RIA Advice

The Bulls Continue To Bet On The Fed

- ***Market Review & Update***
- ***The Bulls Continue To Bet On The Fed***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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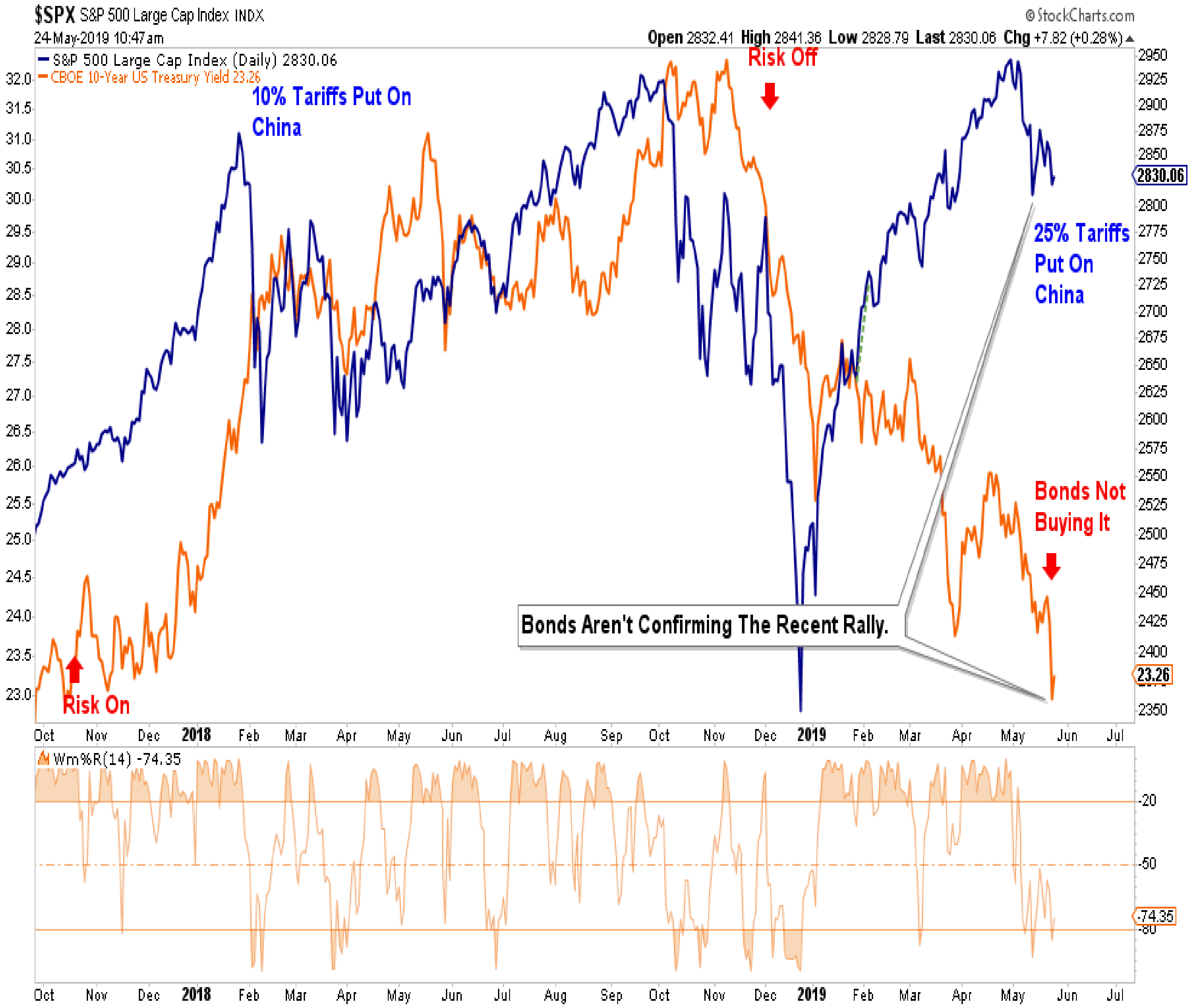
Market Review & Update

Over the last several weeks, we have been discussing the potential for a market correction simply due to divergences in the technical indicators which suggested near-term market risk outweighed the reward. As is generally the case, bonds have been warning the bullish bias of equity investors was likely misplaced. I have updated last week's chart for reference.



&#2013266080;

The increase in risks has had us rotating exposure in our portfolios to a more defensive tilt. We previously trimmed back our overweight exposure to Technology, Then, **two weeks ago, we noted we further tweaked client portfolios by reducing exposure to *"trade sensitive"* areas by selling half of our holdings in Industrials, Materials, and Discretionary areas.&#2013266080;**

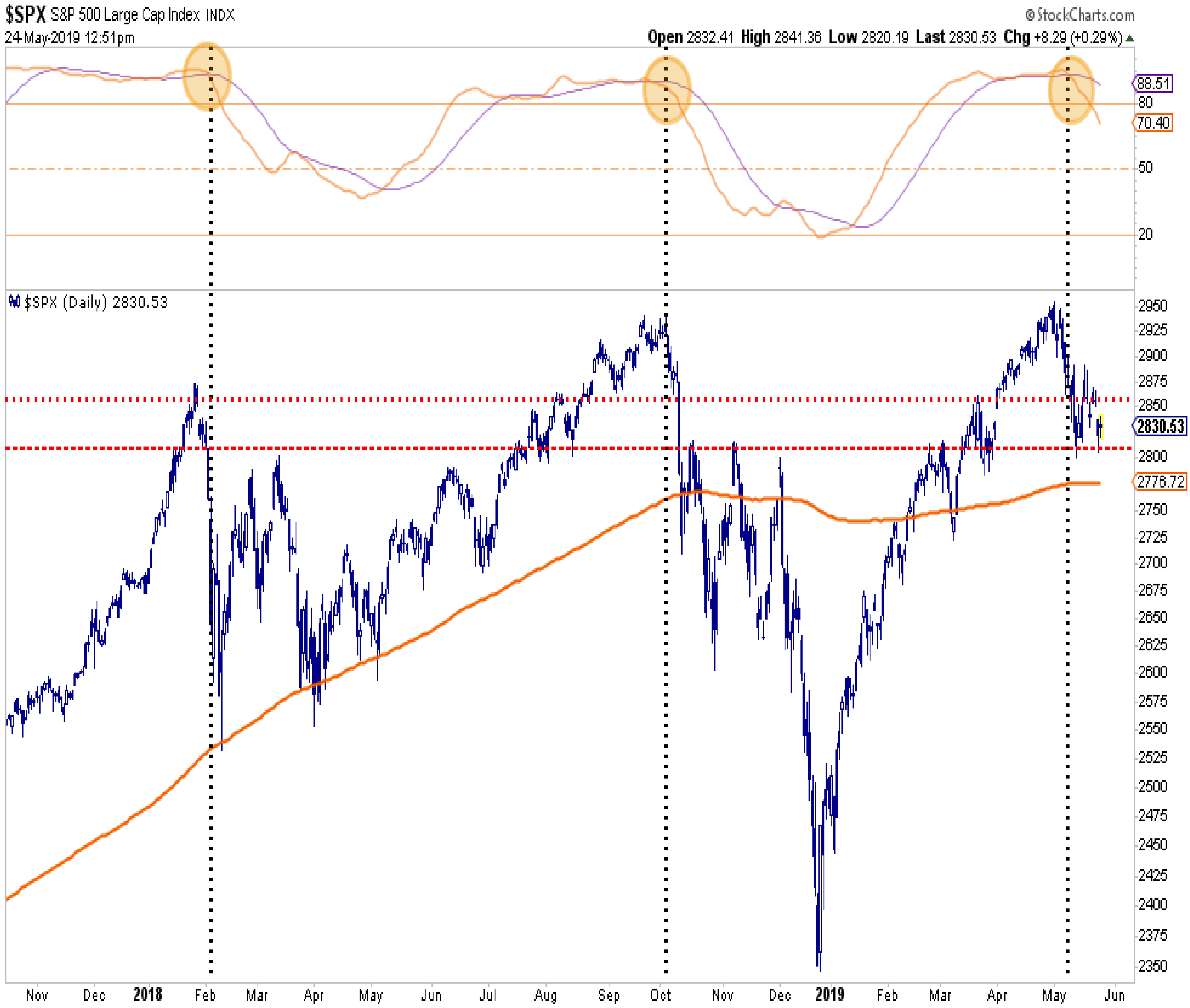
Last week, we continued to process of the defensive rotation, reducing risk, and rebalancing allocations. ***(We publish our model changes in real-time*** *for our&#2013266080;* ***RIA PRO subscribers*****. *(Try NOW and get 30-days FREE)***

> *"As noted in our newsletter over the last couple of weeks,* ***we are seeing the early signs of a defensive rotation in equities due to the resurgence of the trade war. Therefore, we are moving our allocations accordingly to participate with the rotation.***
>
> ***We are adding to our real estate exposure, which is interest rate sensitive,&#2013266080; and we are overweighting our defensive holdings in utilities and staples.***
>
> ***After recently lengthening duration in our bond portfolios,*** *we will look for a short-term reversal in rates, which will coincide with a counter-trend market bounce,* ***to add further to our position in IEF."***

Importantly, we still maintain a long-bias towards equity risk, but that exposure is hedged with cash and bonds which remain at elevated levels. ***(I published an investing resource for you last week: 10 Illustrated Truths About Investing & The Markets)***

Looking Forward

Currently, on a very short-term basis, the markets have worked off some of the overbought condition from last month and, importantly, has held support at the Oct-Nov 2018 highs. There is additional support at the 200-dma just below current support at 2775. These are key support levels for the S&P 500 as we head into the summer months and, if the bulls are going to maintain their stance, must hold.



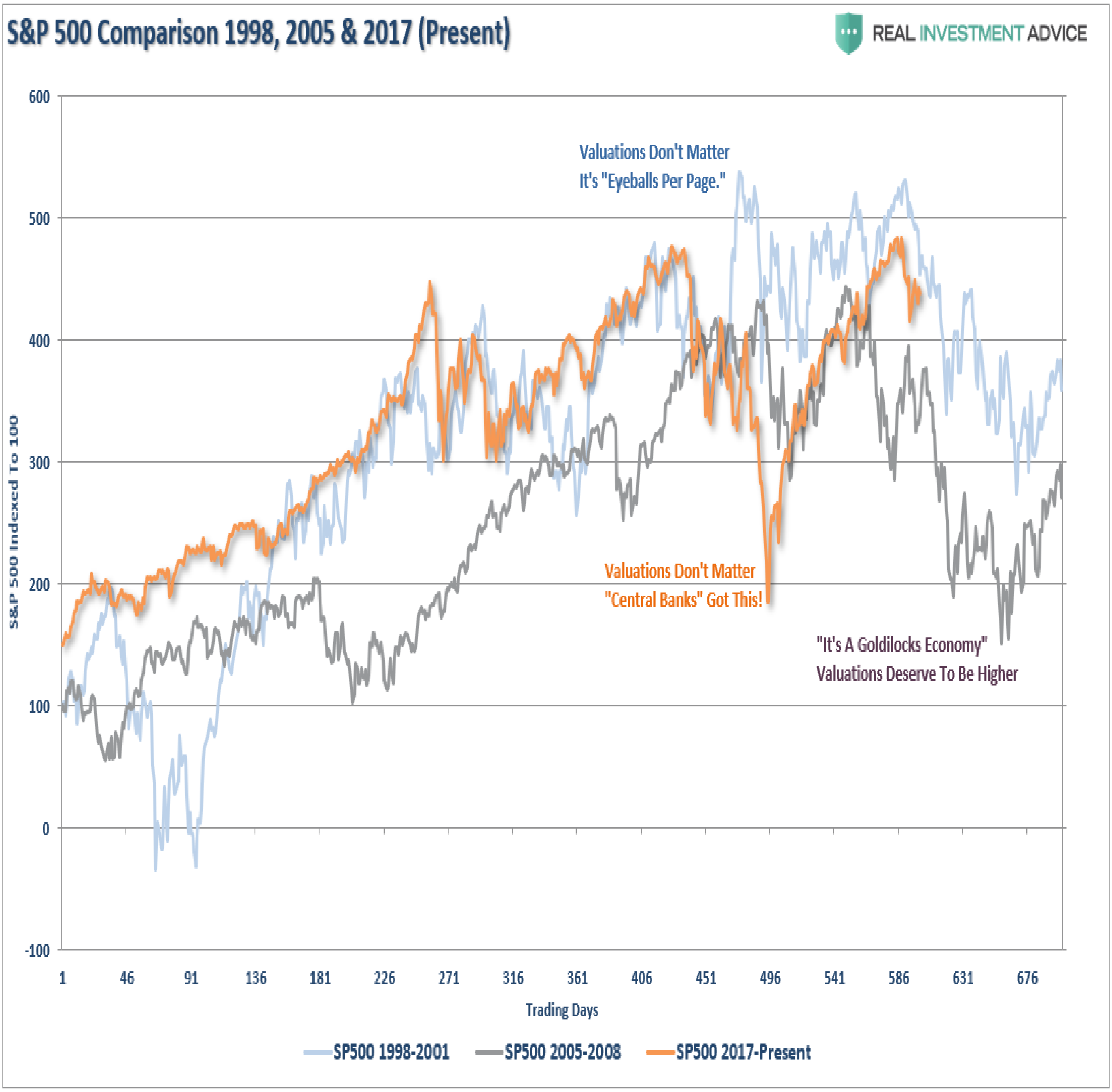
The reason we maintain a more defensive posture is the triggering of the intermediate-term *"sell signal" (yellow highlights above)* suggest that prices will remain under pressure for a while longer. *(Hence the rotation to defensive positioning.)*

Let me reiterate four very crucial points **the markets have NOT factored in just yet:**

1. ***There will be NO TRADE DEAL*** *any time soon. (China is buckling down for a long fight.)*
2. ***Earnings estimates are still far too high*** *going into the end of 2019 and 2020.*
3. ***The economy will weaken further as the latest rounds of tariffs****, which take effect June 1st, begin to impact the economy headed into the last half of 2019.*
4. ***The Fed is unlikely to lower rates,*** *or increase their balance sheet, prior to a recessionary start or a substantially deep correction in the market. (i.e. more than 20% from current levels)*

For now, as stated, the market is working a corrective process which is likely not complete as of yet. **As we head into the summer months, it is likely the markets will experience a retracement of the rally during the first quarter of this year.** As shown in a chart we use for position management *(sizing, profit taking, sells)* the market has just issued a signal suggesting risk reduction is prudent. *(This doesn't mean sell everything and go to cash.)*

Just one other thing, I don't like market comparisons because no two market cycles are alike. However, price patterns are important because they represent the *"psychology of the herd."&#2013266080;* The chart below shows the market in the months leading up to the Dot.com crash, the Financial Crisis, and where we are currently.&#2013266080;



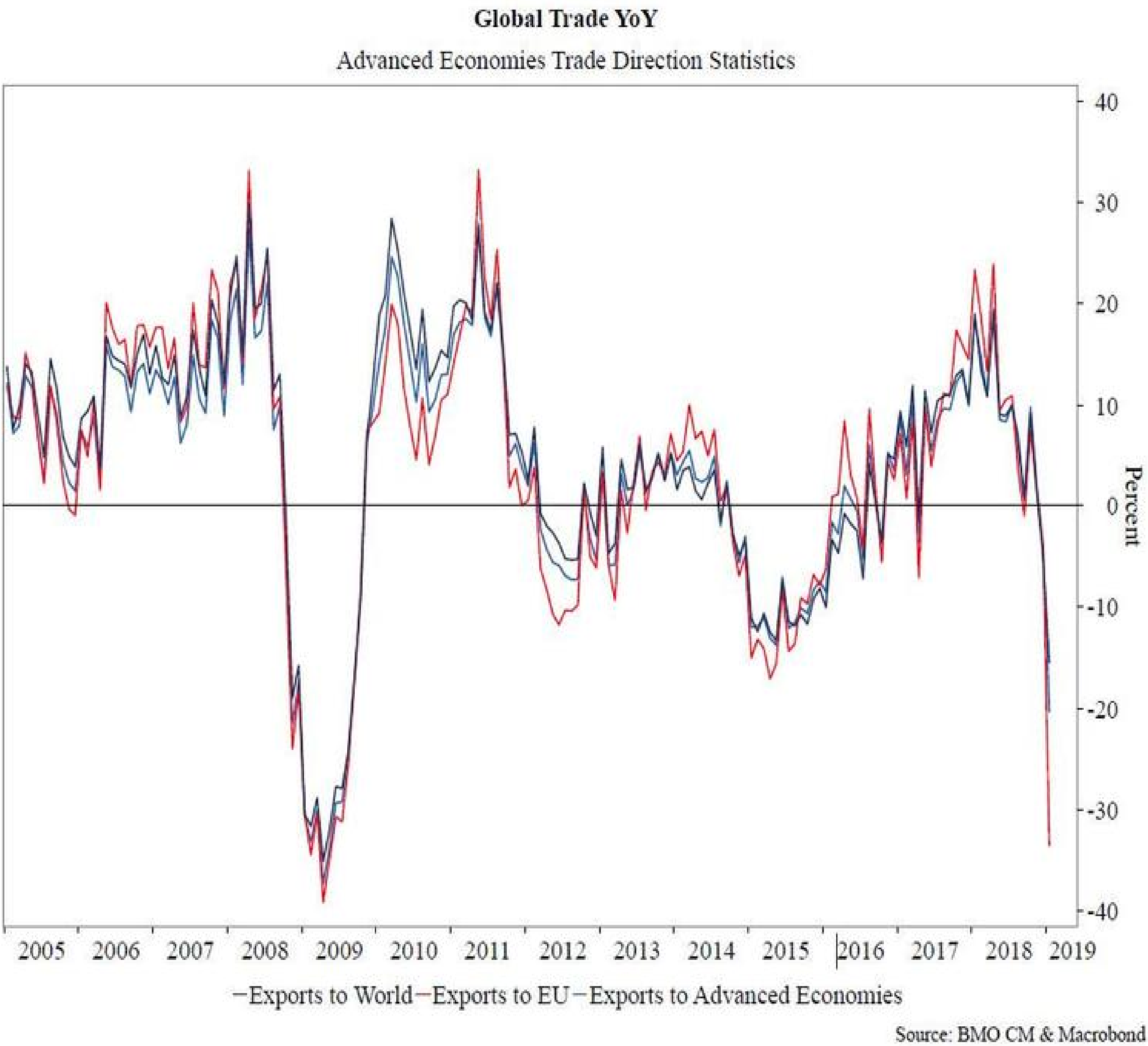
Again, no two market cycles are the same. The drivers which facilitate the bull run, and the catalyst which ends it, are ALWAYS different.

It is just investor behavior which is always the same.

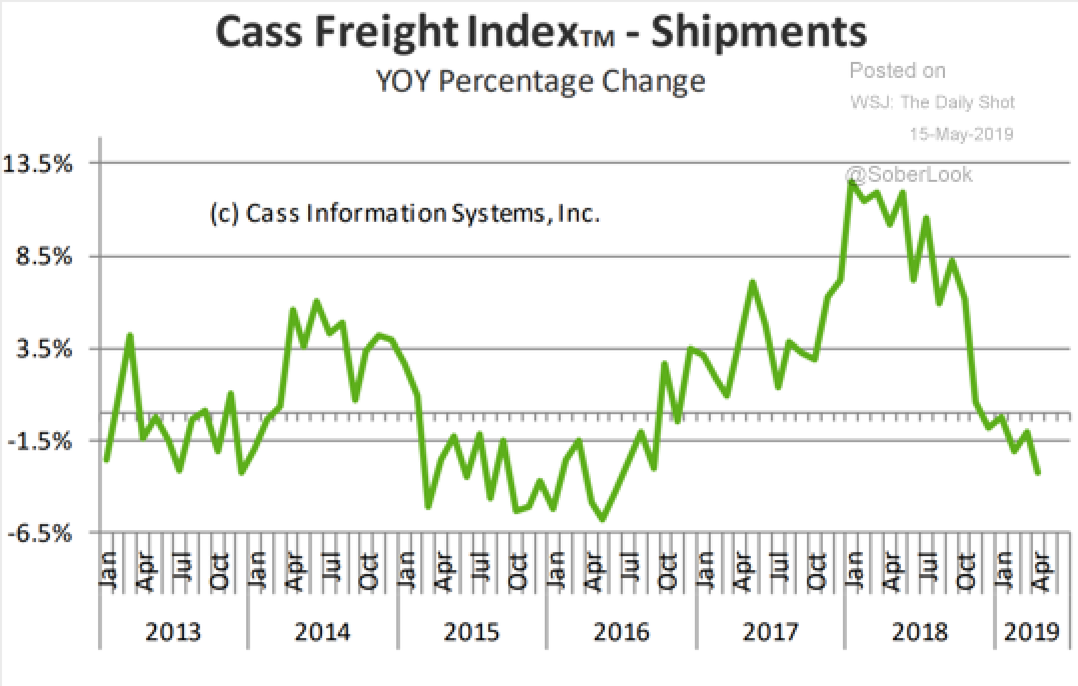
The Bulls Continue To Bet On The Fed

Last week, we noted that the&#2013266080;earnings growth story is going to become increasingly difficult to ignore.

> *"This is particularly the case given that just this past week economic data continues to show weakness.* ***As shown in the following chart, global economic trade has collapsed to levels not seen since prior to the financial crisis."***



Of course, since almost 50% of corporate revenue and profits are generated from international activity, it is not surprising to see a problem emerging. But importantly, watch what is happening domestically as well.&#2013266080;

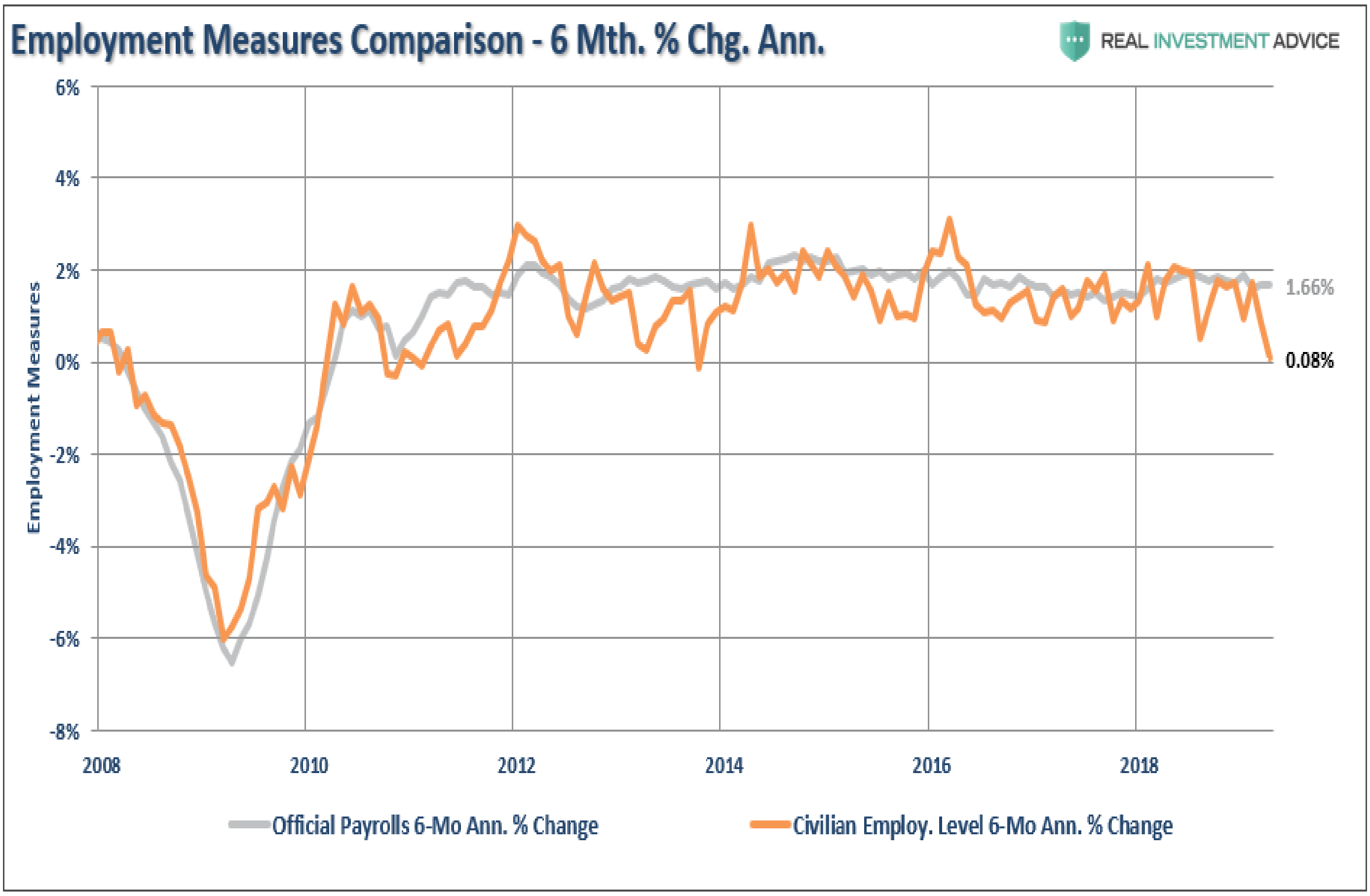


These are early signs of economic weakness.&#2013266080;

> *"But Lance, employment is still very strong. So what gives?"*

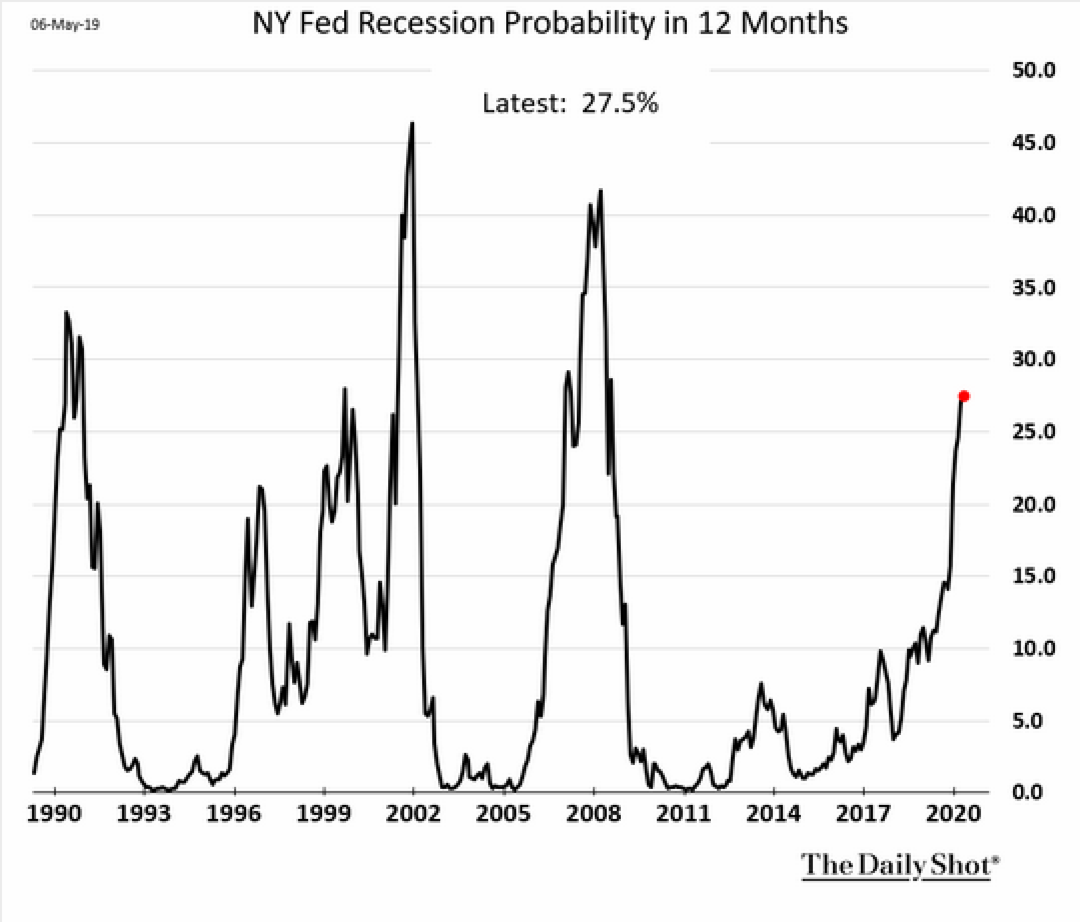
The employment number from the BLS is adjusted, tweaked, and mathematically abused. As an indicator, it is one of the worst to watch and is subject to very large negative revisions in the future. Most importantly, the labor market is the LAST thing to turn in a cycle as employees are slow to hire and slow to fire. For a better understanding of employment look at the household survey. It is showing signs of weakening employment which supports why companies are now laying off workers.

(Also, notice the rate of change in employment has, not surprisingly, run at roughly the rate of actual economic growth. Given that first quarter GDP was 1.8%, when adjusted for inventories and imports, it aligned with the 1.66% rate in employment. Employment is driven by actual economic strength.)



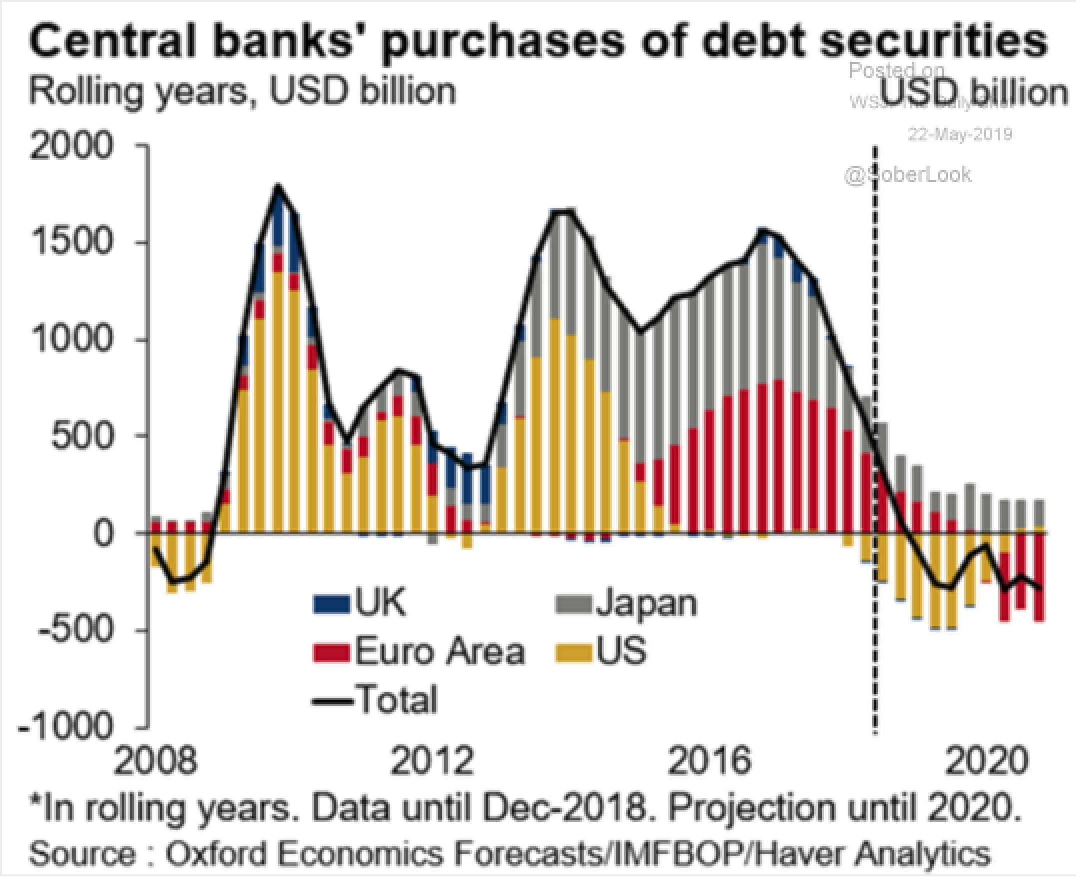
Importantly, the first time the household survey was sitting at 0% rate of change was right after QE1 ended, the economy started sliding and Ben Bernanke launched QE2. The second time was during the 2012 manufacturing recession. As the economy was sliding, Ben Bernanke launched QE3 which pulled forward consumption was again. In both previous cases, however, Fed funds were near zero, the Fed's balance sheet was growing, and recession risks were essentially nil.&#2013266080;

Today, recession risks are the highest seen since 2007.



> ***(Important Note:** The graph above is based on lagging economic indicators which are subject to huge negative revisions in the future. Therefore, high current risk levels should not be readily dismissed as the recession will have started before the data is revised to reveal the actual start date.)*

But more importantly, the Fed is no longer expanding their balance sheet and the Fed Funds rate is near 2.5%. Also, it isn't just the Fed extracting liquidity, Central Banks globally are curtailing their *"emergency measures."*



Still, the bulls continue to operate under the assumption the [Federal Reserve has eliminated the business cycle.&#2013266080;]

> *?I don?t see a world in which we have any form of meaningful contraction nor any form of meaningful expansion. We have completely taken away the toolkit of how normal economies should work when we started with QE.&#2013266080;**I mean, the odds that there?s a recession anymore in any Western country of the world is almost next to impossible now, save a complete financial externality that we can?t forecast.?*** **-** *Chamrath Palihapitiya&#2013266080;[on CNBC last week.]*

However, this is not likely the case as noted by Lakshman Achuthan of the Economic Cycle Research Institute (ECRI):

> *"A proposition has taken shape the Fed has eliminated business cycles through quantitative easing (QE) and unconventional monetary policy. As a result, we have credit cycles that can prolong economic expansion, in theory, forever."*

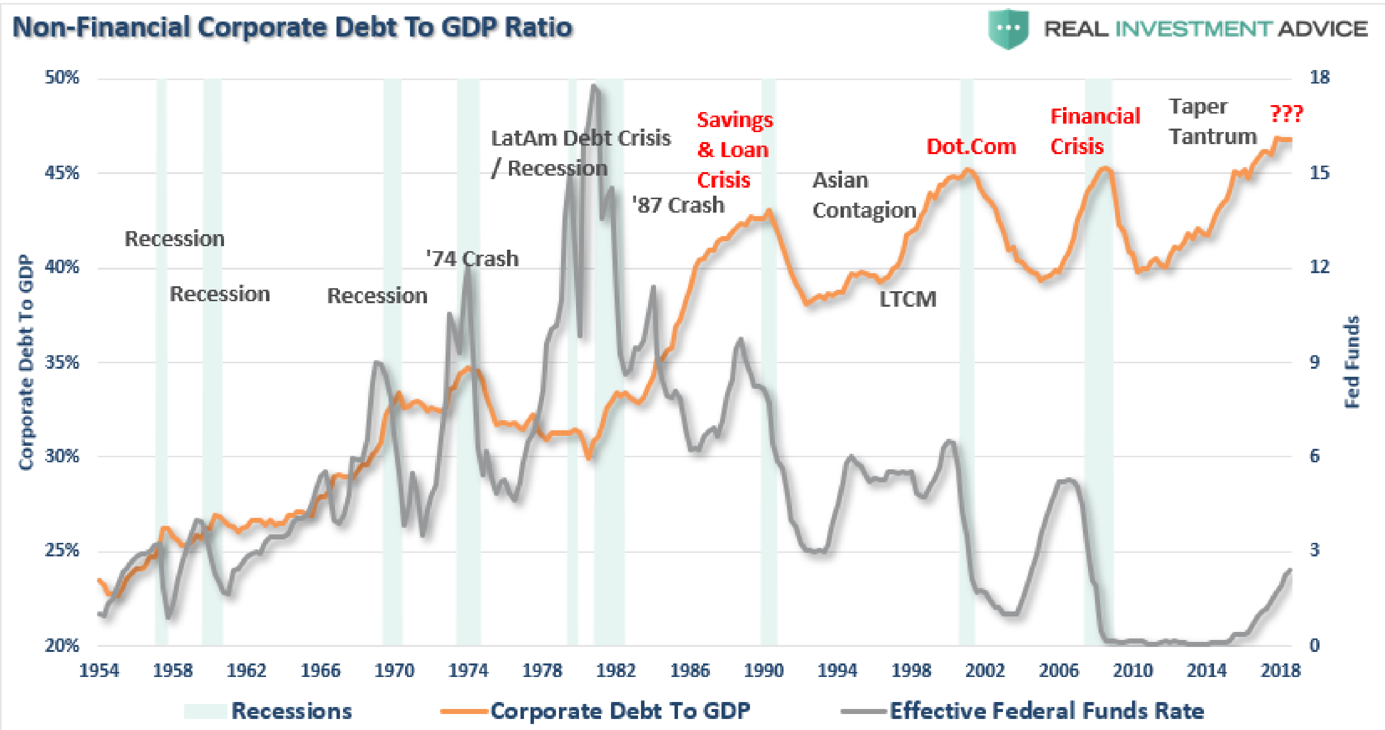
This all sounds so familiar.

> *"In the late 1990's, during the longest expansion in U.S. history, the idea of the end of the business cycle went practically mainstream, being written up in the Wall Street Journal and Foreign Affairs. Between globalization and the tech boom - which led to dramatic improvements in supply chain management, subduing inventory cycles - the argument went that we had arrived at the end of the business cycle." - ECRI*

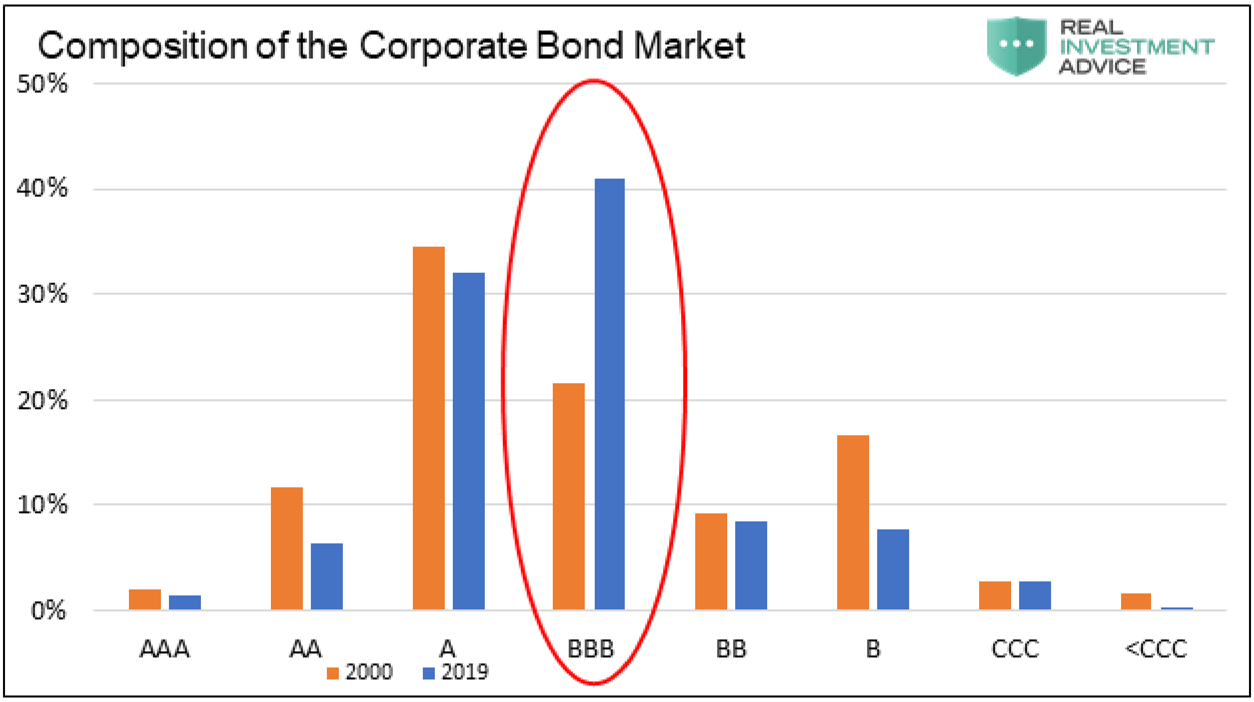
Of course, just a couple of short years later the business cycle returned with a vengeance.

But, here are once again with the latest iteration of why *"this time is different."&#2013266080;*The current cycle, which certainly seems never ending, has been built upon on ultra-low interest rates and rising levels of debt. As we discussed last week, the Fed is now tacitly warning about the risks in [corporate debt.&#2013266080;]

> *"**Officials, for the second time in six months, cited potential risks tied to non-financial corporate borrowing, particularly leveraged loans?a $1.1 trillion market that the Fed said grew by 20% last year amid declining credit standards. They also flagged possible concerns in elevated asset prices and historically high debt owned by U.S. businesses."***

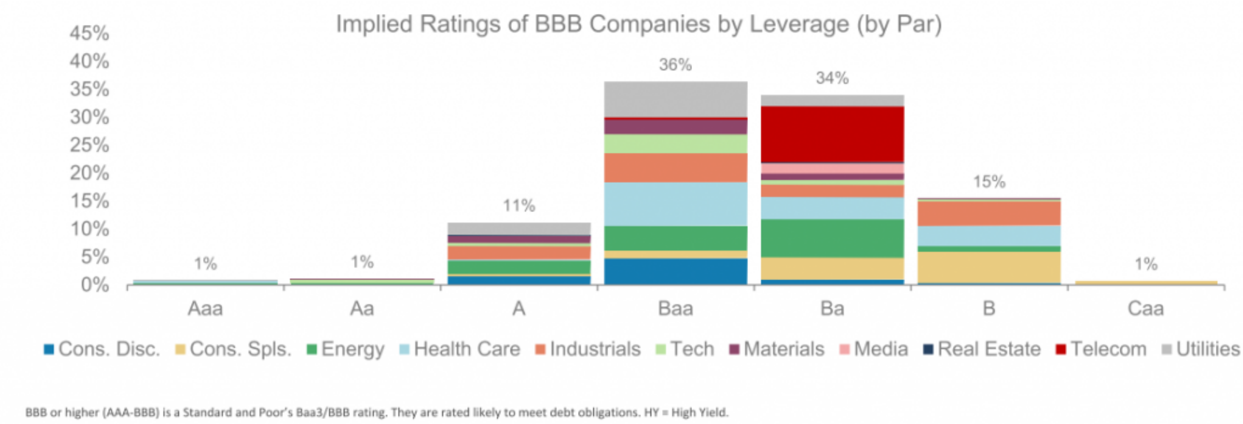


Notice that when the Fed starts hiking rates, historically, combined with corporate debt to GDP at peak levels, bad things have tended to occur...repeatedly.&#2013266080;Furthermore, the amount of corporate debt is stacked up at the bottom end of the *"investment grade"* scale.&#2013266080;



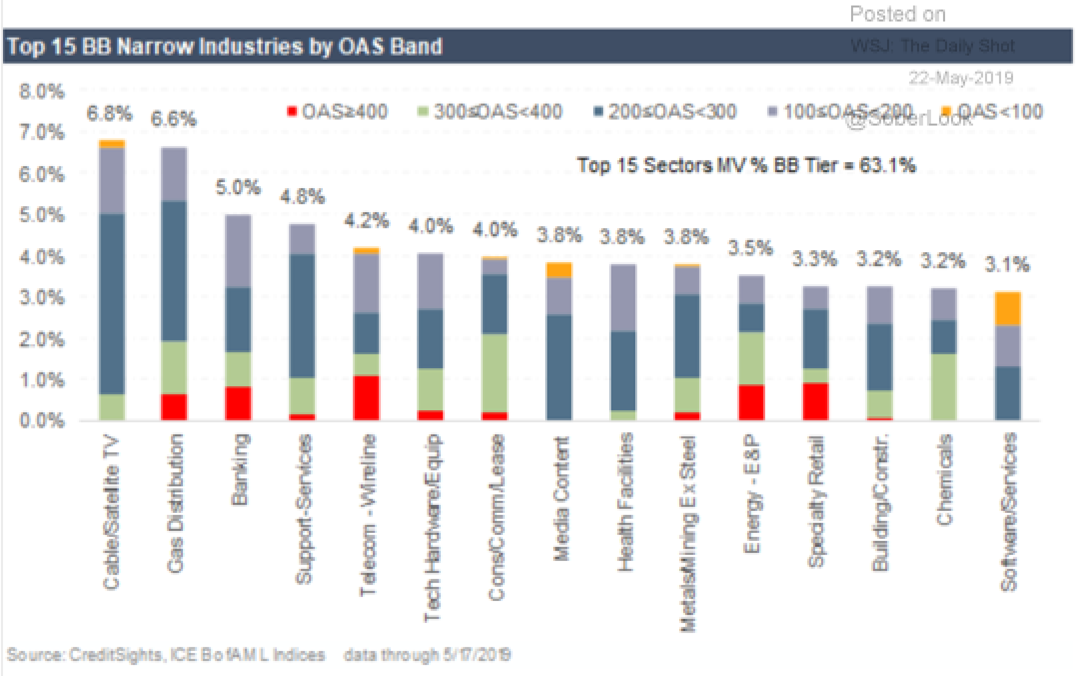
As [Michael Lebowitz](#) pointed out last week:

> *"Given that downgrades are a real and present danger and there is real potential for a massive imbalance between the number of buyers and sellers of junk debt, we need to consider how close we may be to such an event. To provide perspective, we present a graph courtesy of Jeff Gundlach of DoubleLine."*



> *"If 50% of BBB-rated bonds were to get downgraded, it would entail a shift of $1.30 trillion bonds to junk status.&#2013266080;**To put that into perspective, the entire junk market today is less than $1.25 trillion, and the subprime mortgage market that caused so many problems in 2008 peaked at $1.30 trillion.** Keep in mind, the subprime mortgage crisis and the ensuing financial crisis was sparked by investor concerns about defaults and resulting losses."*

Why worry? With just under 2/3rd of the BB *(junk rated)* bonds clustered in the top-15 industry groups what is the worst that could happen?



&#2013266080;

The problem comes if there is a recession. If that occurs, there will be a massive wave of downgrades of BBB to BB, or less, **which means that major pension, institutional, and mutual fund managers will be forced to liquidate their bonds.**&#2013266080;**Since such an event would most likely occur with the onset of a recession, the real risk comes when the junk bond market, which already has thin liquidity, simply becomes illiquid.&#2013266080;**

It won't require much of an economic change to ignite the credit issue which currently exists. **Once the liquidation process begins, liquidity for companies will quickly evaporate leading to forced bankruptcies. In turn, the stock market will decline as job losses mount and consumption falters.&#2013266080;**

This is more commonly known as a *"recession."*

The ?R? Word

Despite hopes to the contrary, the U.S., and the globe, will experience another recession. The only question is the timing.

As I quoted in much more detail&#2013266080;in the newsletter a couple of weeks ago, Doug Kass laid out a decent list of the problems facing investors currently.

- ***Slowing Domestic Economic Growth***
- ***Slowing Non-U.S. Economic Growth***
- ***The Earnings Recession***
- ***The Last Two Times the Fed Ended Its Rate Hike Cycle, a Recession and Bear Market Followed***
- ***The Strengthening U.S. Dollar***
- ***Message of the Bond Market***
- ***Untenable Debt Levels***
- ***Credit Is Already Weakening***
- ***The Abundance of Uncertainties***
- ***Political Uncertainties and Policy Concerns***

- ***Valuation***
- ***Positioning Is to the Bullish Extreme***
- ***Rising Bullish Sentiment (and The Bull Market in Complacency)***
- ***Non-Conformation of Transports***

But herein lies the most important point about recessions, market reversions, and systemic problems.

What Chamrath Palihapitiya said above was both correct and naive.

He is naive to believe the Fed has*&#2013266080;?everything?*&#2013266080;under control and recessions are a relic of the past.&#2013266080;**Central Banks globally have engaged in a monetary experiment hereto never before seen in history.**&#2013266080;Therefore, the outcome of such an experiment is also indeterminable.

Secondly, when Central Banks launched their emergency measures, the global economies were emerging from a financial crisis not at the end of a decade long growth cycle. **&#2013266080;The&#2013266080;efficacy of their programs going forward&#2013266080;is highly questionable.**

But what Chamrath does have right were his final words, even though he dismisses the probability of occurrence.

> *??**save a complete financial externality that we can?t forecast.?***

Every financial crisis, market upheaval, major correction, recession, etc. all came from one thing ?&#2013266080;**an exogenous event that was not forecast or expected.**

This is why bear markets are always vicious, brutal, devastating, and fast. **It is the exogenous event, usually credit related, which sucks the liquidity out of the market causing prices to plunge.** As prices fall, investors begin to panic sell driving prices lower which forces more selling in the market until, ultimately, sellers are exhausted.

It is the same every time.

While investors insist the markets are currently NOT in a bubble, it would be wise to remember the same belief was held in 1999 and 2007.&#2013266080;Throughout history, financial bubbles have only been recognized in hindsight&#2013266080;when their existence becomes&#2013266080;*?apparently obvious?* to everyone. Of course, by that point is was far too late to be of any use to investors who have already suffered a significant destruction of invested capital.

This time will not be different.&#2013266080;Only the catalyst, magnitude, and duration will be.

Believing the *"Fed has it all under control"* has historically been a bad bet.

If you need help, or have questions, we are always glad to help. Just email me.

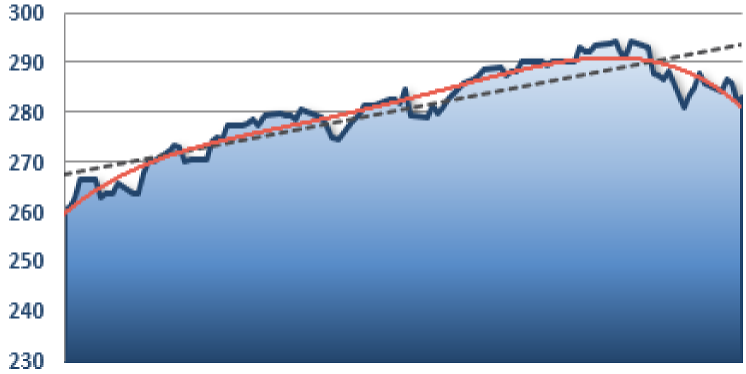
See you next week.

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	17.53%	3.66%	13.15%	259.40%
Max Drawdown	-20.47%	-20.47%	-5.09%	-75.13%
Sharpe	0.61	0.28	2.80	9.14
Sortino	0.69	0.36	3.52	8.87
Volatility	13.79	15.18	12.86	(0.15)
Daily VaR-5%	(11.05)	(18.36)	17.33	(1.94)
Mnthly VaR-5%	(6.65)	(11.91)	50.28	(5.22)

S&P 500 Fundamental Analysis

Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low
Dividend Yield	1.89%	1.84%	1.90%	3.19%	2.18%	1.67%	(12.54%)	13.89%
P/E Ratio	20.29	20.15	17.57	(14.65%)	20.87	15.79	(15.8%)	11.28%
P/S Ratio	3.12	3.26	3.16	(3.13%)	3.56	2.49	(11.23%)	26.77%
P/B Ratio	3.55	3.78	3.91	3.28%	4.16	2.99	(6.08%)	30.66%
ROE	15.59%	16.59%	18.63%	10.92%	18.73%	15.00%	(0.53%)	24.22%
ROA	2.89%	3.12%	3.49%	10.53%	3.52%	2.81%	(0.75%)	24.14%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,434.6	2,388.4	(1.90%)
Sales	59,900	64,263	7.28%
SPS	24.6	26.9	9.36%
Earnings	8,446	9,588	13.53%
EPS TTM	4.1	4.8	17.89%
Dividend	1.5	1.6	9.05%

S&P 500 Asset Allocation

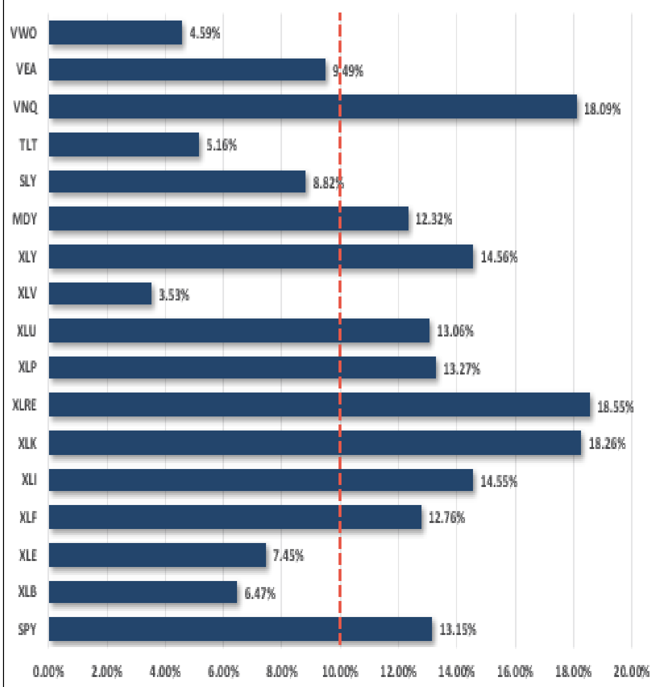
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(20.57%)	5.12%	1.17	16.10	156.27	12.49	(89.7%)	9.4%	3.7%	6.56%	3.57	16.41
Materials	(14.12%)	2.59%	1.25	14.51	21.86	13.82	(33.6%)	10.2%	1.8%	7.10%	4.05	16.42
Industrials	(3.79%)	9.36%	1.12	16.72	22.22	14.73	(24.8%)	16.1%	2.0%	5.98%	5.22	16.28
Discretionary	6.97%	10.15%	0.99	23.22	27.60	20.11	(15.9%)	28.9%	1.3%	4.36%	4.90	21.94
Staples	14.68%	7.39%	0.60	19.72	22.83	17.63	(13.6%)	27.1%	2.8%	5.08%	3.86	19.33
Health Care	7.23%	14.09%	0.90	16.33	20.62	15.93	(20.8%)	30.1%	1.8%	5.96%	6.44	15.17
Financials	(3.64%)	13.16%	1.24	12.83	18.42	11.68	(30.4%)	11.6%	2.1%	7.67%	5.78	12.19
Technology	7.46%	21.10%	1.21	19.45	21.83	14.47	(10.9%)	39.2%	1.6%	5.12%	5.22	20.16
Telecom	1.70%	10.44%	0.89	19.48	27.29	17.43	(28.6%)	17.7%	0.9%	5.08%	6.35	18.96
Utilities	22.40%	3.36%	0.32	20.08	20.31	15.58	(1.1%)	10.5%	3.3%	4.97%	3.60	18.51
Real Estate	18.27%	3.08%	0.78	19.91	24.47	17.10	(18.6%)	10.0%	3.2%	4.95%	4.27	19.21

Momentum Analysis

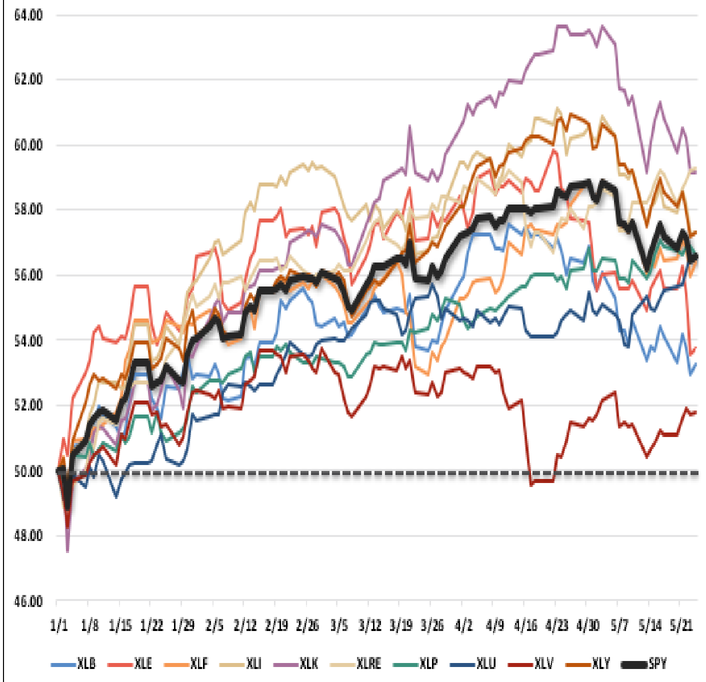
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	282.78	0.52%	287.05	7	(1.49%)	276.74	55	2.18%	3.72%	(4.13%)	20.97%	Buy
Mid Cap	339.95	(1.39%)	350.57	44	(3.03%)	343.20	4	(0.95%)	2.15%	(9.13%)	19.51%	Buy
Small Cap	65.26	(3.15%)	67.76	24	(3.68%)	68.39	16	(4.57%)	(0.92%)	(16.60%)	15.91%	Sell

Performance Analysis

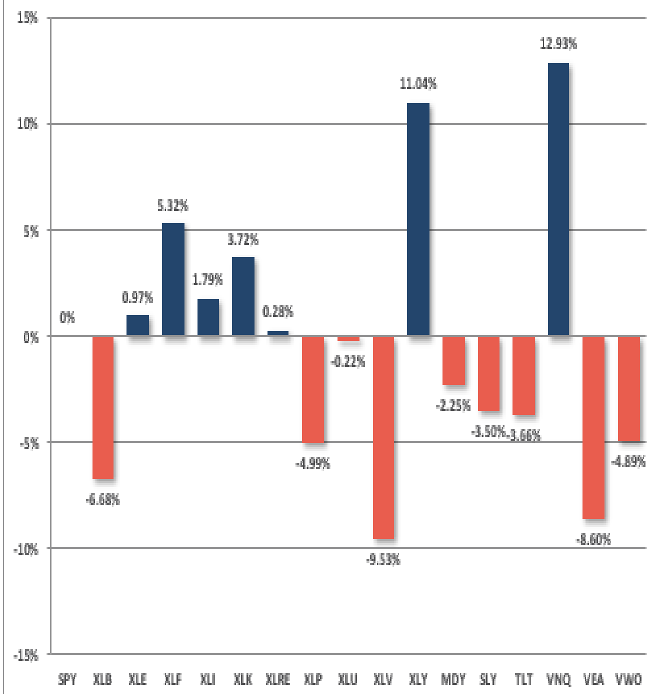
Year To Date Performance



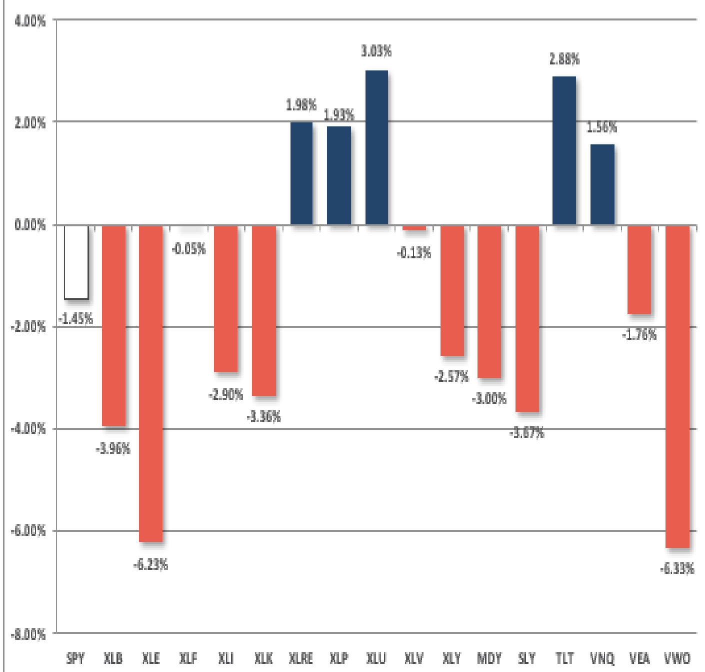
YTD Price - S&P Sectors Recalibrated To $50/share



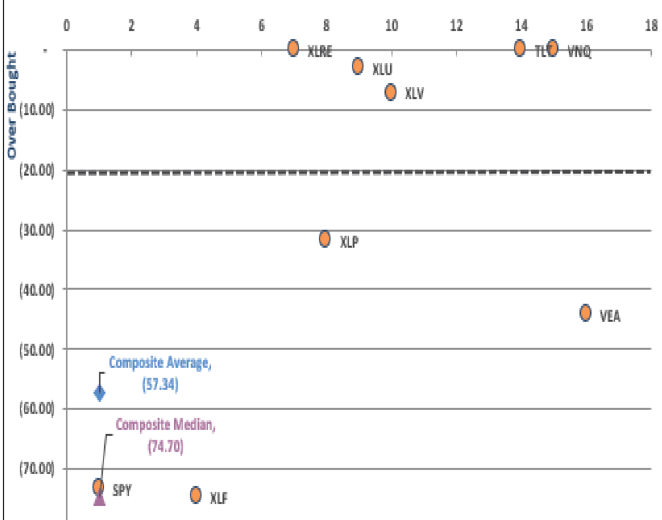
Year To Date Performance Relative To S&P 500



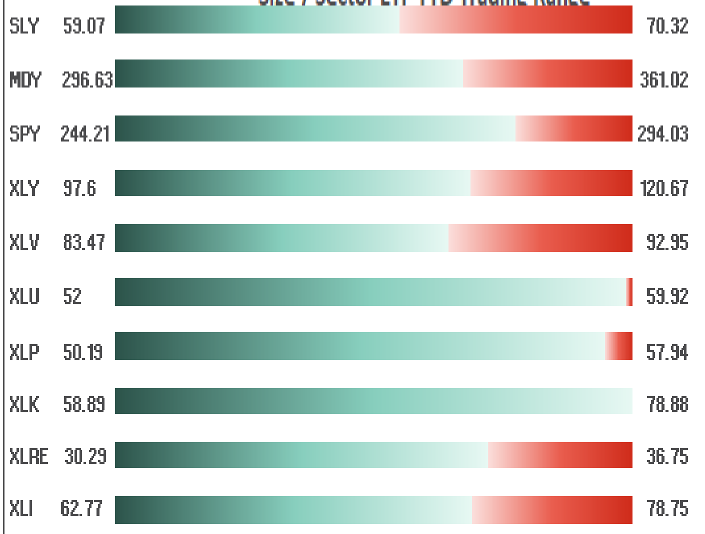
Price Deviation From 50-Day Moving Average



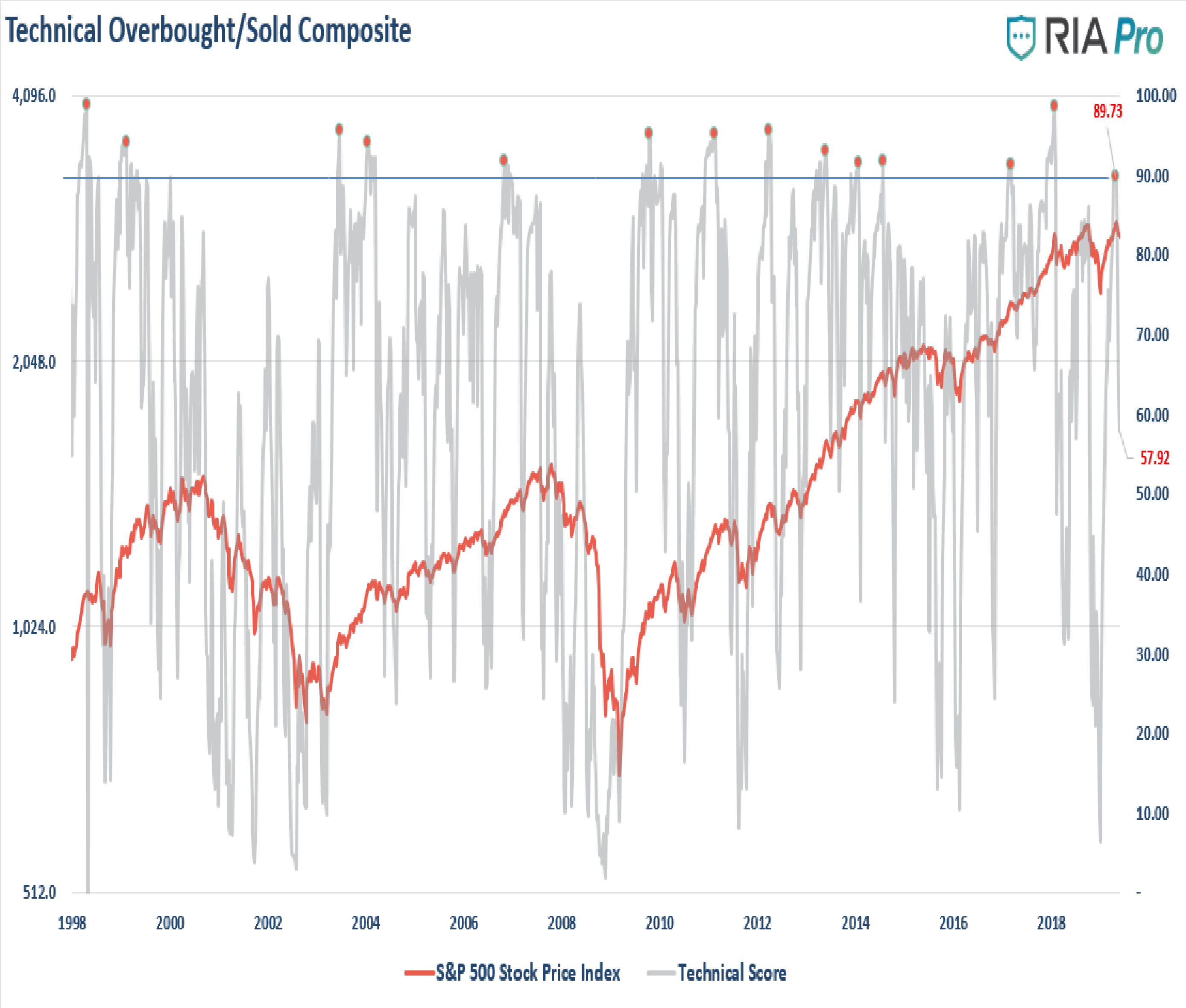
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



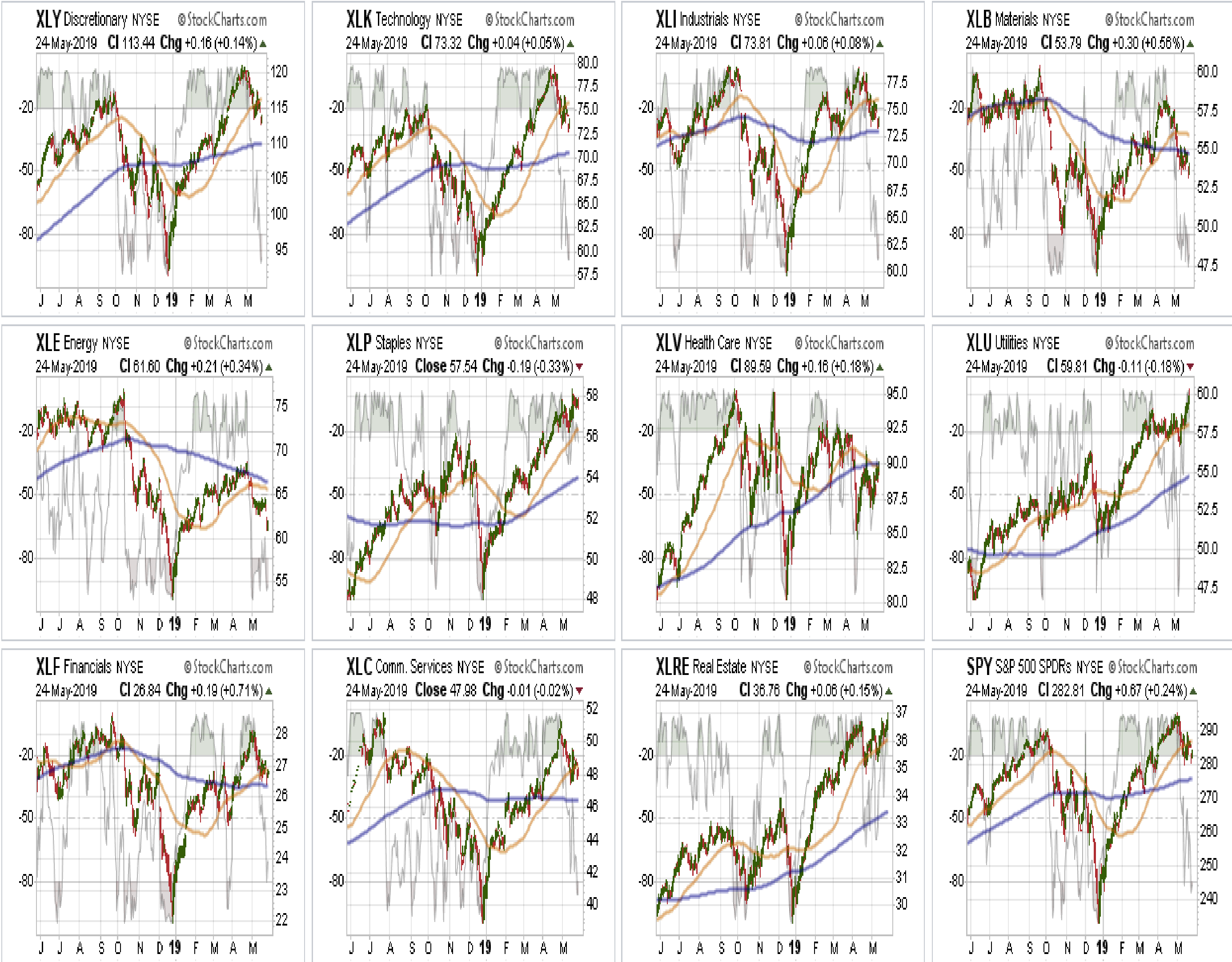
ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	284.76	(1.09)	(3.62)	0.87	7.21	3.93	287.15	276.36	-0.83%	3.04%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	53.79	(0.48)	(2.12)	(3.03)	(3.59)	(12.78)	55.87	54.19	-3.72%	-0.75%	BUY
		XLE	SPDR-EGY SELS	61.62	(2.25)	(3.32)	(8.14)	(11.04)	(21.31)	65.70	65.47	-6.20%	-5.88%	BUY
		XLF	SPDR-FINL SELS	26.86	1.02	0.59	(0.23)	(0.24)	(7.49)	26.77	26.16	0.33%	2.69%	BUY
		XLI	SPDR-INDU SELS	73.78	(0.30)	(1.20)	(4.31)	1.24	(6.46)	75.87	72.65	-2.75%	1.55%	BUY
		XLK	SPDR-TECH SELS	73.30	(1.67)	(3.07)	1.88	6.25	1.15	74.82	69.89	-2.03%	4.87%	BUY
		XLP	SPDR-CONS STPL	57.52	0.69	4.57	5.18	(2.10)	11.38	55.95	54.52	2.81%	5.51%	BUY
		XLU	SPDR-UTIL SELS	59.83	2.88	6.60	3.86	(1.25)	14.54	57.93	55.66	3.28%	7.50%	BUY
		XLC	SPDR-COMM SV SS	47.98	(0.99)	(1.85)	2.81			48.11	46.01	-0.27%	4.28%	BUY
		XLV	SPDR-HLTH CR	89.56	2.36	4.24	(4.51)	(8.32)	4.05	90.05	90.01	-0.54%	-0.50%	BUY
		XLY	SPDR-CONS DISCR	113.43	(1.05)	(2.38)	1.23	2.52	2.94	115.11	109.37	-1.46%	3.72%	BUY
	SIZE	SLY	SPDR-SP SC 600	65.26	(0.76)	(1.89)	(7.02)	(5.97)	(12.78)	67.85	66.87	-3.81%	-2.41%	BUY
		MDY	SPDR-SP MC 400	339.95	(0.20)	(1.78)	(3.97)	(2.47)	(8.02)	349.57	338.37	-2.75%	0.47%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	103.52	(0.05)	(0.38)	(2.04)	(0.87)	(2.39)	105.32	101.33	-1.71%	2.16%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	98.70	0.83	1.24	(1.47)	(2.76)	2.92	99.58	96.30	-0.89%	2.49%	BUY
	Real Estate	XLRE	SPDR-RE SELS	36.75	1.39	5.74	5.13	1.00	13.89	35.81	33.90	2.61%	8.42%	BUY
	International	EEM	ISHARS-EMG MKT	39.95	0.25	(5.33)	(6.85)	(7.04)	(17.89)	42.92	41.49	-6.91%	-3.71%	BUY
		EFA	ISHARS-EAFE	64.78	1.11	1.11	(0.62)	(0.58)	(11.68)	65.32	63.38	-0.83%	2.21%	BUY
		IXUS	ISHARS-CR INT S	56.96	0.76	(0.50)	(2.29)	(2.26)	(13.54)	58.36	56.57	-2.40%	0.68%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	127.78	2.51	6.83	6.82	0.70	2.89	123.46	119.98	3.50%	6.50%	BUY
	International	BNDX	VANGD-TTL INT B	56.20	1.38	4.38	1.76	(4.99)	(0.76)	55.58	54.96	1.12%	2.26%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	85.65	0.75	2.11	(0.82)	(3.81)	(3.83)	86.12	84.73	-0.55%	1.08%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.74										

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 noted above the *"defensive"* rotation continues for now. Use weakness in the defensive areas to add exposure accordingly. Last week, we overweighted our holdings in staples as well as utilities. We are considering reducing technology on a rally to underweight and overweight financials but need a better setup first.&#2013266080;

Current Positions: *Overweight XLP, Target weight XLF.*

Outperforming - Technology, Discretionary, Communications

As noted last week, these three sectors are driving the bulk of the market movement now, however, their outperformance is showing signs of deterioration.&#2013266080; Over the last couple of weeks, we have recommended taking profits and rebalancing portfolio risks accordingly. That remains the same recommendation this week.&#2013266080;

Current Positions: *Sold 1/2 XLY, looking to sell 1/3 of XLK*

Weakening - Real Estate and Industrials

As noted last week, Real Estate has continued to attract buyers particularly as interest rates have fallen. We also noted that there was a decent entry opportunity for positioning as a defensive play against a likely rotation out of Technology and Discretionary holdings. We added 1/2 position. We filled out that position on Friday morning.&#2013266080;

Current Position: *XLRE, 1/2 XLI*

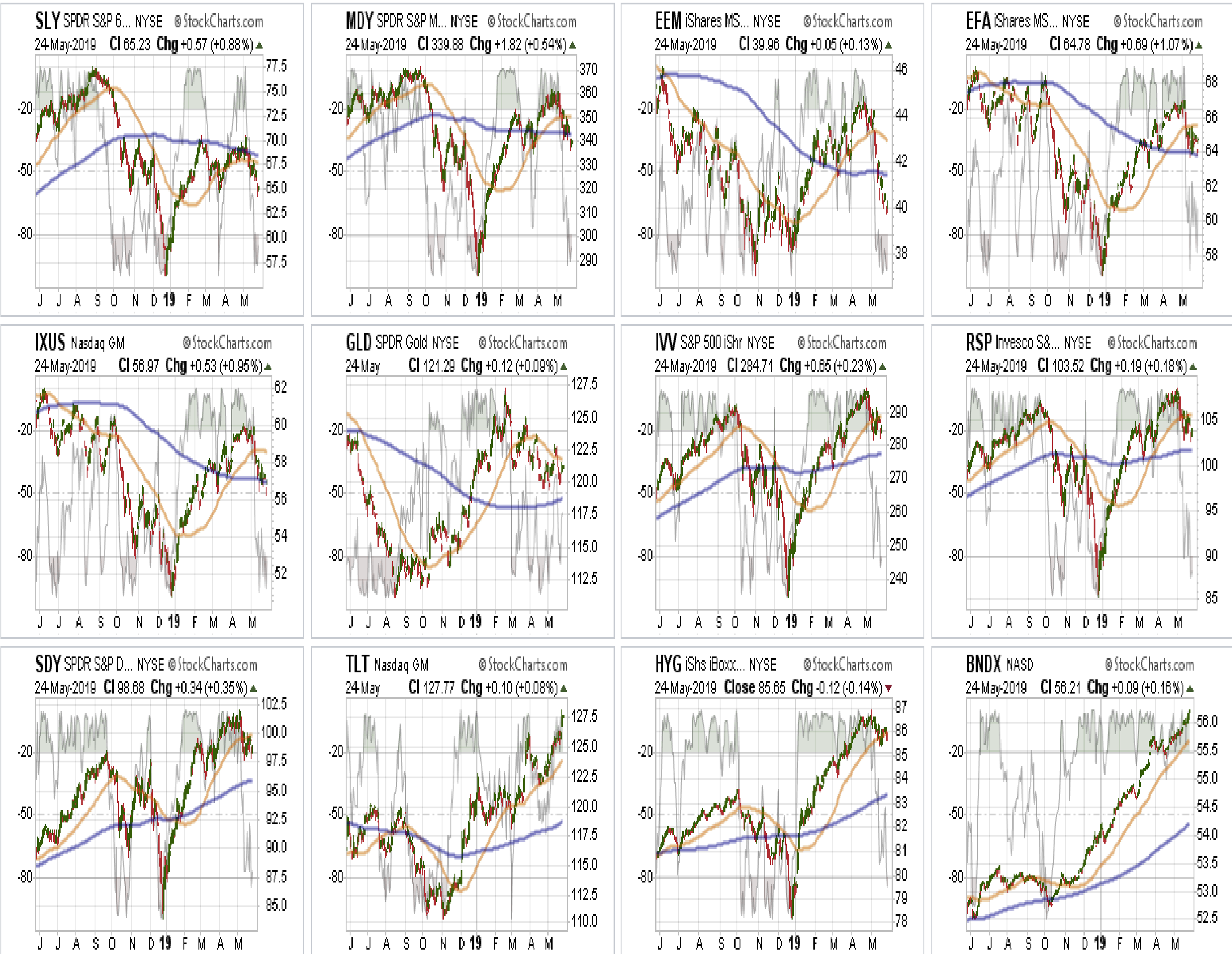
Lagging - Healthcare, Staples, Financials, Materials and Utilties

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, Staples, Financials, Utilities, and Healthcare, while lagging in performance, have turned up relative to the S&P 500.&#2013266080;

As noted, we have slightly overweighted staples and utilities to go along with our overweight healthcare positioning currently.&#2013266080; 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 in loose"* if performance doesn't improve soon.&#2013266080;

Current Positions: *1/2 XLB, 1/2 XLE, XLF, Overweight XLV, Overweight XLP,&#2013266080; Overweight XLU*

Market By Market



Small-Cap and Mid Cap - Small-cap and Mid-cap both failed to hold above their respective 50- and 200-dma which keeps us from adding a position in portfolios. These sectors are mostly tied to the domestic economy and their lack of performance is concerning relative to the economic backdrop.&#2013266080;

Current Position:&#2013266080;*No position*

Emerging, International & Total International Markets&#2013266080;

As noted last week,

> *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.&#2013266080;*

Last week, we were stopped out of our emerging market position. We have no long exposure to international markets currently.&#2013266080;

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.&#2013266080;

As we stated last week:

> *"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."*&#2013266080;

That correction has begun. We will wait to see what happens next before making any recommendations.

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

Gold ? With rates dropping sharply and deflationary pressures on the rise, Gold finally got a bid last week. We are holding our current positions as a hedge against a pickup in volatility which we expect as this summer unfolds.

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

Bonds&#2013266080;?

As noted three weeks ago, 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, continued to correct again last week but worked off most of the overbought condition. As noted previously:

"If the S&P 500 corrects over the next couple of months, it will pull high-yield (junk) bonds back towards initial support at the 50-dma."

That initial target was hit last week, however, as we feared, junk bonds pushed through that level and looks to potentially go lower. We recommended taking profits previously and rebalancing risk accordingly. International bonds, which are also high credit risk, had been consolidating over the last few weeks, however, those bonds pushed out to new highs. The sector remains very overbought currently which doesn't offer a decent reward/risk entry point.&#2013266080;

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

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

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OS	Positive	Positive	Sold 1/2				X		Failed 50-Day Test
XLK	Technology	OS	Positive	Positive	Reduced				X		Failed 50-Day Test
XLI	Industrials	OS	Positive	Neutral	Sold 1/2				X		Sold 1/2 Position
XLB	Materials	OS	Positive	Neutral	Sold 1/2				X		Broke 200-DMA
XLE	Energy	OS	Negative	Negative	Reduce				X		Broke 200-DMA
XLP	Staples	OB	Positive	Positive	Overweight		X				Overweight Position
XLV	Health Care	Improving	Negative	Neutral	Hold			X			Overweight Position
XLU	Utilities	OB	Positive	Positive	Overweight		X				Overweight Position
XLF	Financials	OS	Positive	Neutral	Hold			X			Hold Position
XLC	Telecom	OS	Positive	Neutral	No Position					X	Looking To Add
XLRE	Real Estate	OB	Positive	Positive	Hold		X				Hold Position
SLY	Small Caps	OS	Negative	Negative	No Position					X	Failed At 200-DMA
MDY	Mid Caps	OS	Positive	Neutral	No Position					X	Failed At 200-DMA
EEM	Emerging Mkt	OS	Positive	Neutral	No Position					X	Sold Position
EFA	International	OS	Positive	Neutral	Hold					X	Broke 50-DMA
IXUS	Total International	OS	Positive	Neutral	Hold					X	Broke 50-DMA
GLD	Gold	OS	Positive	Neutral	Hold			X			Holdiing Support
RSP	SP500 Equal Wgt	OS	Positive	Positive	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	OS	Positive	Positive	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	OS	Positive	Positive	Hold			X			Reduce to Target Weight
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Hold
HYG	Corporate High Yield	OS	Positive	Positive	No Position					X	Broke 50-DMA
BNDX	Int'l Bond Aggregrate	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:

As noted in the main body of this missive, **with the recent market weakness, we are holding off adding to our equity *?long positions?*&#2013266080;until we see where the market finds support**. We have also continued to rebalance our risks and more to a more defensive positioning the short-term and are carrying additional cash in our portfolios.&#2013266080;

After reducing our holdings in materials, industrials, and discretionary we added overweighted healthcare, utilities, staples and added some real estate exposure. We also started lengthening the duration of our bond portfolio, while maintaining high credit quality, by reducing Treasury floating rate funds and added 7-10 treasury bonds.&#2013266080;

As noted last week, we have shifted our focus from *?risk taking?*&#2013266080;to&#2013266080; *?risk control.? ?Capital preservation strategies?*&#2013266080;now replace&#2013266080; *?capital growth strategies,?*&#2013266080;and&#2013266080;*?cash?*&#2013266080;now becomes a favored asset class&#2013266080;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.&#2013266080;

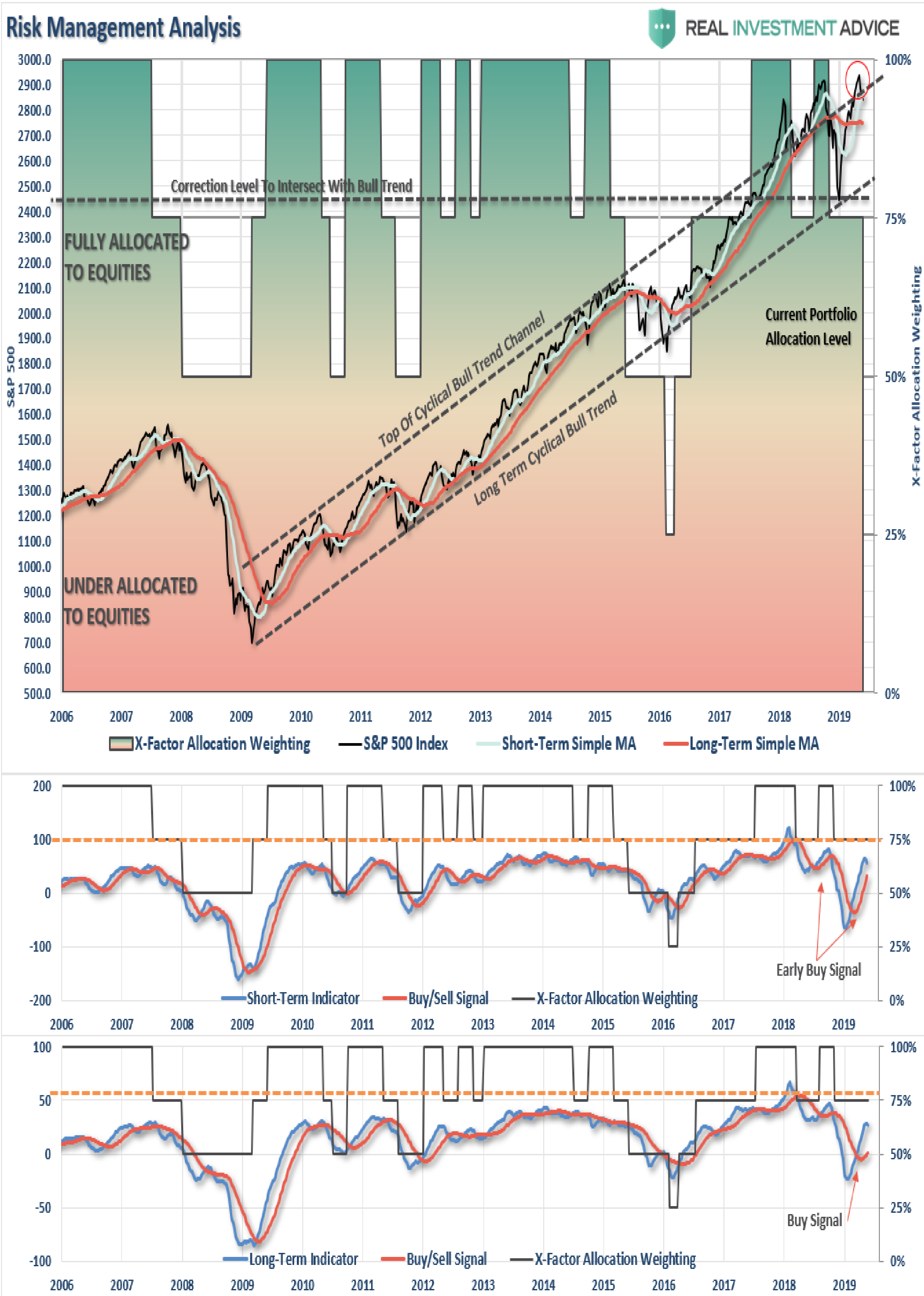
- **New clients:** *We will use the recent correction to&#2013266080;onboard clients and move into specified models accordingly.&#2013266080;*
- ***Equity Model:*** *After taking profits recently, we will look to opportunistically add to our stronger positions with this recent pullback and are looking at adding both core equity holdings as well as some additional trading positions. We are probably looking to reduce some more of our technology positions and add more staples and real estate next week if the market rallies.&#2013266080;*
- ***ETF Model****: We overweighted our exposure to defensive areas by adding Real Estate and overweighting Staples and Utilities.&#2013266080;*
- ***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.&#2013266080;*

Note for new clients:

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

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



Risk Management Analysis
REAL INVESTMENT ADVICE
Correction Level To Intersect With Bull Trend
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Top Of Cyclical Bull Trend Channel
Long Term Cyclical Bull Trend
Current Portfolio Allocation Level
S&P 500
X-Factor Allocation Weighting
X-Factor Allocation Weighting
S&P 500 Index
Short-Term Simple MA
Long-Term Simple MA
Short-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting
Early Buy Signal
Long-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting
Buy Signal

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

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401k-PlanManager-AllocationShift

Being Patient...Again

As noted last week:

> *"The market tried to rally last week but failed to hold above the 50-dma which negated our plans to increase equity exposure.&#2013266080;Next week, it is critical for the markets to muster a rally or we are going to wind up retesting the 200-dma."*

That rally failed to occur and while we didn't test the 200-dma, yet, we are bouncing along the tops of the Oct-Nov highs.&#2013266080; This support must hold or we are going to see a bigger correction this summer.&#2013266080;&#2013266080;

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.&#2013266080;

Remain patient again this week, and continue to follow rebalancing risk management measures for now.&#2013266080;

- *If you are* ***overweight&#2013266080;equities*** *- take some profits and reduce portfolio risk on the equity side of the allocation. However, hold the bulk of your positions for now. Having some extra cash is not problematic.*
- *If you are* ***underweight equities or at target -&#2013266080;****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 getting very close to rolling out 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.&#2013266080;

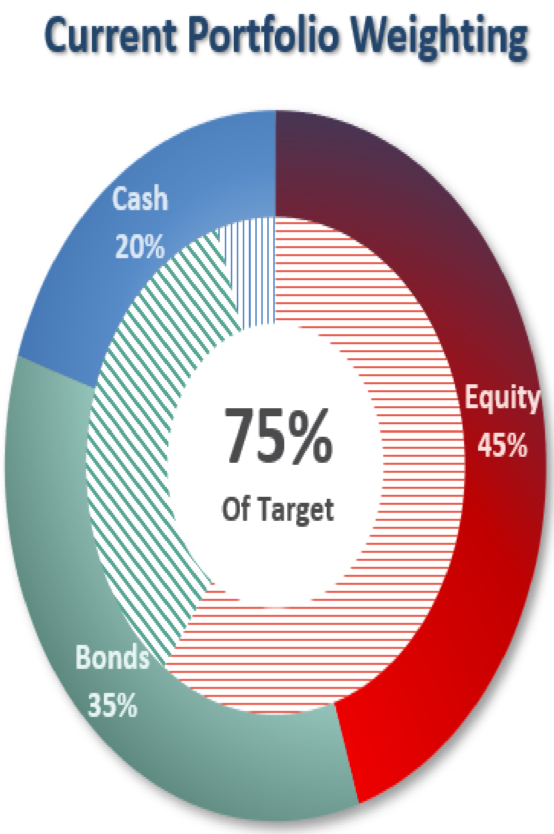
This service will also be made available to companies for employees. If would like to offer our service to your employees at a deeply discounted corporate rate please contact me.

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.&#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 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

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