

## What The Fed Really Said



- *Market Review & Recap*
- *What The Fed Really Said*
- *Sector & Market Analysis*
- *401k Plan Manager*

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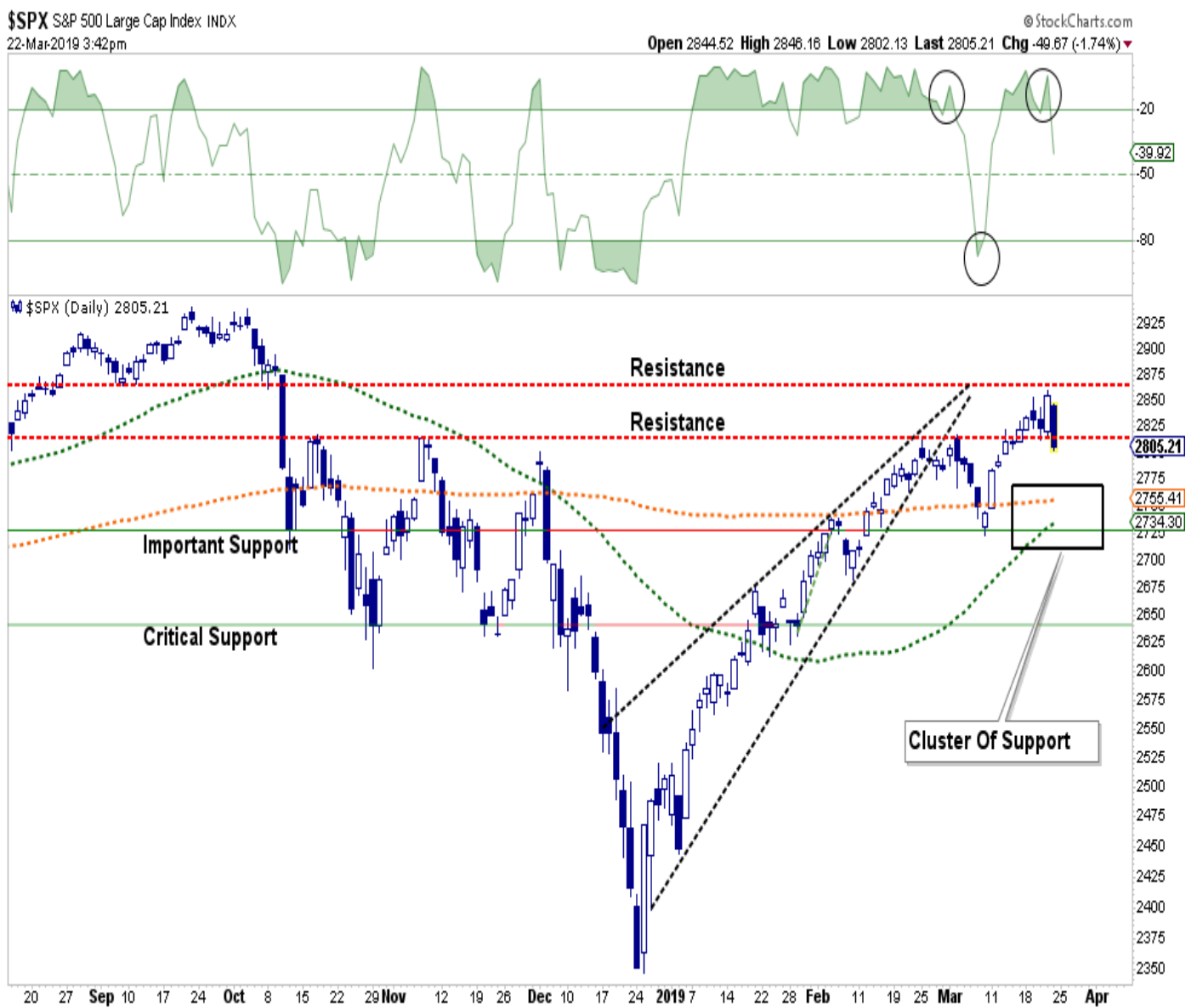
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## Market Review & Recap

The volatility in the markets continued this week with another big whipsaw for investors following the Fed meeting. On Thursday, the S&P soared after the Fed announced they would not be hiking rates this year and ending their balance sheet reduction by September. On Friday, the rally was reversed as the realization of what the Fed actually said sank into the markets.

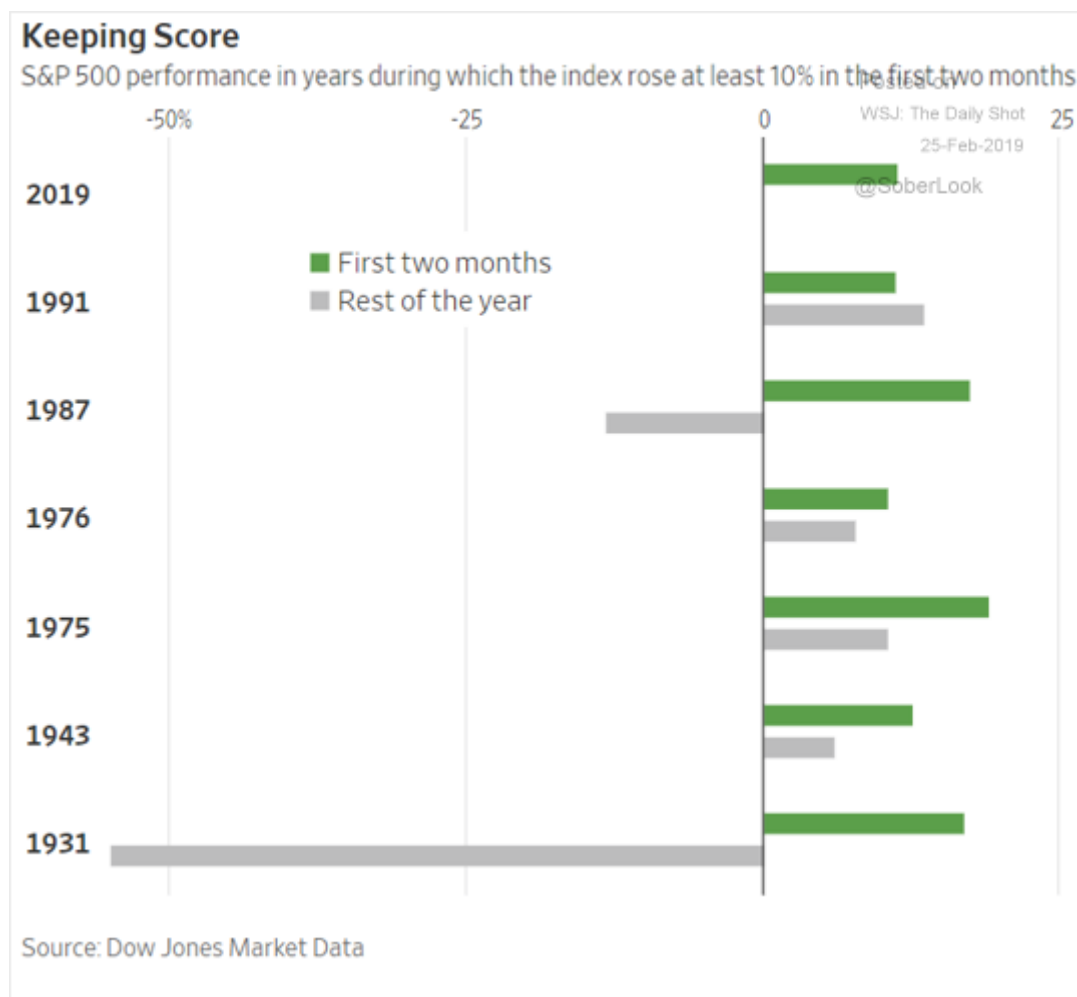
In just the course of 4-weeks, the market has swung from overbought, to oversold, back to overbought and then begin correcting back to oversold on Friday. I am exhausted just writing about it.



These swings make portfolio management very difficult. While the markets have been fairly well contained, allowing us to "hold" our long-equity exposure currently, the market continues to show signs of "exhaustion" in the recent price action. As I wrote at the beginning of the month:

*?The markets are not immune to the ?laws of physics.? While the price action is indeed bullish in the short-term, the shorter-term moving averages act like ?gravity? on prices. Given the current extension and deviation above the 50-dma the odds of a pullback, before a continued advance, is a high probability.*

***As shown in the table below, it is very likely that if you sold everything today, and went to cash, that you would miss little over the balance of the year. In other words, the bulk of the gains have likely been made for the year.?***

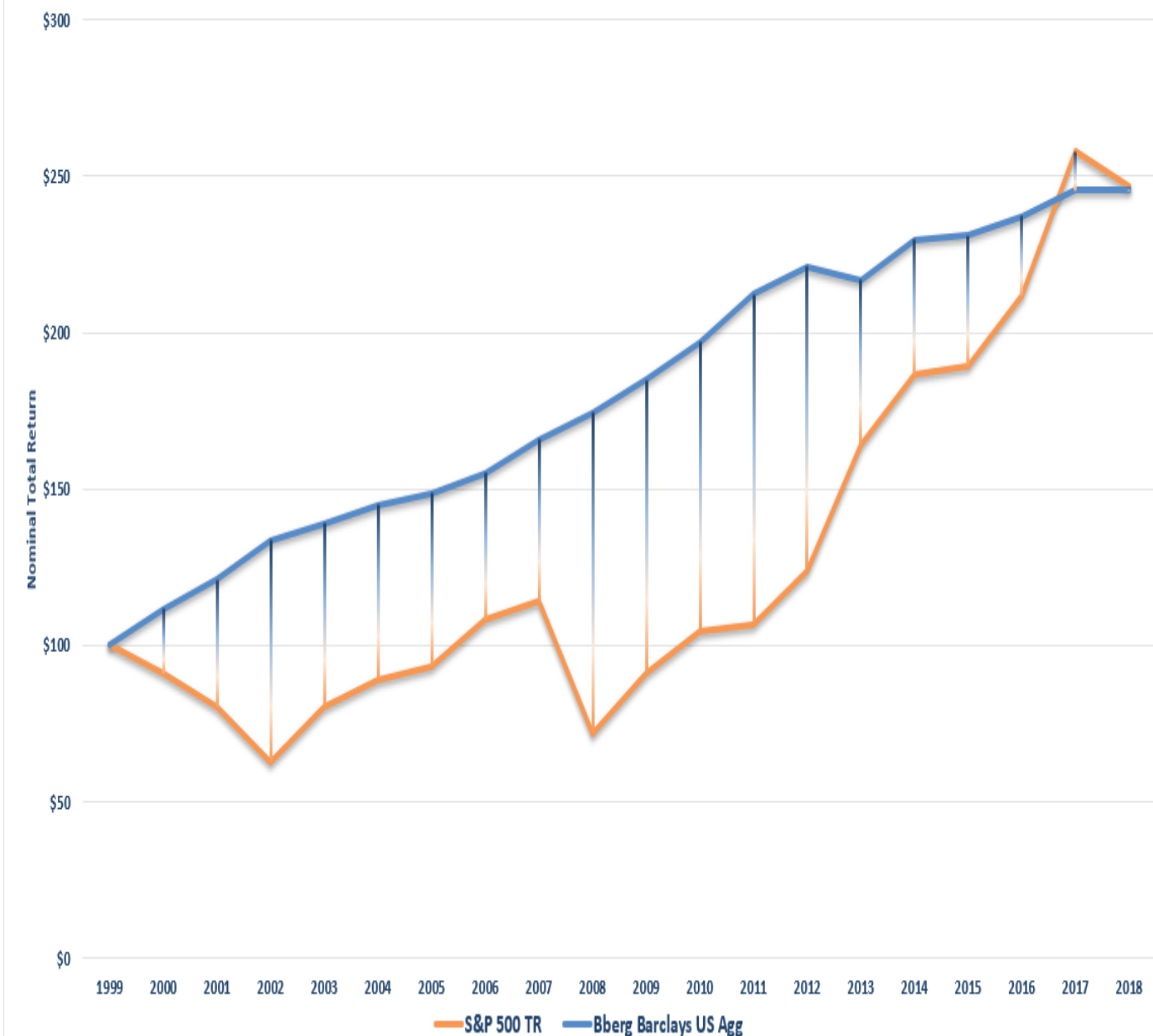


For the month of March, the **S&P 500 is up 0.61%**.

Bonds, as measured by the **Core U.S. Aggregate Bond index is up 1.72%**

Oh, and the by the way, since 2000, bonds have outperformed stocks particularly when measured on a risk-adjusted basis.&#2013266080;

## Growth of \$100 Basis



Let me say something here that you should at LEAST consider.

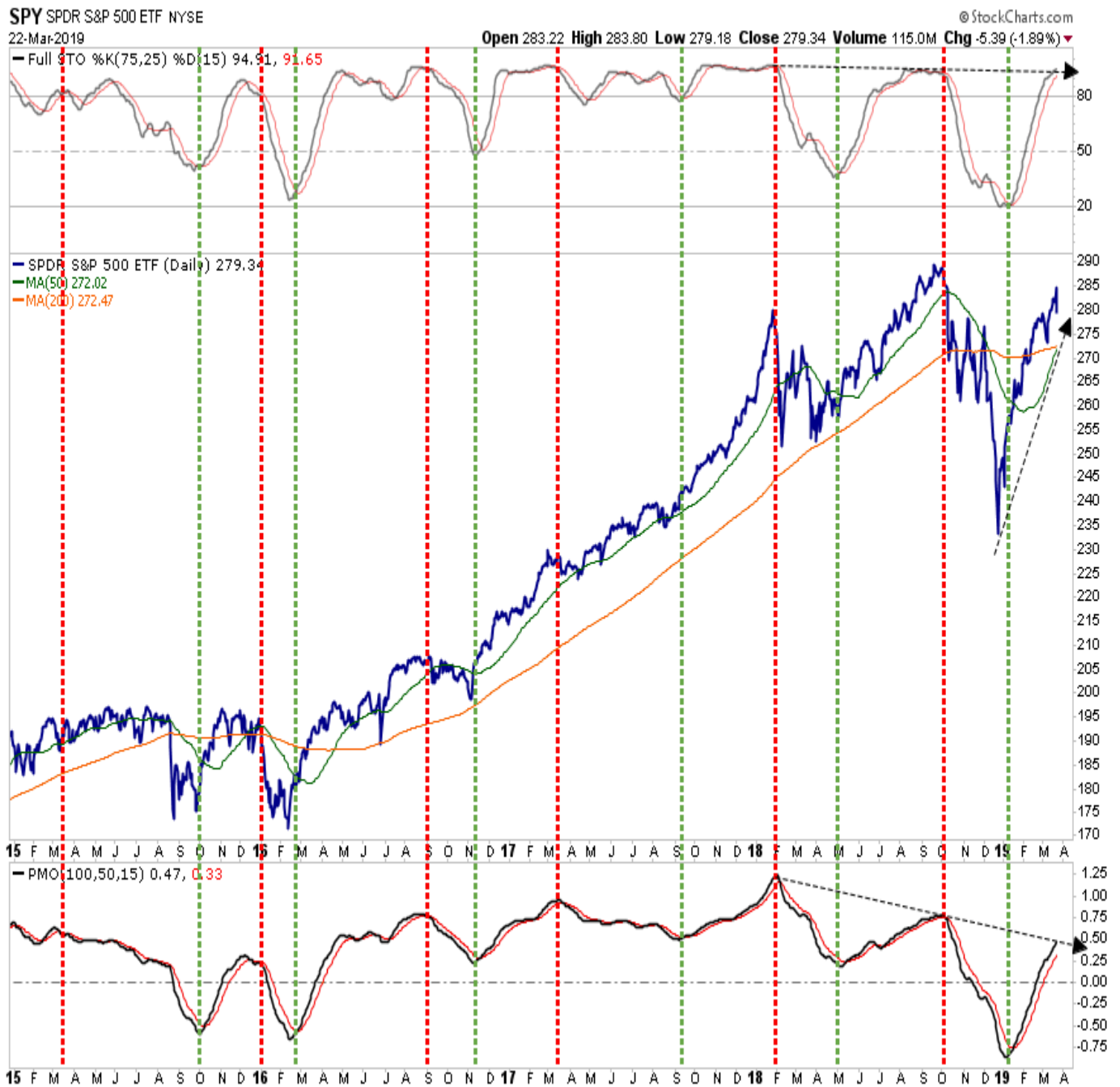
*"Given current valuations on stocks, it is highly probable that over the next decade bonds will continue to substantially outperform stocks to a large degree."*

**Now, I am not saying that you should "sell everything" and hide in cash.**

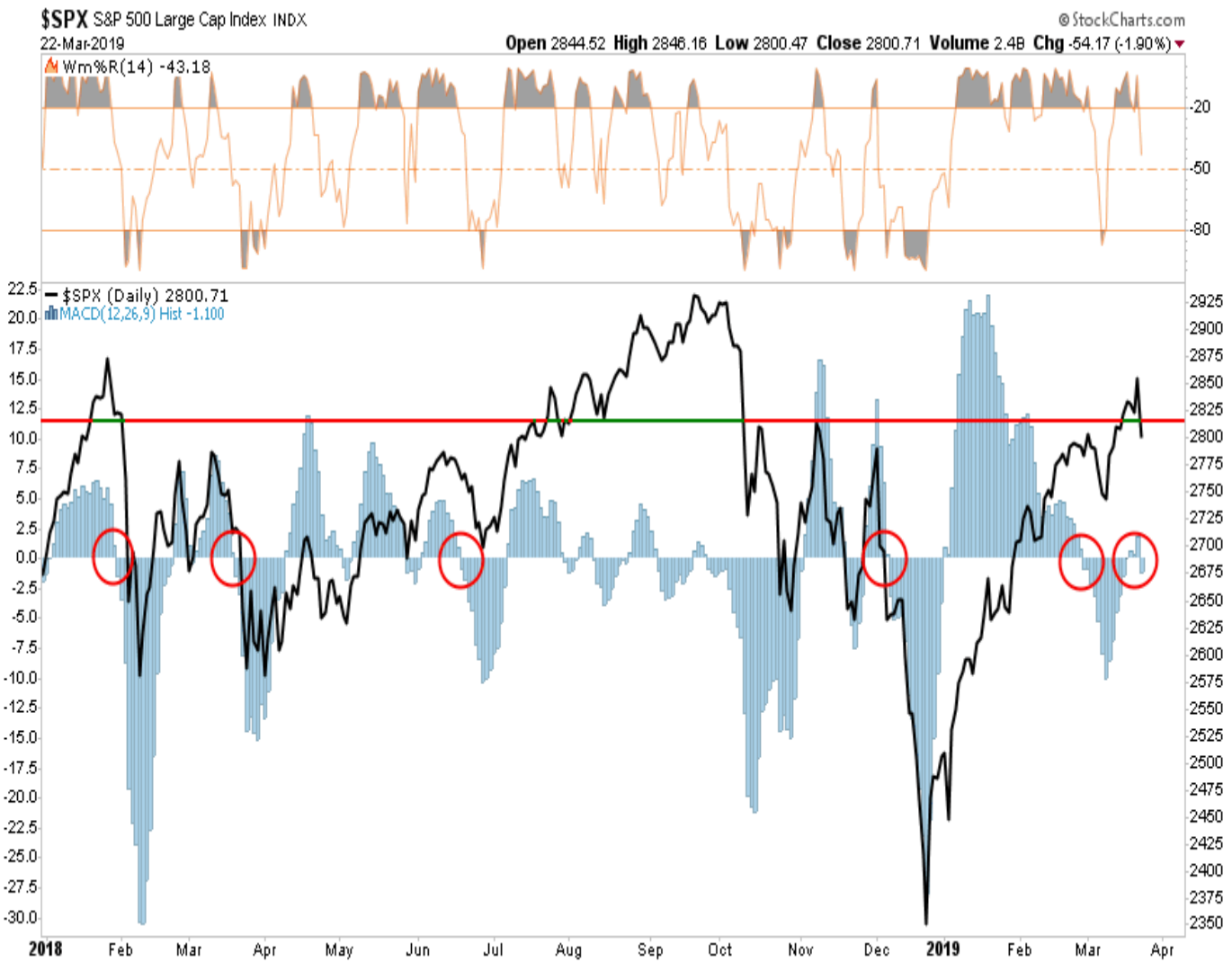
What I am saying is that managing your equity portion of your portfolio to adjust for relative risk, and reduce volatility, will allow you to adhere to your investment discipline over the long-term.

While our portfolios remain long-equity, we have substantially hedged our risk with a slightly overweight cash position and fixed income.

One of the issues which keeps our portfolios hedged currently is that despite the rally from the December lows, the market both remains in a potential topping process and technical measures of price momentum continue to negatively diverge. 2013266080;



On a very short-term basis, the market has broken back below the October-November highs. Given the market is not oversold on a short-term basis, and has triggered a short-term sell signal as shown below, it is likely we will see a continued correction into next week. 2013266080;



I also want to remind you of the divergence between stocks and bonds as shown below.



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

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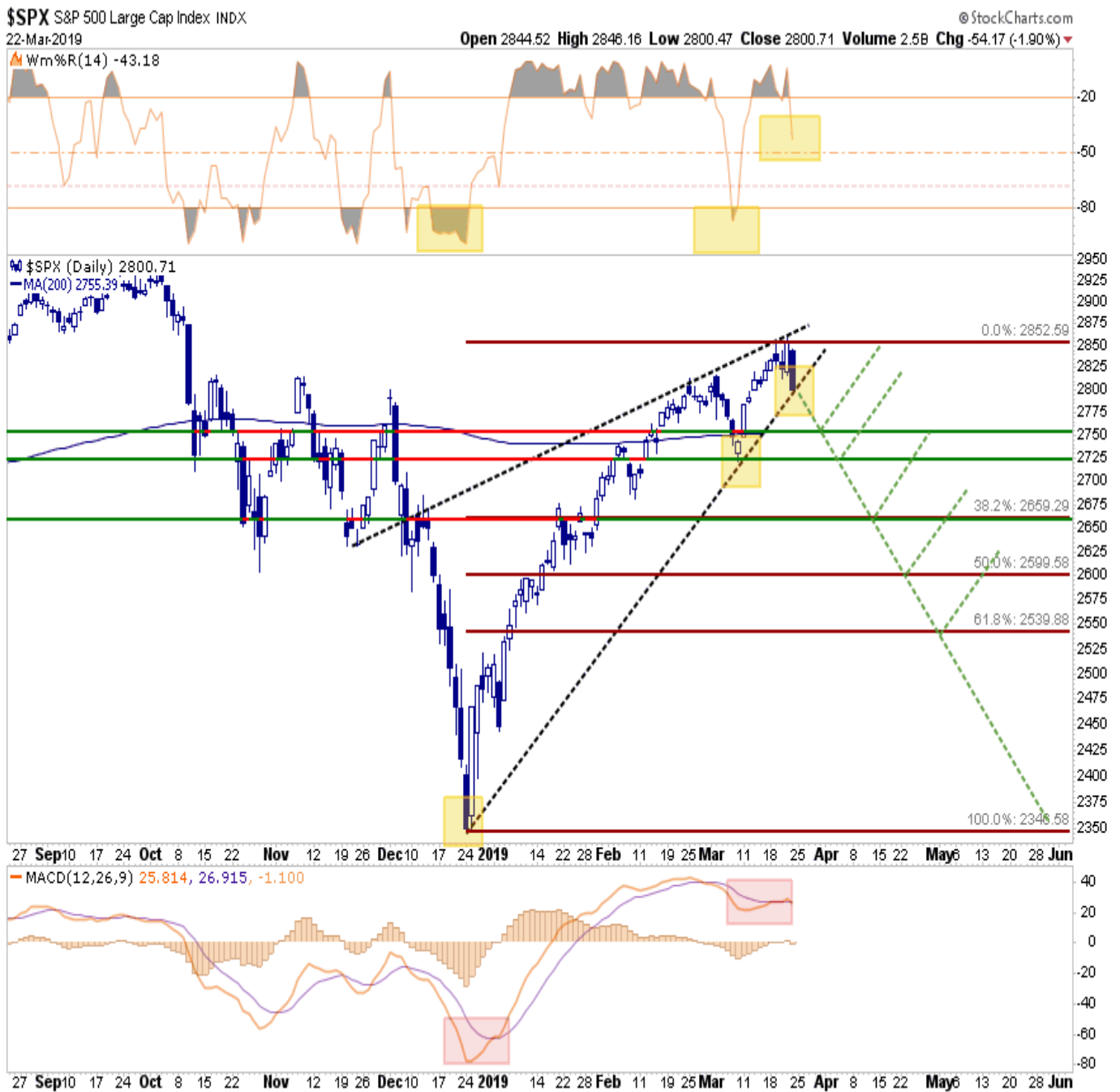
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The rally from the December lows, so far, remains a reflexive rally within a correction process as new highs have yet to be reached. **Very long-term consolidation correction processes can be very bullish for investors provided the market eventually breaks out to new highs.** However, until that happens, the correction that began in 2018 remains intact;

The rally from the December lows is at risk currently. The chart below shows the rally from the December lows which is currently testing the bottom of a rising wedge pattern. The difference this time is that the market is testing the bottom of the rising trend line from the lows and is not oversold (gold boxes in the top panel) as it was previously;



The good news is that if the market does break to the downside, there are numerous levels of logical support for the market between the current level and the December lows.

*"The market will never go that low, This going to be another 'buy the dip' opportunity."*

Before you jump into that particular pond consider the following:

In [March](#) and [April](#) of last year, I laid out reasons why the "bull market" had ended for the time being. While such a statement is always misconstrued as "Lance just said the markets are going to zero," all it means is that the market is unlikely to advance for some time.

Of course, the markets hit new highs in June of last year bringing out all manner of trolls to point to how my analysis was wrong and the "bull market lives." At that juncture, if we ran the same analysis on a retracement as in the chart above, the "buy the dip opportunities" were just as prevalent and a retest of February lows seemed just a laughable.





**By December, there were few that were laughing.&#2013266080;**

Which brings us to why the markets are likely to retest lows, or worse, during the remainder of 2019.

## What Did The Fed Really Say?

In a [widely expected outcome](#), the Federal Reserve announced no change to the Fed funds rate but did leave open the possibility of a rate hike next year. Also, they committed to stopping *Quantitative Tightening (or Q.T.)*?&#2013266080;by the end of September.&#2013266080;

As we noted in our missive following the announcement:

***"What is interesting is that despite the language that 'all is okay with the economy,'&#2013266080;the Fed has completely reversed course on monetary tightening by reducing the rate of balance sheet reductions in coming months***

*and ending them entirely by September. At the same time, all but one future rate hike has disappeared, and the Fed discussed the economy might need easing soon. To wit, my colleague Michael Lebowitz posted the following Tweet after the Fed meeting:"*



**Michael Lebowitz, CFA**

@michaellebowitz



Ten years into economic expansion,  
unemployment near 50 year lows, rates still  
near historic lows, Fed balance sheet 4x  
normal and the Fed thinks we need stimulus.

3:14 PM - 20 Mar 2019

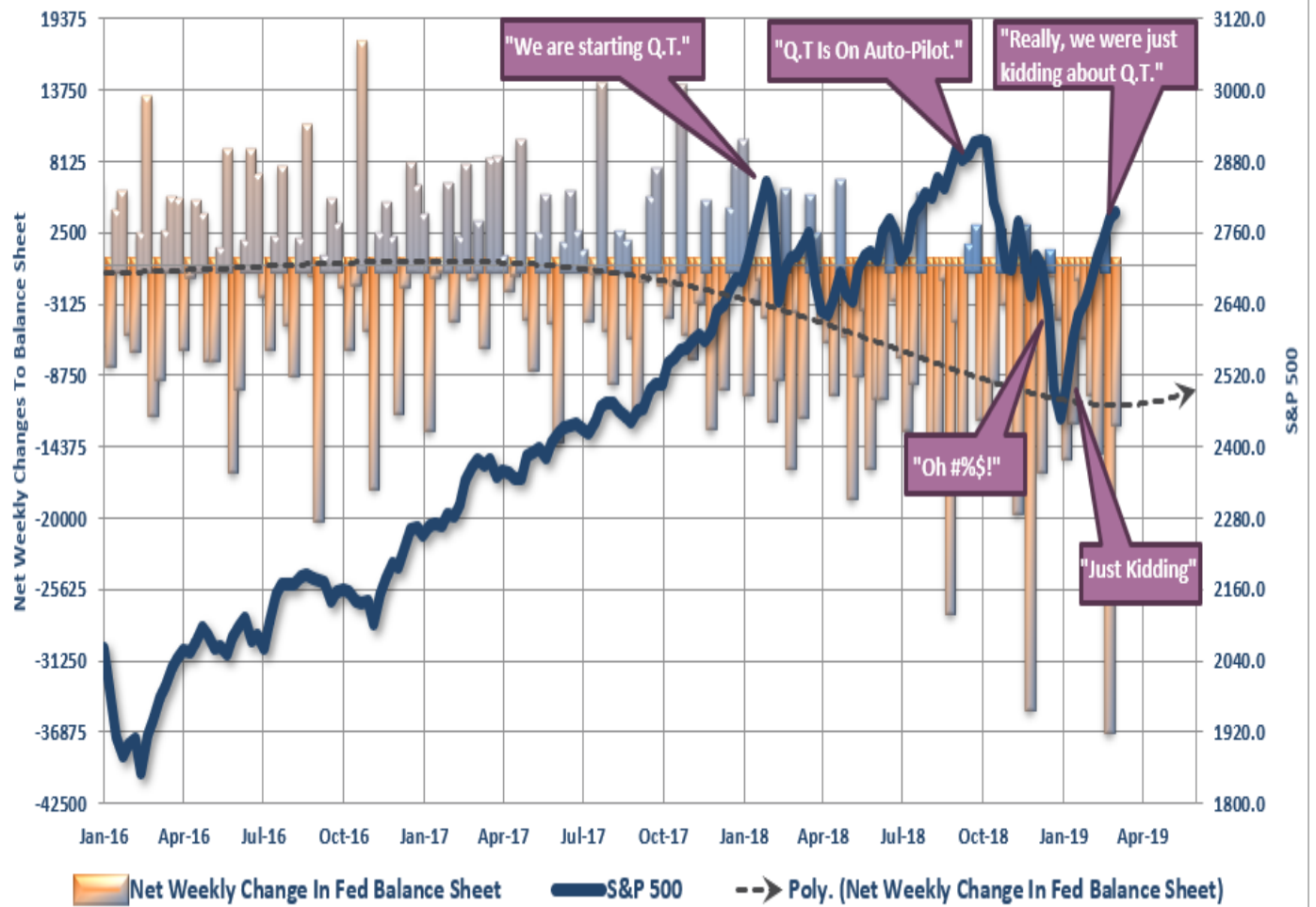
Naturally, all the market *"heard"* was the Fed is *"returning the punch bowl"* which sent stocks soaring on Thursday. [Via the WSJ:](#)

*"On Wednesday, the Fed had given the market what it wanted in December. On rates, the Fed signaled it is indefinitely on hold due to heightened risks to the global economy and because strong U.S. growth and falling unemployment last year [didn't deliver an expected upturn in inflation](#).*

*On the portfolio, **most Fed officials still don't believe the runoff of their mortgage and Treasury holdings played a major role in the market's swoon late last year.**"*

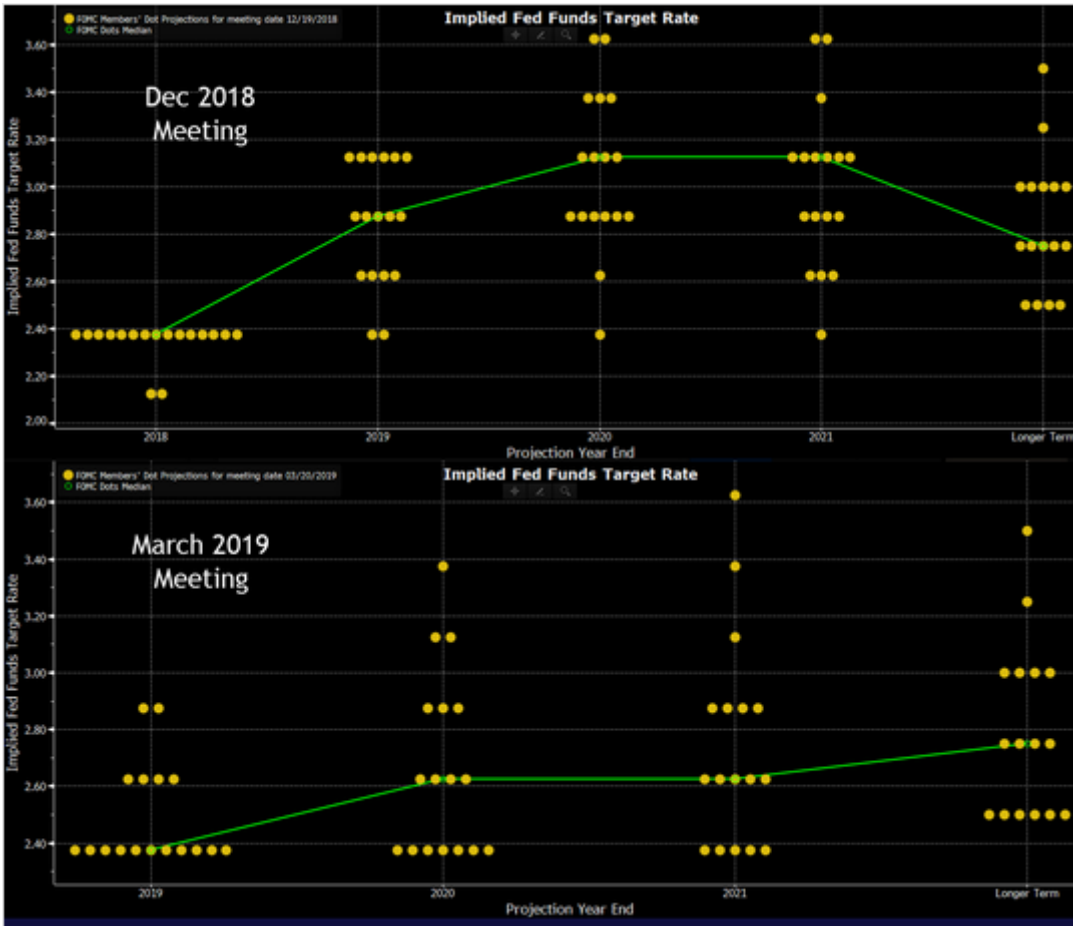
The last sentence made me chuckle, because if they TRULY believed the extraction of liquidity from the markets didn't have an impact on the markets, then why the quick decision to stop reducing it. Maybe because of this:

# Fed Balance Sheet Changes Vs. S&P 500



## But let's talk about what the Fed REALLY said.&#2013266080;

Over the past several months we have noted that weaker rates of economic growth was going to severely limit the Fed's ability to hike rates. Even though the Fed made a point to note the U.S. economy remains solid, they rather dramatically lowered their outlook for the U.S. economy not only in the short-term but over the long-term as well.&#2013266080;



As [Barbara Kollmeyer](#) noted asked on Friday:

*"Does the Fed know something investors don't?"*

Given the rapid reversal on policy given just one little hiccup in the economy and the markets, one should wonder.

To answer Barbara's question, "yes."

**The Fed's comments are NOT supportive of higher asset prices driven by stronger profit growth.** What investors picked up on Friday was this:

*"A weaker outlook for the economy means weaker profit growth. As such, this puts a market currently valued at 30x earnings at risk of a repricing to equate it with reduced expectations for future cash flows."*

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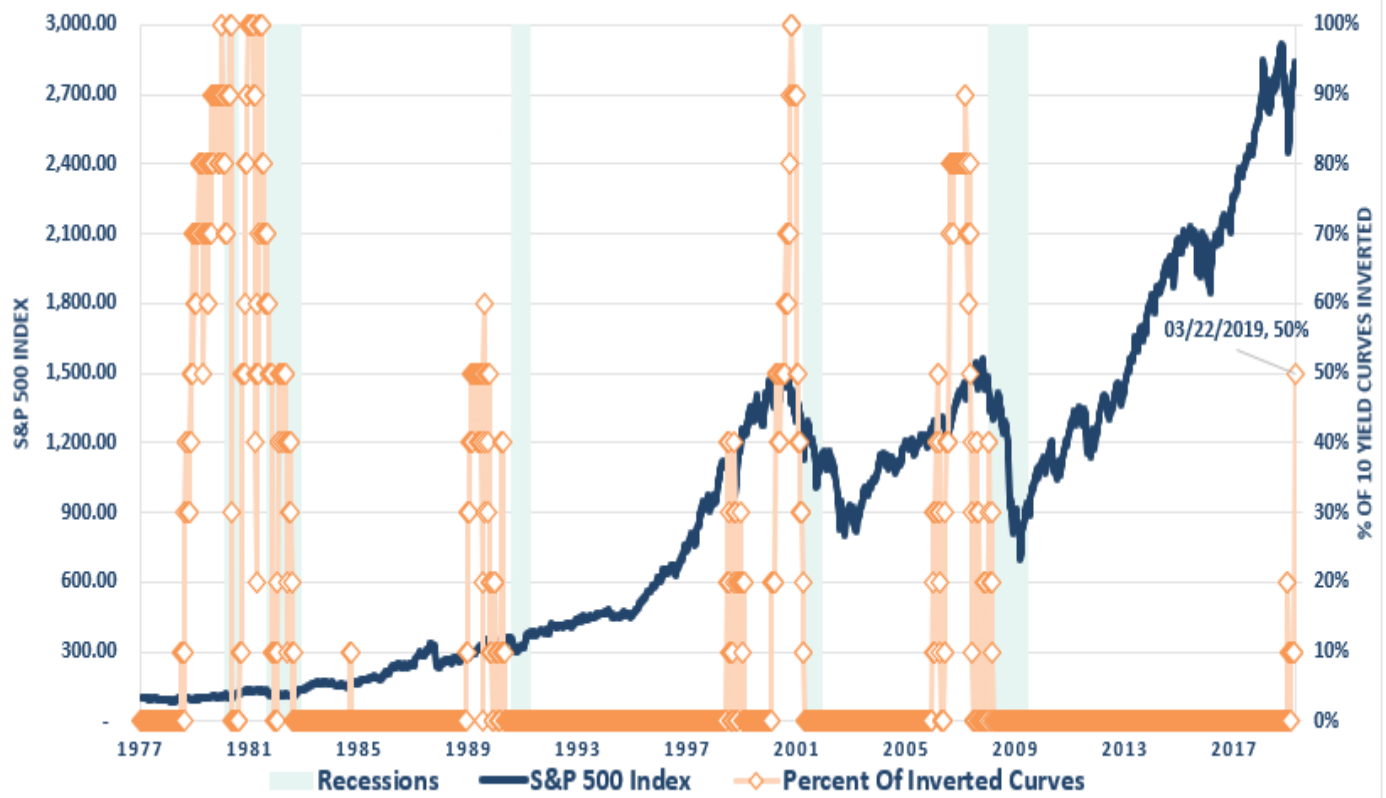
As my friend and colleague Doug Kass noted on Friday there are substantial impediments to the economy and markets in the near-term which support the Fed's reversal.&#2013266080;

- **"Negative or near zero interest rates** represent conditions that understandably exist immediately following a deep recession, not 10-years after.&#2013266080;
- **Fewer Tools Left in the Policy Shed** as the Fed ends the tightening cycle with the absolute and real Federal Funds rate several hundred basis points lower than any economic cycle in history.&#2013266080;
- **Debt Is a Governor to Growth** and debt that is not self-funding is future consumption brought forward.&#2013266080;
- **Deficit and Demographic Threats** combined with a Fed balance sheet, which is four times normal, and slowing population growth, diminish intermediate to longer-term economic and profit growth prospects. Such is not supportive of higher valuations or asset prices.&#2013266080;
- **No Country Is an Economic Island** and the lack of coordination between the super economic powers in the world will likely exacerbate worldwide economic risks.
- **The Misallocation of Resources Causes Bubbles** and low interest rates which we have experienced for years have always - in every cycle - been a source of "mischief" and a misallocation of resources. The only question is "when" something breaks it will ripple through the financial markets like a tidal wave. (Think about the proliferation of 'covenant-lite' loans.)"

As stated, these risks, which we have chronicled many times in the past, are not lost on the Fed. They realize that by continuing to hike interest rates, and tighten monetary policy, they are [exacerbating the risk](#) of something "breaking."&#2013266080;

However, they may already be too late, as the bond market is already sniffing out the problems. Currently, 5 out of 10 yield curves we track (50%) are now inverted. **Such is the highest risk of a recessionary onset as we have seen since 2007.**

## PERCENT OF 10-YIELD CURVES INVERTED



**WARNING:** An inversion of the yield curve in and of itself DOES NOT mean the market will immediately crash and a recession will start. As you will notice in the chart above, once the inversions begin, the recession doesn't start, historically speaking, until the inversion is reversed.

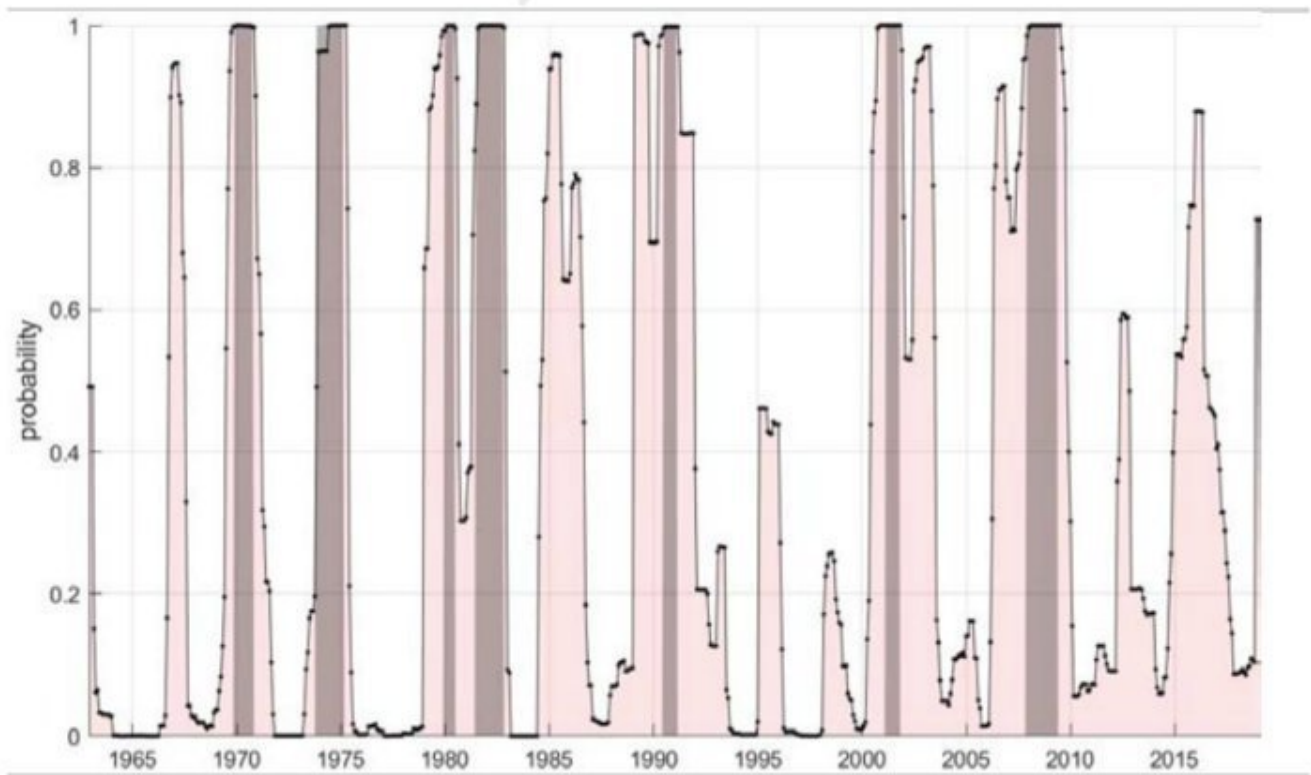
Why is that?

Because, when the recession starts, money is coming out of "risk" and moving into instruments affected by the shortest-end of the yield curve. (Money markets, CD's, etc.) This causes yields to plummet faster on the short--end than on the long-end which reverses the inversion. However, overall yields are still falling.

You don't want to wait for that to happen as the damage to your equity portfolio will be substantially larger than you can fathom currently. Furthermore, as noted last weekend, the yield curve is simply acknowledging the [rising risks](#) of a recessionary onset.

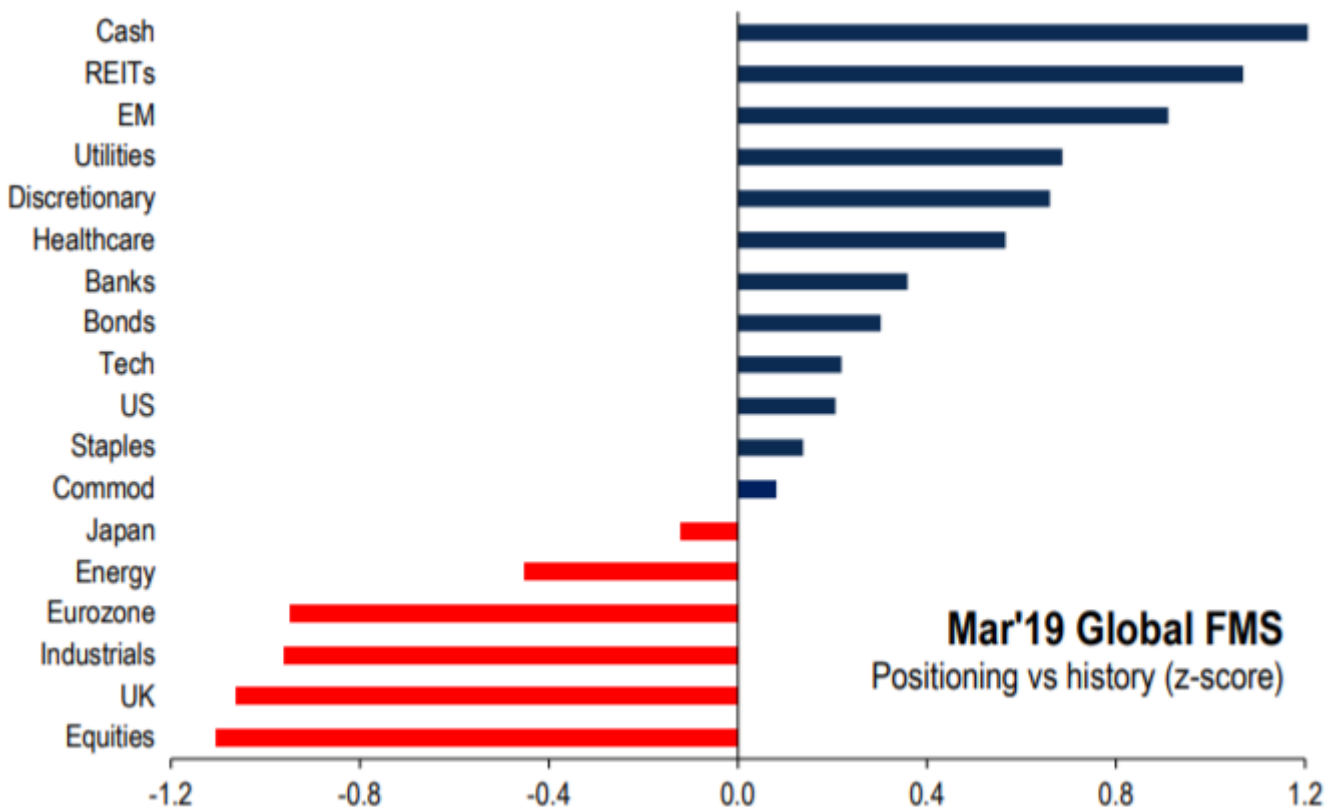


**Figure 1: Probability of 'hard-data' cycle being in a contractionary phase**



Source: Haver, UBS calculations

Despite numerous articles at end of last week continuing to encourage retail investors to ignore the warnings and stay invested in the stock market (*without a safety net*), you might want to pay attention to what institutional investors are doing with their money. You will notice that **"defensive" positioning is in demand currently.**



Clearly, professional investors have continued to pile into fixed income and safer equity income assets over the last several months despite the sharp ramp up in asset prices. This demand for *yield* and *safety* has been one of the reasons we have remained **staunchly bullish on bonds** in our portfolios as of late despite continued calls for the [\*Death of the Bond Bull Market.\*](#)

Charlie McElligott noted on Friday the three most important points about low interest rates ([h/t Zerohedge](#))

1. **Low interest rates are (ultimately) deflationary, sustaining zombie-firms in a liquidity-trap, which weigh on overall economic performance while also weakening investment.**
2. **Low interest rates and QE are deflationary** as you incentivize mal-investment and blow perpetual speculative-asset bubbles, which (ultimately) correct and drive deleveraging thus the *balance sheet recession.*
3. **As there is still a lot of debt-related scar tissue, you can't push credit on a string.** This then leads to quick *muscle memory* returns to a defensive posture: **If there is no return on capital, capital should not be deployed.**

Here are the most important takeaways from all of this:

1. **Despite an expected uptick in economic growth in Q2, look for weaker economic growth through the end of this year and into 2020.**
2. **Employment is set to weaken markedly over the next 12-24 months.**
3. **Wage growth gains will also reverse as tightness in the labor force eases.**
4. **Inflationary pressures will remain non-existent as debt, disruption, and demographic forces continue to suppress economic growth.**
5. **Go back to #1.**

This is the cycle we are likely locked into currently and will continue to play out over the next several quarters.

Let me add to our list of actions from last week:

## Simple Actions To Take Now, You Will Appreciate Later

1. **Trim positions that are big winners** 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.
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** to new levels.
5. **Review your portfolio allocation relative to your risk tolerance.** 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.
6. **Look to reposition portfolio composition from "risk" toward "safety."** Look to reduce assets specifically tied to economic growth and increase holdings in assets which tend to be



more defensive in nature.&#2013266080;

7. **If you just don't know what to do - cash is the best alternative.** With cash now yielding more than the S&P 500, holding cash IS an option until you figure out what to do. Remember, investing is about making a bet where the potential for reward outweighs the risk of loss. If you can't find that opportunity right now, cash is the best alternative until you do.

**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.**

But if you need help [click here](#).

See you next week.&#2013266080;

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## Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

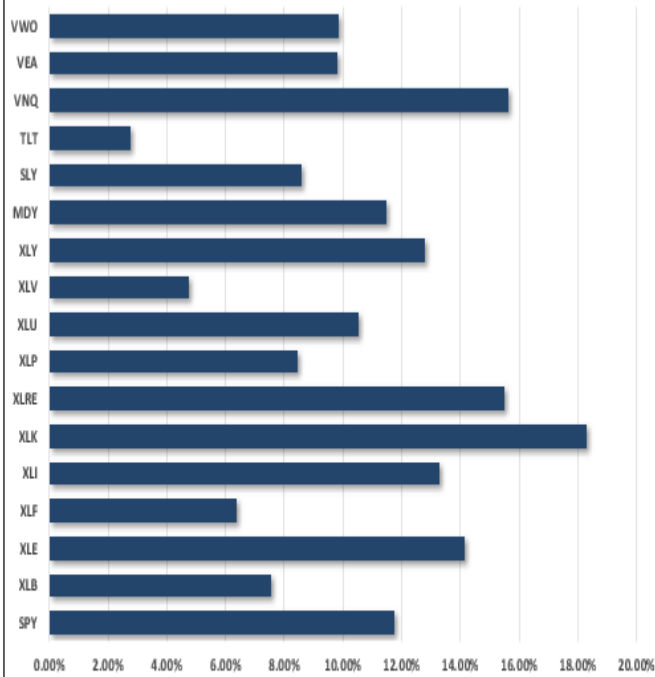
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### S&P 500 Tear Sheet

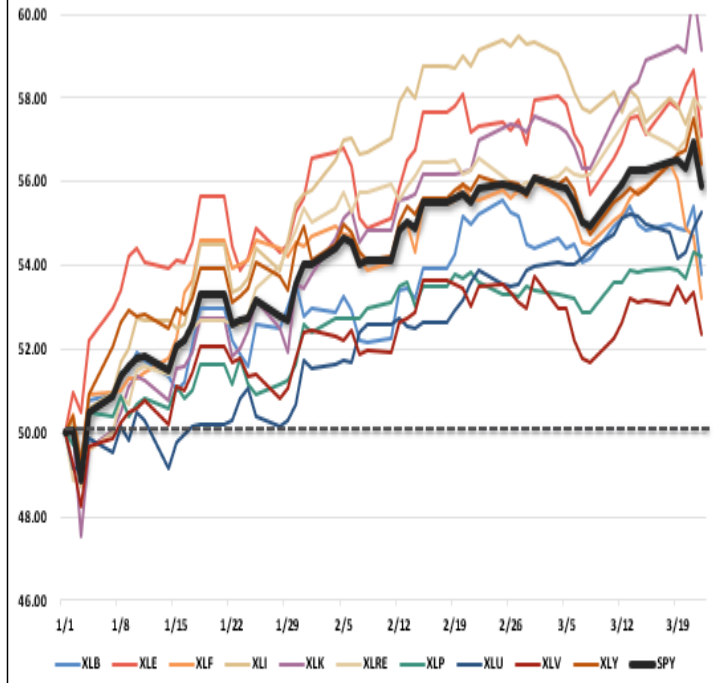
3 Month SPY Price					SPY RISK INFO		ZACKS		REAL INVESTMENT ADVICE			
					Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR			
					Price Return	19.19%	5.91%	11.74%	98.61%			
					Max Drawdown	-20.47%	-20.47%	-3.35%	-83.62%			
					Sharpe	0.81	0.42	4.78	10.32			
					Sortino	0.92	0.37	6.36	16.27			
					Volatility	13.57	16.14	13.89	(0.14)			
					Daily VaR-5%	(9.92)	(19.98)	45.64	(3.28)			
Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00								
S&P 500 Fundamental Analysis							S&P 500 Market Cap Analysis					
Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low	Item	12-M Ago	Current	% Chg
Dividend Yield	1.86%	1.74%	1.91%	8.89%	2.17%	1.67%	(12.20%)	14.32%	Shares	2,430.2	2,404.2	(1.07%)
P/E Ratio	20.37	20.63	17.78	(16.03%)	20.85	16.71	(14.8%)	6.36%	Sales	58,839	63,312	7.60%
P/S Ratio	3.09	3.37	3.23	(4.50%)	3.51	2.43	(8.13%)	32.83%	SPS	24.2	26.3	8.77%
P/B Ratio	3.59	3.86	3.97	2.78%	4.15	2.94	(4.23%)	35.39%	Earnings	7,981	9,527	19.37%
ROE	15.22%	15.99%	18.71%	14.49%	18.71%	15.01%	0.00%	24.61%	EPS TTM	3.9	4.8	23.75%
ROA	2.83%	3.01%	3.52%	14.66%	3.52%	2.82%	0.00%	24.76%	Dividend	1.4	1.6	10.87%
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	(2.01%)	5.50%	1.20	16.42	156.27	12.49	(89.5%)	10.3%	3.4%	5.98%	3.28	17.78
Materials	(0.89%)	2.65%	1.31	15.65	21.86	13.82	(28.4%)	11.3%	2.1%	6.26%	4.56	15.42
Industrials	(2.30%)	9.37%	1.13	16.80	22.22	14.73	(24.4%)	15.6%	2.0%	5.85%	5.29	15.63
Discretionary	10.17%	10.07%	0.98	23.50	27.60	20.11	(14.9%)	28.3%	1.3%	4.19%	4.80	20.33
Staples	6.20%	7.14%	0.60	19.14	22.83	17.63	(16.2%)	26.3%	2.9%	5.22%	3.88	18.21
Health Care	11.83%	14.70%	0.94	17.13	20.62	15.93	(17.0%)	29.2%	1.7%	5.76%	6.33	15.92
Financials	(7.84%)	12.94%	1.23	12.38	18.41	11.66	(32.8%)	11.5%	2.2%	7.93%	5.73	11.59
Technology	14.18%	21.06%	1.21	19.46	21.83	14.47	(10.8%)	38.7%	1.5%	5.04%	5.14	18.39
Telecom	18.00%	10.16%	0.88	21.22	26.97	17.72	(21.3%)	18.3%	0.9%	4.54%	6.05	17.69
Utilities	20.59%	3.31%	0.33	19.65	20.31	15.58	(3.3%)	10.7%	3.3%	5.11%	3.57	17.95
Real Estate	17.48%	3.03%	0.80	19.68	24.47	17.55	(19.6%)	10.3%	3.3%	4.92%	4.25	18.60
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	279.25	7.83%	273.59	47	2.07%	274.76	10	1.63%	(0.43%)	(5.00%)	19.46%	Sell
Mid Cap	337.34	5.17%	339.99	48	(0.78%)	345.52	2	(2.37%)	(1.60%)	(9.83%)	18.59%	Sell
Small Cap	65.13	1.77%	67.13	2	(2.98%)	69.88	275	(6.80%)	(3.94%)	(16.77%)	15.68%	Sell

## Performance Analysis

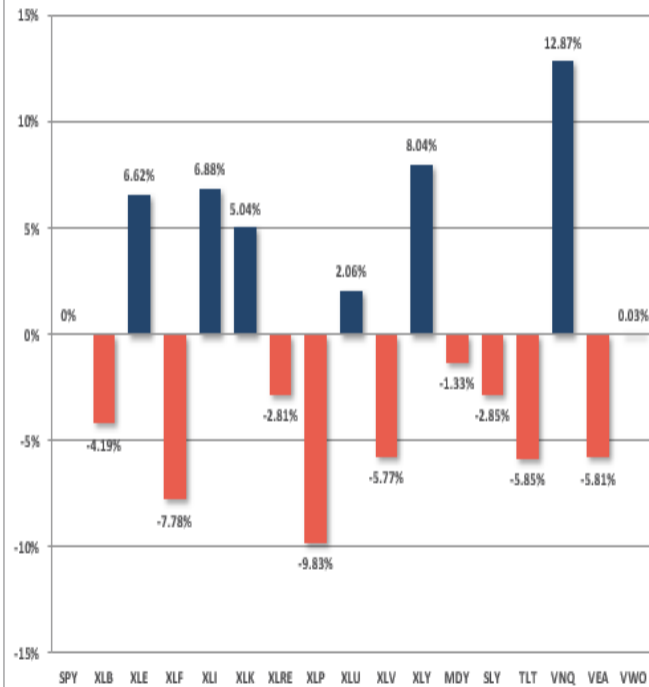
### Year To Date Performance



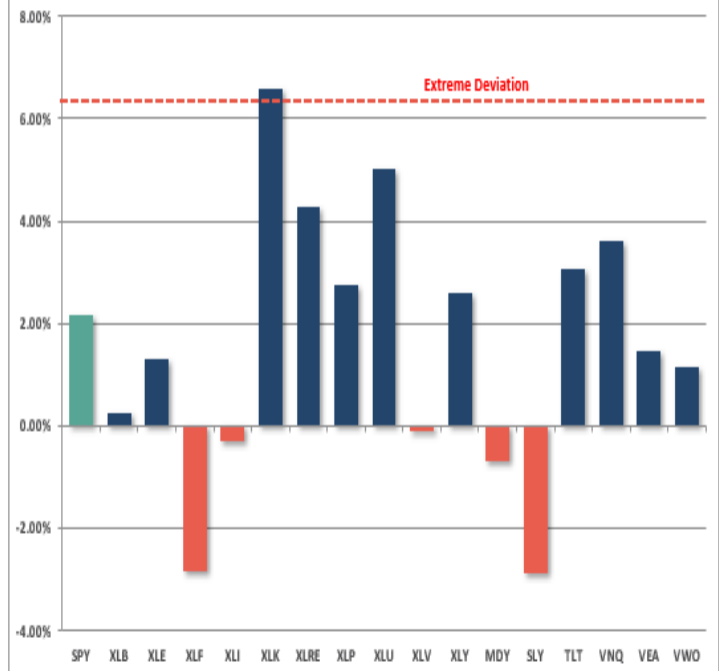
### YTD Price - S&P Sectors Recalibrated To \$50/share



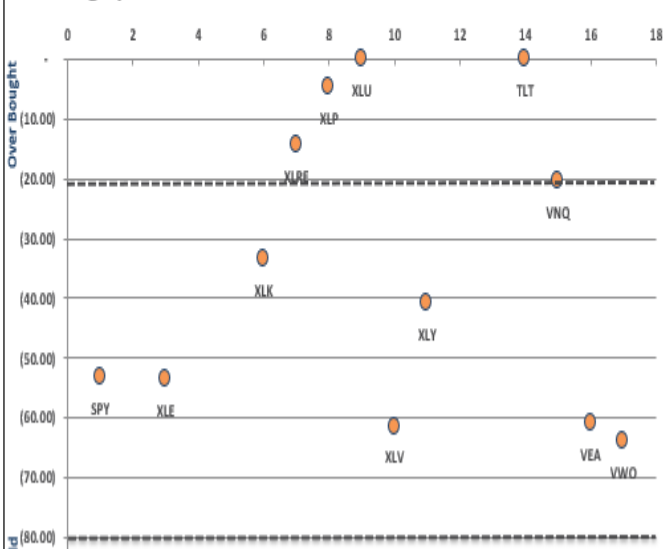
### Year To Date Performance Relative To S&P 500



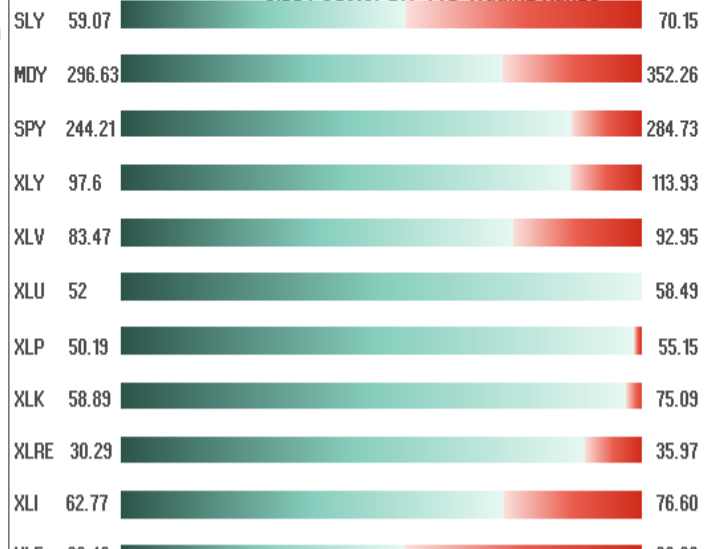
### Price Deviation From 50-Day Moving Average



### Overbought/Oversold 14-Periods



### Size / Sector ETF YTD Trading Range



# ETF Model Relative Performance Analysis

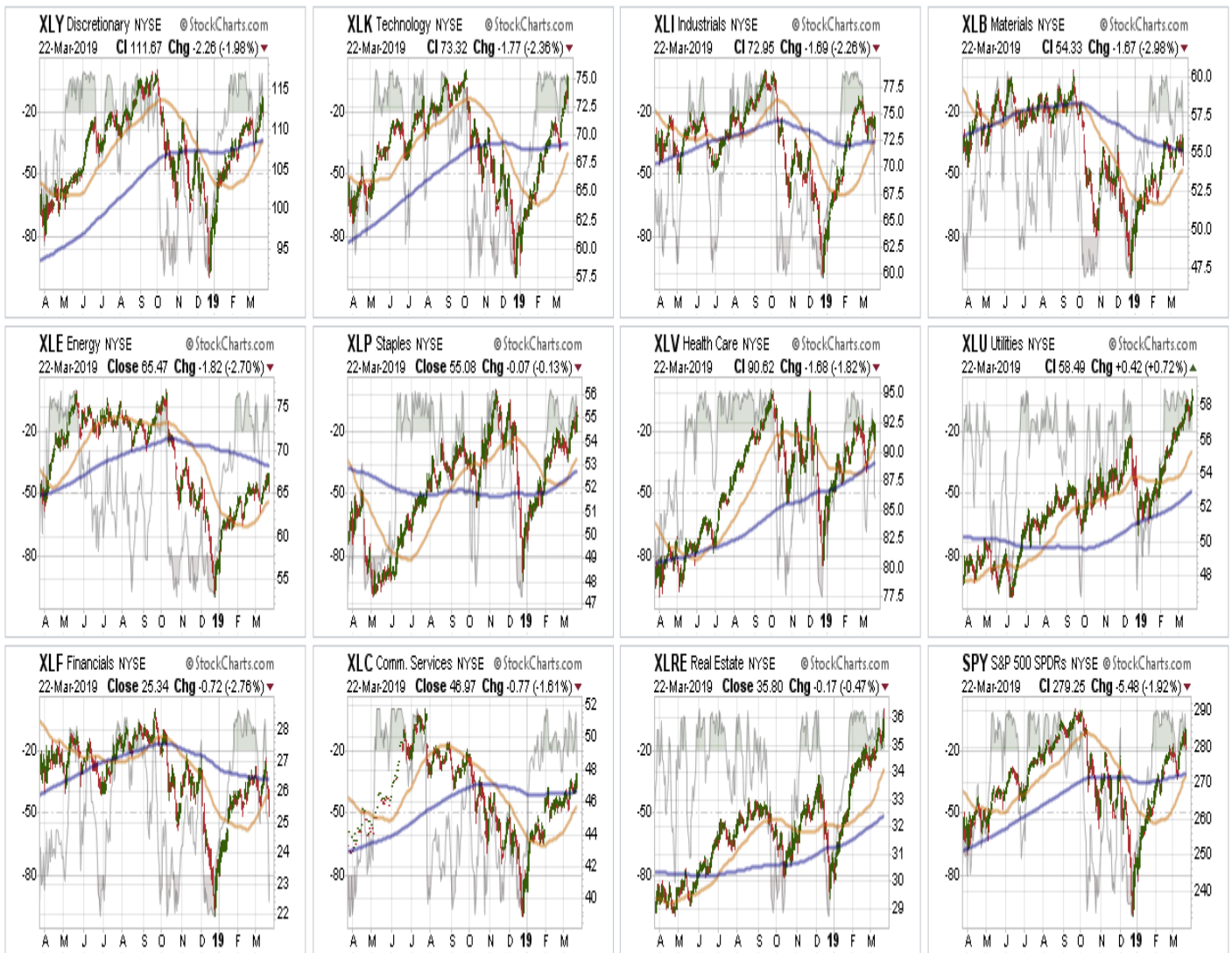
RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
BENCHMARK		IVV	ISHARS-SP500	281.16	(1.10)	0.12	12.77	(3.02)	8.21	269.79	276.36	4.21%	1.74%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	54.33	(0.83)	(2.72)	(4.32)	(2.72)	(11.23)	53.37	55.01	1.80%	-1.24%	SELL
		XLE	SPDR-EGY SELS	65.47	1.04	(0.56)	1.99	(12.13)	(10.16)	63.27	67.86	3.48%	-3.53%	SELL
		XLF	SPDR-FINL SELS	25.34	(3.75)	(4.35)	(5.35)	(6.48)	(13.73)	25.57	26.50	-0.90%	-4.37%	SELL
		XLI	SPDR-INDU SELS	72.95	(0.31)	(4.40)	1.63	(4.55)	(7.92)	71.26	72.93	2.38%	0.03%	SELL
		XLK	SPDR-TECH SELS	73.32	1.55	3.67	6.65	2.62	5.85	67.16	69.31	9.17%	5.79%	SELL
		XLP	SPDR-CONS STPL	55.08	1.79	1.07	(3.85)	6.09	0.09	52.95	53.86	4.03%	2.27%	SELL
		XLU	SPDR-UTIL SELS	58.49	1.61	2.40	(2.05)	12.09	11.01	55.01	54.43	6.33%	7.46%	BUY
		XLC	SPDR-COMM SV SS	46.97	0.99	1.83	1.18			44.94	46.02	4.52%	2.06%	SELL
		XLV	SPDR-HLTH CR	90.62	(0.39)	(2.21)	(6.47)	(0.87)	5.53	89.50	90.68	1.26%	-0.07%	SELL
		XLY	SPDR-CONS DISCR	111.67	2.06	0.38	1.23	2.52	3.26	106.80	108.81	4.56%	2.63%	SELL
SIZE	SLY	SALOMON LEASING	65.13	(2.24)	(7.28)	(3.60)	(7.18)	(8.92)	65.60	69.14	-0.71%	-5.79%	SELL	
	MDY	SPDR-SP MC 400	337.34	(1.05)	(4.36)	(0.08)	(2.71)	(7.26)	331.70	342.84	1.70%	-1.60%	SELL	
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	102.69	(0.55)	(1.88)	0.49	0.44	(2.66)	99.45	101.45	3.26%	1.22%	SELL
	Dividend	SDY	SPDR-SP DIV ETF	97.27	(0.07)	(2.49)	(3.22)	3.07	1.53	95.03	95.76	2.36%	1.58%	SELL
	Real Estate	XLRE	SPDR-RE SELS	35.80	2.06	1.93	2.94	15.78	10.85	33.57	33.17	6.63%	7.93%	BUY
	International	EEM	ISHARS-EMG MKT	42.43	(0.41)	(1.54)	(4.64)	6.92	(17.72)	41.69	41.47	1.79%	2.30%	BUY
EFA		EMG MKT FREE AS	64.31	(0.30)	0.18	(3.19)	(0.14)	(13.55)	62.34	63.84	3.16%	0.74%	SELL	
IXUS		ISHARS-CR INT S	57.52	(0.29)	(0.24)	(3.04)	1.05	(14.76)	55.91	56.96	2.88%	0.99%	SELL	
FI	Intermediate Duration	TLT	ISHARS-20+YTB	124.86	3.65	2.59	(9.62)	13.48	(4.31)	121.19	118.68	3.03%	5.21%	BUY
	International	BNDX	VANGD-TTL INT B	55.71	1.84	1.11	(9.90)	5.94	(6.10)	54.73	54.67	1.80%	1.90%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	85.84	1.17	0.17	(6.84)	3.66	(7.13)	84.36	84.67	1.76%	1.38%	SELL
	Cash	BSV	VANGD-SHT TRM B	79.47										

REAL INVESTMENT ADVICE

## 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 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. That weakness re-emerged last week.

**Technology, Staples, Utilities, Real Estate** - defensive positioning remained the strongest sectors of the market last week. While all sectors of the market are overbought, the rally in the overall market continues to narrow which is a cautionary sign in and of itself.

**Current Positions:** *XLP, XLU, XLV, XLK* - Stops moved from 50- to 200-dma's.

**Discretionary** is close to triggering a "buy" signal as the 50-dma crosses above the 200-dma. This doesn't mean the sector can't have a rather substantial correction back to support; it just means that price action is biased to the upside for now. Stops need to be set at the 50/200 dma.

**Current Position:** *XLY*

**Financials** - broke down last week as the Fed reversed their monetary policy stance which collapsed the yield curve. Since banks borrow short and lend long it is not profitable for banks in the near term. While financials did break their 50-dma, they are oversold and sitting on important support. If financials rally next week, consider reducing exposure.

**Current Position:** *XLF*



**Industrials, Materials, Energy, Healthcare, and Communications** - all pulled back with the market last week, but are all sitting on supports currently. Basic Materials and Industrials, after big runs, are consolidating and are oversold. Keep stops at the 50/200 dmas for now. 2013266080;

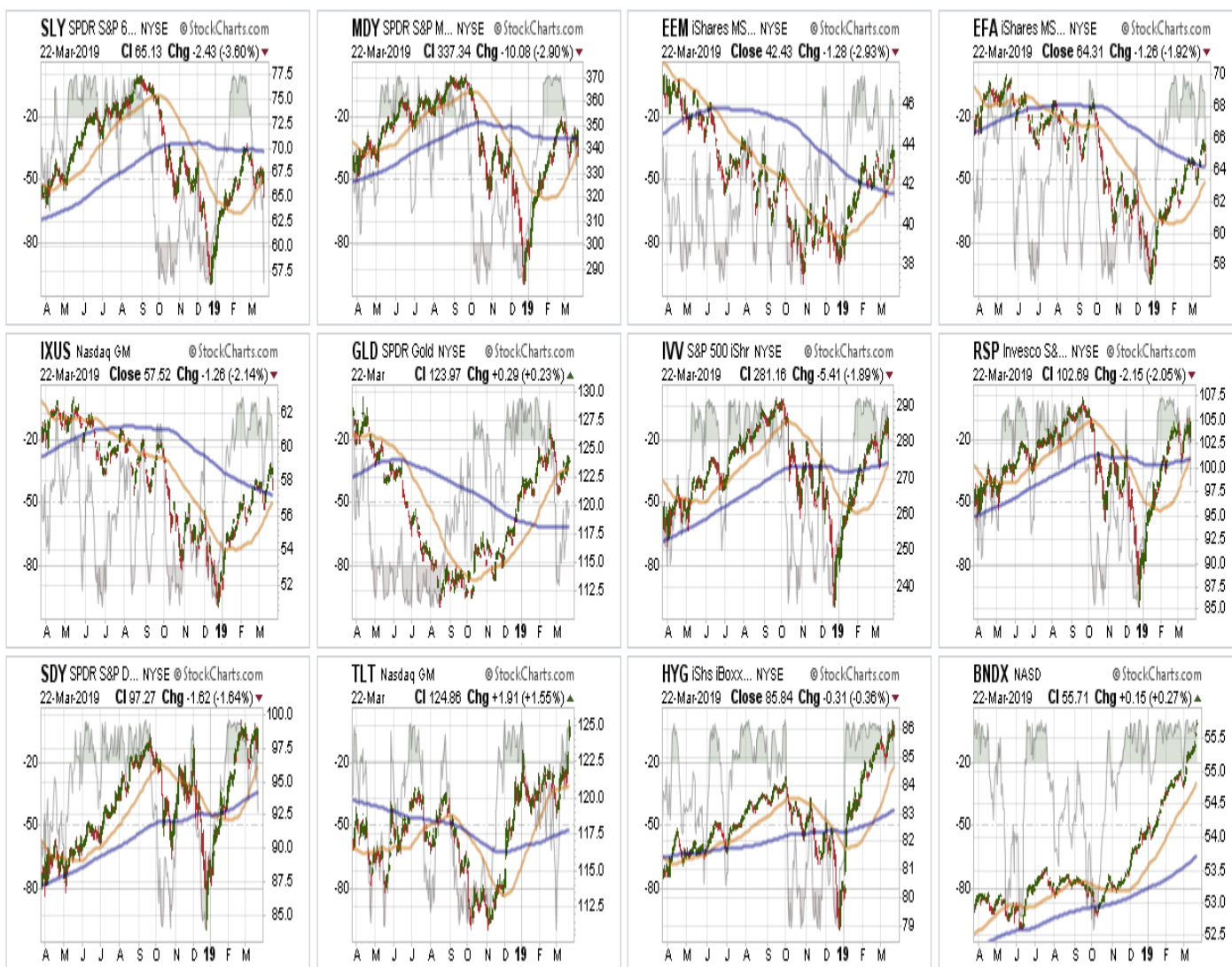
**Current Positions:** 2013266080; *XLB, XLI, XLV, XLE (1/2)* - Stops remain at 50-dmas.

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;

As I wrote last week:

*"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 and have failed to hold above both the 50- and 200-dma and stops have now been triggered. As we have

noted over the last several weeks, **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. The sell-off on Friday took the market back to support at the 50-dma. Stops are set at the 200-dma.

Major International & Total International shares DID finally break above their respective 200-dma's on hope the worst of the global economic slowdown is now behind them. The pullback last week has brought the market back to test its 200-dma. It is critical support holds next week. Keep stops tight on existing positions, but no rush here to add new exposure.&#2013266080;

Stops should remain tight at the running 50-dma which is also previous support.&#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 ?** Despite the reversal of the Fed, the collapse of the yield curve, and concerns about global economic growth, Gold did not really get much of a bump last week. While the metal is holding above the rising trend of the 50-dma, and is reversing its oversold condition, there isn't a compelling reason to add more at this juncture. A move above \$124.50 will make things more interesting.&#2013266080;

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

**Bonds&#2013266080;?**

The big move last week was in Bonds. If you have been following our recommendations of adding bonds to portfolios over the last 13-months, this portion of the portfolio offset most of the weakness in portfolios on Friday.&#2013266080;&#2013266080;Intermediate duration bonds remain on a buy signal after we increased exposure last month and just broke out above the trading range triggering another major buy signal. With bonds extremely overbought currently, look for a pullback that holds 2.50% on the 10-year Treasury to increase exposure.


**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 last week, of no rate hikes and more stimulus, and the Fed this past week, international bonds soared 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
XLV	Discretionary	OB	Negative	Negative	Hold			X			Hold Position
XLK	Technology	OB	Negative	Negative	Hold			X			Take Profits
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				Hold Position
XLP	Staples	OB	Stabilizing	Neutral	Hold			X			Take Profits
XLV	Health Care	Declining	Stabilizing	Neutral	No Position			X			Hold Position
XLU	Utilities	OB	Positive	Positive	Hold			X			Take Profits
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	Neutral	Negative	Improving	Trade Oppty			X			Hold
EFA	International	Neutral	Negative	Negative	No Position					X	Above 200-DMA
IXUS	Total International	Neutral	Negative	Negative	No Position					X	Above 200-DMA
GLD	Gold	Rising	Positive	Improving	Trade Oppty			X			Hold
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
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## Portfolio/Client Update:

There were no changes to portfolios last week:

Last week, we noted the markets had continued to ignore the economic data. This week, after the Fed reversed course and lowered their outlook, economic data suddenly matters.&#2013266080;

With the markets early in a potential correction process we are made no changes to portfolios last week. However, next week we will be watching the Financial sector most importantly as they are the most impacted by the yield curve reversion.&#2013266080;



- **New clients:** No changes
- **Equity Model:** Last week we sold FDX and bought MU both prior to earnings. Both were correct calls. We will likely take some profits in Basic Materials, Industrials, Real Estate and Utilities, this next week depending on market action.
- **ETF Model:** No changes.

**Note for new clients:**

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

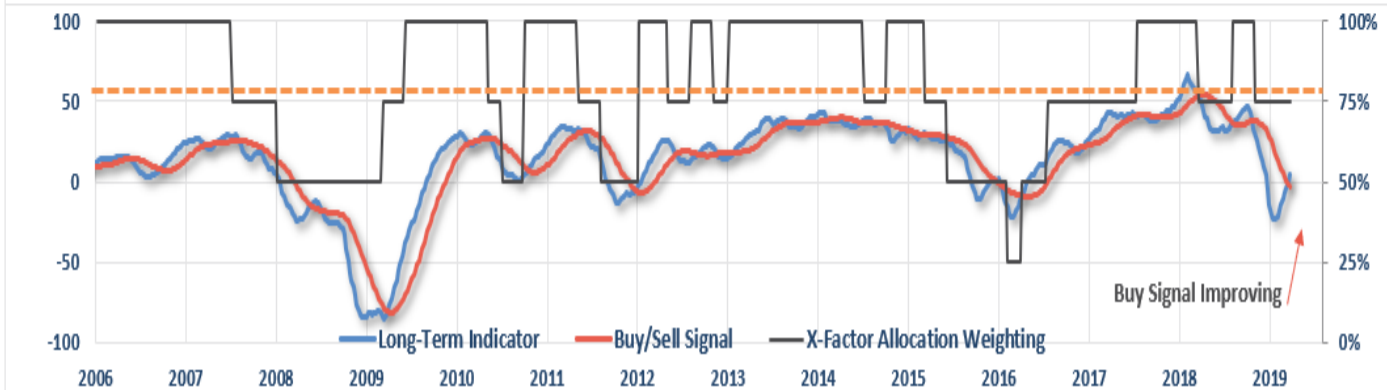
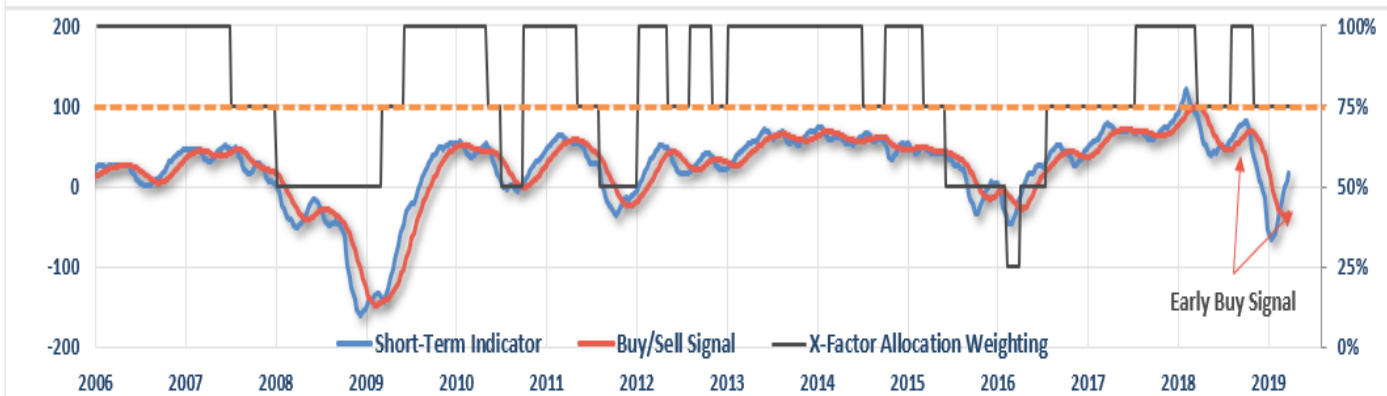
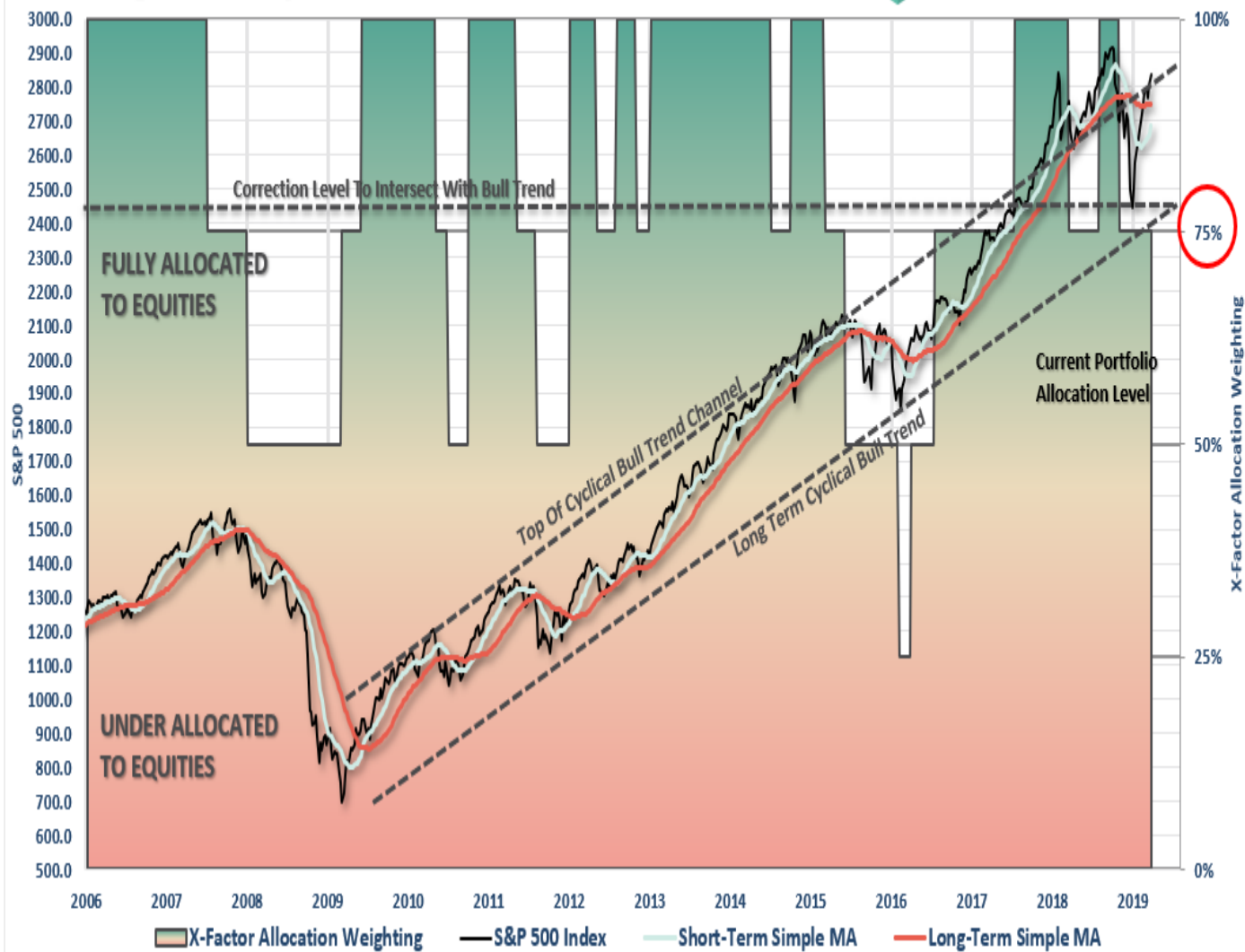
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## THE REAL 401k PLAN MANAGER

*A Conservative Strategy For Long-Term Investors*

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# Risk Management Analysis



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

401k Plan Manager Allocation Shift

## Patience Pays Off

Last week, we stated to remain patient despite the market rally:

*"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. The rally this past week was positive but remains very narrow in terms of participation."*

As noted all throughout this week's missive, the reversal of the Fed has led the markets to reconsider their position of ignoring rising economic risk.

Of course, over the last several weeks we have repeatedly warned this was THE risk.

*"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.*

*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.*

***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.***

As we noted last week, continue to remain patient. The underweight equity exposure continues to provide risk-adjusted performance.

- If you are **overweight equities** - take some profits and reduce portfolio risk on the equity side of the allocation. However, hold the bulk of your positions for now and let them run with the market.
- If you are **underweight equities or at target** - just sit tight for now and let's see what happens next.

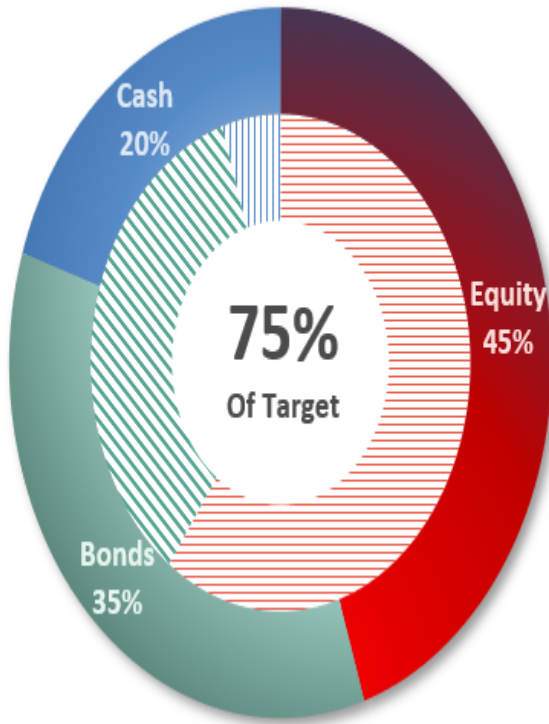
If you need help after reading the alert; don't hesitate to [contact me](#).

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## Current 401-k Allocation Model

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

## Current Portfolio Weighting



## Current 401k Allocation Model

### 20.00% Cash + All Future Contributions

*Primary concern is the protection of investment capital*

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

### 35.00% Fixed Income (Bonds)

*Bond Funds reflect the direction of interest rates*

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

### 45.00% Equity (Stocks)

*The vast majority of funds track an index.*

*Therefore, select on ONE fund from each category.*

*Keep it Simple.*

*10% Equity Income, Balanced or Conservative Allocation*

*35% Large Cap Growth (S&P 500 Index)*

*0% International Large Cap Dividend*

*0% Mid Cap Growth*

## 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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