What Do Central Bankers Know?

- ***What Do Central Banks Know?***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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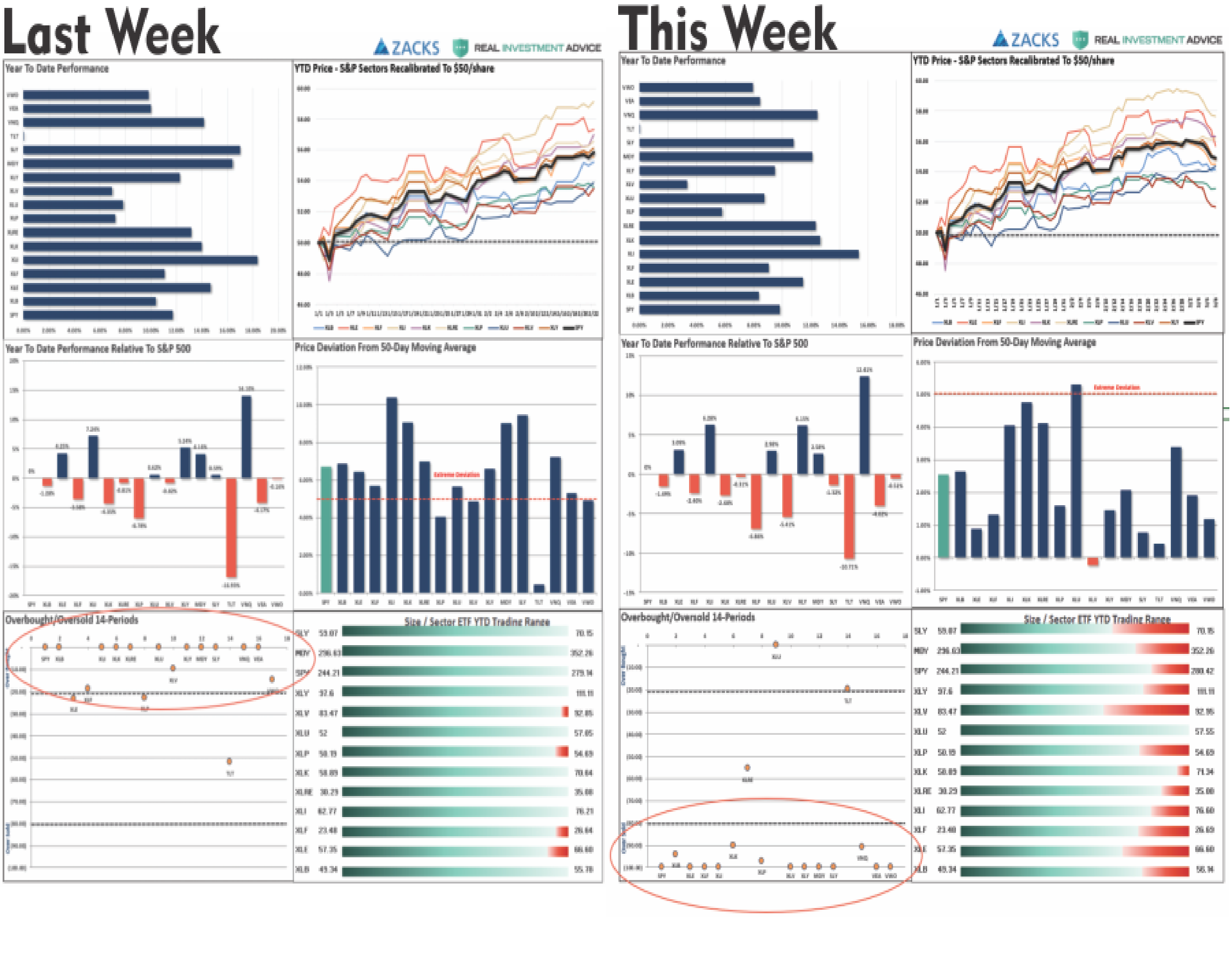
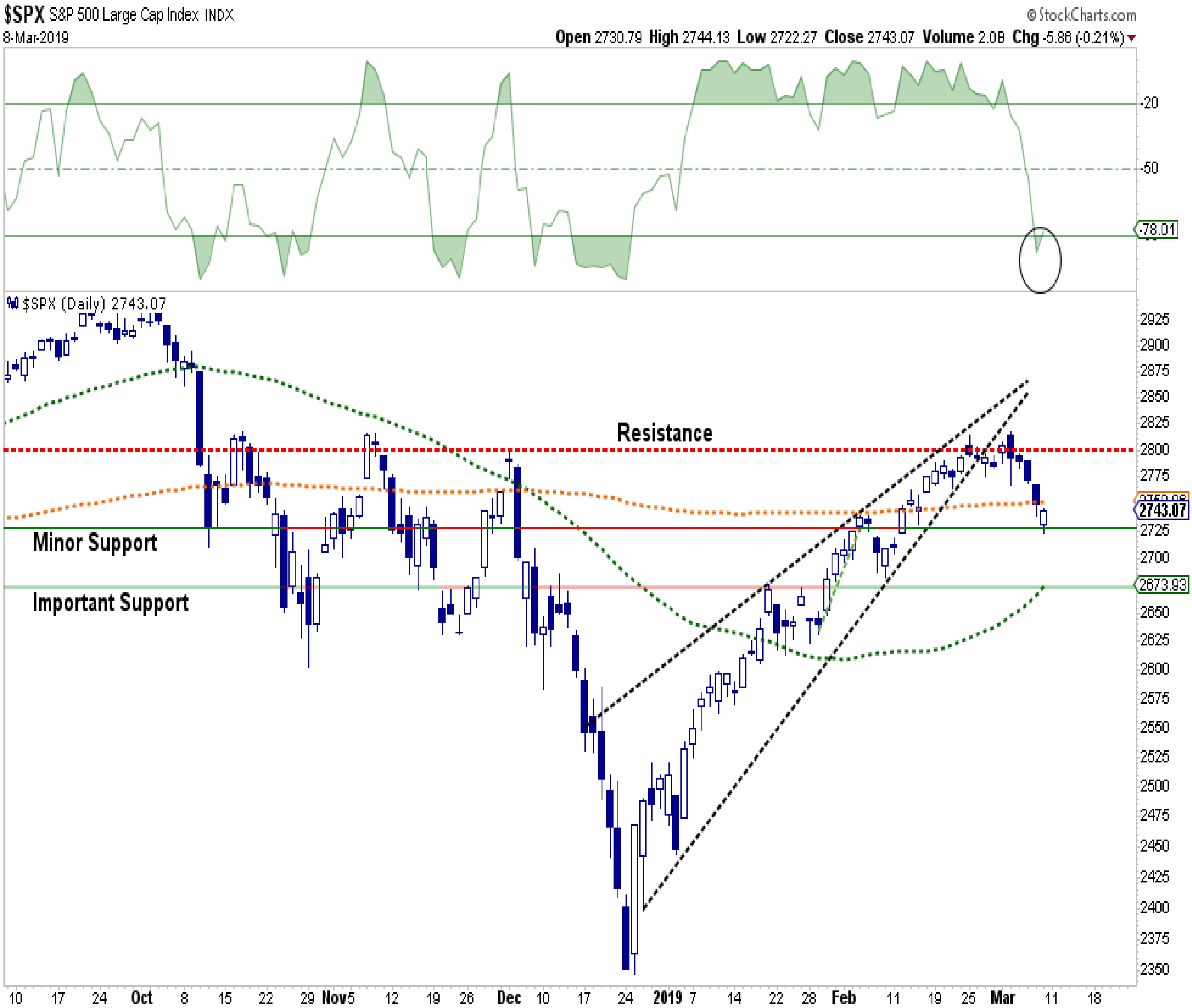
In last week's missive, we discussed a critical point concerning the bull run so far.

> *"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)***
>
> *You will note that with the exception of bond prices, every market and sector is more than 5% above its 50-day moving average and year-to-date performance is pushing more historic extremes both in price and in extreme overbought conditions.&#2013266080;*
>
> ***On virtually every measure, markets are suggesting the fuel for an additional leg higher in assets prices is extremely limited."***

The chart below compares last weeks analysis to this week. You can see the sharp difference between the two periods as much of the overextension last week has now been reversed.&#2013266080;



The chart below also shows the short-term reversal of the market as well as the test of minor support at the initial October lows.&#2013266080;



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.

However, the next two charts suggest there is a decent probability any bounce will fail in the short-term and should be used for rebalancing risk.

1. **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
8-Mar-2019
Open 2730.79 High 2744.13 Low 2722.27 Close 2743.07 Volume 2.0B Chg -5.86 (-0.21%)
$SPX (Daily) 2743.07
MA(200) 2750.86
$VIX 16.05
SELL
BUY
MACD(12,26,9) 22.595, 32.597, -10.003
SELL
BUY
PPO(1,50,1) 1.003, 1.003, 0.000
SELL
BUY
PPO(1,200,1) 1.195, 1.195, 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) **There is historically a very high correlation between what happens in the transportation sector *(a view on the economy)* and the market as a whole.** *Watch for a rally in the transportation sector to signal an all-clear for the markets.&#2013266080;*

The current set up suggests that the correction that started last week is not yet complete and any bounce will likely be a good opportunity to reposition portfolios in the short-term until a better entry point to increase exposure is achieved.&#2013266080;

The problem with statements like these is that those of the *"permanently bullish"* mindset tend to extrapolate the analysis into the onset of the next major *"bear market."* &#2013266080;**Such is certainly not the intent, nor is it a suggestion to sell everything and hide in cash.&#2013266080;**

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What should be readily apparent is that paying attention to price can help alleviate our natural tendency to *"buy high"* and *"sell low."&#2013266080;&#2013266080;*Managing a portfolio of investments is simply measuring risk and reward and placing bets when reward outweighs the potential risk. **Tweaking exposure to *"risk"* overtime can pay big dividends over the long-term which is our goal of investing to begin with.&#2013266080;**

This is why every great investor throughout history has basic investing rules which all revolve around limiting losses to capital. Here are **James Montier's 7-Immutable Laws Of Investing:**

1. ***Always insist on a margin of safety***
2. *This time is never different*
3. ***Be patient and wait for the fat pitch***
4. *Be contrarian*
5. ***Risk is the permanent loss of capital,****&#2013266080;never a number*
6. *Be leery of leverage*
7. *Never invest in something you don?t understand*

If these rules sound logical to you, and you are nodding your head in agreement, then how does a pitch to *"buy and hold"* and *"ride out the market"* make any sense?

During a bull market cycle, buying and holding good investments which pay a dividend is absolutely the right thing to do. However, at the end of market cycle, not so much.&#2013266080;

What Do Central Banks Know That You Don't

As we noted in Thursday's missive on why QE may not work this time, Central Bankers globally have jumped back into the *"emergency measure"* pool.

- ***The Fed***
  - ***Has announced it will be ?patient?*** *with future rate hikes.*
  - *The pace of QT, or balance sheet reduction,&#2013266080;**will not be on ?autopilot?** but instead driven by the current economic situation and tone of the financial markets.*
  - *It is expected the Fed will announce in March that&#2013266080;**QT will end and the balance sheet will stabilize at a much higher level, and;***
  - ***QE is a tool that WILL BE employed*** *when rate reductions are not enough to stimulate growth and calm jittery financial markets.*
- China has launched&#2013266080;its version of&#2013266080;*?Quantitative Easing?* to help prop up its economy which grew at the slowest pace in nearly 30-years.
  - *China has taken fiscal and monetary policy measures such as fast-tracking infrastructure projects*
  - *Additional monetary support for the economy*
  - *A cut in taxes, and;*
  - *A Reduction&#2013266080; banks? reserve requirements*

- The ECB, after&#2013266080;downgrading Eurozone growth, announced

- *They will **not raise rates in 2019**, and;*

- *They will extended the TLTRO program, which is the **Targeted Longer-Term Refinancing Operations** scheme which **gives cheap loans to struggling Eurozone banks,&#2013266080;**into 2021. (Currently, Italy, Spain, Greece, and Portugal all borrow more than they deposit and more tha $800 billion from the previous TLTRO is set to mature over the next two years. Without the extension of the program, defaults could rise sharply.)*

But there is nothing to worry about, right?

Maybe, but if there is nothing to worry about, then why the sudden pivot by Central Banks? What are they seeing that you don't?

As we discussed in our analysis, the macro-environment in the U.S. is markedly different than it was in 2009. The Fed's starting point to battle the next recessionary environment is far weaker than it was then when the Fed funds rate was twice as high and the balance sheet four-times smaller.

Grab a cup of coffee and start your trading/investing day with me.
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Here is the important point. We, as investors, have been trained over the last decade to *"buy"* whenever Central Banks are engaged in monetary interventions. So far it has worked in lifting asset prices higher. But therein lies the risk of complacency.&#2013266080;

In 2009, most of the risk in the financial and credit markets had been wrung out from the decline. Today, the markets are more exposed than ever to leverage and credit risk throughout the global ecosystem.&#2013266080;

My friend Doug Kass had a great note Friday related to this risk.

> *"Astonishingly I heard a 'talking head' on one of the business media platforms earlier this week who said that none of the excesses that existed in past recessionary periods are in place today.&#2013266080;*
>
> ***To say excesses, systemic issues, and possible instability, don't exist is borderline irresponsible.***
>
> *As I see it, there are several measurable excesses and associated risks that represent this cycle's new challenges that may be summarized into these five categories:*
>
> - ***An untenable level of global (private and public sector) debt***

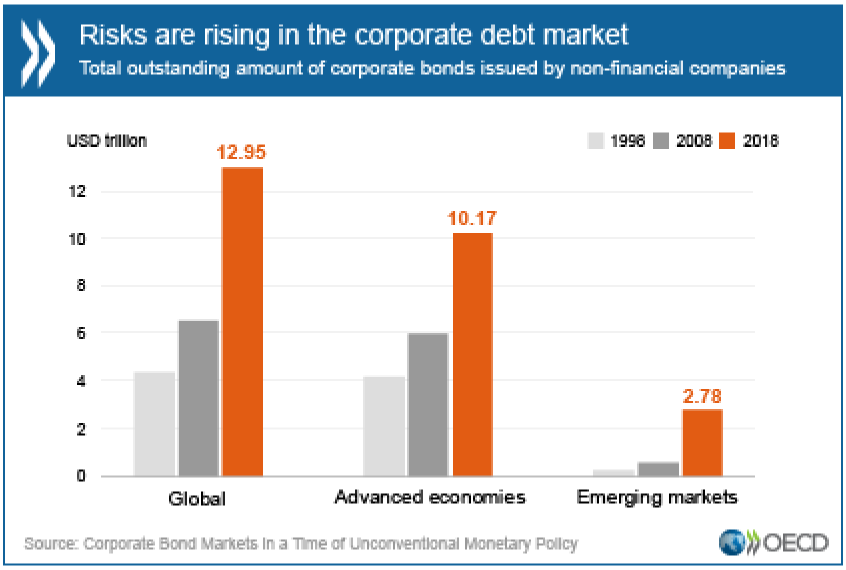
- ***Structural instability and growth threats in the form of rising deficits and demographic trends (i.e., slowing population growth)***
- ***Lack of (sovereign) cooperation***
- ***Unparalleled political instability and rising policy risks***
- ***A dangerous shift in market structure***

Debt

Debt that is not self-funding is future consumption brought forward.

Through years of unprecedented monetary ease, we have enjoyed unsustainable consumption and growth which cannot continue at its current pace in the future. Debt, then, is a drag on future growth, and the amount of debt the world now has will be a monster drag on that growth.

The fact is that the global economies are over levered with debt in our private and public sectors that are excessive. As I chronicled in "Why Interest Rates Are the Bull Market's Most Serious Threat," in the fullness of time, the weight of debt will act as a governor to economic growth - it saps capital. To think otherwise is foolhardy.



Deficits and Demographic Threats

Under the weight of rising and uncontrolled deficits (supported by both parties) and slowing population growth, intermediate to longer-term economic and profit growth prospects are diminishing. Near term, domestic economic growth is already weakening (as supply side economics is being further discredited). At the same time Chinese growth is failing to stabilize and it appears that Europe is entering a deepening recession - underscoring the fragility of the global economic system that is still being propped up by low or negative interest rates.

China&#2013266080;

It is my core expectation that U.S. and China will fail to agree on trade. (My baseline expectation is that investors will view a likely, superficial agreement as no agreement at all). We will find out shortly whether my view is accurate ***and that there will be no big deliverables with regard to IP theft and/or technology exchange.*** *The consequences for the global economy are obvious -* ***China accounts for only about***

14% of world GDP but accounts for about one third of the delta in global economic growth.

Earnings & Risk

Most importantly, for investors, the consensus expectations for corporate profits, and economic growth expectations, remain far too optimistic."

I will steal his last line as I agree **that&#2013266080;risks currently remain to the downside which explains our cautious outlook for 2019-2020.&#2013266080;**

If the message that Central Banks are sending comes to fruition, it will likely be a challenging backdrop for equities in the months ahead.&#2013266080;

Currently, it certainly seems these concerns are outlandish and far fetched but the data is all too present and real. After a scorching run in the first two months of the year, it is hard to see anything as being bearish, but therein lies the risk.

As an investor, our job should be an honest evaluation of our portfolio allocations and our investment strategy with relation to the relevant market risks.&#2013266080;

In other words, ask yourself this one simple question:

"What will happen to my money if something goes wrong?"

If that question raises no concerns for you, do nothing? But if you didn't like the plunge last November and December, it may be time to re-evaluate things.&#2013266080;

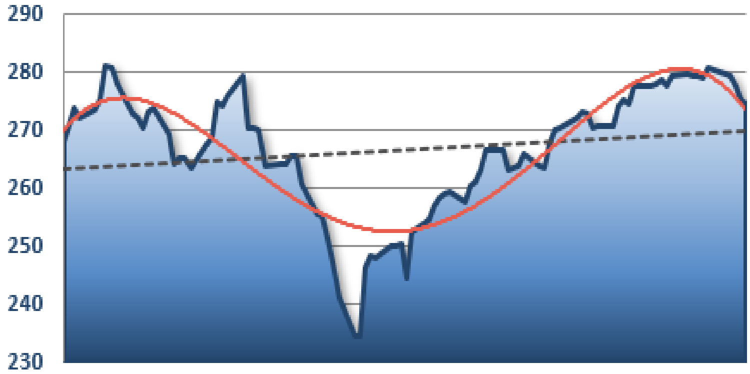
See you next week.&#2013266080;

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	16.02%	0.13%	9.82%	7376.49%
Max Drawdown	-20.47%	-20.47%	-3.35%	-83.62%
Sharpe	0.70	0.13	4.68	33.91
Sortino	0.78	0.15	6.68	42.51
Volatility	13.47	16.07	13.83	(0.14)
Daily VaR-5%	(11.53)	(22.66)	44.14	(2.95)
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	1.93%	1.67%	1.93%	13.77%	2.17%	1.67%	(10.93%)	15.98%
P/E Ratio	20.86	22.15	17.36	(27.60%)	21.58	16.68	(19.6%)	4.06%
P/S Ratio	3.00	3.53	3.15	(12.17%)	3.53	2.48	(10.85%)	27.21%
P/B Ratio	3.59	3.85	4.11	6.43%	4.15	2.94	(0.95%)	40.02%
ROE	15.22%	15.97%	18.99%	15.86%	18.99%	15.01%	0.00%	26.48%
ROA	2.83%	3.01%	3.48%	13.67%	3.48%	2.82%	0.00%	23.33%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,430.2	2,405.0	(1.04%)
Sales	58,551	63,236	8.00%
SPS	24.1	26.3	9.13%
Earnings	7,981	9,527	19.37%
EPS TTM	3.9	4.8	23.70%
Dividend	1.4	1.6	10.93%

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	(4.45%)	5.43%	1.20	15.88	156.27	12.49	(89.8%)	12.4%	3.5%	5.43%	3.28	17.75
Materials	(5.29%)	2.67%	1.31	15.71	21.86	13.82	(28.1%)	11.1%	2.1%	6.39%	4.70	14.94
Industrials	(4.41%)	9.64%	1.13	17.03	22.22	14.73	(23.4%)	15.5%	2.0%	5.97%	5.27	15.71
Discretionary	4.79%	9.96%	0.98	22.63	27.60	20.11	(18.0%)	28.1%	1.3%	4.25%	4.80	20.36
Staples	(1.18%)	7.11%	0.60	18.64	22.83	18.00	(18.4%)	26.2%	3.0%	5.28%	3.92	17.99
Health Care	4.95%	14.65%	0.94	16.81	20.62	15.93	(18.5%)	30.1%	1.8%	5.80%	6.32	15.91
Financials	(10.20%)	13.23%	1.23	12.61	18.41	11.69	(31.5%)	11.7%	2.2%	7.91%	5.72	11.61
Technology	4.85%	20.58%	1.21	18.50	21.83	14.47	(15.2%)	38.7%	1.6%	5.29%	5.14	18.40
Telecom	0.08%	10.29%	0.88	19.77	26.97	19.96	(26.7%)	18.1%	1.0%	4.88%	5.00	21.43
Utilities	19.73%	3.27%	0.33	19.20	20.31	15.58	(5.4%)	11.0%	3.4%	5.33%	3.58	17.93
Real Estate	13.51%	2.99%	0.80	19.59	24.47	17.87	(19.9%)	10.3%	3.3%	5.13%	4.29	18.40

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	274.46	10.78%	268.02	37	2.40%	274.58	19	(0.04%)	(2.39%)	(6.63%)	17.41%	Sell
Mid Cap	339.22	13.32%	332.99	38	1.87%	346.43	16	(2.08%)	(3.88%)	(9.32%)	19.25%	Sell
Small Cap	66.42	11.33%	66.03	38	0.59%	70.21	275	(5.40%)	(5.96%)	(15.12%)	17.98%	Sell

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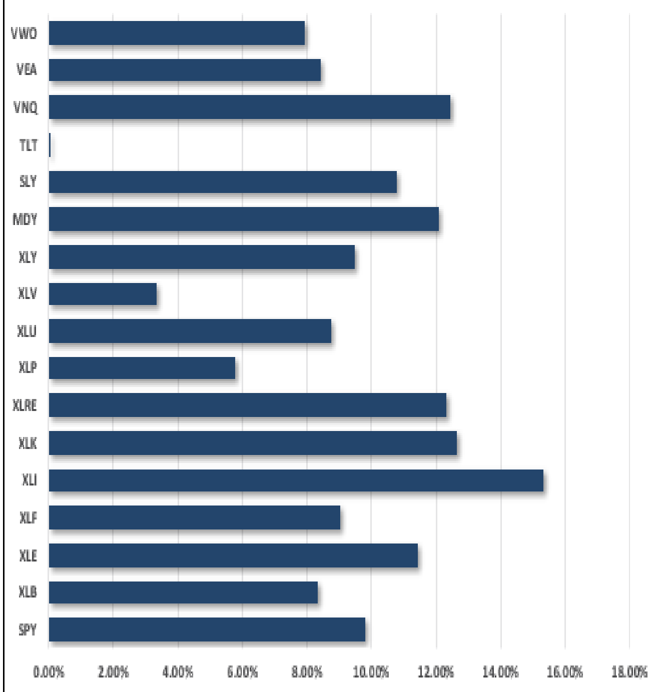
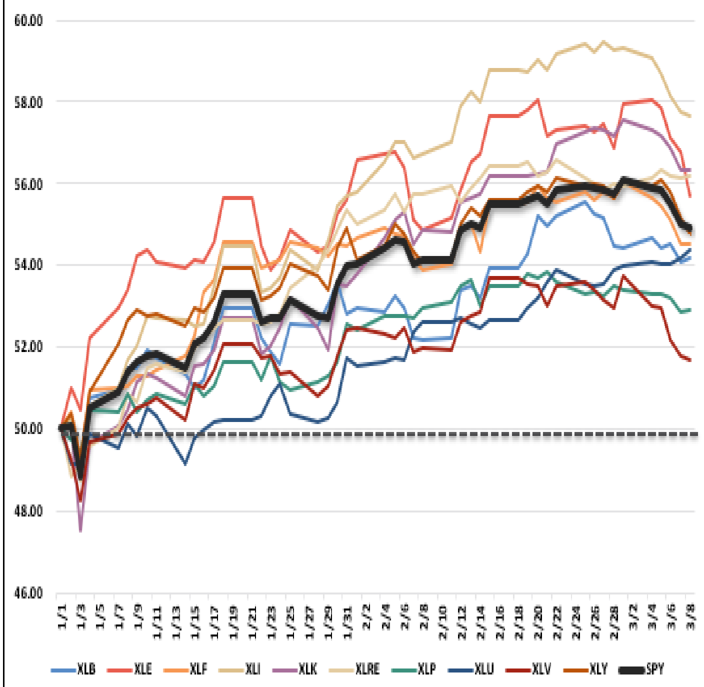
Performance Analysis

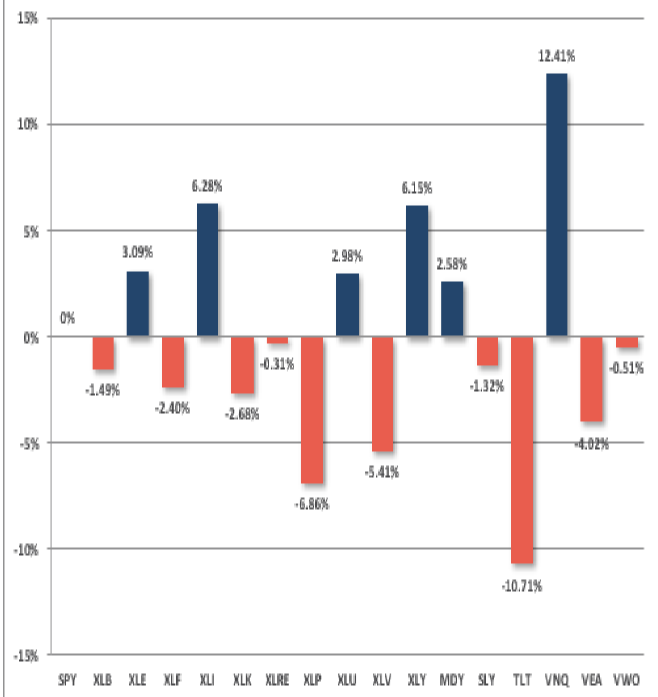
Year To Date Performance



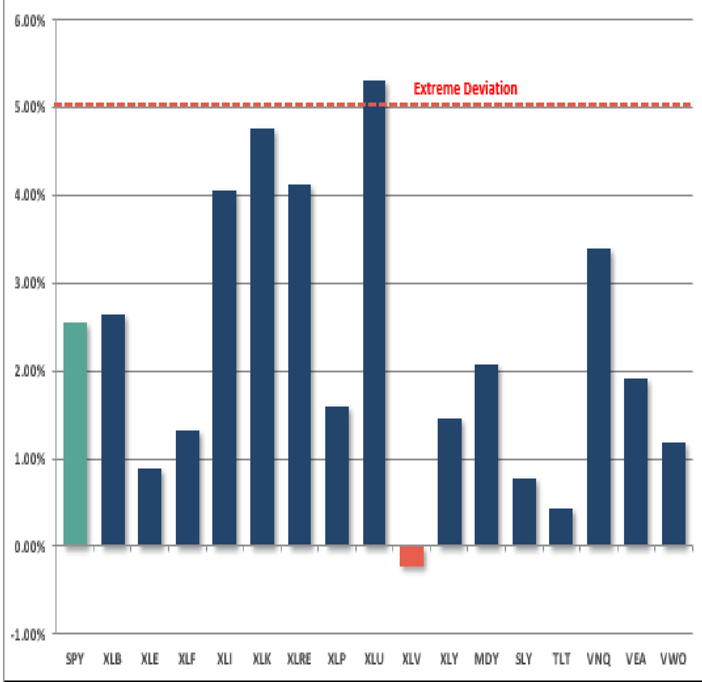
YTD Price - S&P Sectors Recalibrated To $50/share



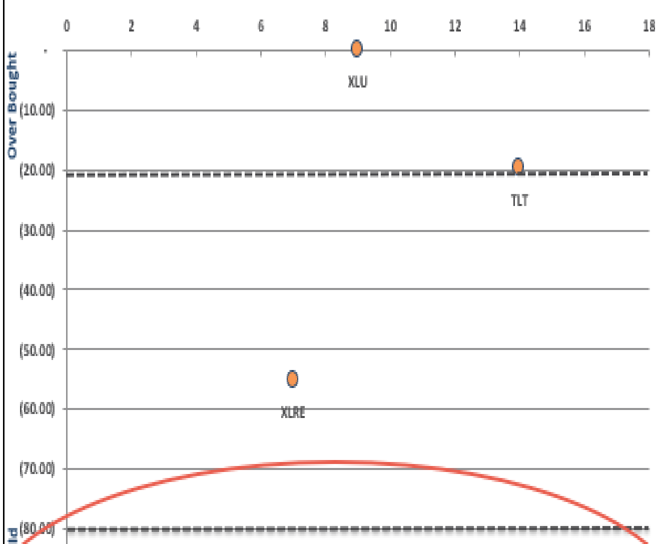
Year To Date Performance Relative To S&P 500



Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range

SLY	59.07	70.15
MDY	296.63	352.26
SPY	244.21	280.42
XLY	97.6	111.11
XLV	83.47	92.95
XLU	52	57.55
XLP	50.19	54.69
XLK	58.89	71.34
XLRE	30.29	35.08
XLI	62.77	76.60

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	276.20	(2.16)	1.50	5.26	(6.49)	(1.65)	265.92	276.34	3.87%	-0.05%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	54.73	1.71	2.36	1.39	(3.14)	(9.10)	52.65	55.20	3.94%	-0.85%	SELL
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	63.90	(1.67)	0.03	(2.34)	(8.43)	(5.00)	62.47	68.43	2.30%	-6.61%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	25.97	(0.53)	(0.33)	1.88	(3.15)	(10.91)	25.22	26.59	2.99%	-2.32%	SELL
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	74.27	(0.64)	0.15	5.51	(0.68)	(3.68)	70.01	72.94	6.08%	1.82%	SELL
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	69.81	0.02	1.18	2.86	0.05	0.65	65.76	69.30	6.16%	0.73%	SELL
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	53.71	1.19	(1.64)	(6.71)	4.11	0.02	52.75	53.75	1.82%	-0.07%	SELL
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	57.55	2.90	1.86	(3.97)	14.95	18.14	54.63	54.09	5.35%	6.39%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	46.17	1.93	(0.53)	0.61			44.28	46.25	4.26%	-0.17%	SELL
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	89.40	(1.65)	(2.10)	(4.76)	1.32	4.99	88.94	90.44	0.51%	-1.15%	SELL
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	108.41	(0.26)	(0.30)	0.68	(0.79)	3.69	105.16	108.87	3.09%	-0.42%	SELL
TACTICAL	SIZE	SLY	SALOMON LEASING	66.42	(2.32)	(1.48)	0.84	(6.60)	(2.14)	64.76	69.58	2.56%	-4.54%	SELL
TACTICAL	SIZE	MDY	SPDR-SP MC 400	339.22	(1.15)	(0.96)	2.00	(2.07)	(2.78)	326.74	343.91	3.82%	-1.36%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	101.90	(0.56)	(0.53)	1.17	0.33	(0.30)	97.98	101.48	4.00%	0.41%	SELL
CORE	Dividend	SDY	SPDR-SP DIV ETF	97.14	(0.01)	(0.29)	(1.33)	4.05	4.85	94.05	95.55	3.29%	1.66%	SELL
CORE	Real Estate	XLRE	SPDR-RE SELS	34.82	2.60	(0.77)	(1.07)	11.52	14.08	33.14	32.99	5.06%	5.53%	BUY
CORE	International	EEM	ISHARS-EMG MKT	41.64	0.16	(2.73)	(0.71)	2.81	(14.66)	41.13	41.54	1.23%	0.25%	SELL
CORE	International	EFA	EMG MKT FREE AS	63.47	0.38	0.84	(0.28)	(1.03)	(8.68)	61.56	64.04	3.10%	-0.89%	SELL
CORE	International	IXUS	ISHARS-CR INT S	56.72	0.33	(0.05)	0.05	(0.33)	(9.98)	55.17	57.13	2.81%	-0.71%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	121.57	4.62	(2.13)	(2.65)	10.30	4.75	120.77	118.59	0.66%	2.51%	BUY
FI	International	BNDX	VANGD-TTL INT B	55.27	3.10	(0.80)	(4.84)	7.71	3.62	54.69	54.64	1.07%	1.16%	BUY
FI	High Yield	HYG	ISHARS-IBX HYCB	85.10	1.57	(1.13)	(2.93)	5.17	0.52	83.82	84.67	1.53%	0.51%	SELL
FI	Cash	BSV	VANGD-SHT TRM B	79.04										

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 wrote:

> *"If you walked into a Baskin-Robins, famous for 33-flavors, and all they had was vanilla, what would you buy? This is a bit facetious, but it is the problem with the market currently. With everything looking the same, with all sectors extended, overbought, and starting to lose momentum, you only have a choice of "vanilla" currently.&#2013266080;* ***If we are patient, more flavors will be available soon."***

Well, last week, more flavors started to arrive to choose from.&#2013266080;

Currently, the overbought condition across sectors has not been fully reversed which suggests more downward pressure on asset prices over the next week. However, defensive sectors are currently outperforming offensive sectors of the market currently.&#2013266080;

Technology, Staples, Utilities, Real Estate, Healthcare - all maintained their 200-dma last week. We are adding a weighting of healthcare to portfolios next week as the sector has been beaten up recently over concerns of *"Medicare for All."* &#2013266080;We will maintain our holdings for now in the remaining sectors as support continues to hold. One concern currently is Real Estate which is close to triggering a short-term sell signal. **Take profits in REIT's for now which have gotten to more extreme valuation levels as well.&#2013266080;**

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

Adding Next Week: *XLV*

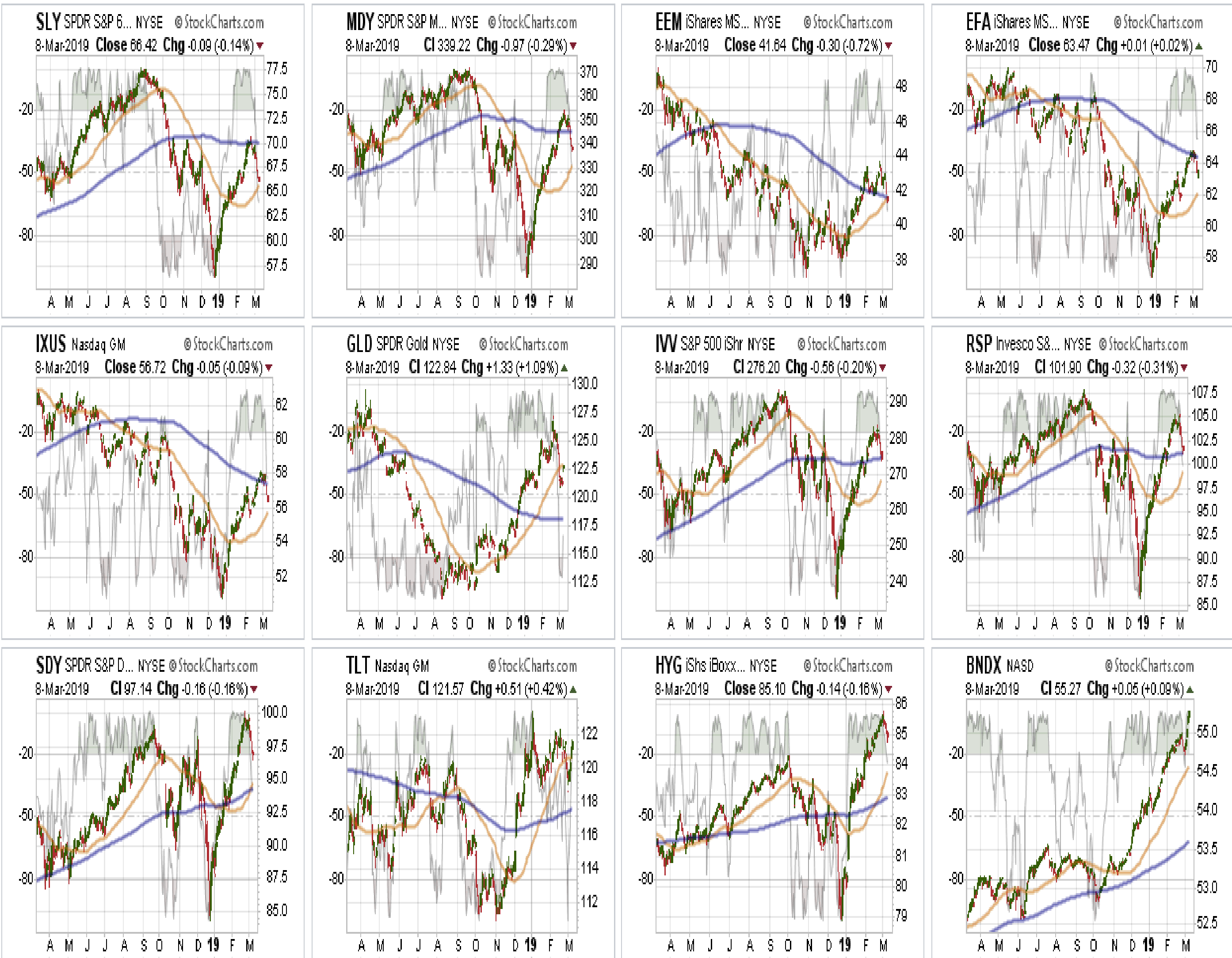
Discretionary, Materials, Energy, Financials, and Communications - While other sectors of the market have performed much better, these sectors have rallied but have failed to climb above their respective 200-dma's. Discretionary stocks also broke back below the 200-dma and is potentially looking weaker.

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 two 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 look to add to our position on a successful retest of support which may have occurred this week. We will evaluate again at the end of next week.&#2013266080;

Major International & Total International shares are extremely overbought but not performing nearly as well as Emerging Markets. Keep stops tight on existing positions, but no rush here to add new exposure. Emerging Markets are much more interesting.

Stops should remain tight at the running 50-dmas.&#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. Nonetheless, we are currently fully allocated to bonds so the performance pick up was welcome which offset the decline on the equity side of the ledger.&#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	Notes
XLY	Discretionary	Declining	Negative	Negative	Hold			X			Hold Position
XLK	Technology	Declining	Negative	Negative	Hold			X			Hold Position
XLI	Industrials	Declining	Negative	Negative	Hold			X			Hold Position
XLB	Materials	Declining	Negative	Negative	Hold			X			Hold Position
XLE	Energy	Declining	Negative	Negative	No Position					X	Add On Pullback
XLP	Staples	Declining	Stabilizing	Neutral	Hold			X			Hold Position
XLV	Health Care	Declining	Stabilizing	Neutral	No Position		X				Adding Position
XLU	Utilities	OB	Positive	Positive	Hold			X			Hold Position
XLF	Financials	Declining	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	Declining	Negative	Improving	Trade Oppty			X			Added 1/2 Position
EFA	International	Declining	Negative	Negative	No Position					X	Above 50-DMA
IXUS	Total International	Declining	Negative	Negative	No Position					X	Above 50-DMA
GLD	Gold	OS	Positive	Improving	Trade Oppty			X			Added 1/2 Position
RSP	SP500 Equal Wgt	Declining	Negative	Negative	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	Declining	Stabilizing	Negative	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	Declining	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 Aggregrate	OB	Positive	Positive	No Position			X			Way Too Overbought Currently

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

Portfolio/Client Update:

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.&#2013266080;

With the recent pullback to short-term oversold conditions we have, or will be, taking the following actions next week.&#2013266080;

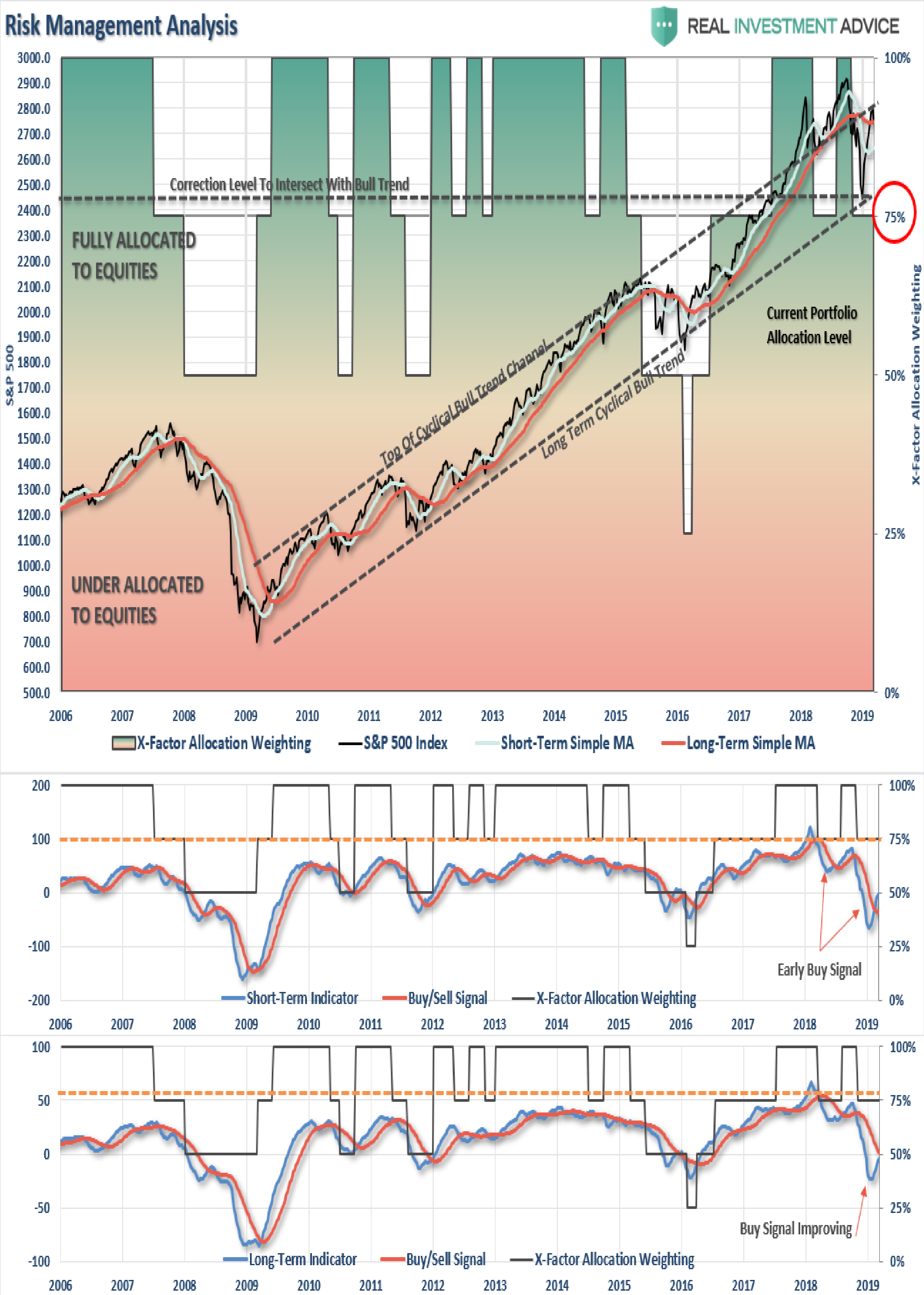
- ***New clients:*** *We added core positions AND our fixed income holdings to new portfolios. Since our "core" positions are our long-term holds for inflation adjustments to income production we can add without too much concern.&#2013266080;*
- ***Equity Model:&#2013266080;****The recent rout in Healthcare, Materials, and Discretionary give us an opportunity to increase holdings in some of our longer-term holdings. We are also evaluating opportunities to add holdings in positions like BA, WMT, TGT, MU, and others given the right entry point.*
- ***ETF Model****: Adding XLV to our holdings.*

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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Just The ~~Facts~~ Chart, Ma'am

As I noted wrote two weeks ago:

> *"As shown in the 401k chart above, the short-term weekly 'buy' signal was triggered last week.* ***This is bullish but requires the lower signal to "confirm" the upper before we increase the portfolio model back to 100% target levels.***
>
> *Importantly, by the time weekly signals are triggered the market is ALWAYS very overbought or oversold.* ***Therefore, when signals are registered we don't immediately take action. Instead, like now with markets are extremely overbought on a short-term basis, we want to wait for some type of pullback to add exposure."***

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;

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:

> *"While it may seem like 'a correction will never come,' such is always the case in a bull rally. Bull rallies do their best to suck investors into taking on risk at the wrong time. Patience always provides a better opportunity over the longer-term time frames."* &#2013266080;

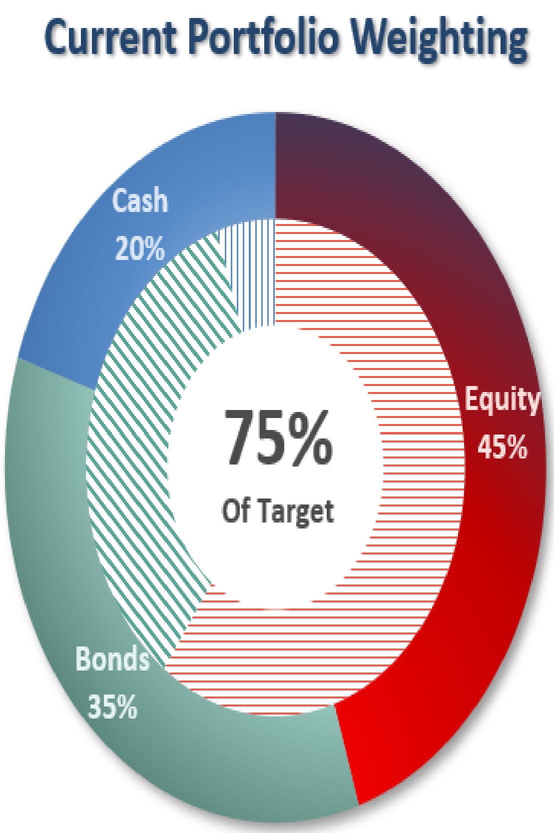
Let's be patient and see if the market can rally next week. Continue to follow the model strategy for the time being.&#2013266080;

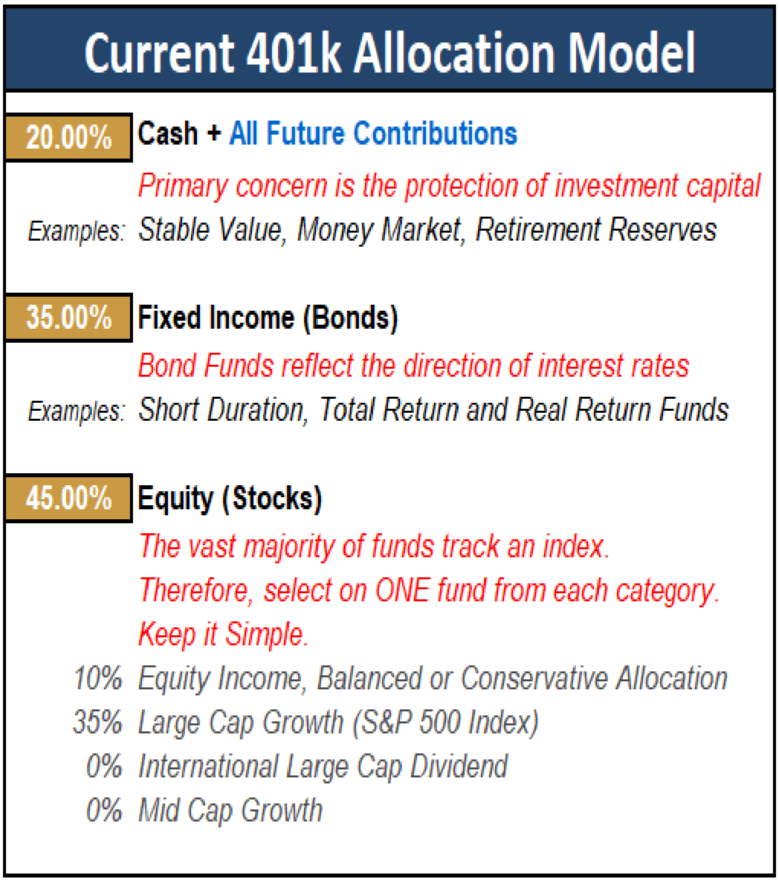
- *If you are **overweight&#2013266080;equities** - take some profits and reduce portfolio risk on the equity side of the allocation. This will provide an opportunity to use cash to add exposure post the pending correction/consolidation.*
- *If you are **underweight equities or at target -&#2013266080;**hold positions for now and wait for a better opportunity to increase allocations. Don't worry, you haven't missed anything.&#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.)***





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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