The Goldilocks Warning

- ***Market Review & Recap***
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Market Review & Recap

Over the last couple of weeks we discussed the *"wild swings*" in the market in terms of price movements from overbought, to oversold, and now back again. The quote below is from two week's ago but is apropos again this week.

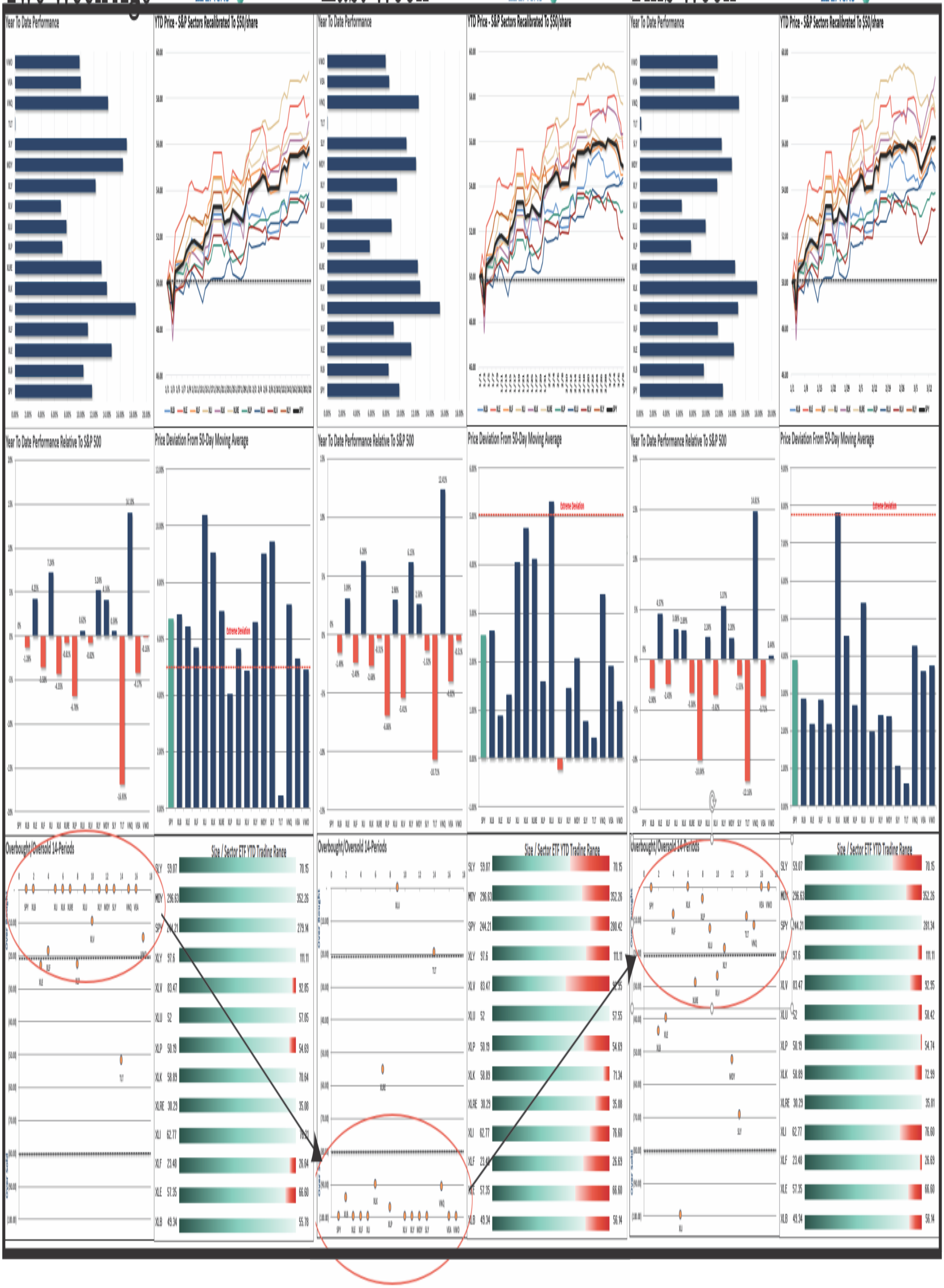
> *"Despite the underlying economic and fundamental data, the markets have surged back to extremely overbought, extended, and deviated levels.&#2013266080;The chart table below is published weekly for our* ***RIA PRO subscribers&#2013266080;(use code PRO30 for a 30-day free trial)***
>
> ***On virtually every measure, markets are suggesting the fuel for an additional leg higher in assets prices is extremely limited."***

Just for visual sake, the chart below compares the last three weeks of wild gyrations. *(Click To Enlarge)*

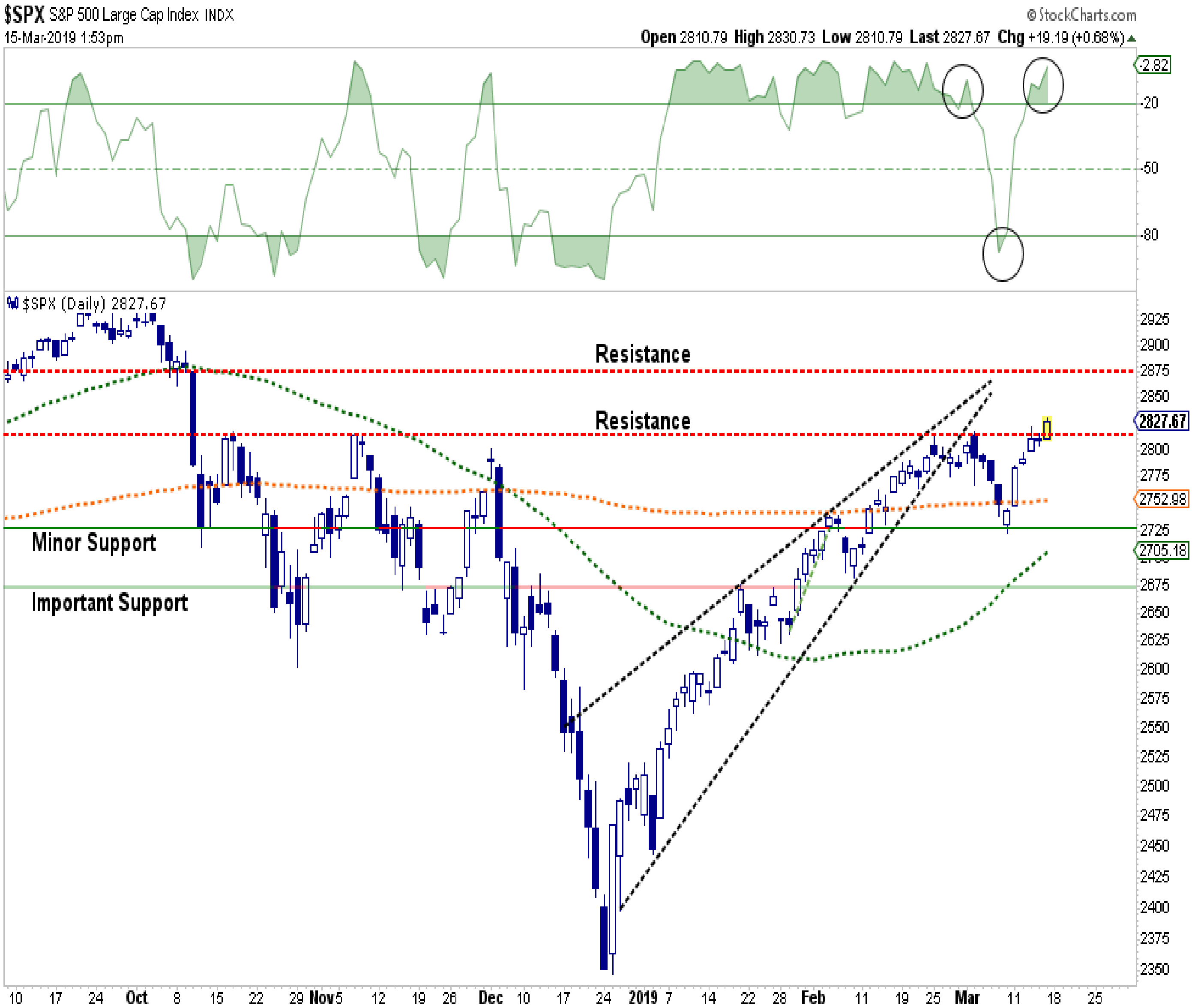
Two Week Ago

Last Week

This Week



The chart below also shows the short-term reversal of the market as well. Note how in just a few days the market went from overbought, to oversold, back to overbought.&#2013266080;



Importantly, as I specifically noted last week:

> ***"This short-term oversold condition, and holding of minor support, does set the market up for a bounce next week*** *which could get the market back above the 200-dma. The challenge, at least in the short-term, remains the resistance level building at 2800."*

On that analysis, we did increase equity exposure early last week in both our ETF and Equity Portfolios. In the **RIA PRO version of this letter** we gave specific recommendations to add exposure particularly to Healthcare due to the recent sell-off over concerns of *"Medicare for all."*

Despite the rally, the bounce is still largely at risk for the three following reasons:

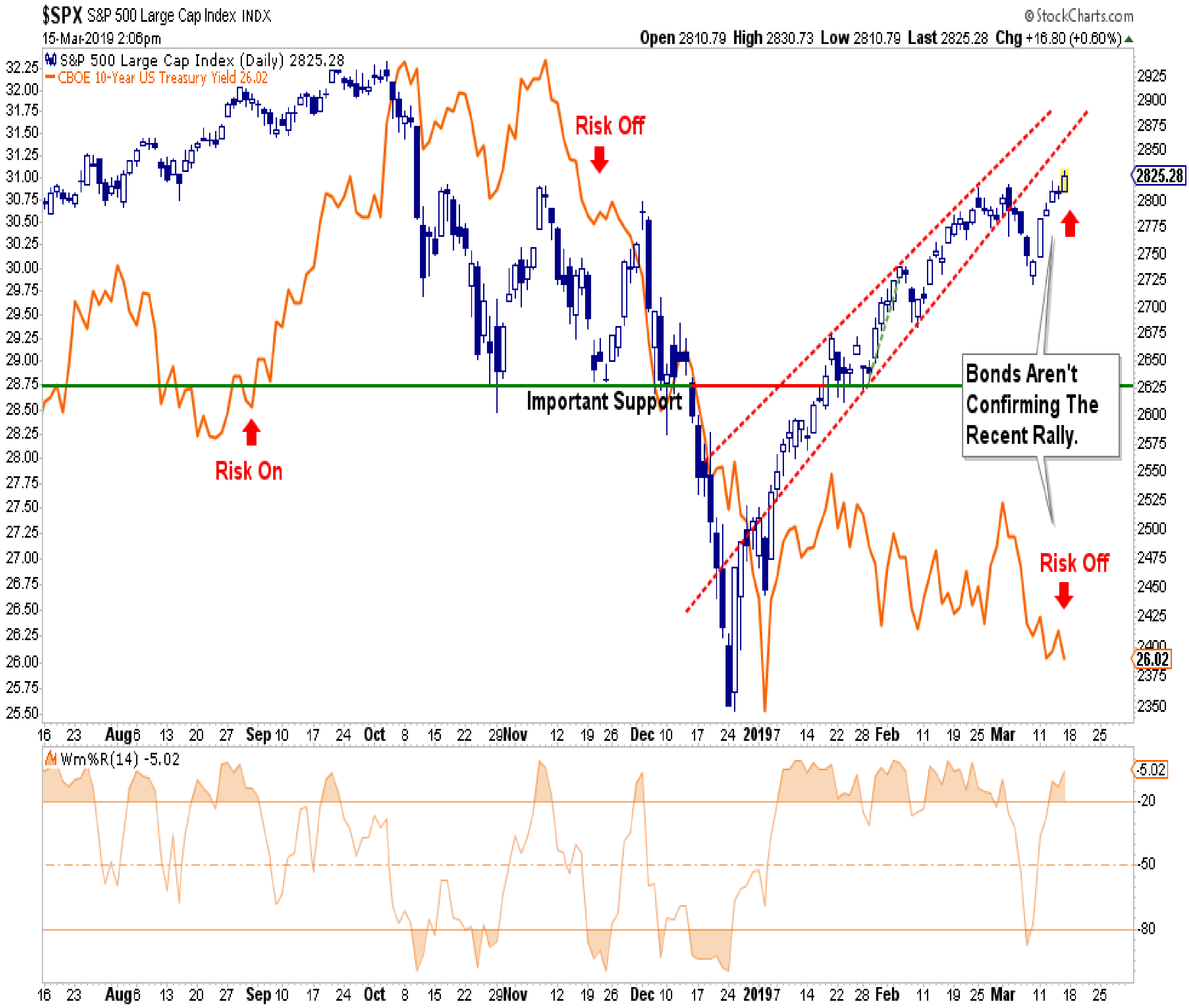
1. **As noted previously, the market has not reversed to levels which normally signals short-term bottoms.** *The red lines in the bottom four panels denote periods where taking profits, and reducing risk, has been ideal. The green lines have been prime opportunities to increase exposure. As you will note, these indicators tend to swing from extremes and once a correction process has started it is usually not completed until the lower bound is*

reached.&#2013266080;

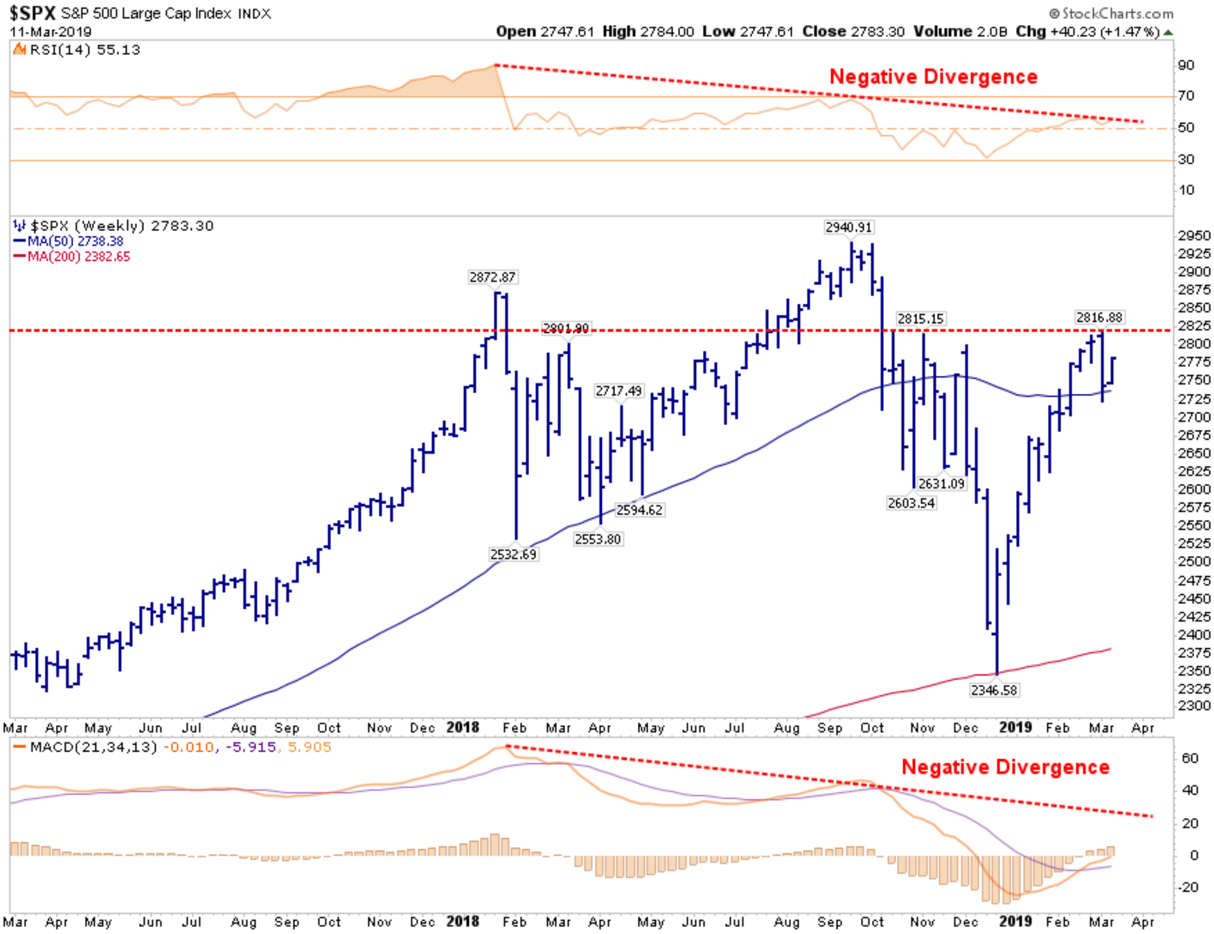
Important Note: *This does not mean the market will decline sharply in price. The current overbought conditions can also be resolved by continued consolidation within a range as we have seen over the last two weeks.&#2013266080;*

$SPX S&P 500 Large Cap Index INDX
@StockCharts.com
15-Mar-2019 2:17pm
Open 2810.79 High 2830.73 Low 2810.79 Last 2824.15 Chg +15.67 (+0.56%)
$SPX (Daily) 2824.15
MA(200) 2752.97
$VIX 12.88
Fast STO %K(35) %D(3)
SELL
BUY
MACD(12,26,9) 25.096, 26.511, -1.415
SELL
BUY
PPO(1,50,1) 3.377, 3.377, 0.000
SELL
BUY
PPO(1,200,1) 4.012, 4.012, 0.000
SELL
BUY
Oct 14 Apr Jul Oct 15 Apr Jul Oct 16 Apr Jul Oct 17 Apr Jul Oct 18 Apr Jul Oct 19 Apr

*2) **The divergence between stocks and bonds still signals that "smart money" continues to seek "safety" over "risk."** Historically, these bond market generally has it right.*



*3) As discussed in ["Will The Next Decade Be As Good As The Last,"]() the weekly chart below shows the S&P 500 hitting an all-time high last September before falling nearly 20% into the end of 2018. While the first two months of 2019 has seen an impressive surge back to its November highs, the market is starting to build a pattern of lower highs, and lower bottoms.&#2013266080;**More importantly, both relative strength and the MACD indicators are trending lower and negatively diverging from the markets price action.***



As John Murphy noted last week for&#2013266080;StockCharts:

- *The bull market that ended in March 2000 preceded an economic downturn by a year.*
- *The October 2007 stock market peak preceded the December economic peak by two months.*
- *The March 2009 stock upturn led the June economic upturn by three months.*
- *Historically, stocks usually peak from six to nine months ahead of the economy.* ***Which is why we look for possible stock market peaks to alert us to potential peaks in the economy that usually follow.&#2013266080;And we may be looking at one.***

If you are a longer-term investor, these issues should be weighted into your investment strategy. While we did add exposure to our portfolios early last week, we are still overweight cash and fixed income.

- *In the* ***RIA PRO Equity Model*** *- we bought Boeing (BA) on the initial plunge, and added positions in JPM, AAPL and PPL.&#2013266080;*
- *In the* ***RIA PRO ETF Model*** *- we added Healthcare (XLV), Energy (XLE) and Gold (IAU).&#2013266080;*

&#2013266080;

As always, we start with trading positions which have very tight stop-loss parameters. If our thesis on the position is proved correct, the position size is increased and is moved into a longer-term holding status with widened safety protocols.&#2013266080;

This is how we approach linking longer-term views to short-term opportunities. Managing a portfolio of investments is simply measuring risk and reward and placing bets when reward outweighs the potential risk. **Tweaking exposure to *"risk"* over time improves performance tremendously over the long-term.**&#2013266080;

The Goldilocks Warning

Lately, there has been an awful lot of talk about a *"Goldilocks economy"* here in the U.S. Despite a rather severe slow down globally, it is believed currently the domestic economy is going to continue to chug along with not enough inflation to push the Fed into hiking rates, but also won't fall into recession. It is a *"just right"* economy which will allow&#2013266080;corporate profits to grow at a strong enough rate for stocks to continue to rise at 8-10% per year. Every year...into eternity.

Does that really make any sense?&#2013266080;

Particularly as we are looking at the longest expansion cycle in the history of the U.S. **The problem is in the rush to come up with a *?bullish thesis?* as to why stocks should continue to elevate in the future, they have forgotten the last time the U.S. entered into such a state of *?economic bliss.?***&#2013266080;

You might remember this:

> *?The Fed?s official forecast, an average of forecasts by Fed governors and the Fed?s district banks,&#2013266080;**essentially portrays a ?Goldilocks? economy that is neither too hot, with inflation, nor too cold, with rising unemployment.?** &#2013266080;? WSJ Feb 15, 2007*

Of course, it was just 10-months later that the U.S. entered into a recession followed by the worst financial crisis since the *?Great Depression.?*

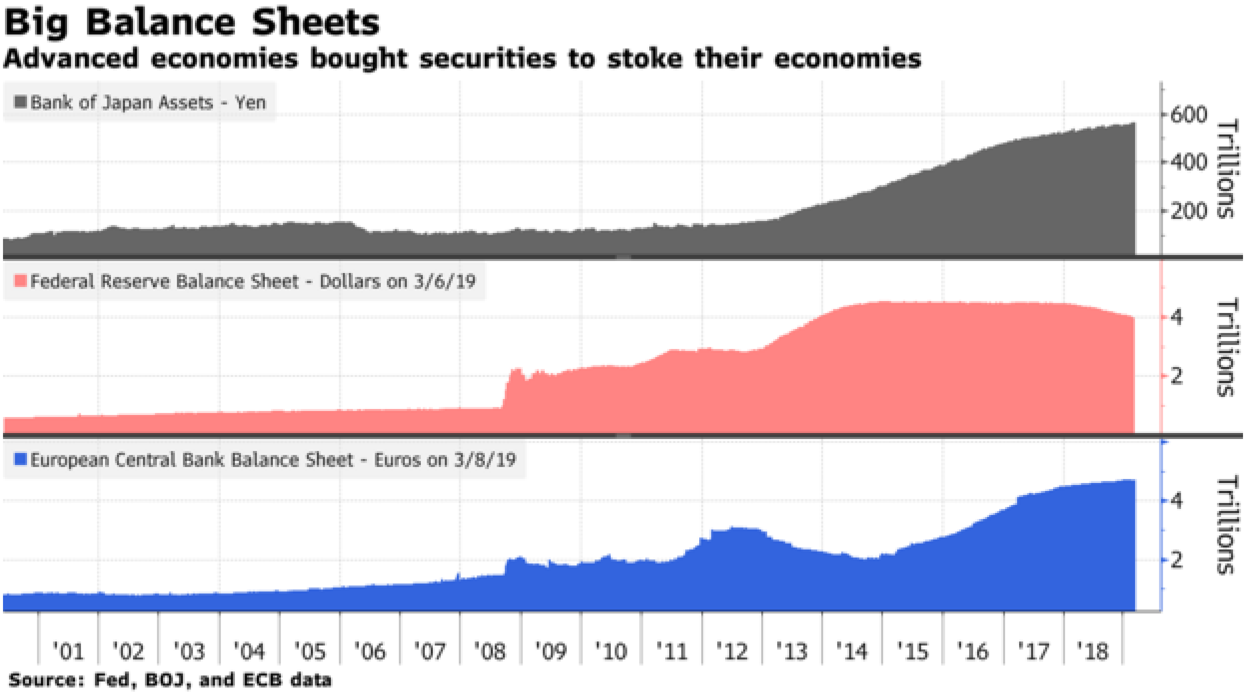
The problem with this *?oft-repeated monument to trite?* is that it?s absolute nonsense. As John Tamny once penned:

> ***A "Goldilocks Economy," one that is "not too hot and not too cold," is very much the fashionable explanation at the moment** for all that?s allegedly good. " **Goldilocks" presumes economic uniformity where there is none,**&#2013266080;as though there?s no difference between Sausalito and Stockton,&#2013266080;New York City and Newark. But there is, and that?s what?s so silly about **commentary that lionizes the Fed for allegedly engineering "Goldilocks," "soft landings," and other laughable concepts that could only be dreamed up by the economics profession and the witless pundits who promote the profession?s mysticism.***
>
> *What this tells us is that the Fed can?t engineer the falsehood that is Goldilocks, rather the Fed?s meddling is what some call Goldilocks, and sometimes worse.&#2013266080;**Not too hot and not too cold isn?t something sane minds aspire to, rather it?s the mediocrity we can expect so long as we presume that central bankers allocating the credit of others is the source of our prosperity.?***

John is correct. **An economy that is growing at 2%, inflation near zero, and Central banks globally required to continue dumping trillions of dollars into the financial system just to keep it afloat is not an economy we should be aspiring to.** But despite commentary the financial system has been *"put back together again,"* then why are Central Banks acting? Via Bloomberg:

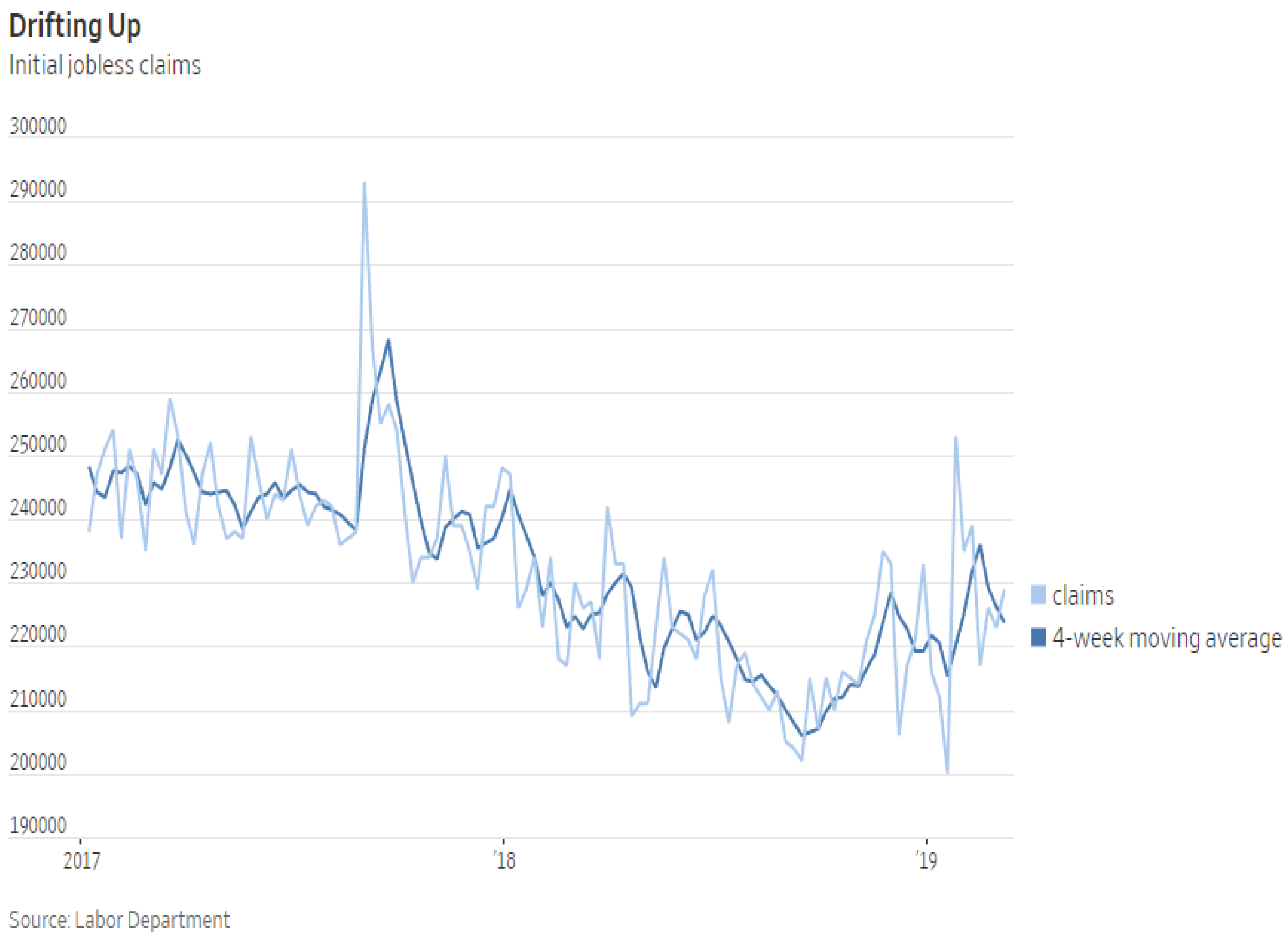
"Led by the Fed, many central banks have either held back on tightening monetary policy or introduced fresh stimulus, soothing investor fears of a slowdown. Fed Chairman Jerome Powell says he and colleagues will be patient on raising interest rates again, while European Central Bank President Mario Draghi has ruled out doing so this year and unveiled a new batch of cheap loans for banks.

Elsewhere, authorities in Australia, Canada and the U.K. are among those to have adopted a wait-and-see approach. China, at its National People?s Congress this month, signaled a willingness to ease monetary and fiscal policies to support expansion."

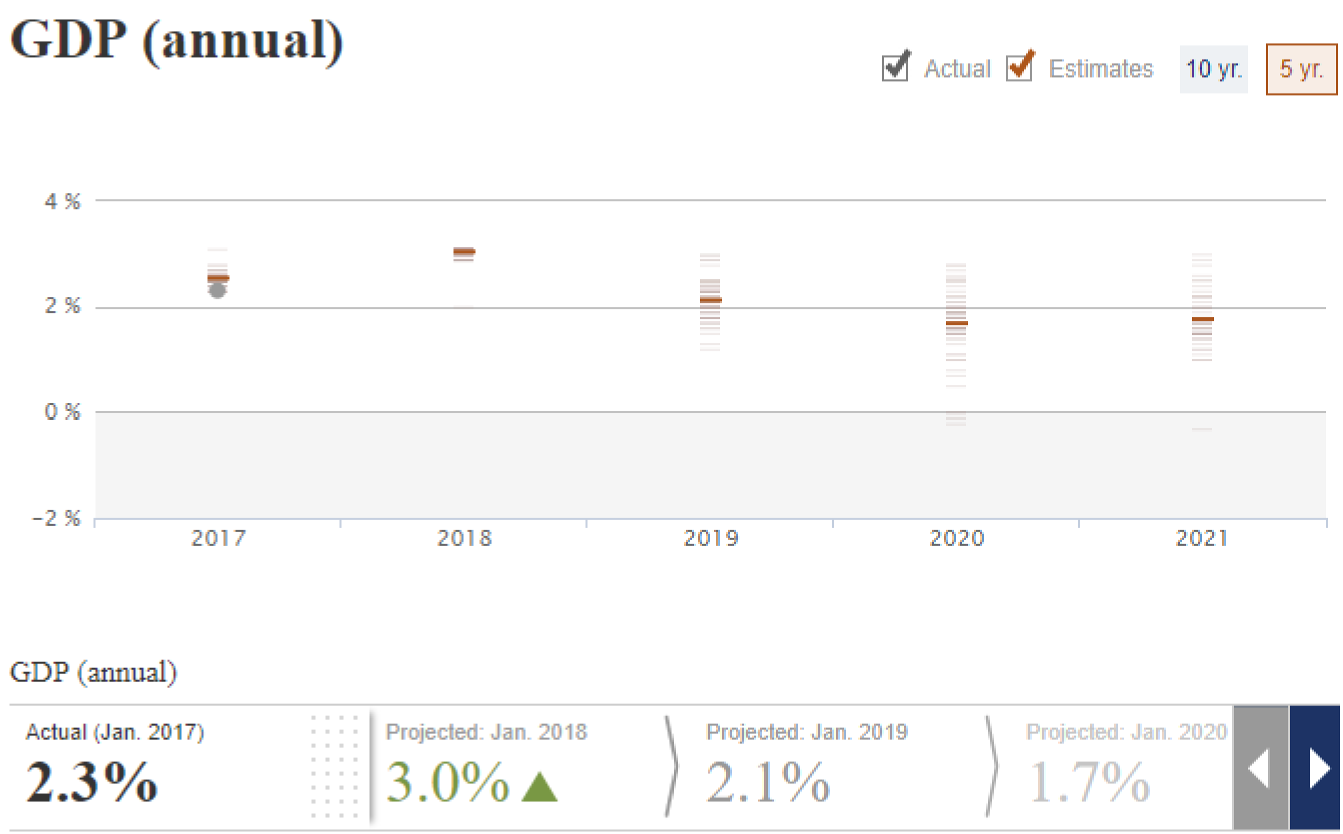


Unfortunately, today?s *?Goldilocks?* economy is more akin to what we saw in 2007 than most would like to admit.

Job growth is slowing down.

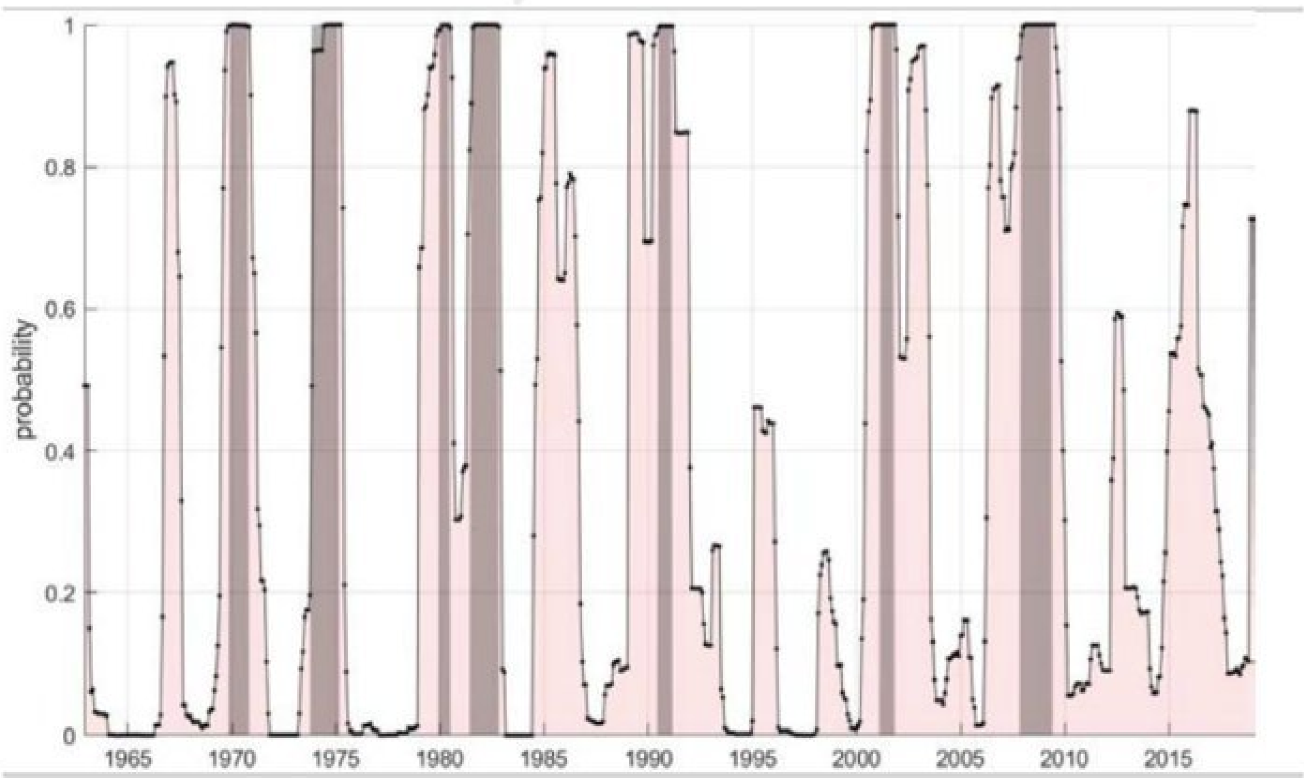


Along with economic growth.



And recession risks are rising sharply.

Figure 1: Probability of 'hard-data' cycle being in a contractionary phase



Source: Haver, UBS calculations

However, it isn?t just the economy that is reminiscent of the 2007 landscape.&#2013266080; The markets also reflect the same. Here are a couple of charts worth reminding you of.&#2013266080;

Notice that at the peaks of both previous bull markets, the market corrected, broke important support levels and then rallied to new highs leading investors to believe the bull market was intact. However, the weekly *"sell signal"* never confirmed that rally as the "unseen bear market" had already started.

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&#2013266080;

Currently, relative strength as measured by RSI on a weekly basis has continued to deteriorate. Not only was such deterioration a hallmark of the market topping process in 2007, but also in 2000.

The problem of suggesting that we have once again evolved into a *?Goldilocks economy?* is that such an environment of slower growth is not conducive to supporting corporate profit growth at a level to justify high valuations.

It is true that the bears didn?t eat Goldilocks at the end of the story?but then again, there never was a sequel.

Simple Actions To Take Now, You Will Appreciate Later

1. **Trim positions that are big winners**&#2013266080;in your portfolio back to their original portfolio weightings. *(ie. Take profits)*
2. **Sell underperforming positions.** If a position hasn't performed during the rally over the last three months, it is weak for a reason and will likely lead the decline on the way down.&#2013266080;
3. **Positions that performed with the market should also be reduced** back to original portfolio weights. Hang with the leaders.
4. **Move trailing stop losses up**&#2013266080;to new levels.
5. **Review your portfolio allocation relative to your risk tolerance.**&#2013266080;If you are aggressively weighted in equities at this point of the market cycle, you may want to try and recall how you felt during 2008. Raise cash levels and increase fixed income accordingly to

reduce relative market exposure.

How you personally manage your investments is up to you.&#2013266080;I am only suggesting a few guidelines to rebalance portfolio risk accordingly.&#2013266080;**Therefore, use this information at your own discretion.**

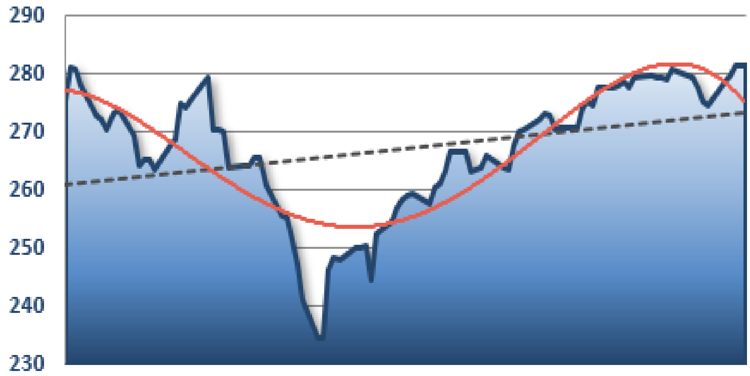
See you next week.&#2013266080;

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

3 Month SPY Price



SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	17.73%	2.29%	12.56%	447.39%
Max Drawdown	-20.47%	-20.47%	-3.35%	-83.62%
Sharpe	0.78	0.22	6.03	26.56
Sortino	0.92	0.32	8.49	25.93
Volatility	13.52	16.04	13.51	(0.16)
Daily VaR-5%	(9.95)	(20.52)	61.30	(3.99)
Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00

S&P 500 Fundamental Analysis

Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low
Dividend Yield	1.86%	1.74%	1.88%	7.87%	2.17%	1.67%	(13.17%)	13.06%
P/E Ratio	20.69	21.48	17.85	(20.34%)	20.85	16.71	(14.4%)	6.80%
P/S Ratio	3.11	3.39	3.24	(4.68%)	3.53	2.48	(8.28%)	30.87%
P/B Ratio	3.59	3.85	3.98	3.40%	4.15	2.94	(4.06%)	35.63%
ROE	15.22%	15.97%	18.71%	14.60%	18.71%	15.01%	0.00%	24.61%
ROA	2.83%	3.01%	3.52%	14.67%	3.52%	2.82%	0.00%	24.77%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,430.2	2,404.9	(1.04%)
Sales	58,551	63,236	8.00%
SPS	24.1	26.3	9.14%
Earnings	7,981	9,527	19.37%
EPS TTM	3.9	4.8	23.70%
Dividend	1.4	1.6	10.92%

S&P 500 Asset Allocation

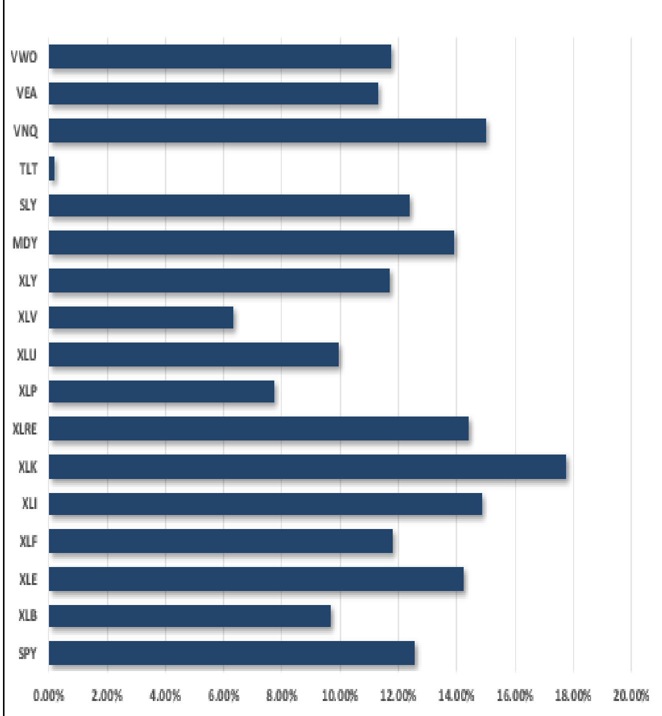
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(1.54%)	5.39%	1.20	16.38	156.27	12.49	(89.5%)	10.3%	3.4%	6.12%	3.24	17.92
Materials	(2.57%)	2.68%	1.31	15.97	21.86	13.82	(26.9%)	11.3%	2.1%	6.26%	4.55	15.46
Industrials	(3.86%)	9.51%	1.13	17.06	22.22	14.73	(23.2%)	15.6%	2.0%	5.85%	5.28	15.66
Discretionary	6.26%	9.83%	0.98	23.24	27.60	20.11	(15.8%)	28.3%	1.3%	4.31%	4.79	20.38
Staples	2.23%	7.12%	0.60	19.03	22.83	17.63	(16.7%)	26.3%	2.9%	5.27%	3.87	18.23
Health Care	7.86%	14.72%	0.94	17.35	20.62	15.93	(15.9%)	29.2%	1.7%	5.79%	6.28	16.00
Financials	(7.37%)	13.16%	1.23	12.99	18.41	11.65	(29.4%)	11.5%	2.1%	7.75%	5.72	11.61
Technology	8.70%	20.79%	1.21	19.39	21.83	14.47	(11.2%)	38.7%	1.5%	5.20%	5.14	18.43
Telecom	1.90%	10.33%	0.88	20.27	26.97	17.72	(24.9%)	18.3%	0.9%	4.92%	6.04	17.74
Utilities	19.89%	3.30%	0.33	19.56	20.31	15.58	(3.7%)	10.7%	3.3%	5.14%	3.57	17.97
Real Estate	14.37%	3.03%	0.80	19.66	24.47	17.55	(19.6%)	10.3%	3.3%	4.97%	4.24	18.62

Momentum Analysis

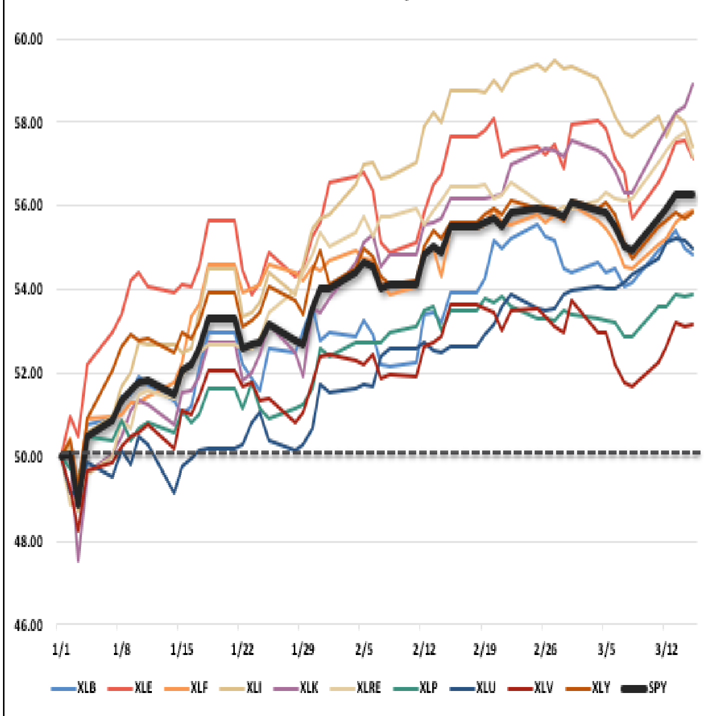
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	281.31	11.46%	271.12	42	3.76%	274.67	5	2.42%	(1.29%)	(4.30%)	20.34%	Sell
Mid Cap	344.75	12.53%	337.27	43	2.22%	346.01	21	(0.36%)	(2.53%)	(7.85%)	21.20%	Sell
Small Cap	67.38	10.15%	66.77	43	0.92%	70.06	275	(3.82%)	(4.70%)	(13.89%)	19.68%	Sell

Performance Analysis

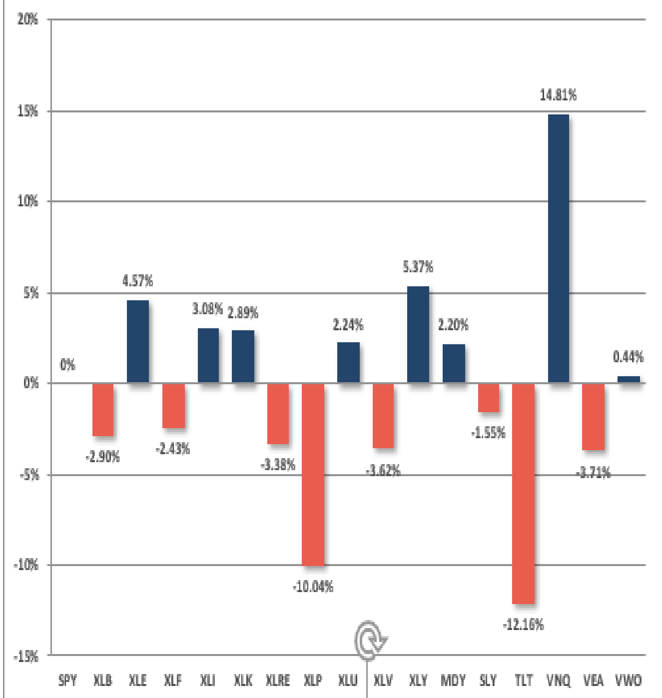
Year To Date Performance



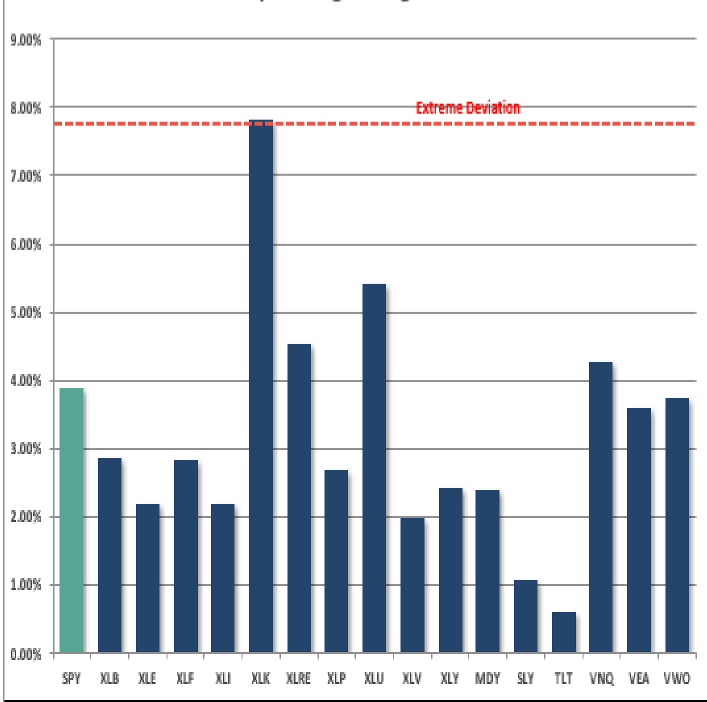
YTD Price - S&P Sectors Recalibrated To $50/share



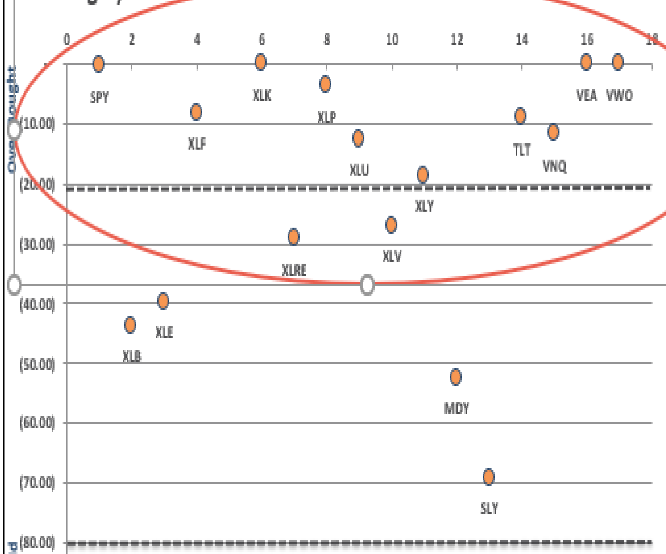
Year To Date Performance Relative To S&P 500



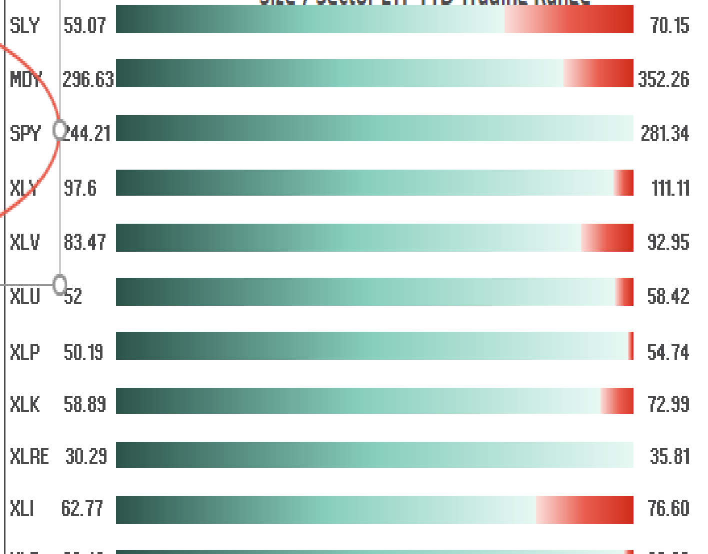
Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



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	284.28	2.93	1.83	17.30	(2.89)	2.52	267.19	276.35	6.40%	2.87%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	55.40	(1.70)	(0.15)	(3.31)	(1.48)	(8.86)	52.94	55.12	4.64%	0.51%	SELL
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	65.51	(0.41)	(2.76)	(0.55)	(10.62)	(5.19)	62.66	68.14	4.55%	-3.87%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	26.63	(0.38)	(1.08)	(0.45)	(0.56)	(10.28)	25.36	26.55	5.00%	0.29%	SELL
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	73.99	(3.30)	(4.08)	1.56	(2.74)	(5.90)	70.53	72.96	4.91%	1.42%	SELL
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	72.99	1.63	3.01	5.99	(0.22)	2.34	66.26	69.29	10.16%	5.34%	SELL
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	54.70	(1.08)	(1.19)	(8.29)	4.31	0.21	52.72	53.80	3.76%	1.66%	SELL
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	58.19	(1.81)	2.62	(9.16)	13.41	13.28	54.75	54.27	6.29%	7.23%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	47.02	(1.08)	(0.02)	0.81			44.54	46.13	5.58%	1.93%	SELL
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	91.99	(0.03)	(2.76)	(6.04)	(0.43)	5.21	88.98	90.57	3.38%	1.57%	SELL
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	110.60	(0.91)	(1.34)	0.66	(2.76)	2.64	105.67	108.80	4.66%	1.66%	SELL
TACTICAL	SIZE	SLY	SALOMON LEASING	67.38	(1.48)	(4.59)	(0.54)	(7.83)	(4.62)	65.05	69.36	3.58%	-2.86%	SELL
TACTICAL	SIZE	MDY	SPDR-SP MC 400	344.75	(1.30)	(3.02)	0.41	(3.29)	(4.46)	328.56	343.36	4.93%	0.40%	SELL
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	104.41	(0.46)	(1.27)	0.00	0.64	(0.59)	98.52	101.47	5.98%	2.90%	SELL
CORE	Dividend	SDY	SPDR-SP DIV ETF	98.42	(1.61)	(1.92)	(4.89)	3.39	3.13	94.39	95.67	4.27%	2.88%	SELL
CORE	Real Estate	XLRE	SPDR-RE SELS	35.46	(1.09)	(0.52)	(2.73)	11.63	10.92	33.30	33.08	6.50%	7.19%	BUY
CORE	International	EEM	ISHARS-EMG MKT	43.08	0.53	0.52	(5.46)	3.26	(14.97)	41.34	41.51	4.21%	3.79%	SELL
CORE	International	EFA	EMG MKT FREE AS	65.22	(0.17)	0.68	(3.99)	(1.19)	(9.97)	61.84	63.94	5.46%	2.01%	SELL
CORE	International	IXUS	ISHARS-CR INT S	58.33	(0.09)	0.73	(3.75)	(0.40)	(11.12)	55.44	57.04	5.21%	2.26%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	121.75	(2.78)	(2.02)	(16.45)	6.71	(0.90)	121.00	118.59	0.62%	2.67%	BUY
FI	International	BNDX	VANGD-TTL INT B	55.30	(2.87)	(1.11)	(16.92)	4.28	(0.92)	54.70	54.65	1.09%	1.19%	BUY
FI	High Yield	HYG	ISHARS-IBX HYCB	85.78	(2.13)	(1.39)	(10.38)	2.12	(2.54)	84.00	84.67	2.11%	1.31%	SELL
FI	Cash	BSV	VANGD-SHT TRM B	79.14										

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

Last week, I noted the&#2013266080;overbought condition across sectors had not been fully reversed which suggests more downward pressure on asset prices over the next week. I also noted that defensive sectors were outperforming offensive sectors of the market as well.

This past weeks rally, as I suggested would be the case, returned most sectors back to overbought conditions. However, it was still defensives leading the charge.&#2013266080;

Technology, Staples, Utilities, Real Estate, Healthcare - all rallied hard last week with Technology, Utilities, and Real Estate leading the charge. These sectors are GROSSLY overbought and extended. Take profits and wait for a pullback to add exposure. As noted last week, we added healthcare to portfolios.&#2013266080;

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

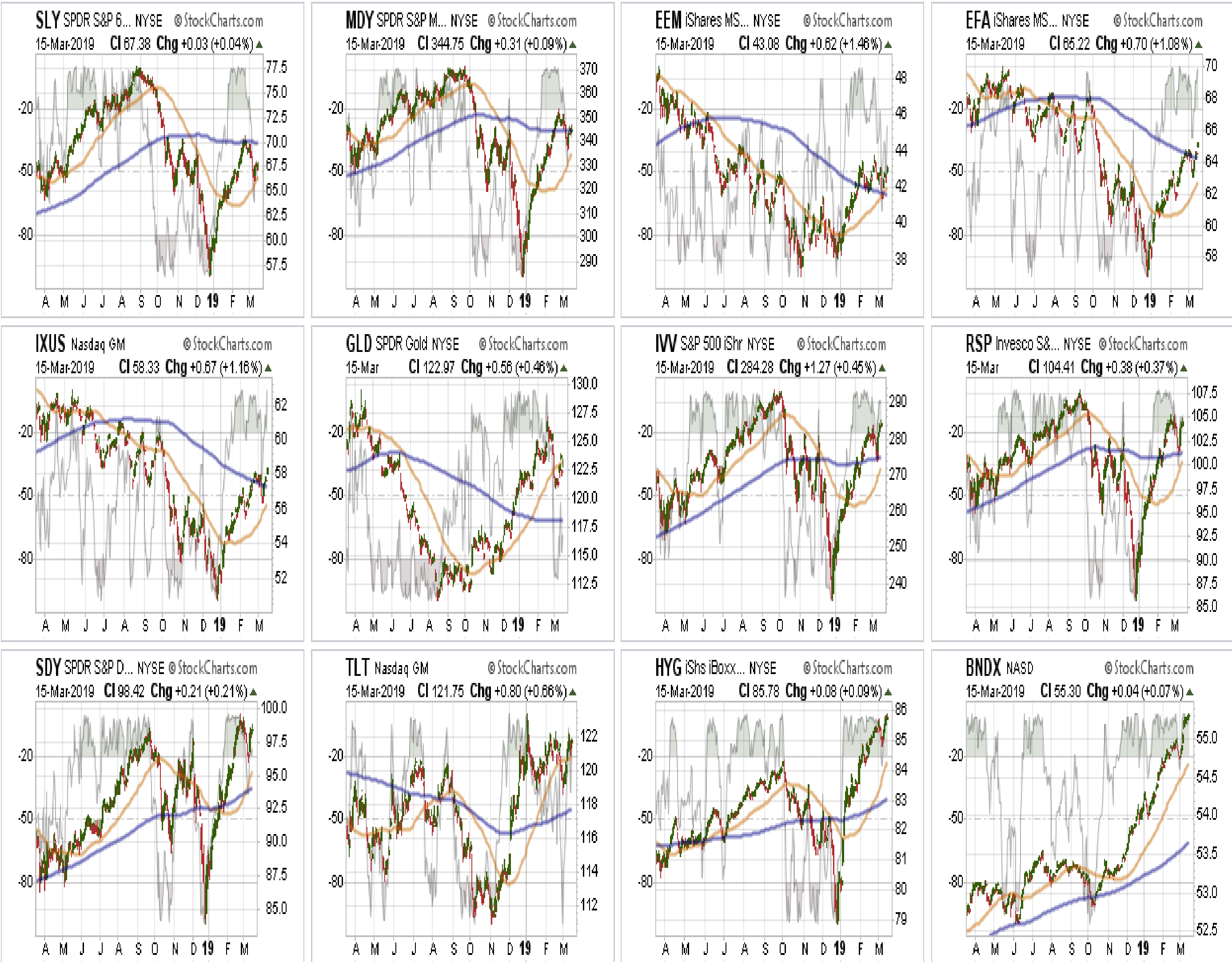
Discretionary, Industrials, Materials, Energy, Financials, and Communications - While other sectors of the market have performed much better, these sectors have rallied "failed to impress." Discretionary stocks regained their 200-dma along with Materials and Communications. Watch these weaker sectors as they are very economically sensitive.&#2013266080;

Current Positions:&#2013266080;*XLB, XLY, XLF - Stops remain at 50-dmas.*

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

The recent rally in the market is likely complete for now and more corrective/consolidation action is needed to reverse the previous overbought conditions.

Market By Market



Small-Cap and Mid Cap - both of these markets are currently on macro-sell signals but have rallied along with the entire market complex. Both Mid and Small-caps, failed to hold above the 200-dma and are looking to retest support at the 50-dma. These two sectors are more exposed to global economic weakness than their large-cap brethren so caution is advised. Take profits and reduce weightings on any rally next week until the backdrop begins to improve.&#2013266080;

Current Position: *None*

Emerging, International & Total International Markets&#2013266080;

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

Major International & Total International shares are extremely overbought but DID finally break above their respective 200-dma's on hope the worst of the global economic slowdown is now behind them. Keep stops tight on existing positions, but no rush here to add new exposure. However, a pullback to support, and/or a bullish crossover of the 50-dma, and we will add exposure to our portfolios.&#2013266080;

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

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 are currently at target portfolio weights.

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

Gold ? We have been discussing a pullback in Gold to add exposure to portfolios. The overbought condition in gold was reversed over the last week as gold broke its 50-dma. The bullish backdrop remains currently, and gold needs to rally next week back above the 50-dma.&#2013266080;

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

Bonds&#2013266080;?

Intermediate duration bonds remain on a buy signal after we increased exposure last month. We are holding our current bond allocation for the time being. However, as we noted last week:

> *"The bond rout last week, which was greatly needed to reduce the overbought condition, has pushed bonds back to an extreme oversold condition. With strong support sitting at $118, we will look to take on a tactical trading position over the next couple of weeks."*

Unfortunately, the reversal in bonds was so rapid last week we did not get to increase our exposure as we wanted. However, the recent action is bullish and a test of the 50-dma that holds will likely be a good opportunity to take on trading positions. We remain fully allocated to bonds so the performance pick up was welcome.&#2013266080;

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

High Yield Bonds, representative of the *"risk on"* chase for the markets, declined with the market last week. However, with the announcement from the ECB of no rate hikes and more stimulus, international bonds soared higher last week. If you are long international bonds take profits now and rebalance risk back to normal portfolio weights. The current levels are not sustainable and there will be a price decline which will offer a better entry opportunity soon.&#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	RIA Pro Notes
XLY	Discretionary	OB	Negative	Negative	Hold			X			Hold Position
XLK	Technology	OB	Negative	Negative	Hold			X			Take Profits
XLI	Industrials	OB	Negative	Negative	Hold			X			Hold Position
XLB	Materials	OB	Negative	Negative	Hold			X			Hold Position
XLE	Energy	OB	Negative	Negative	No Position		X				Add On Pullback
XLP	Staples	OB	Stabilizing	Neutral	Hold			X			Take Profits
XLV	Health Care	OB	Stabilizing	Neutral	No Position			X			Adding Position
XLU	Utilities	OB	Positive	Positive	Hold			X			Take Profits
XLF	Financials	OB	Negative	Negative	Hold			X			Hold Position
XLC	Telecom	OB	Negative	Negative	No Position					X	Not Enough History Yet
XLRE	Real Estate	OB	Positive	Positive	No Position					X	Take Profits
SLY	Small Caps	Declining	Negative	Negative	No Position					X	Failed At 200-DMA
MDY	Mid Caps	Declining	Negative	Negative	No Position					X	Failed At 200-DMA
EEM	Emerging Mkt	Rising	Negative	Improving	Trade Oppty			X			Added 1/2 Position
EFA	International	OB	Negative	Negative	No Position					X	Above 200-DMA
IXUS	Total International	OB	Negative	Negative	No Position					X	Above 200-DMA
GLD	Gold	OS	Positive	Improving	Trade Oppty			X			Added 1/2 Position
RSP	SP500 Equal Wgt	OB	Negative	Negative	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	OB	Stabilizing	Negative	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	OB	Negative	Negative	Hold			X			Reduce to Target Weight
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Hold
HYG	Corporate High Yield	OB	Positive	Positive	No Position			X			Way Too Overbought Currently
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position			X			Way Too Overbought Currently

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

Portfolio/Client Update:

As we noted last week:

> *"Last week, the market failed at the 2800-resistance level and failed to hold the 200-dma. However, the market did hold support at the longer-term 300-dma and is short-term oversold. It will be important for the market to get back above the 200-dma next week and continue the ongoing consolidation of the previous 2-month rally."*

The rally we expected occurred and not only did the market break back above the 200-dma it also hurdled over 2800 as well. This puts all-time highs in focus for the markets currently as long as they continue to ignore the economic data.&#2013266080;

As we said last week, the pullback to short-term oversold conditions allowed us to take some actions in portfolios.&#2013266080;

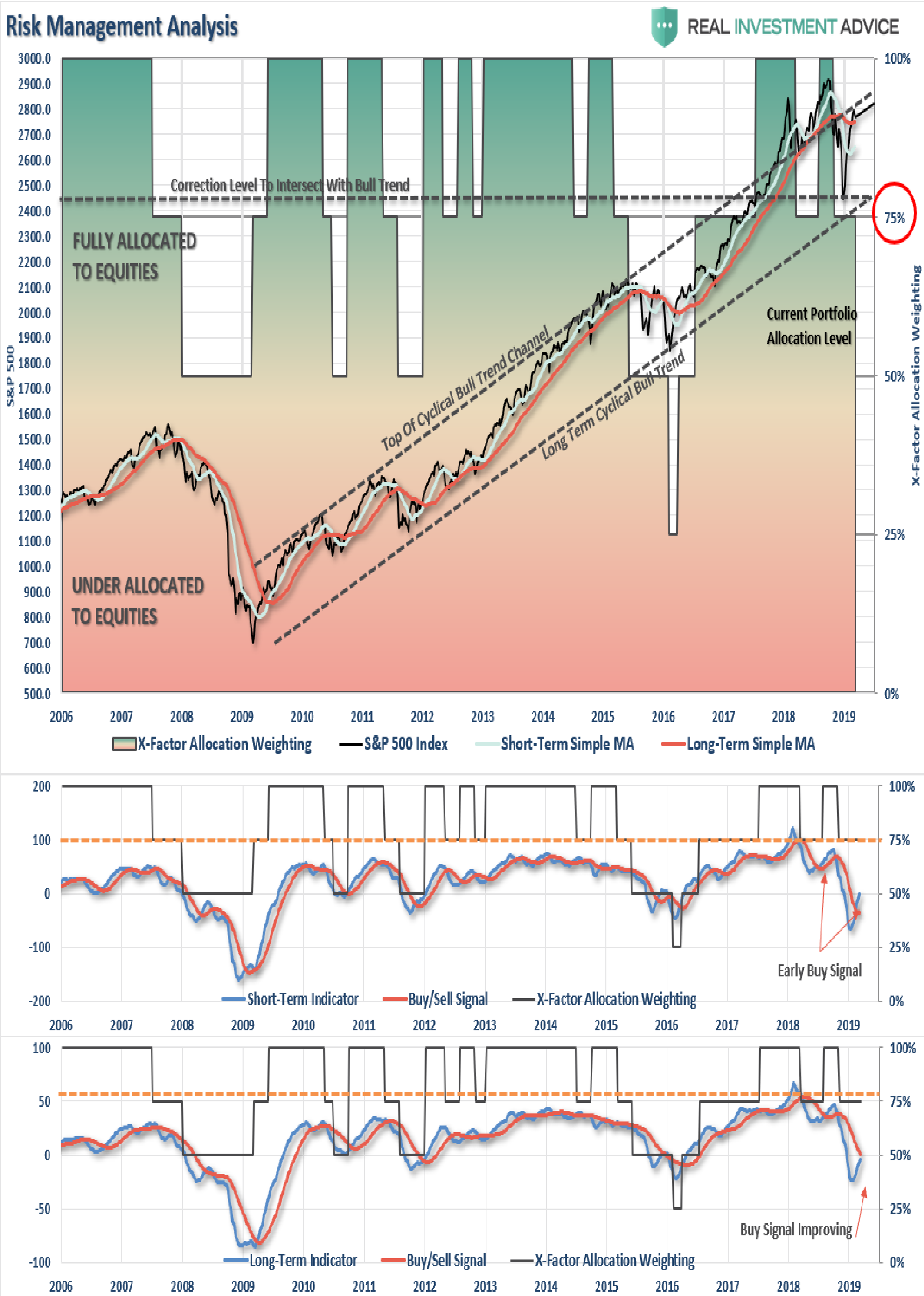
- ***New clients:*** *We added core positions AND our fixed income holdings to new portfolios. Since our "core" positions are our long-term holds for inflation adjustments to income production we can add without too much concern.&#2013266080;*
- ***Equity Model:&#2013266080;****The recent rout in Healthcare, Materials, and Discretionary give us an opportunity to increase holdings in some of our longer-term holdings. We also added holdings in BA, JPM, AAPL and PPL.&#2013266080;*
- ***ETF Model****: Adding XLV, 1/2 position in XLE, and filled out our holdings of 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 Improving

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

Market Rallies, Be Patient

As we have been discussing over the last several weeks, the sharp rally in stocks has gone too far, too quickly, so just be patient here and wait for a correction/consolidation to increase exposure.&#2013266080;The rally this past week was positive but remains very narrow in terms of participation.

The break out of the recent consolidation range is bullish so you CAN increase exposure in portfolios modestly. However, the backdrop is not strong enough on a risk/reward basis to take the portfolio allocation model back to 100% just yet.&#2013266080;

Also, this rally remains concerning, as I stated last week:

> *"Take a look at the chart above. Beginning in 2016, I drew a bull trend channel for the market in the chart above (the dashed 45-degree black lines) which have contained the bull market rally since the 2009 lows.*
>
> *In January 2018, the market made, as we stated then, and unsustainable break above that upper trend line. I add the horizontal black dashed line at that point and said that ultimately we would see a correction back the long-term bull trend line.&#2013266080;*
>
> *Since then, exactly that has happened and rather than the market retesting the lower bullish trend line and then beginning a more normal advance, the market rocketed higher in 2-months to hit AND FAIL at the upper bullish trend line.&#2013266080;*
>
> *If the last decade provides any clues, it is likely the market is going to remain range bound within this rising trend for now, which suggests that waiting for a better entry point to increase exposure will be rewarded."*&#2013266080;

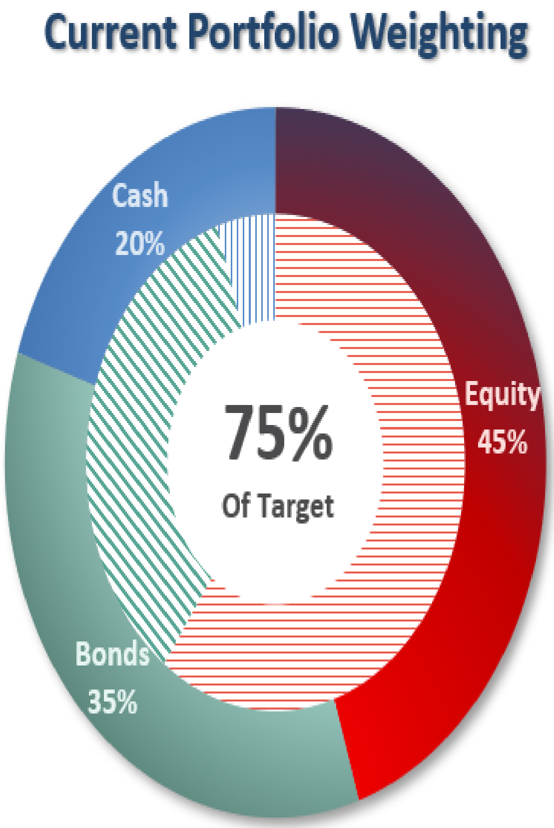
As we noted last week, wanted to be patient and wait for a rally. That rally ran faster than expected but broke above recent resistance.&#2013266080;

- *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 and let them run with the market.*
- *If you are* ***underweight equities or at target -*** *rebalance portfolios to model weights currently. Hold positions for now and increase allocations in modestly as needed to get towards target weights.&#2013266080;*

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

Current 401-k Allocation Model

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



Current 401k Allocation Model

20.00% **Cash + All Future Contributions**

Primary concern is the protection of investment capital

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

35.00% **Fixed Income (Bonds)**

Bond Funds reflect the direction of interest rates

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

45.00% **Equity (Stocks)**

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

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

401k Choice Matching List

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

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401k Selection List