

## It's Make Or Break



- *It's Make Or Break*
- *Sector & Market Analysis*
- *401k Plan Manager*

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## Make Or Break?

[Two week's ago](#) I laid out the potential pathways for the market suggesting that with the markets very oversold a pullback to support was likely. To wit:

***"While I point out the prevailing risks, and the disconnect between bullish sentiment and hard data, the reality is the bull market remains intact. Over the last several months we have been tracking the progress of the S&P 500 with pathways back to the all-time highs. The very quick retest of support, as noted last week, set the stage for the push to market highs."***



***"With portfolios still long-biased, the question is what happens next, and how to play it."***

As I noted then, pathway #2a was the most logical probability given the short-term overbought condition of the market.

- **Pathway #2a:** Is a bit more of an "exuberant" advance early next week which pulls back to the recent breakout level. The pullback consolidates a bit, works off some of the overbought condition, and then begins the next advance. Such a

*pullback would turn the previous resistance into support and provide a short-term "buyable" entry. (30%)*

Here is the updated chart through Friday:

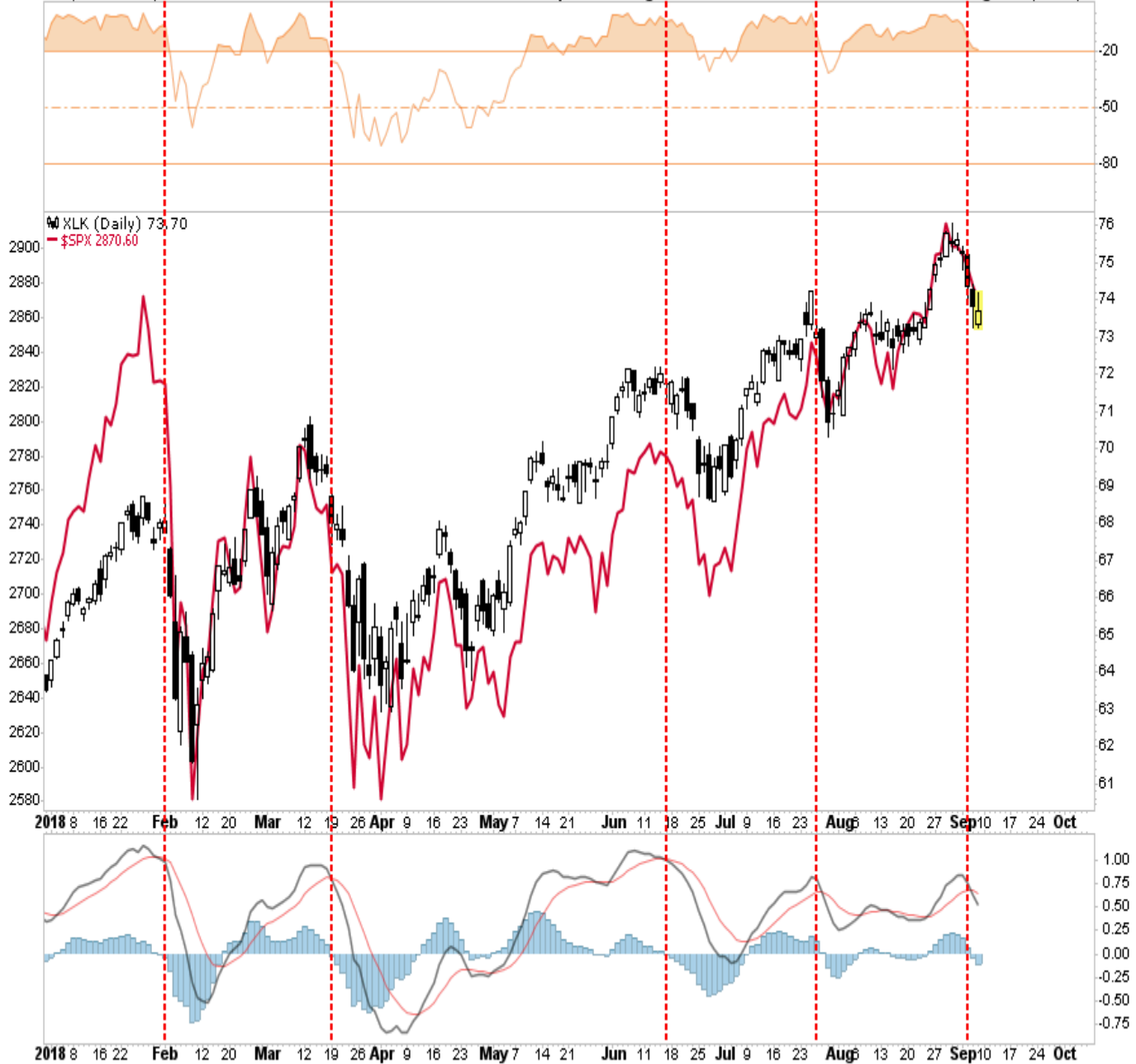


Currently, it is pathway #2a which continues to play out fairly close to the prediction from two weeks ago. **But it is make, or break, next week as to whether pathway #2b comes into play.** As I have repeatedly noted, we remain primarily allocated in our portfolios. However, we were looking for a pullback to support **which holds** before increasing our existing holdings further. We have currently lined up our additions for each of our portfolio models but we will wait until next week to make additions until we are certain the current support levels will hold. **As shown in the bottom part of the chart above, the current "buy" signal has been reversed with the recent sell-off in the market.** While these "sell" signals have been fairly short in nature over the past couple of months, they nonetheless denote downward pressure on asset prices currently. **More importantly, with the market not entirely oversold, top panel of the chart above, there is room for further downside into early next week.** The other short-term issue that keeps us cautious is the "tech wreck" which has occurred over the last week. Given the technology sector makes up 26% of the S&P 500 currently, it is not surprising that "so goes tech, so goes the market."

XLK Technology Select Sector SPDR Fund NYSE + BATS  
7-Sep-2018 12:33pm

© StockCharts.com

Open 73.35 High 74.17 Low 73.27 Last 73.70 Volume 6.3M Chg -0.13 (-0.18%)

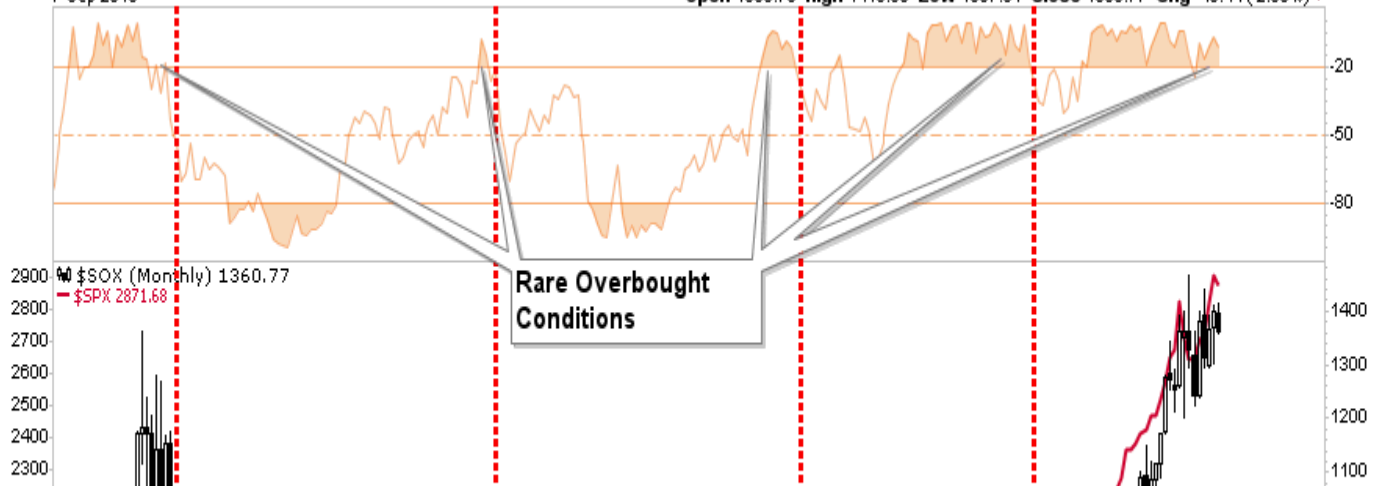


The same goes for Semiconductors which are economically sensitive. Morgan Stanley is suggesting memory markets are worsening going into the 4th quarter with inventory and pricing concerns (*read tariffs*) and weaker demand for DRAM products (*read economy*). **As shown below, in the last 20-years there are only four other times where the Semiconductor index has been this overbought combined with a "sell" signal.** With the index close to a monthly sell signal (*we won't know until the end of the month*) the concerns by Morgan Stanley may be justified and may suggest more about the economy than is currently realized.

\$SOX Semiconductor Index - Philadelphia IND $\times$   
7-Sep-2018

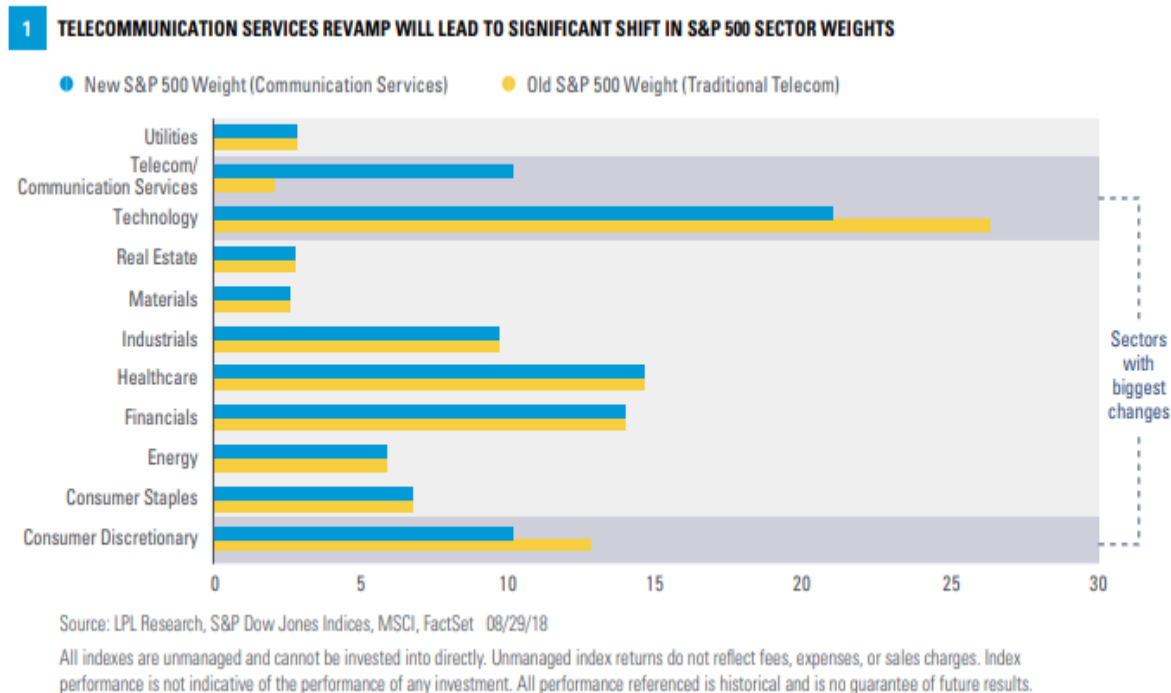
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Open 1395.75 High 1413.55 Low 1357.81 Close 1360.77 Chg -40.44 (-2.89%)



## Important Note

At the end of this month, there will be significant changes to the makeup of the S&P 500 index as a new communications sector (XLC) is added to the mix. After the switch 3 of the 4 original "FANG" (FB, NFLX, & GOOG) companies will be in that group. These changes will have wide-reaching effects as the traditionally defensive telecommunications sector will now be the new "momo" sector and the technology sector will lose some of its "juice." The new sector weightings will be as follows (chart courtesy of LPL.



Just for your reference here are the top-10 holdings of the ETF's currently which will change on September 28th. I have highlighted the 4-FANG stocks.

S&P 500	Tech	Health Care	Finance	Discretionary	Tele-Com	Materials	Industrials	Staples	Utilities	Energy	Real Estate
SPY	XLK	XLV	XLF	XLY	XLC	XLB	XLI	XLP	XLU	XLE	XLRE
AAPL	AAPL	JNJ	BRK.B	AMZN	FB	DWDP	BA	PG	NEE	XOM	AMT
MSFT	MSFT	UNH	JPM	HD	GOOG	PX	MMM	KO	DUK	CVX	SPG
AMZN	FB	PFE	BAC	CMCSA	GOOGL	ECL	HON	PEP	D	SLB	CCI
FB	GOOG	MRK	WFC	DIS	CMCSA	LYB	UNP	WMT	SO	COP	PLD
BRK.B	GOOGL	ABBV	C	NFLX	VZ	APD	GE	PM	EXC	EOG	EQIX
JPM	V	AMGN	USB	MCD	DIS	SHW	UTX	COST	AEP	OXY	PSA
GOOG	T	MDT	GS	NKE	CHTR	PPG	UPS	MO	SRE	VLO	WY
GOOGL	VZ	ABT	AXP	BKNG	T	IP	CAT	MDLZ	PEG	PSX	DLR
JNJ	INTC	LLY	PNC	LOW	ATVI	NUE	LMT	WBA	ED	MPC	AVB
XOM	CSCO	BMJ	MS	SBUX	NFLX	FCX	CSX	CL	XEL	HAL	EQR

But, until the end of the month, technology still leads the market. As shown in the chart above, the current short-term sell signal on the technology sector adds to the concern about potential downside risks early next week. The chart below is a look at technical support levels of a further short-term correction.

\$SPX S&P 500 Large Cap Index: INDXX

7-Sep-2018

\$SPX (Daily) 2871.68

Open 2868.26 High 2883.81 Low 2864.12 Close 2871.68 Volume 1.9B Chg -6.37 (-0.22%)

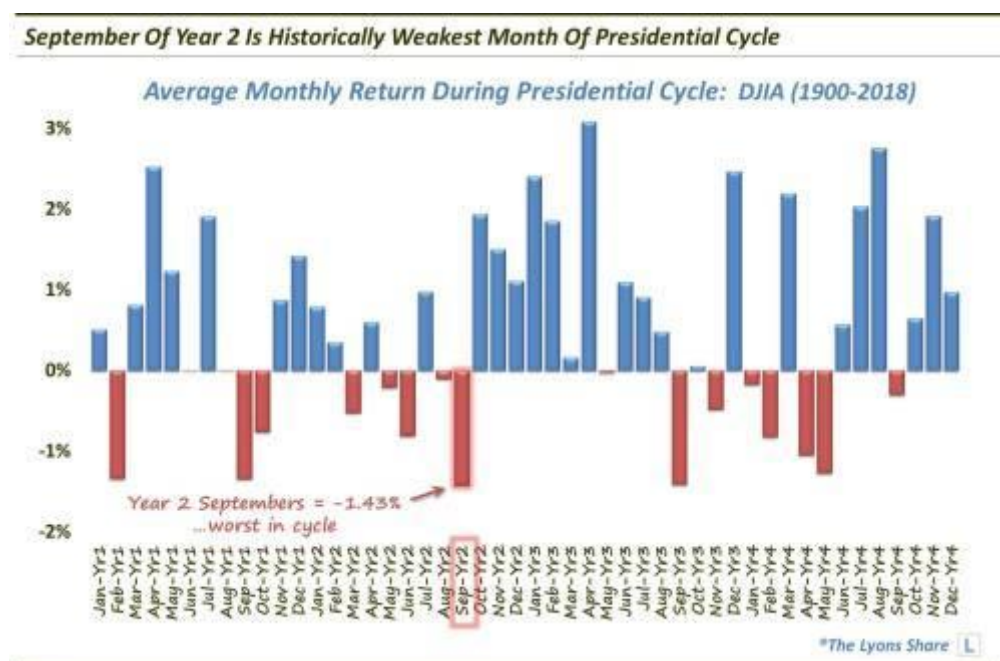
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**Support at 2860 should hold. If the market holds at 2860, which coincides with the current uptrend line (red), the odds of push back to recent highs is likely.** A failure at 2860 will find support at 2825, 2800 and 2775. These are key levels in the short-term to watch. As [Dana Lyons](#) noted on Friday:

*"The Presidential Cycle refers to the pattern of behavior in stock prices throughout the four years of a presidential term. Specifically, stocks tend to be strong during certain periods of a president's term and weaker during others. And while there are many factors influencing stock prices during a particular period of a particular presidential term, the cycle has been one of the more historically consistent seasonal patterns. **This may be relevant to the current weakness because, on average, the worst performing month of the cycle, historically, has been September of year 2, i.e., the current month.**"*

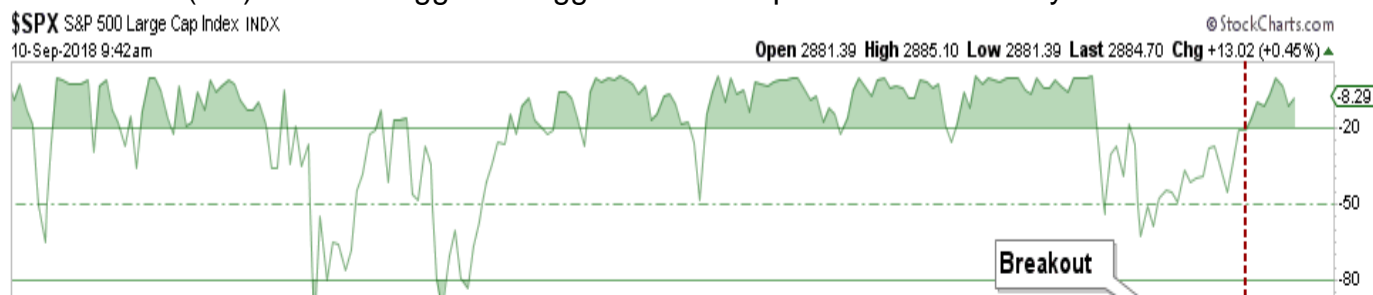


*"As the chart shows, since 1900, September of year 2 of the Presidential cycle has returned an average of -1.43%, slightly worse than September of year 3, February and September of year 1 and May of year 4."*

With the President talking about more tariffs against China on Friday, the risk to the market remains elevated with the earnings season boost behind us.

## Cautiously Bullish

While we are short-term cautious, the intermediate-term technical outlook remains positive. This is particularly the case as we look to the more seasonally-strong last quarter of the year. With the weekly *"buy signal"* intact, any short-term correction that doesn't violate important support should be used to selectively add exposure as needed. **As noted below, the only concern is the rally from the lows earlier this year have already pushed back into more extreme overbought territory.** While this does suggest upside is potentially limited, overbought conditions can remain overbought for quite some time given enough momentum. If the indicator breaks below (-20) it would suggest a bigger corrective process is underway.



Again, for now, the bullish trend remains and we need to honor that as such. That doesn't mean it won't change. It will, which means you must not neglect your portfolio management process. **It is worth remembering that portfolios, like a garden, must be carefully tended to otherwise the bounty will be reclaimed by nature itself.**

- *If fruits are not harvested (profit taking); they rot on the vine.*
- *If weeds are not pulled (sell losers); they will choke out the garden.*
- *If the soil is not fertilized (savings); then the garden will fail to produce as successfully as it could.*

So, as a reminder, and considering where the markets are currently, here are the rules for managing your garden:

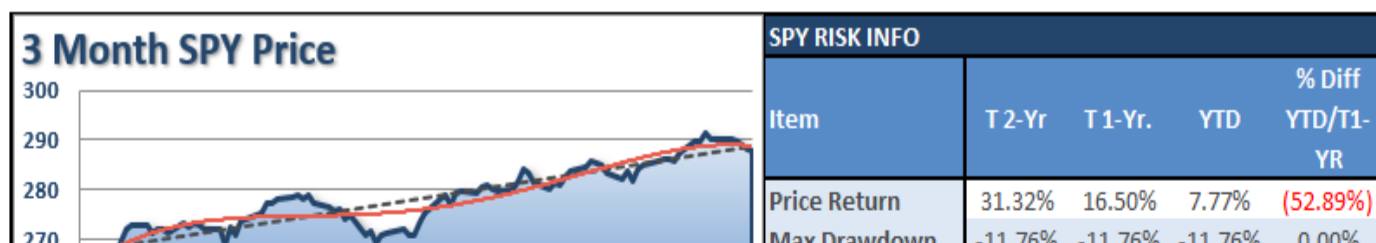
- 1) **HARVEST: Reduce winners back to original portfolio weights.** This does NOT mean sell the whole position. You pluck the tomatoes off the vine, not yank the whole plant from the ground.
- 2) **WEED: Sell losers and laggards and remove them from the garden.** If you do not sell losers and laggards, they reduce the performance of the portfolio over time by absorbing nutrients that could be used for more productive plants. The first rule of thumb in investing *sell losers short.*
- 3) **FERTILIZE AND WATER: Add savings on a regular basis.** A garden cannot grow if the soil is depleted of nutrients or lost to erosion. Likewise, a portfolio cannot grow if capital is not contributed regularly to replace capital lost due to erosion and loss. If you think you will **NEVER LOSE money** investing in the markets then STOP investing immediately.
- 4) **WATCH THE WEATHER: Pay attention to markets.** A garden can quickly be destroyed by a winter freeze or drought. Not paying attention to the major market trends can have devastating effects on your portfolio if you fail to see the turn for the worse. As with a garden, **it has never been harmful to put protections in place for expected bad weather that didn't occur.** Likewise, a portfolio protected against risk in the short-term, never harmed investors in the long-term.

**With the overall market trend still bullish, there is little reason to become overly defensive in the very short-term.** However, there are plenty of warning signs that the "good times" are nearing their end, which will likely surprise most everyone. **See you next week.**

## Market & Sector Analysis

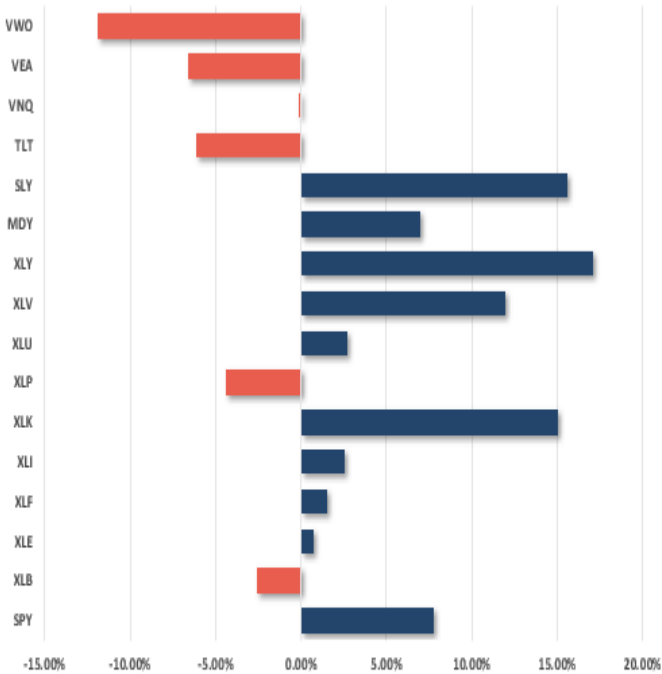
Data Analysis Of The Market & Sectors For Traders

### S&P 500 Tear Sheet

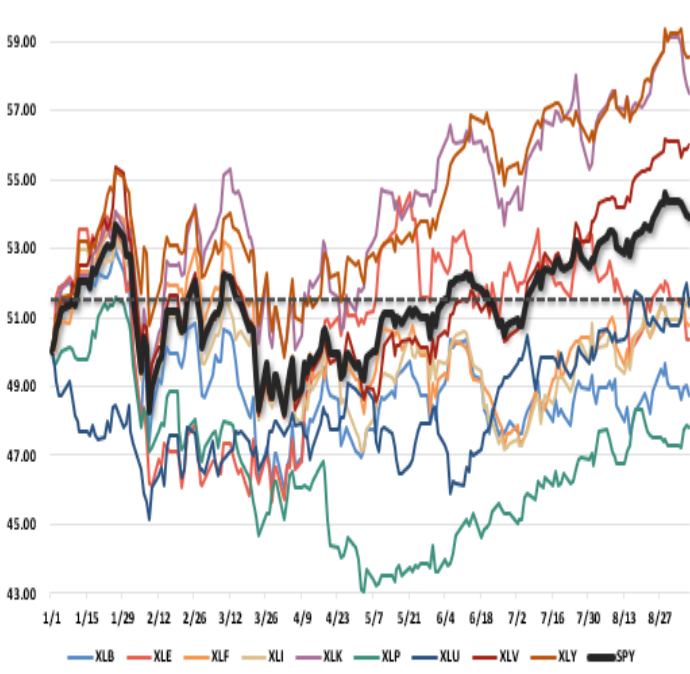


# Performance Analysis

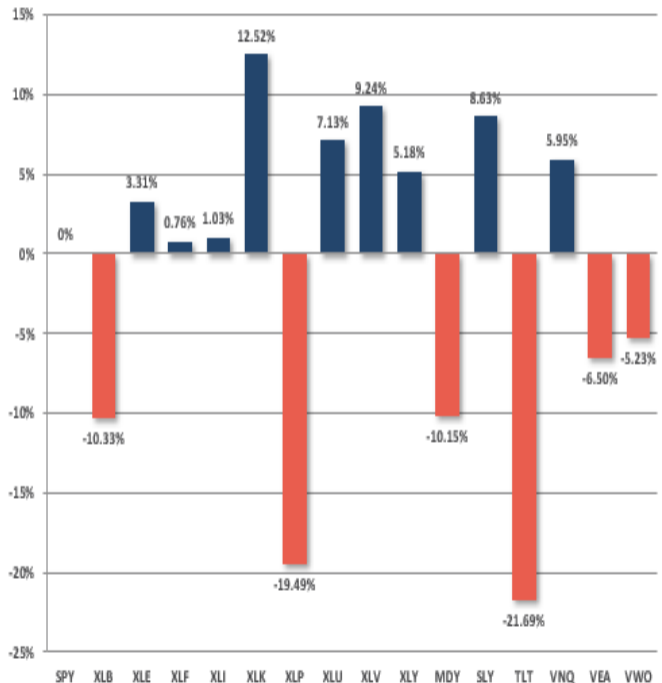
Year To Date Performance



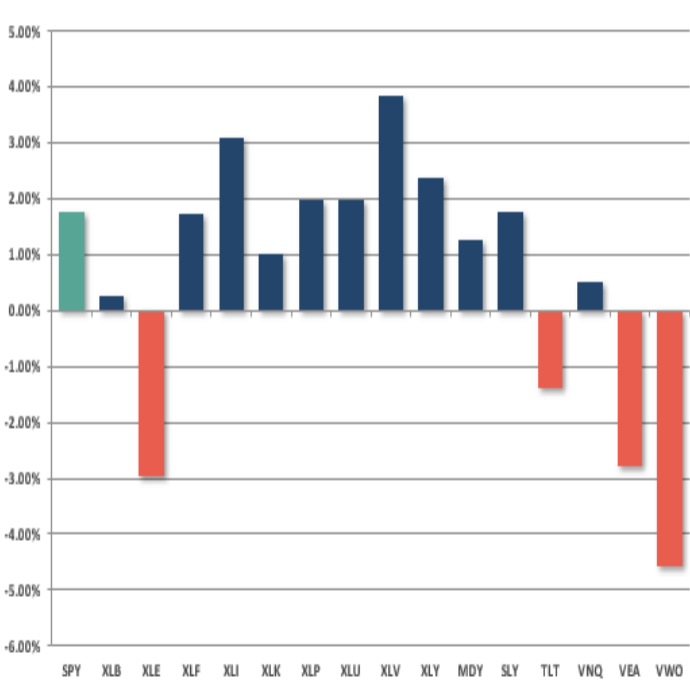
YTD Price - S&P Sectors Recalibrated To \$50/share



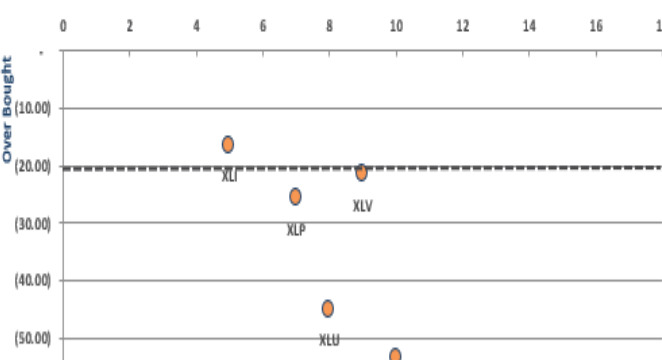
Year To Date Performance Relative To S&P 500



Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range





# ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		TICKERETF 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	289.60	(0.97)	1.59	3.31	11.46	16.68	283.09	276.72	2.30%	4.65%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	58.98	0.48	(1.08)	(4.57)	(6.17)	(9.47)	58.86	59.22	0.20%	-0.40%	SELL
		XLE	SPDR-EGY SELS	72.80	(1.23)	(4.90)	(5.16)	(2.43)	(3.64)	75.08	73.14	-3.03%	-0.46%	BUY
		XLF	SPDR-FINL SELS	28.33	0.97	(0.30)	(0.18)	(5.83)	0.87	27.72	28.07	2.20%	0.92%	SELL
		XLI	SPDR-INDU SELS	77.59	1.61	1.77	(0.03)	(4.79)	(3.03)	74.93	75.40	3.55%	2.90%	SELL
		XLK	SPDR-TECH SELS	73.58	(1.70)	(0.84)	(0.72)	3.01	10.11	72.44	69.46	1.57%	5.93%	BUY
		XLP	SPDR-CONS STPL	54.37	2.07	0.53	2.18	(4.56)	(17.99)	52.90	52.84	2.78%	2.90%	BUY
		XLU	SPDR-UTIL SELS	54.10	2.15	0.51	5.89	(1.18)	(18.96)	52.45	50.92	3.14%	6.24%	BUY
		XLV	SPDR-HLTH CR	92.55	0.72	1.67	4.98	4.71	(4.56)	88.15	85.47	4.99%	8.28%	BUY
		XLY	SPDR-CONS DISCR	115.58	(0.20)	0.95	(0.22)	3.91	12.93	112.45	107.47	2.79%	7.54%	BUY
	SIZE	MGK	VANGD-MG CAP GR	125.54	(0.81)	(0.27)	(0.76)	1.89	3.95	123.24	118.69	1.87%	5.77%	BUY
		IJR	ISHARS-SP SC600	88.97	(0.51)	0.42	0.68	5.93	12.35	86.87	82.04	2.41%	8.45%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	106.48	0.38	0.05	(0.82)	(2.01)	(2.59)	104.65	102.72	1.75%	3.66%	BUY
	Dividend	VIG	VANGD-DIV APPRC	109.63	1.22	1.68	1.27	(0.61)	1.12	105.68	103.78	3.73%	5.64%	BUY
	Real Estate	VNQ	VIPERS-REIT	82.86	(0.44)	(0.23)	0.66	1.57	(19.12)	81.93	78.42	1.13%	5.66%	BUY
	International	IDV	ISHARS-INTL SD	31.92	(1.17)	(3.28)	(6.85)	(12.94)	(21.77)	32.65	33.38	-2.22%	-4.39%	SELL
		VWO	VANGD-FTSE EM	40.46	(2.79)	(6.07)	(11.78)	(23.25)	(25.82)	42.59	45.27	-5.01%	-10.62%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	119.13	(0.57)	(2.86)	(4.35)	(12.32)	(24.34)	120.72	120.13	-1.32%	-0.83%	BUY
	International	BNDX	VANGD-TTL INT B	54.70	0.93	(1.64)	(2.97)	(11.20)	(17.14)	54.70	54.48	0.00%	0.41%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	85.70	0.21	(1.81)	(3.80)	(10.54)	(19.07)	85.82	85.88	-0.14%	-0.21%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.07										

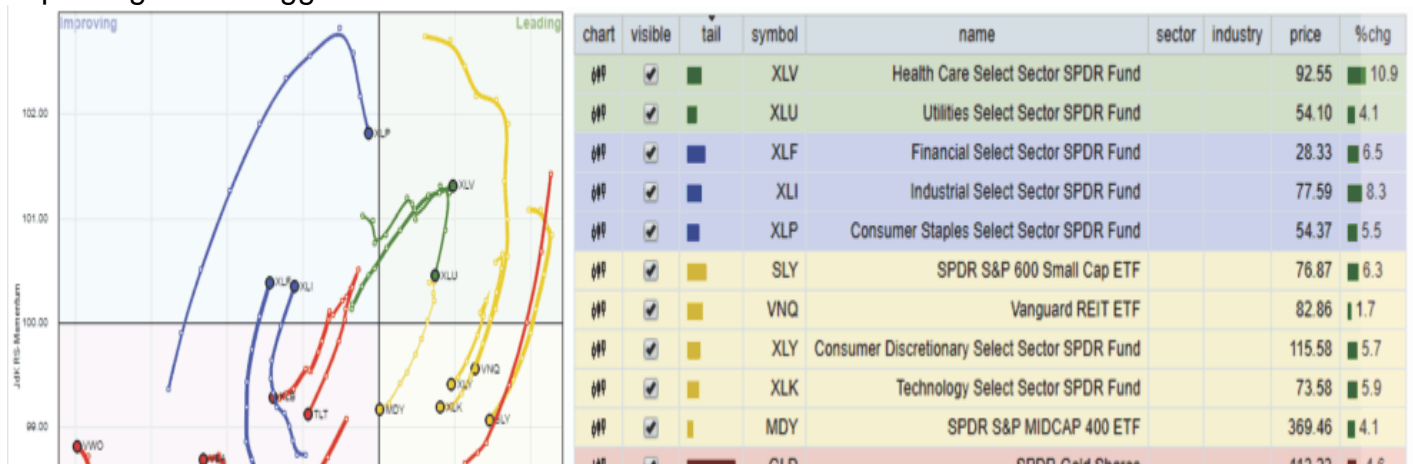
REAL INVESTMENT ADVICE

## Sector & Market Analysis:

As I noted last week:

*"Despite the markets breaking out to all-time highs last week, there is definitely signs of rotation from previously leading sectors of the market to the laggards. This is shown below in the 10-week relative-rotation graph which compares performance relative to the S&P 500 index."*

That rotation continued this week with two of the more defensive sectors (healthcare and utilities) leading the S&P 500 while the former leaders of Discretionary, Technology, Small and Mid-Capitalization groups slipped from leading to weakening. Staples, Industrials and Financials are improving which suggest more a more defensive rotation will continue into next week.



We are watching for a potential entry point for the industrial sector which has begun to improve performance-wise, but we remain wary of the "tariff" risk as the White House and China continue to scale up the rhetoric.



**Discretionary, Technology, and Staples** - all took a breather last week after a strong previous advance. As we noted last week, this is what was needed before trying to add exposure to these areas. **Healthcare and Utilities** - as noted above, maintained their strength after a very tough start to the year. As we stated two weeks ago, there is a movement to more defensive sectors of the market (*late economic stage sectors*) that is still occurring. Use pullbacks to support, and oversold conditions, to add exposure accordingly. **Financial, Energy, Industrial, and Material** - while Industrial finally gained a bit of momentum due to earnings season, the risk of an ongoing, and acceleration of, tariffs and "trade wars" keeps us wary at the moment. However, the recent pick up in performance puts industrials back on our radar and we will look for a short-term oversold condition to add some selective exposure. Energy's recent slump is again testing the 200-dma after failing at the 50-dma. This is not a positive sign and a break below the 200-dma, which will likely coincide with lower oil prices, will not only impair the sector but flash a bigger concern about the economy. As we stated last week, the 50-dma acted as resistance. Stops should remain at the recent lows. Financials continue to languish along support but not showing much in the way of strength to support overweighting the sector currently.



**Small-Cap and Mid Cap** we noted last week that these markets were extremely overbought and extended, pullbacks to support is needed to add additional exposure. That pullback started last week, but a decent opportunity to add exposure at this time is not available. We continue to hold our target exposure and will look for opportunity as it comes. **Emerging and International Markets** as I have repeated for the last few months:

"These sectors were removed in January from portfolios on the basis that *trade wars* and *rising rates* were not good for these groups. With the addition of the 'Turkey Crisis,' ongoing tariffs, and trade wars, there is simply no reason to add "drag" to a portfolio currently. **These two markets are likely to get much worse before they get better. Put stops on all positions.**"

The recent bounce again failed at the declining 50-dma. Positions should have been sold on that failed rally. **Stops at the recent lows were triggered on Friday and suggests positions be closed out as lower levels are likely at this time. Dividends and Equal weight** continue to hold their own and we continue to hold our allocations to these *core holdings*. We will overweight these positions on a pullback to support that does not violate that level. **Gold** If you are still hanging onto Gold, we have been consistently providing stop loss levels and sell points since May of this year. These points have continued to decline. Two weeks ago we gave a rally sale point of \$114 which was achieved. **Stops remain at \$111 this week. Bonds** bonds sold off on Friday with the employment report which showed an increase in nominal wage growth. That small bit of growth will be wiped away next week when CPI is reported and "real wages" are revealed. This is as good of a trading opportunity as there is to add bonds to portfolios. **\$118 is the stop with a target of \$121.50. REITs** keep bouncing off the 50-dma like clockwork. Despite rising rates, the sector has continued to catch a share of money flows and the entire backdrop is bullish for REIT's. However, with the sector very overbought, take profits and rebalance back to weight and look for pullbacks to support to add exposure. The table below shows thoughts on specific actions related to the current market environment.

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

						OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
		Over Bought / Sold	50/200 DMA	Trend	Action						
XLV	Discretionary	OB	Positive	Positive	Hold			X			Hold
XLK	Technology	Declining	Positive	Positive	Hold			X			Hold
XLI	Industrials	OB	Neutral	Neutral	Hold			X			Hold
XLB	Materials	OB	Neutral	Neutral	Hold			X			Hold
XLE	Energy	OS	Positive	Positive	Hold			X			Hold
XLP	Staples	Declining	Positive	Positive	Hold			X			Hold
XLV	Health Care	OB	Positive	Positive	Hold			X			Rebalance To Target
XLU	Utilities	OB	Positive	Positive	Hold			X			Add On Pullback To 50-DMA
XLV	Financials	OB	Neutral	Neutral	Hold			X			Hold
\$SML	Small Caps	OB	Positive	Positive	Hold			X			Hold
EEM	Emerging Mkt	OS	Negative	Negative	Sell			X			No Position
EFA	International	OB	Negative	Positive	Sell			X			No Position
GLD	Gold	OS	Negative	Negative	Sell					X	Stop Loss Violated
MDY	Mid Cap	OB	Positive	Positive	Hold			X			Hold
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Hold
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Hold
TLT	20+ Yr. Bond	Declining	Positive	Positive	Hold			X			Violated 50 & 200-DMA
VNQ	REIT's	Declining	Positive	Positive	Hold			X			Look To Buy On Pullback To 50-DMA
LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING						X	No Position				

## Portfolio/Client Update:

Over the last several weeks, I have discussed the increases to equity exposure in portfolios as the market's momentum has continued to push higher. However, we have done this cautiously by using pullbacks to support, which then subsequently broke out above resistance, to do so. Last week, the market was able to hold above the "breakout" levels once again, so we will look to take the following actions within the next week or so. The pullback we have been looking for to provide a better entry point has occurred and with the market approaching a short-term oversold condition, this is a decent entry point. We will look for any strength on Monday as an opportunity to add a bit more risk to the mix to be positioned in portfolios for the potential year-end upside bias.

- **New clients:** Add 50% of target equity allocations.&#2013266080;
- **Equity Model:**&#2013266080;Semiconductors (MU & KLAC) are on "Sell Alerts" - we will monitor closely and stop-loss levels have been tightened up. We will add a few new positions as needed.&#2013266080;
- **Equity/ETF blended**&#2013266080;- Same as with the equity model.&#2013266080;
- **ETF Model:** We will overweight core "domestic" indices by adding a pure S&P 500 index ETF to offset lack of international exposure. We remain overweight outperforming sectors to offset underweights in under-performing sectors.&#2013266080;
- **Option-Wrapped Equity Model**&#2013266080;- Looking to add two new positions to the portfolio.

Again, we are moving cautiously. There is mounting evidence of short to intermediate-term risk of which we are very aware. However, the trend of the market remains positive, and we realize that

short-term performance is just as important as long-term. It is always a challenge to marry both. **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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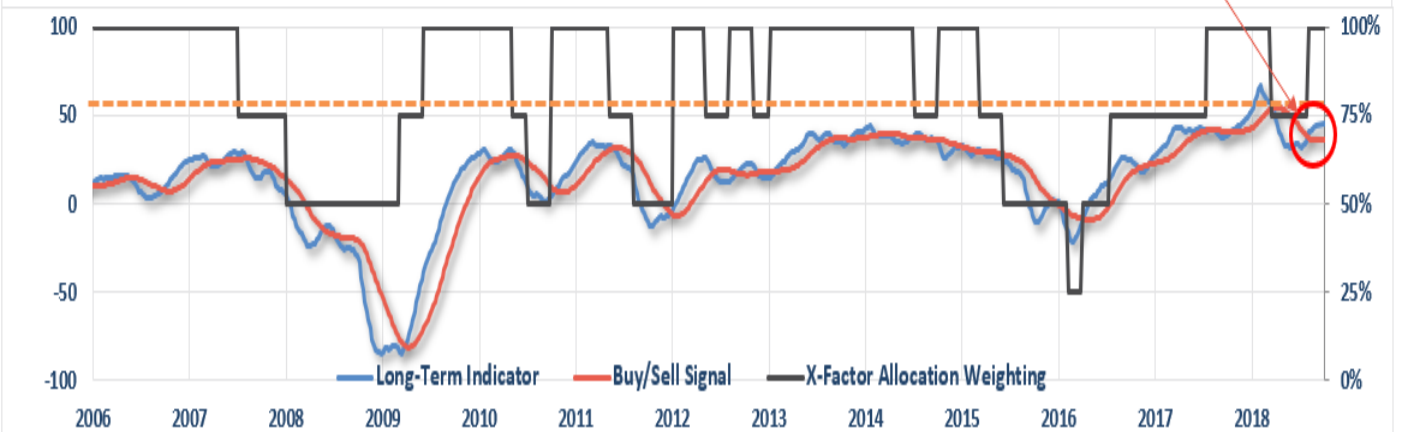
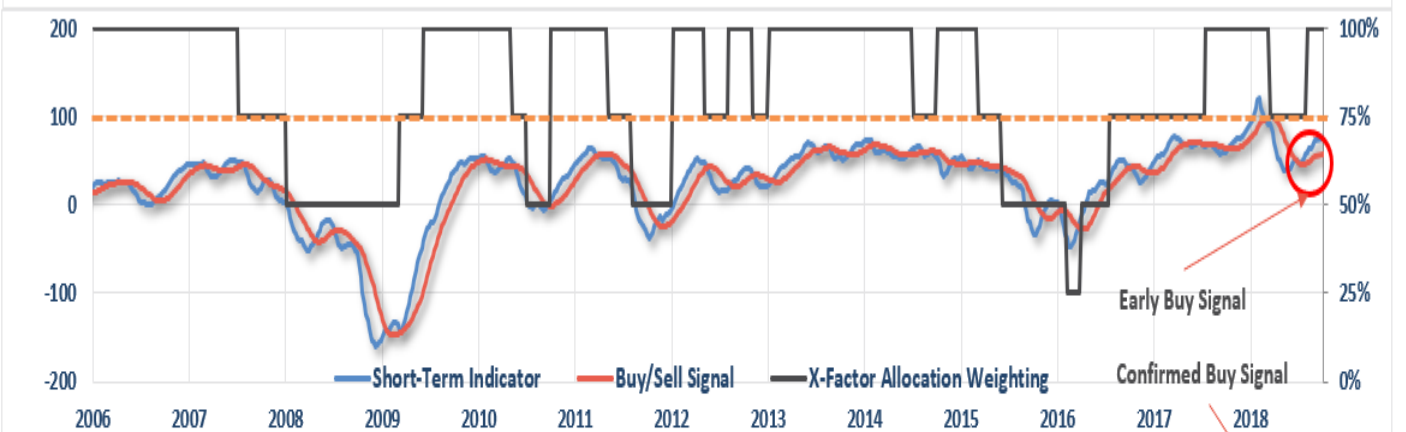
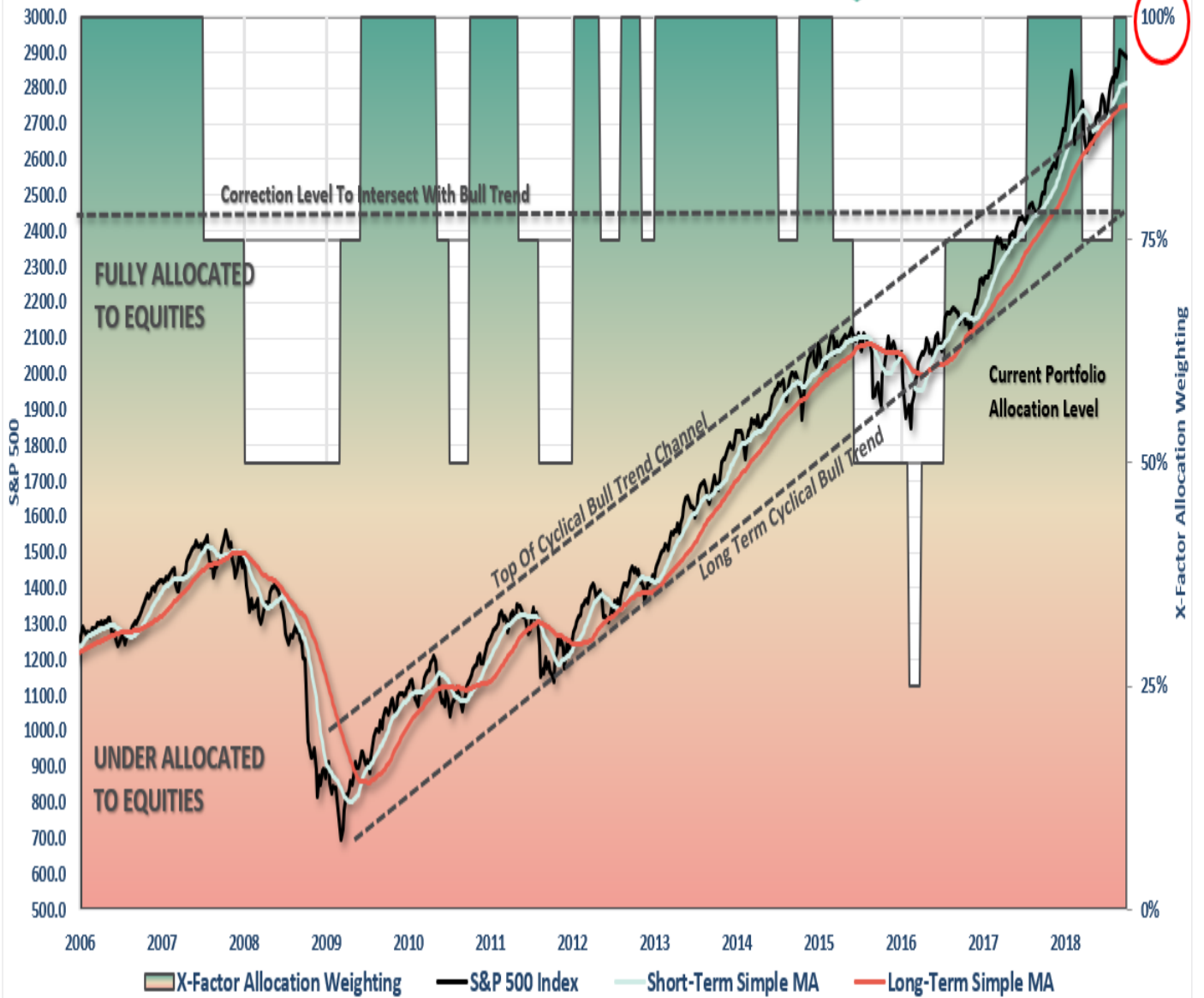
## THE REAL 401k PLAN MANAGER

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

A Better Position

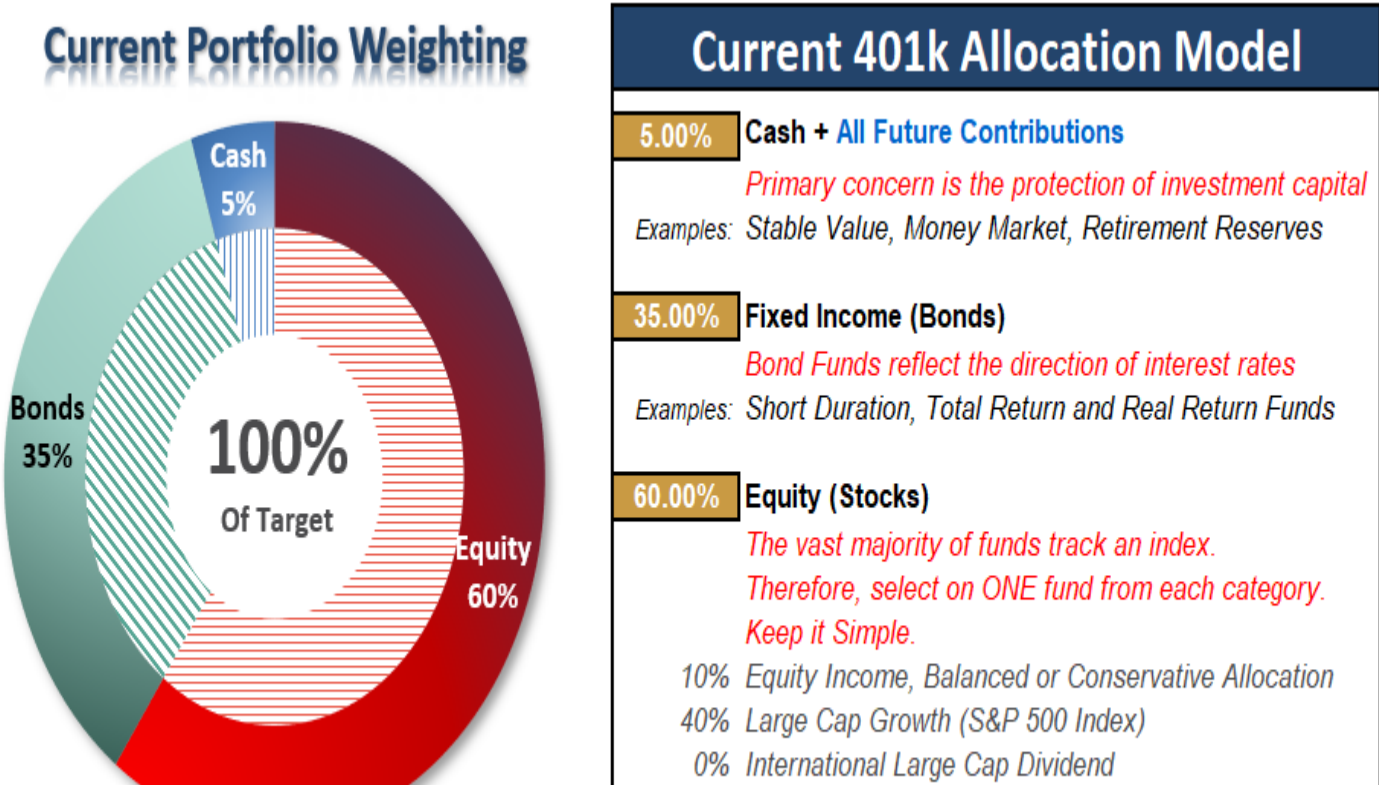
Over the last several weeks we have been discussing the issue of the breakout to new highs. We also noted that by the times these things happen the risk/reward set up is not optimal to increase equity exposure immediately. We have been suggesting waiting for a bit of "September" weakness to increase equity positions to full target weights. That weakness occurred last week, and any further weakness into early next week, which doesn't violate support, will give us an opportunity to add exposure accordingly. For now, and as we have repeatedly discussed over the last several weeks, just keep following the guidelines for your 401k plan closely.

- If you are **overweight equities** - reduce international and emerging market exposure and add to domestic exposure if needed to bring portfolios in line to target weights.
- If you are **underweight equities** - begin increasing exposure towards domestic equity in small steps. (1/3 of what is required to reach target allocations.)
- If you are at **target equity allocations** currently just rebalance weights to focus on domestic holdings.

While we officially upgraded our allocation model back to 100% exposure, there has been no rush to add additional equity risk. **However, we are now in a better position to do so.** 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.*(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