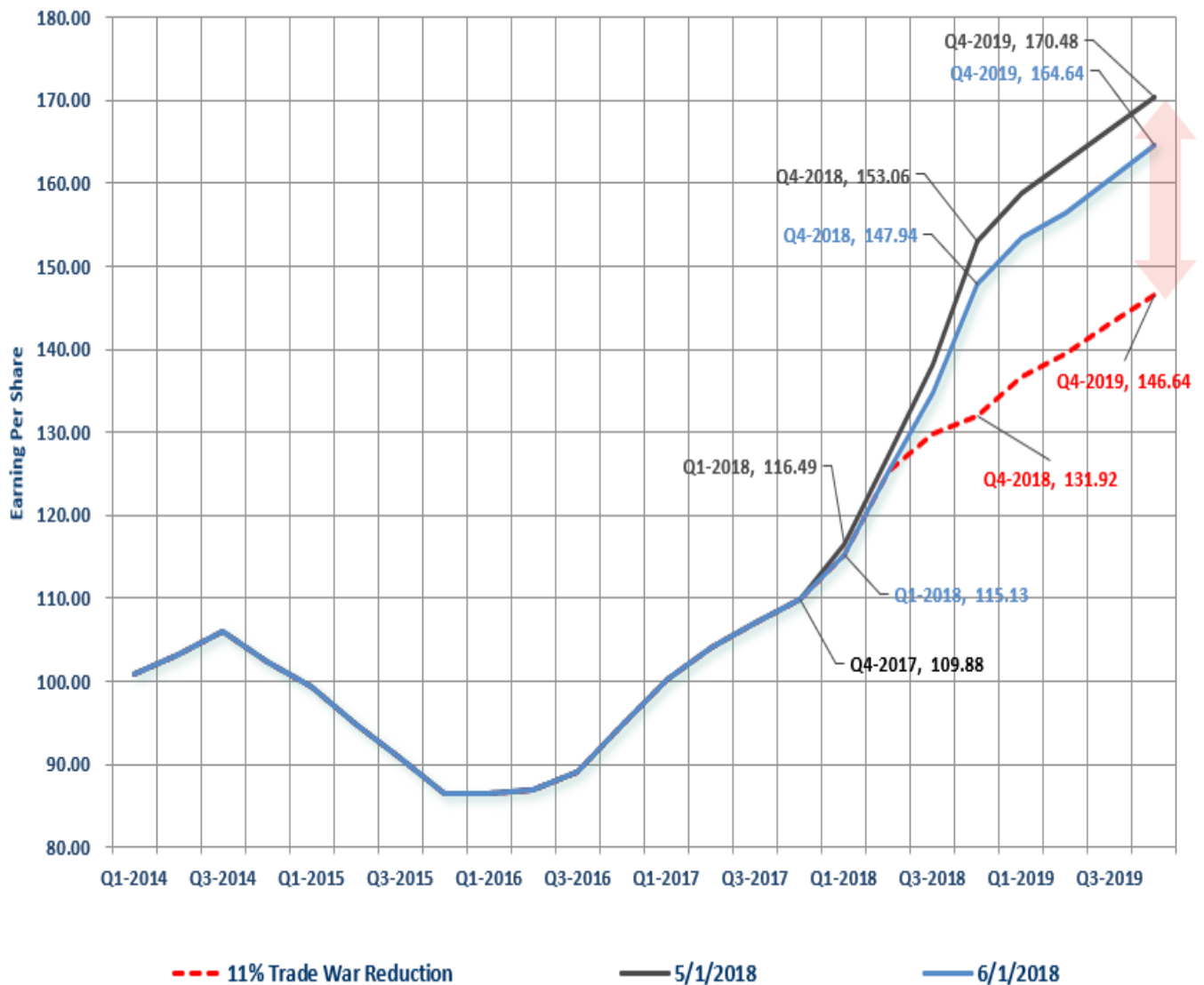


This is the part where I get to say "I told you so."

In June of 2017, I wrote ["The Drums Of Trade War"](#) stating:

"Wall Street is ignoring the impact of tariffs on the companies which comprise the stock market. Between May 1st and June 1st of this year, the estimated reported earnings for the S&P 500 have already started to be revised lower (so we can play the 'beat the estimate game'). For the end of 2019, forward reported estimates have declined by roughly \$6.00 per share."

A Trade War Would Wipe Out Tax Cut Boost

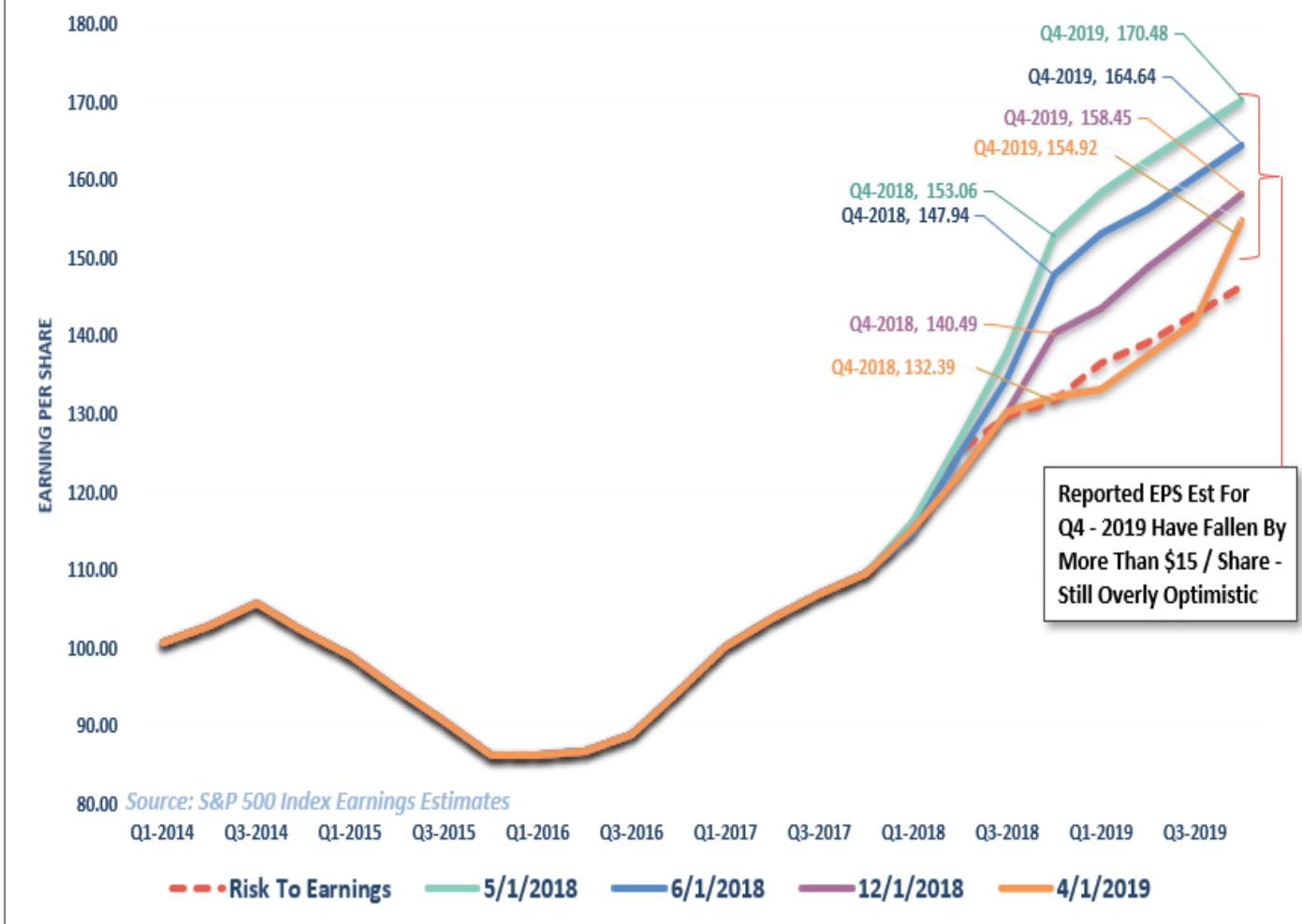


However, the red dashed line denotes an 11% reduction to those estimates due to a 'trade war' where an across-the-board tariff of 10% on all US imports and exports would lower 2018 EPS for S&P 500 companies and, thus, completely offset the positive fiscal stimulus from tax reform.?

Surprise! As of the end of the Q4-2018 reporting period, guess where we are? Exactly 11% lower than where we started which, as stated then, has effectively wiped out all the benefit from the tax cuts.

Downside Revisions Wipe Our Tax Cut Benefits

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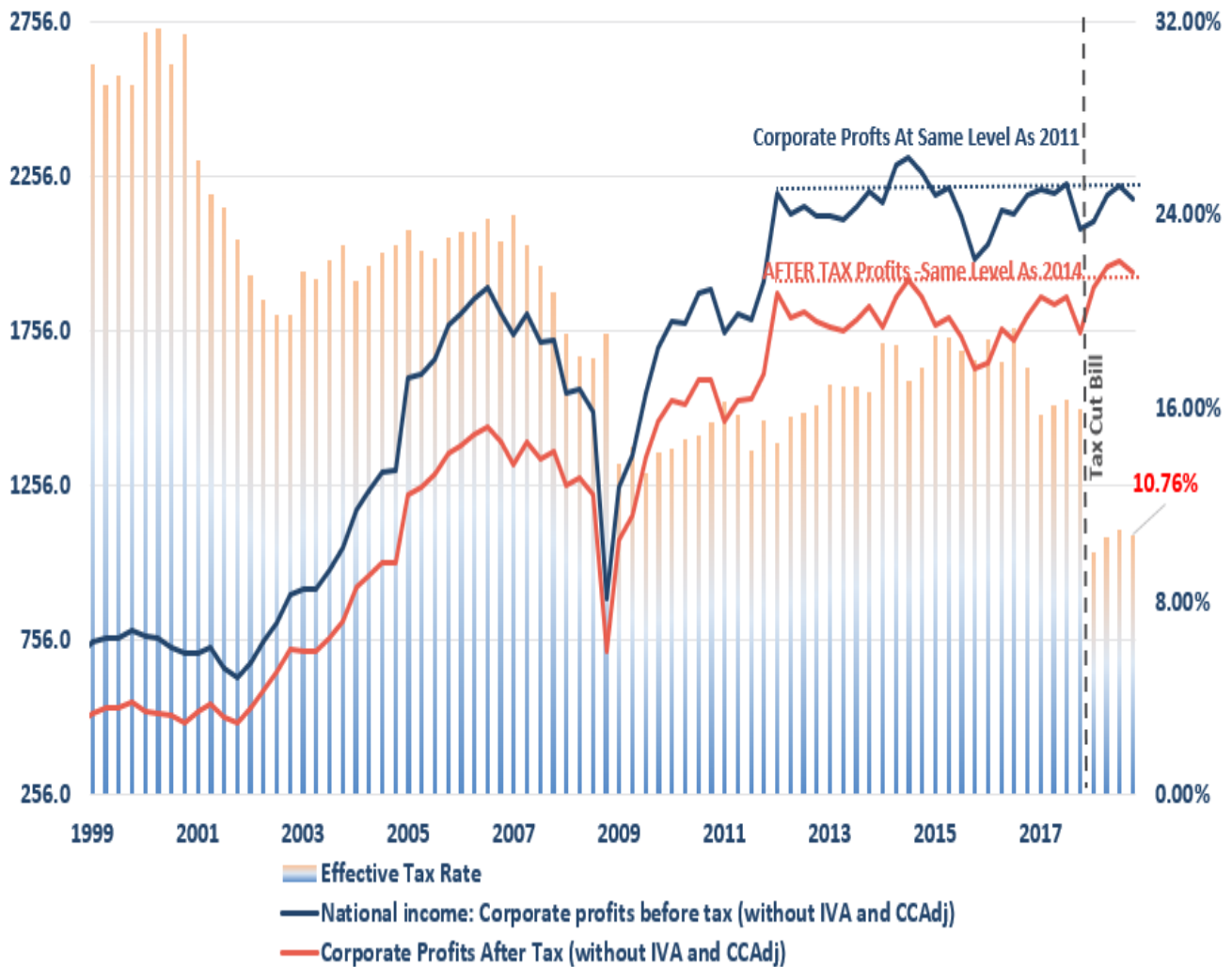
Sadly, as we noted several times in early 2018, the entire piece of legislation to cut corporate taxes was squandered with *Trump's trade war*; which has yet to yield any tangible positive benefits economically speaking.

Importantly, the estimates for the end of 2019 are still too high and will need to be revised lower over the next couple of quarters as economic growth remains materially weaker. The burgeoning debts and deficits, corporate and household leverage, and slower job growth will ensure slower growth into year end.

But since we are playing *"Millennial Soccer,"* let's look at data which is devoid of a lot of the manipulation. Corporate profits, rather than earnings, is what is reported to the Internal Revenue Service for taxation purposes. It strips out the accounting gimmicks found in operating earnings, share buybacks, and other obscuring factors.

While stock prices have surged to all-time highs, corporate profits remain at the same level as they were in 2011 on a pre-tax basis, and 2014 on a post-tax basis despite the massive drop in tax rates.

Corporate Profits Before & After Tax

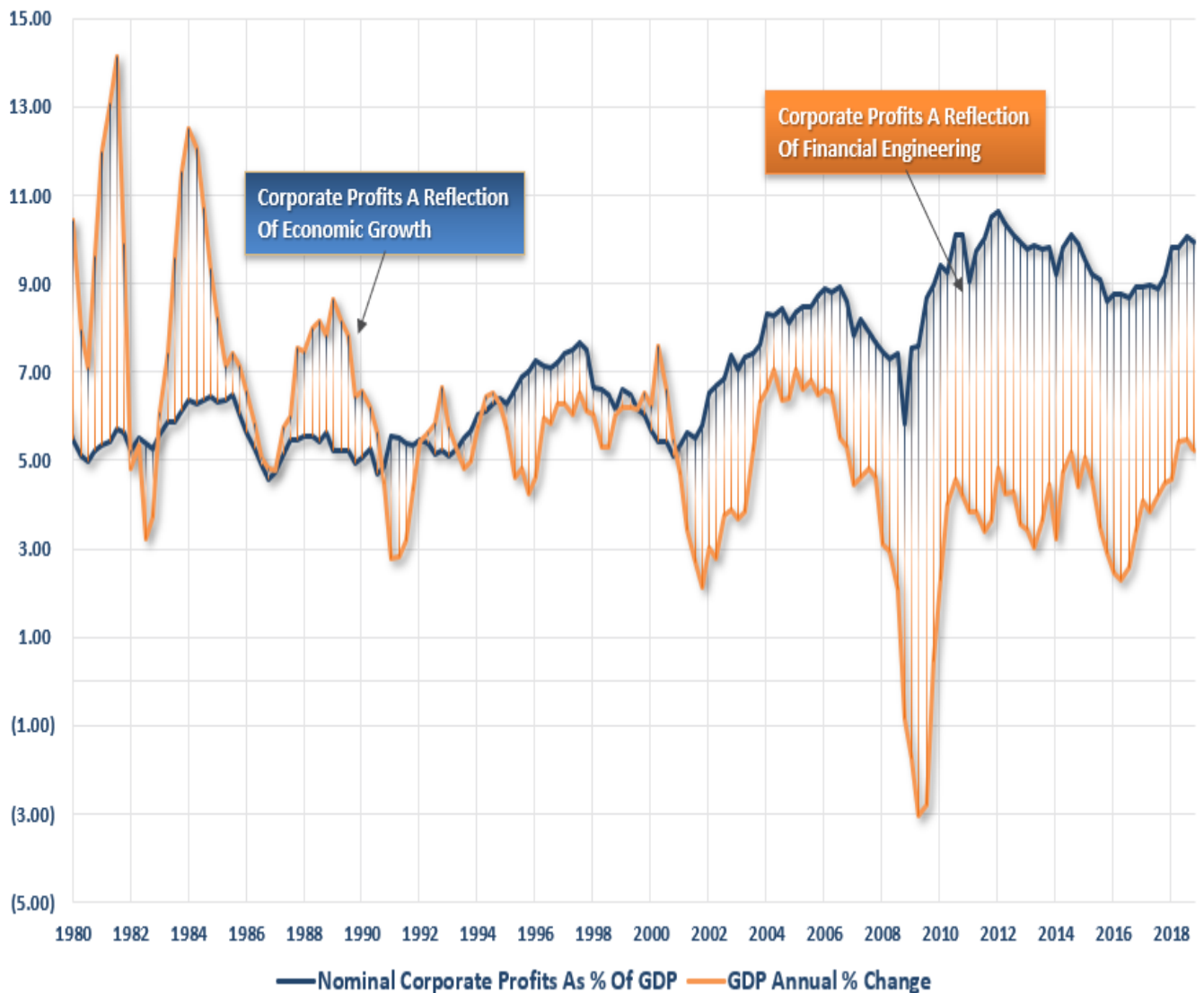


As I [noted Thursday](#):

"While the WSJ is correct that corporate profits now 10% of GDP, up from 6-8% prior to the turn of the century, there are two factors worth noting.

- ***Corporate profits are very diverged from economic growth which is contributing to the wealth inequality issue.***
- ***The profit/GDP ratio is still lower than it was in 2010-2011 despite the massive boost from tax cuts, \$1 trillion in deficit spending, and a booming stock market."***

Profits Have Diverged From Economic Growth



Quick note on Q1-GDP report:

On Friday, the first estimate of Q1 GDP report was much stronger than expected coming in at 3.2% versus estimates of 2.3%. There are a couple of important takeaways from the report:

1. *The first estimate is simply a collection of economists estimates as most of the data for the first quarter has not been fully compiled yet. This suggests the next two estimates will likely be revised lower due to some of the recent softness in data we have seen.*
2. **Almost 50% of the increase in GDP came from slower imports and a massive surge in inventories which suggests slower consumer consumption which comprises roughly 70% of economic growth.** (In other words, future GDP reports will also likely be weaker. (Net Trade and Inventories was 1.68% of the 3.2% rise.)
3. **Had CPI been used rather than the BEA's more questionable measure of "inflation," GDP in the first quarter would have been just 1.56% which is more aligned with the actual activity seen in the first quarter.**
4. *This puts the Federal Reserve in a very tough position of NOT raising rates further and eliminates any possibility of a reduction in the Fed's balance sheet.*

5. Lastly, bonds yields should have surged on this number suggesting a much strong economic growth rate. However, yields fell on Friday signaling that investors are continuing to question both economic growth and the market rally.�

?But?the global slowdown is temporary.?�

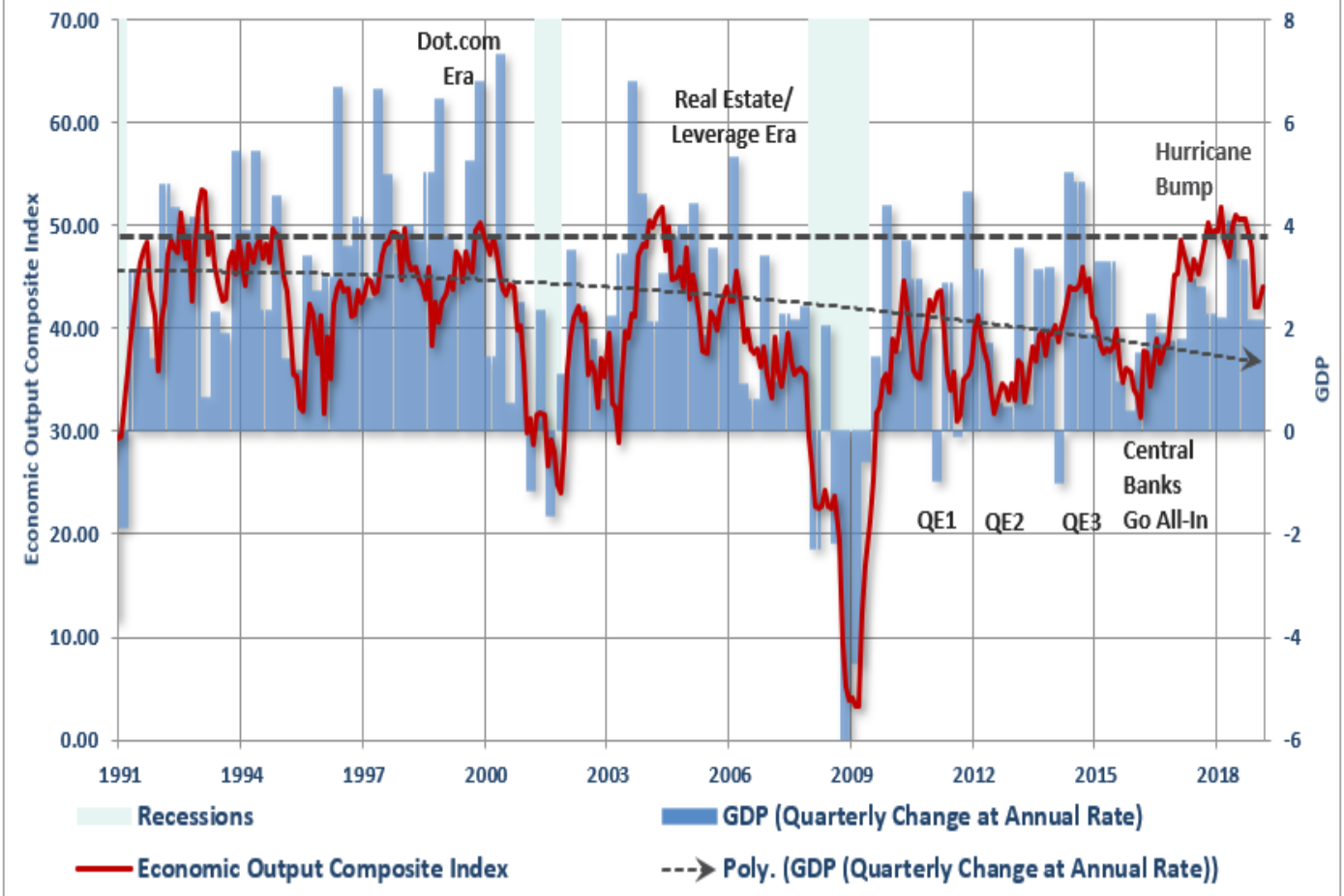
The expectation of an economic recovery to support the continuation of the bull market is likely misplaced for several reasons.

1. The Fed rate hikes that were done in 2018 are still working their way through the economy, Higher rates are impacting economically sensitive sectors like autos, housing, and manufacturing.�
2. Economic growth globally remains weak and is impacting growth in the U.S.�
3. Interest rates, and the yield curve, despite stocks hitting ?all-time? highs are suggesting that economic weakness is likely more pervasive than currently believed.�
4. The rising trend of the U.S. dollar will impact exports which makes up between 40-50% corporate profits.�
5. Imports continue to suggest the U.S. consumer, 70% of the economy, is weaker than headlines suggest.
6. Rising oil prices, and gasoline prices, are a tax on consumers and will further impair economic growth.�
7. Deflation is a rising concern.
8. There is no massive slate of natural disasters to pull forward consumption or boost manufacturing, construction or commodity demand.
9. While deficit spending is certainly supportive of growth, with the deficit already at \$1.2 trillion, the rate of change in deficit spending will not be supportive of stronger economic growth.�

The RIA economic composite index�(a broad composite of hard, soft, and leading indicators and surveys)�has turned lower. Historically, turns from high levels�(dashed black line)�tend to revert to the lower bound suggesting more economic weakness is likely in the quarters ahead.

Economic Composite Index

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Oh...you are just being bearish.

Maybe, but as I stated in Q2 of 2018:

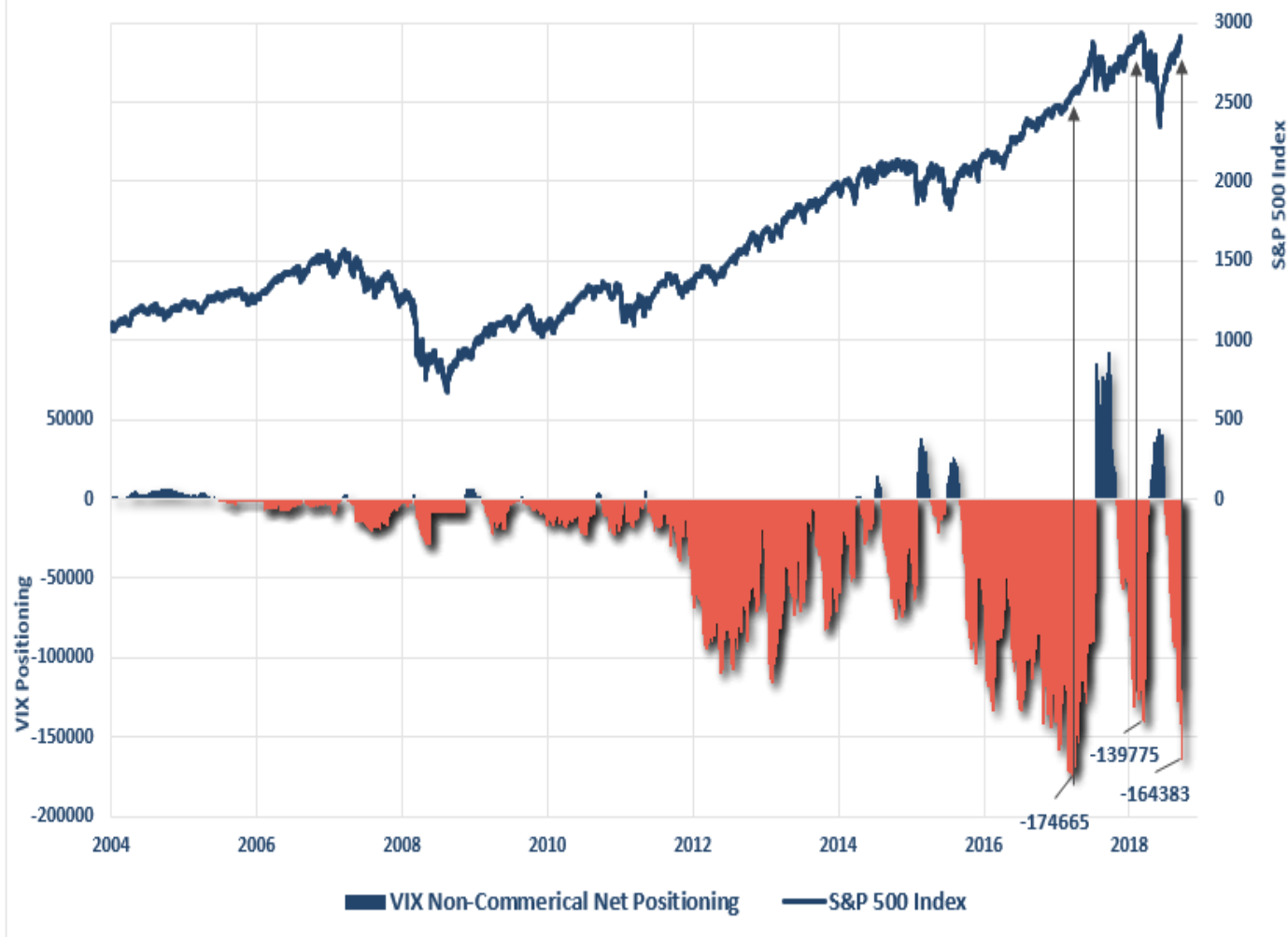
?The deterioration in earnings is something worth watching closely. While earnings have improved in the recent quarter, due to the benefit of tax cuts, it is likely transient given the late stage of the current economic cycle, continued strength in the dollar and potentially weaker commodity prices in the future. Wall Street is notorious for missing the major turning of the markets and leaving investors scrambling for the exits.

Of course, no one on Wall Street told you to be wary of the markets in 2018. While we did, it largely fell on deaf ears.

Currently, there is "no perceived risk" in the markets as represented by the second highest levels of VIX shorts on record.

VIX - Non-Commercial Net Positioning

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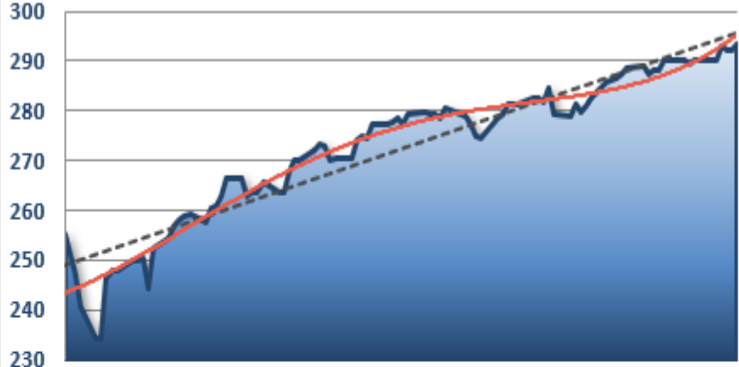
However, "*risk*" is like grabbing the tail of a rattlesnake. Nothing happens at first, but it can whip around and bite you faster than you can imagine.�

See you next week.

Market & Sector Analysis

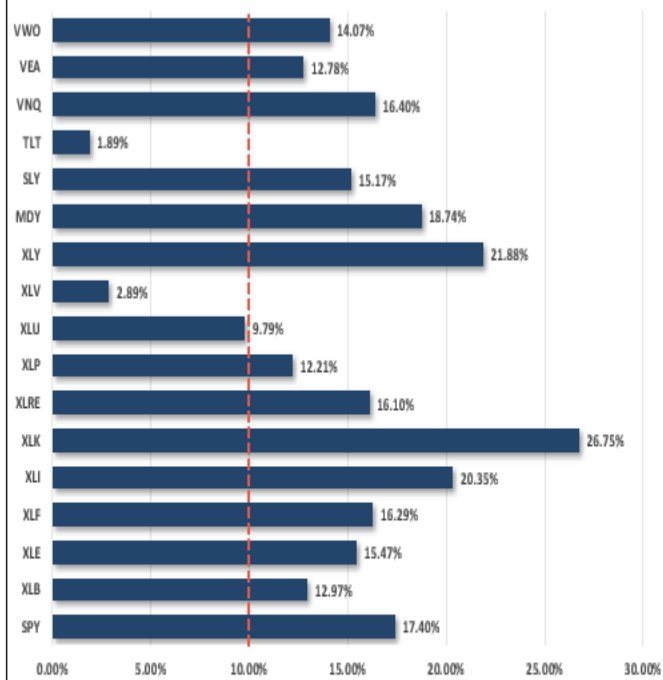
Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

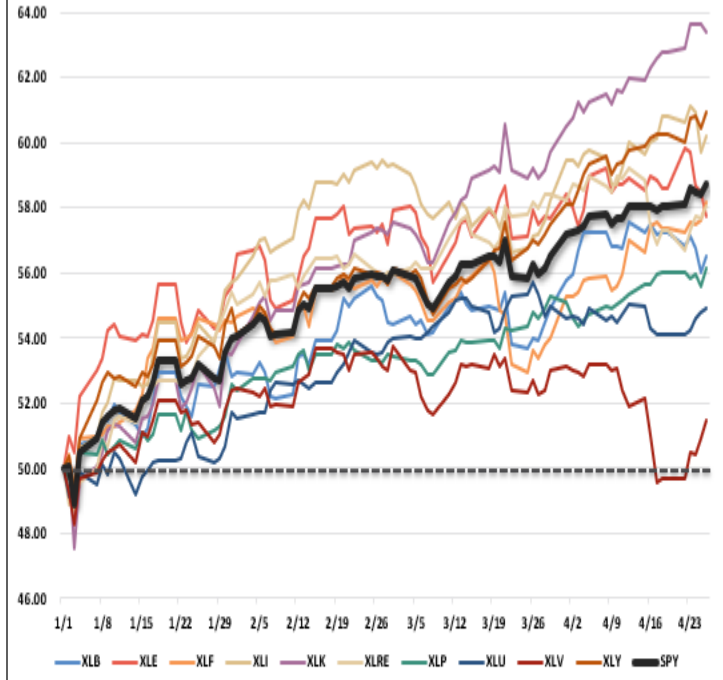
3 Month SPY Price									SPY RISK INFO		ZACKS		REAL INVESTMENT ADVICE	
									Item		T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
									Price Return		23.07%	10.18%	17.40%	71.00%
									Max Drawdown		-20.47%	-20.47%	-3.35%	-83.62%
									Sharpe		0.78	0.81	5.42	5.70
									Sortino		0.87	1.03	7.05	5.84
									Volatility		13.57	14.85	12.14	(0.18)
									Daily VaR-5%		(8.28)	(9.78)	48.32	(5.94)
									Mnthly VaR-5%		(8.06)	(15.37)	48.17	(4.13)
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	1.91%	1.85%	1.82%	(1.31%)	2.18%	1.67%	(16.26%)	9.08%	Shares	2,438.1	2,411.1	(1.11%)		
P/E Ratio	20.75	20.81	18.47	(12.66%)	21.61	16.40	(14.5%)	12.62%	Sales	58,781	63,682	8.34%		
P/S Ratio	3.09	3.25	3.36	3.34%	3.55	2.48	(5.43%)	35.30%	SPS	24.1	26.4	9.55%		
P/B Ratio	3.51	3.76	4.12	8.74%	4.16	2.98	(0.80%)	38.64%	Earnings	8,039	9,601	19.44%		
ROE	15.59%	16.59%	18.73%	11.42%	18.73%	15.00%	0.00%	24.88%	EPS TTM	3.9	4.8	23.86%		
ROA	2.89%	3.13%	3.52%	11.21%	3.52%	2.81%	0.00%	25.18%	Dividend	1.5	1.6	9.40%		
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	(12.17%)	5.34%	1.19	16.35	156.27	12.49	(89.5%)	10.3%	3.3%	6.10%	3.29	17.78		
Materials	(4.79%)	2.68%	1.30	15.14	21.86	13.82	(30.8%)	11.2%	2.0%	6.67%	4.59	15.40		
Industrials	4.75%	9.59%	1.12	17.86	22.22	14.73	(19.6%)	15.6%	1.9%	5.64%	5.27	15.53		
Discretionary	17.20%	10.37%	0.98	25.45	27.60	20.11	(7.8%)	28.3%	1.2%	3.95%	4.85	20.93		
Staples	11.83%	7.11%	0.60	19.35	22.83	17.63	(15.2%)	26.3%	2.8%	5.13%	3.88	18.75		
Health Care	7.03%	13.38%	0.93	16.72	20.62	15.93	(18.9%)	29.2%	1.8%	6.02%	6.37	15.80		
Financials	0.84%	13.04%	1.22	13.58	18.42	11.68	(26.3%)	11.5%	2.0%	7.44%	5.77	11.24		
Technology	22.75%	21.84%	1.21	20.83	21.83	14.47	(4.6%)	38.7%	1.4%	4.82%	5.18	19.13		
Telecom	12.14%	10.37%	0.87	20.91	27.29	17.43	(23.4%)	18.4%	0.9%	4.80%	6.21	18.45		
Utilities	16.94%	3.21%	0.33	19.56	20.31	15.58	(3.7%)	10.7%	3.4%	5.09%	3.58	18.42		
Real Estate	17.40%	2.96%	0.80	19.72	24.47	17.10	(19.4%)	10.3%	3.3%	5.08%	4.27	19.30		
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	293.41	5.78%	283.49	50	3.50%	276.28	35	6.20%	2.61%	(0.18%)	25.52%	Buy		
Mid Cap	359.38	3.01%	349.51	24	2.82%	344.51	21	4.32%	1.45%	(3.93%)	26.34%	Buy		
Small Cap	69.07	(0.32%)	68.09	4	1.45%	69.12	275	(0.08%)	(1.50%)	(11.73%)	22.68%	Sell		

Performance Analysis

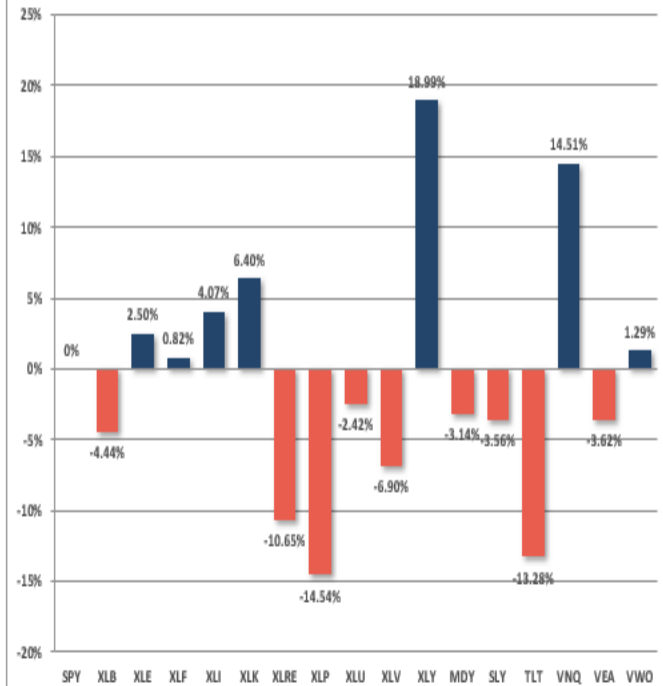
Year To Date Performance



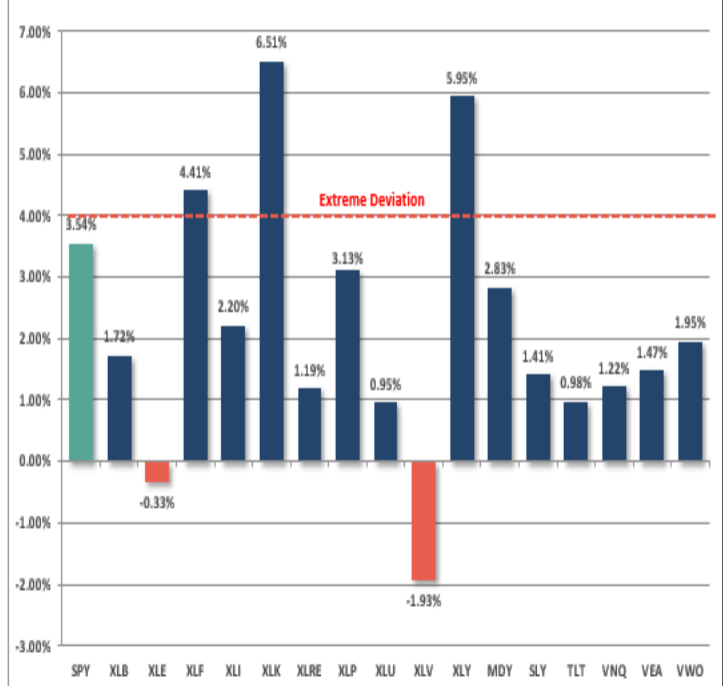
YTD Price - S&P Sectors Recalibrated To \$50/share



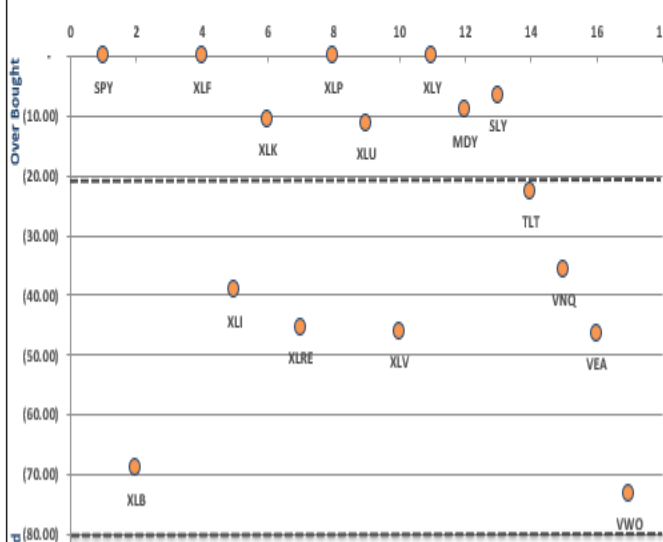
Year To Date Performance Relative To S&P 500



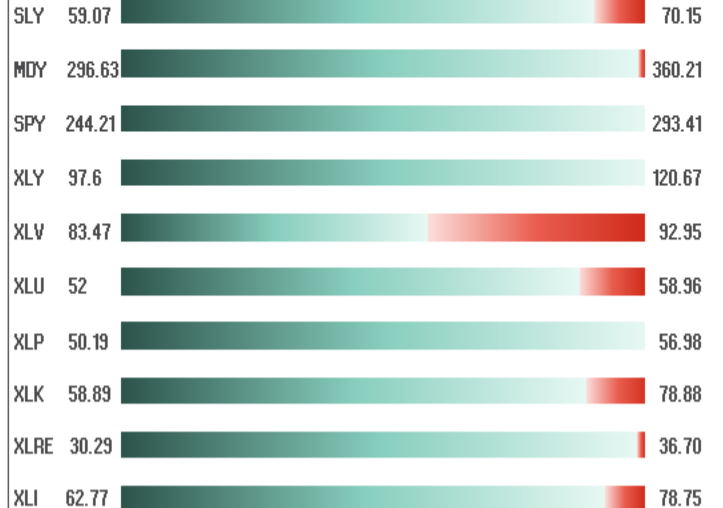
Price Deviation From 50-Day Moving Average



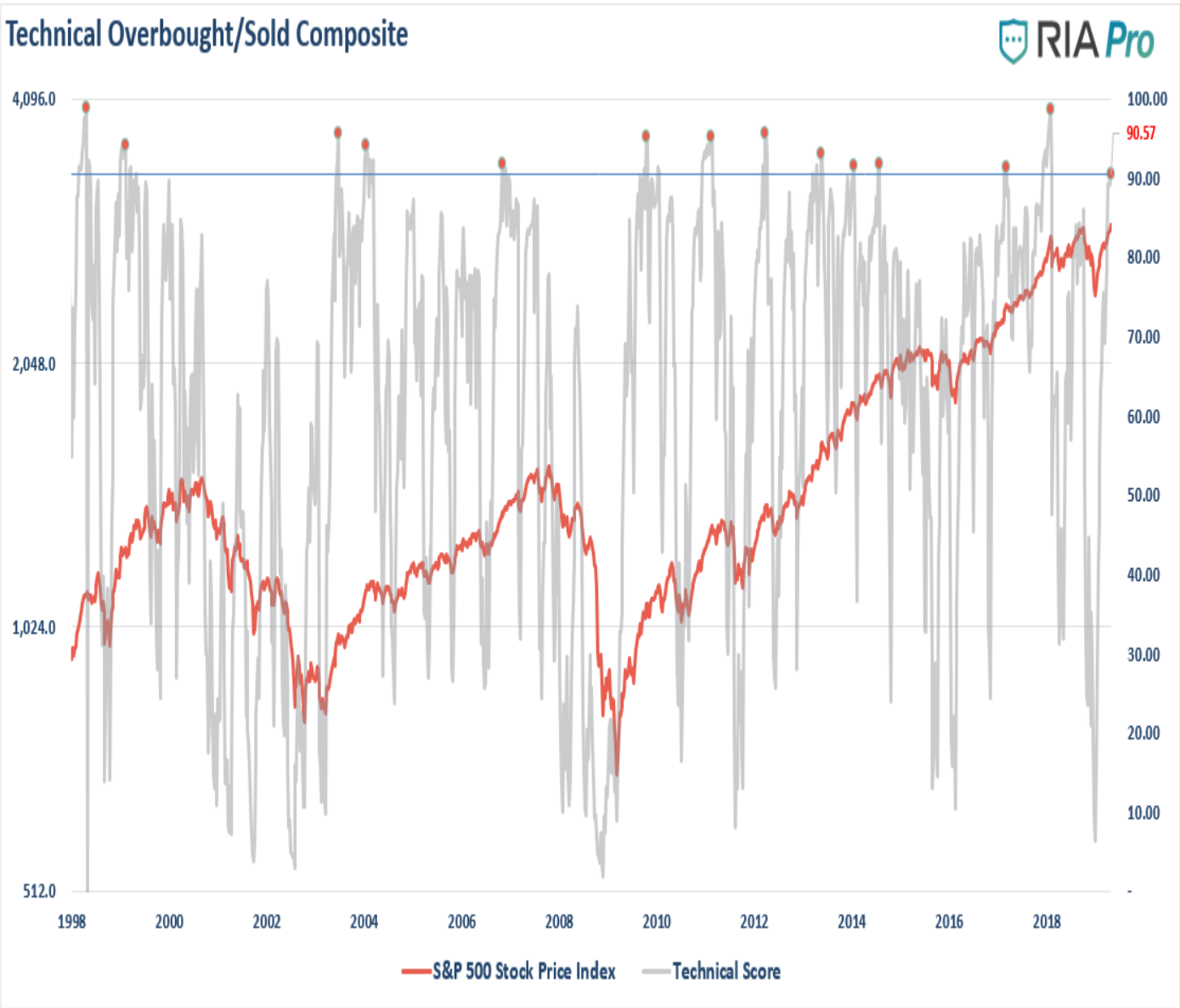
Overbought/OverSold 14-Periods



Size / Sector ETF YTD Trading Range



NEW: Technical Composite



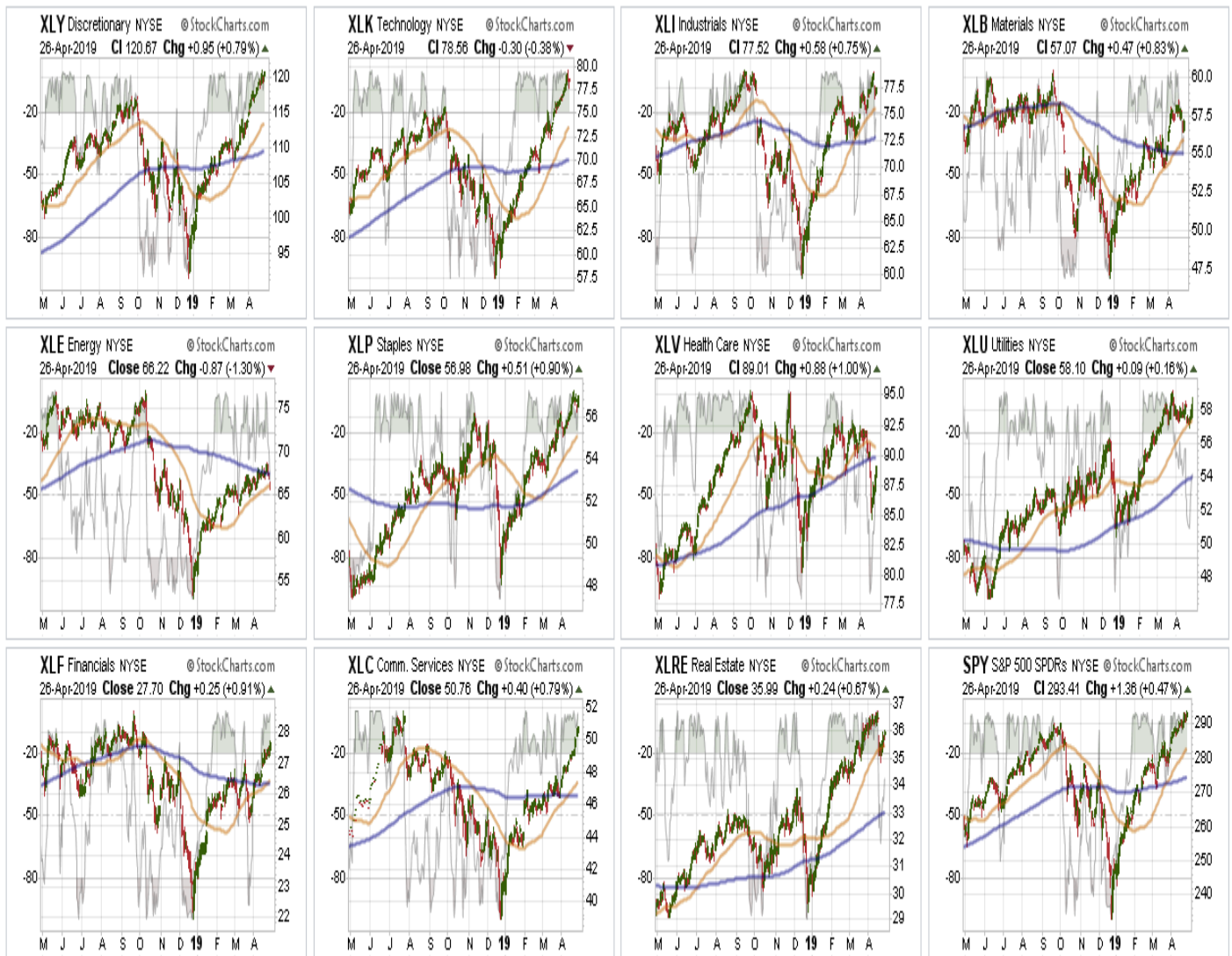
ETF Model Relative Performance Analysis

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					
BENCHMARK		IVV	ISHARS-SP500	295.47	1.19	3.83	8.75	5.54	10.09	282.49	276.70	4.60%	6.79%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	57.07	(2.49)	(1.01)	(2.10)	(1.74)	(11.28)	55.53	54.70	2.77%	4.33%	BUY
		XLE	SPDR-EGY SELS	66.22	(2.63)	(3.68)	(6.70)	(8.87)	(20.39)	65.90	66.73	0.49%	-0.76%	SELL
		XLF	SPDR-FINL SELS	27.70	0.13	3.91	(2.41)	(3.40)	(10.09)	26.41	26.27	4.89%	5.43%	BUY
		XLI	SPDR-INDU SELS	77.52	(2.20)	(0.52)	(0.90)	1.50	(4.17)	75.18	72.96	3.11%	6.25%	BUY
		XLK	SPDR-TECH SELS	78.56	(0.24)	2.33	9.09	6.95	9.14	72.39	69.73	8.52%	12.67%	BUY
		XLP	SPDR-CONS STPL	56.98	(1.00)	(2.28)	(1.68)	(5.26)	2.14	54.85	54.18	3.88%	5.17%	BUY
		XLU	SPDR-UTIL SELS	58.10	0.23	(3.95)	(2.24)	0.35	2.27	56.96	55.09	2.01%	5.47%	BUY
		XLC	SPDR-COMM SV SS	50.76	2.09	4.70	1.67			47.07	45.93	7.85%	10.51%	BUY
		XLV	SPDR-HLTH CR	89.01	2.41	(6.82)	(10.67)	(9.78)	(3.54)	90.63	90.54	-1.79%	-1.69%	BUY
		XLY	SPDR-CONS DISCR	120.67	(0.01)	2.16	3.83	4.14	5.82	112.61	109.35	7.15%	10.35%	BUY
	SIZE	SLY	SALOMON LEASING	69.07	(0.16)	(0.23)	(4.49)	(5.74)	(8.64)	67.81	67.92	1.86%	1.69%	SELL
		MDY	SPDR-SP MC 400	359.38	(0.17)	0.21	(1.42)	(0.72)	(5.65)	346.93	340.78	3.59%	5.46%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	107.84	(0.53)	(0.58)	(1.57)	0.01	(3.07)	104.17	101.52	3.53%	6.22%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	101.11	(1.07)	(2.12)	(2.57)	(1.26)	0.08	98.66	96.19	2.48%	5.11%	BUY
	Real Estate	XLRE	SPDR-RE SELS	35.99	0.11	(4.47)	(3.27)	3.13	5.97	35.30	33.56	1.96%	7.26%	BUY
	International	EEM	ISHARS-EMG MKT	43.88	(2.71)	(1.60)	(6.13)	4.71	(17.24)	43.11	41.54	1.78%	5.63%	BUY
		EFA	EMG MKT FREE AS	66.45	(1.52)	(1.38)	(2.70)	(0.75)	(16.46)	64.60	63.61	2.87%	4.47%	BUY
		IXUS	ISHARS-CR INT S	59.41	(1.81)	(1.53)	(3.60)	0.28	(16.69)	57.94	56.78	2.54%	4.63%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	123.81	(0.45)	(5.91)	(6.39)	3.69	(5.95)	122.33	119.19	1.21%	3.88%	BUY
	International	BNDX	VANGD-TTL INT B	55.78	(0.85)	(3.82)	(6.83)	(3.21)	(7.93)	55.25	54.81	0.95%	1.77%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.97	(0.85)	(3.26)	(6.04)	(2.45)	(8.68)	85.79	84.73	1.37%	2.64%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.50										

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



Looking at sectors on a "relative performance" basis to the S&P 500 we have seen some rotations in leadership over the last week.

Improving - Energy

As noted last week, the pick up in oil prices has contributed to better performance in the energy sector.

"The pick up in oil prices has contributed to better performance in the energy sector. However, the sector continues to struggle with its 200-dma and is at risk of some corrective action."

That action began on Friday as oil prices slid after Trump tweeted that he had called OPEC complaining about high gasoline prices. (I don't he actually called anyone and this was an off the cuff tweet to move markets.)

The good news is the 50-dma is holding for now. A break below the 50-dma and we will likely see further deterioration. Energy is still in a negative trend and is triggered a sell signal on Friday. As noted last week, take profits

Current Positions: 1/2 Position in XLE

Outperforming - Materials, Technology, Industrials, Discretionary, Communications

Communications joined the "outperforming group" this week, however, with the exception of Technology, the outperformance of these sectors is fading. Discretionary and Technology continued their lead this past week after breaking out to all-time highs three weeks ago. **Both of these sectors are GROSSLY overbought so it is a good idea to take profits and rebalance portfolio risks accordingly.** Industrials performance lead over the S&P 500 is weakening but the sector is still performing well with Materials on the hopes of a trade resolution. Both of these sectors are also extremely overbought, so take some profits, rebalance portfolios, raise stops but remain long for now

Last week, we trimmed Technology and increased our weight in Healthcare.

Current Positions: XLB, XLI, XLY, XLK - Stops moved from 200 to 50-dma's.

Weakening - Real Estate, Utilities

Despite the "bullish" bias to the markets, the more defensive sectors of the markets, namely Utilities and Real Estate, have continued to attract buyers. That remained the same this week, particularly as bond yields declined following the GDP number which showed a weakening economic environment despite a strong headline print. As I noted over the last two weeks, these sectors were "very extended and overbought" and a correction was likely. Both of these sectors have now corrected back to their 50-dma and are now oversold on a short-term basis. This provides a decent entry opportunity for positioning as a defensive play against a likely rotation out of Technology and Discretionary holdings.

Current Position: XLU, will add XLRE opportunistically

Lagging - Healthcare, Staples, Financials

Staples have pushed out to all-time highs as money continues to chase the sector. However, its performance, while positive, is lagging the S&P 500 overall. Staples remain on a buy signal but are extremely overbought and extended. Take profits and rebalance in portfolios.

Financials have perked up lately on the back of earnings from the major banks. As noted last week, we are giving the sector some room and will re-evaluate holdings again next week.

As noted last week:

*"Healthcare continues to struggle with repeated calls from political candidates for 'Government sponsored health care.' **This is very unlikely to happen, and Healthcare is likely setting up to gain from a rotation from offense to defense in the market.** This sector is sitting on support, is extremely oversold, and whose companies are financially healthy."*

Last week, we overweighted healthcare in our portfolio model.

Current Positions: XLF, XLV, XLP

Market By Market



Small-Cap and Mid Cap - Small Cap stocks continue to lag the rest of the market and remain confined within the context of a broader downtrend. Small caps once again failed their 200-dma, and trapped between the 200-dma and 50-dma just below its close last week. A break of the 50-dma will likely lead to a deeper decline. Conversely, Mid-Caps are performing better as of late and have broken out of its consolidation over the last couple of months. With the 50-dma crossing above the 200-dma, look for a pullback towards the 50-dma to increase exposure to Mid-caps.

Current Position: None

Emerging, International & Total International Markets

As noted last week,

"Emerging Markets continue to perform better as of late but are extremely overbought in the short-term. We are looking for a pullback which holds support to increase our holdings in that market."

EEM did pull back to the 50-dma last week, and held support, so positions can be added with a very tight stop at the 50-dma currently. The rising dollar is a risk to emerging markets, so a break below the 50-dma will suggest a reduction in weightings.

Major International & Total International shares also are performing much better despite global economic weakness and a stronger dollar. This is probably misplaced optimism but nonetheless, the technical backdrop has improved enough to warrant adding a position on a pullback that holds support and works off some of the extreme overbought condition.

Stops should remain tight at the running 50-dma which is also previous support.

Current Position: *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 remain currently at target portfolio weights but all three of our core positions are grossly overbought. A correction is coming, it is now just a function of time.

Current Position: *RSP, VYM, IVV*

Gold ? Gold continues to perform poorly despite concerns over the Fed, policy, and monetary policy. As noted last week:

"Gold broke support at \$121 last week which suggests reducing exposure to the metal in portfolios. However, short-term gold is extremely oversold so a bounce is likely which can be used to sell into. Gold must get above \$121 to reverse the 'sell' condition."

The reason we don't always execute immediately when stops are broken is because when positions violate stop-loss levels it is generally in a very oversold condition and a bounce is likely. That bounce occurred as expected last week, and gold closed above \$121 holding previous support. However, while support is holding, it must continue to do so next week.

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

Bonds?

As noted last week, 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 not oversold yet, so keep a close watch on holdings. It is still likely in the short-term we would see rates move towards 2.6%. There is a potential for rates to climb as high as 2.85%, but that move is quite unlikely in the current economic environment.

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

High Yield Bonds, representative of the "risk on" chase for the markets, corrected last week but remain extremely overbought. If the S&P 500 corrects next week, it will pull high-yield (junk) bonds back towards initial support at the 50-dma. Last week, we recommended taking profits and rebalancing risk accordingly. International bonds, which are also high credit risk, have been consolidating over the last couple of weeks, but remains very overbought currently which doesn't offer a decent reward/risk entry point.

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	Notes
		Over Bought / Sold	50/200 DMA	Trend	Action							
XLY	Discretionary	OB	Positive	Positive	Hold			X				Take Profits
XLK	Technology	OB	Positive	Positive	Hold			X				Take Profits
XLI	Industrials	OB	Positive	Neutral	Hold			X				Take Profits
XLB	Materials	OB	Improving	Neutral	Hold			X				Take Profits
XLE	Energy	OB	Improving	Negative	1/2 Position			X				Hold Position
XLP	Staples	OB	Positive	Positive	Hold			X				Take Profits
XLV	Health Care	Improving	Neutral	Neutral	Add		X					Overweight Position
XLU	Utilities	Neutral	Positive	Positive	Hold			X				Look To Add
XLF	Financials	OB	Improving	Negative	Hold			X				Hold Position
XLC	Telecom	OB	Positive	Neutral	No Position					X		Look To Add
XLRE	Real Estate	Neutral	Positive	Positive	No Position					X		Look To Add
SLY	Small Caps	OB	Negative	Negative	No Position					X		Failed At 200-DMA
MDY	Mid Caps	OB	Improving	Neutral	No Position					X		Look To Add On Pullback
EEM	Emerging Mkt	OB	Positive	Improving	Hold			X				Hold
EFA	International	OB	Positive	Improving	Trade Oppty					X		Look To Add On Pullback
IXUS	Total International	OB	Positive	Improving	Trade Oppty					X		Look To Add On Pullback
GLD	Gold	OS	Positive	Neutral	Warning			X				Holding Support
RSP	SP500 Equal Wgt	OB	Positive	Neutral	Hold			X				Reduce to Target Weight
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X				Reduce to Target Weight
IVV	SP500 Market Wgt	OB	Positive	Neutral	Hold			X				Reduce to Target Weight
TLT	20+ Yr. Bond	Neutral	Positive	Positive	Hold			X				Hold
HYG	Corporate High Yield	OB	Positive	Positive	No Position			X				Look To Add On Pullback
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position			X				Look To Add On Pullback
LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING						X	No Position					

Portfolio/Client Update:

With our near term buy signals in place, we continue to let our equity holdings ride the wave of the market and are looking to opportunistically take on exposures as they present themselves. With earnings season now underway there will be bid under stocks as companies "beat" drastically lowered "expectations."

There were some minor changes this past week. As noted last week, we stated there was a "coming opportunity to add to our healthcare position." We have done that recently;

- **New clients:** We continue to onboard clients and move into specified models accordingly.
- **Equity Model:** We added to our healthcare positions and are looking to do so again in the near future. We sold 1/2 of Exxon Mobil (XOM) after its strong run, extended oil prices, and missed earnings. We will look to add back into the position on a further correction. We are looking at all of our positions currently to take some profits (10-20% of overbought, extended, holdings) and adding more to our healthcare and real estate holdings.
- **ETF Model:** No changes. - We trimmed Technology (XLK) back to target portfolio weights in accounts (no action was taken if position was already at target) and overweighted Healthcare (XLV).

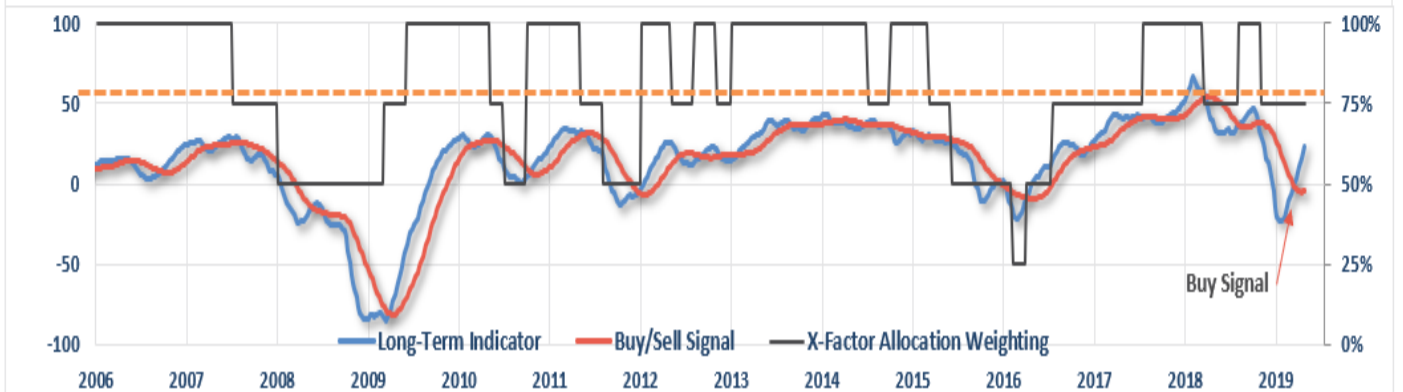
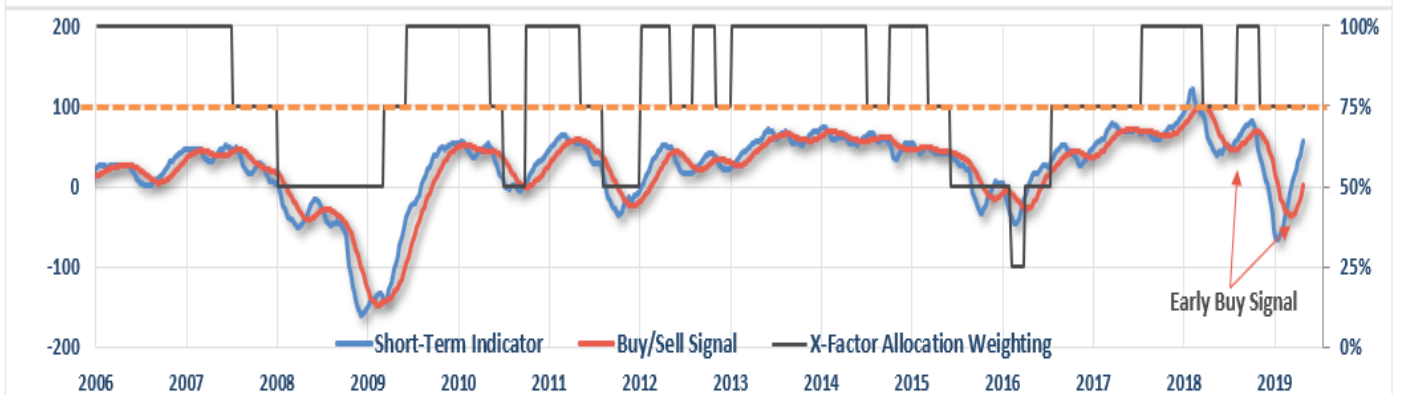
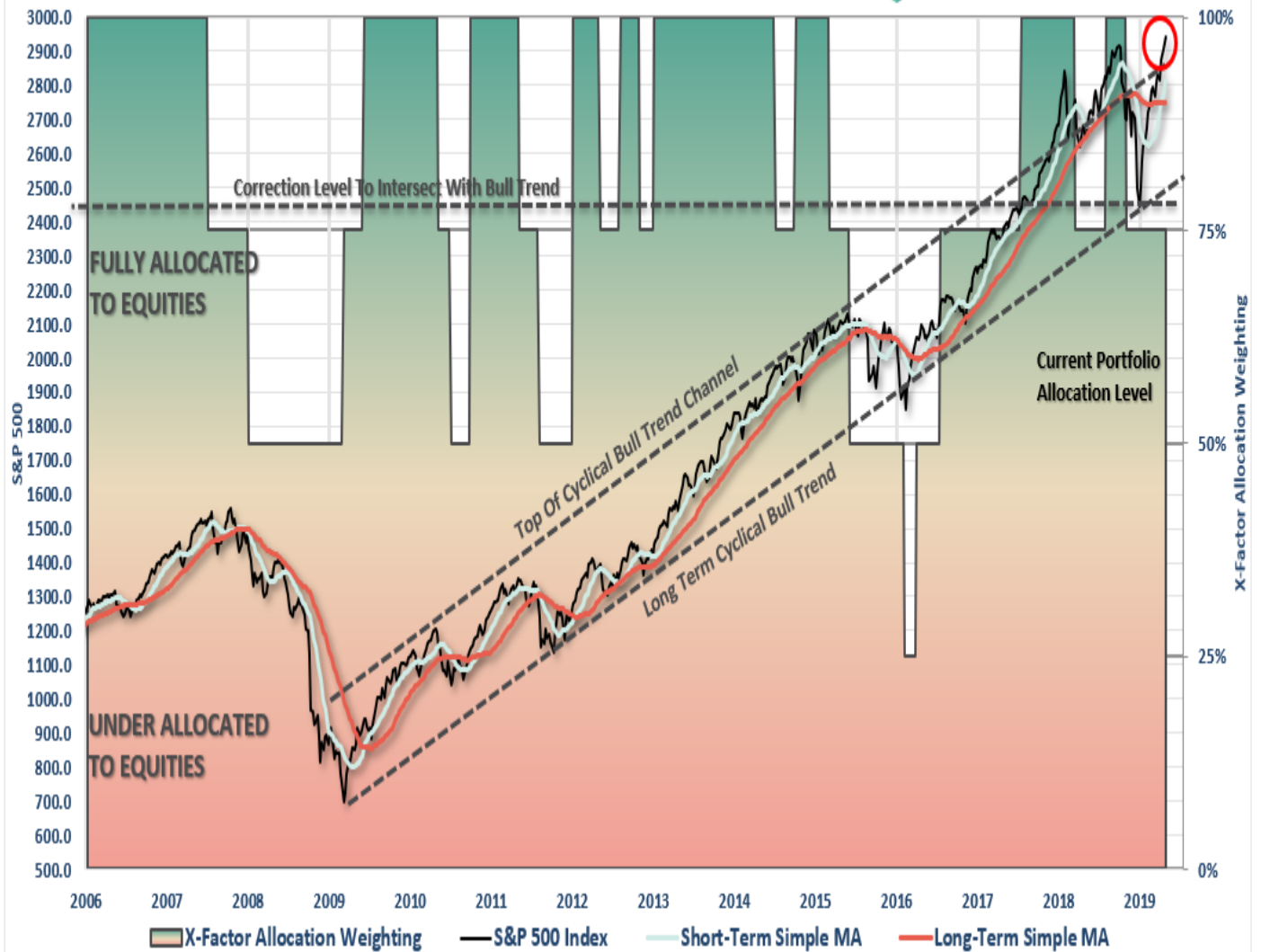
Note for new clients:

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](#)

New Highs

The market struggled most of the week, but did finally breakout to new highs this past week. However, that breakout comes on light volume, extremely overbought and extended markets, and close to triggering very short-term sell signals.

As is always the case, by the time these more "bullish" actions occur, the risk/reward opportunity in the short-term is not generally favorable. In this case, in particular, the angle of ascent of the markets from the December lows has been more abnormal than not.

I understand. The general feeling right now is one bordering on near panic as it "seems" this market simply won't ever correct again.

Don't fall into that trap. Your opportunity is coming soon.

With both "buy" signals now in place we **WILL move target allocations move to 100% equity exposure on any corrective actions which reduces the extreme overbought short-term condition without violating important support.**

In the meantime, we can prepare for this opportunity by continuing our actions we have recommended over the last several weeks.

- If you are **overweight equities** - take some profits and reduce portfolio risk on the equity side of the allocation. However, hold the bulk of your positions for now and let them run with the market.
- If you are **underweight equities or at target** - remain where you are until the market gives us a better opportunity to increase exposure to target levels.

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

Exciting News - the 401k Plan Manager is "Going Live"

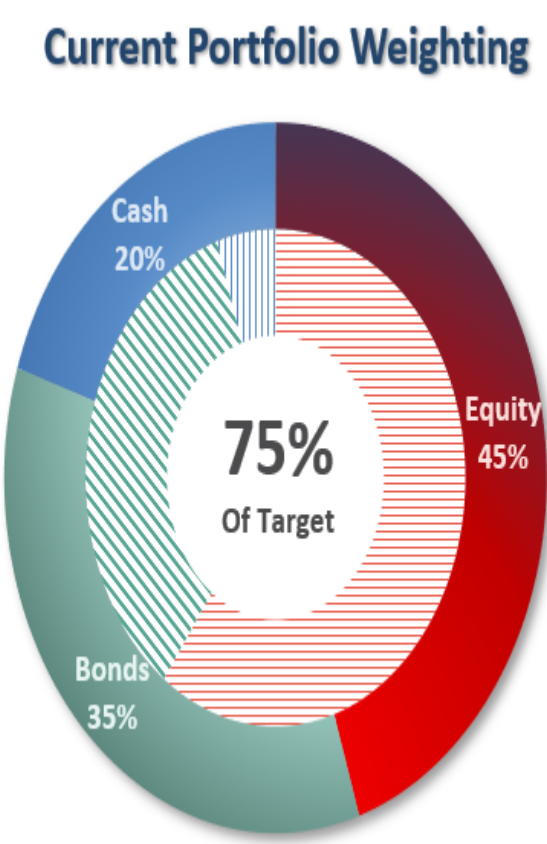
We are making a "LIVE" version of the 401-k allocation model which will soon be available to [RIA PRO subscribers](#). You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more.

This service will also be made available to companies for employees. If would like to offer our service to your employees at a deeply discounted corporate rate [please contact me](#).

Stay tuned for more details over the next couple of weeks.

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 401k Allocation Model	
20.00%	Cash + All Future Contributions <i>Primary concern is the protection of investment capital</i> Examples: Stable Value, Money Market, Retirement Reserves
35.00%	Fixed Income (Bonds) <i>Bond Funds reflect the direction of interest rates</i> Examples: Short Duration, Total Return and Real Return Funds
45.00%	Equity (Stocks) <i>The vast majority of funds track an index. Therefore, select on ONE fund from each category. Keep it Simple.</i> 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