Yes, Something Just Broke

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Yes, Something Broke

In this missive, we are just going to focus on the *"WTF!"* moment of this past week. In order to do this properly, I need to start with&#2013266080;[last week's missive](#)&#2013266080;where we asked the question ***"Did Something Just Break?"*****&#2013266080;**In that article we addressed **very specific concerns about interest rates and the problem they were going to cause.**

> *"**Speaking of rates, each time rates have climbed towards 3%, the market has stumbled."***

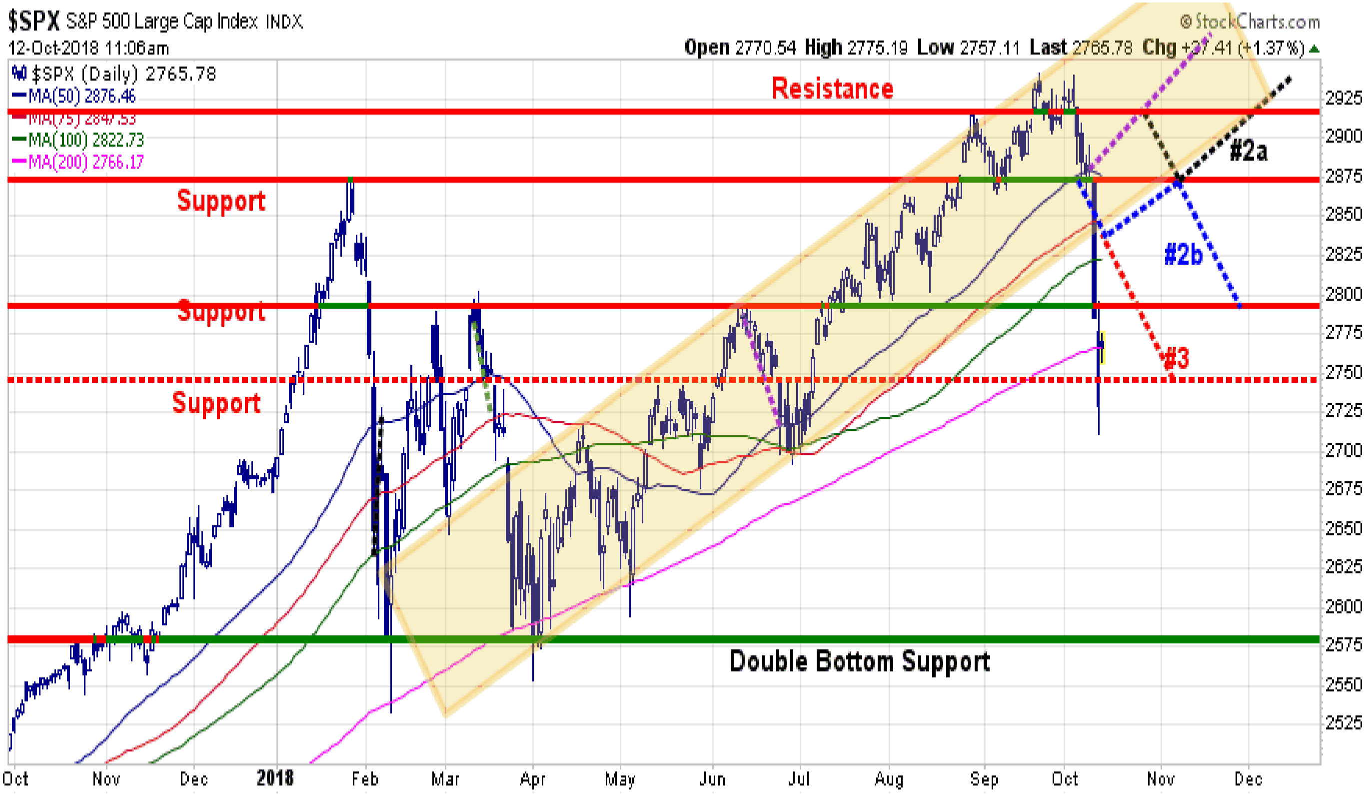
Chart updated through Friday.

"If you note in the chart above, a short-term 'warning signal'&#2013266080;has been triggered which suggests that if rates remain above 3%, stocks are going to

continue to struggle.&#2013266080;*The last time this occurred was in May when rates popped above 3%, stocks struggled and bonds outperformed."*

We also updated the pathway analysis for the highest probability outcomes over the next couple of months.

Chart updated through Friday - pathways remain unchanged



While the majority of the pathway's accounted for a continued corrective, consolidation, process through the end of the year. It was Pathway #3 which came to fruition.

> ***"Pathway #3:*** *The issue of rising interest combines with a break in the economic data, or another credit-related event, and sends the market heading back to test supports at 2800 and 2750.* ***This would likely coincide with a more severe contraction in the economic data which is not an immediate threat. Nonetheless, we should always consider the risk of an unexpected, exogenous, event. (10%)"***

The recent sell-off coincides with the rising concerns of higher rates coupled with deterioration in economic growth heading into 2019. To wit:

> *"As such, our best initial take is that****&#2013266080;yesterday?s repricing of US growth was an overdue gut-check following last week?s monetary and oil supply shocks."***

In other words, as we have been repeatedly stating, the underlying economic growth story, outside of one-time events and natural disasters isn't nearly as strong as reported. My friend,&#2013266080;Danielle DiMartino-Booth, concurs with my assessment:

> ***" Against that backdrop, it?s becoming clear that many companies are rushing to secure products and materials before&#2013266080;prices rise regardless of current demand.*** *You could say they are in panic-buying mode. The upside is that this behavior bolsters economic growth in the short term. The downside is that there is likely to be a nasty hangover.* ***The noise in the economic data will be amplified by the***

> ***rebuilding from Hurricane Florence.***&#2013266080;*The estimates of the storm?s damage span from $20 billion to $50 billion."*

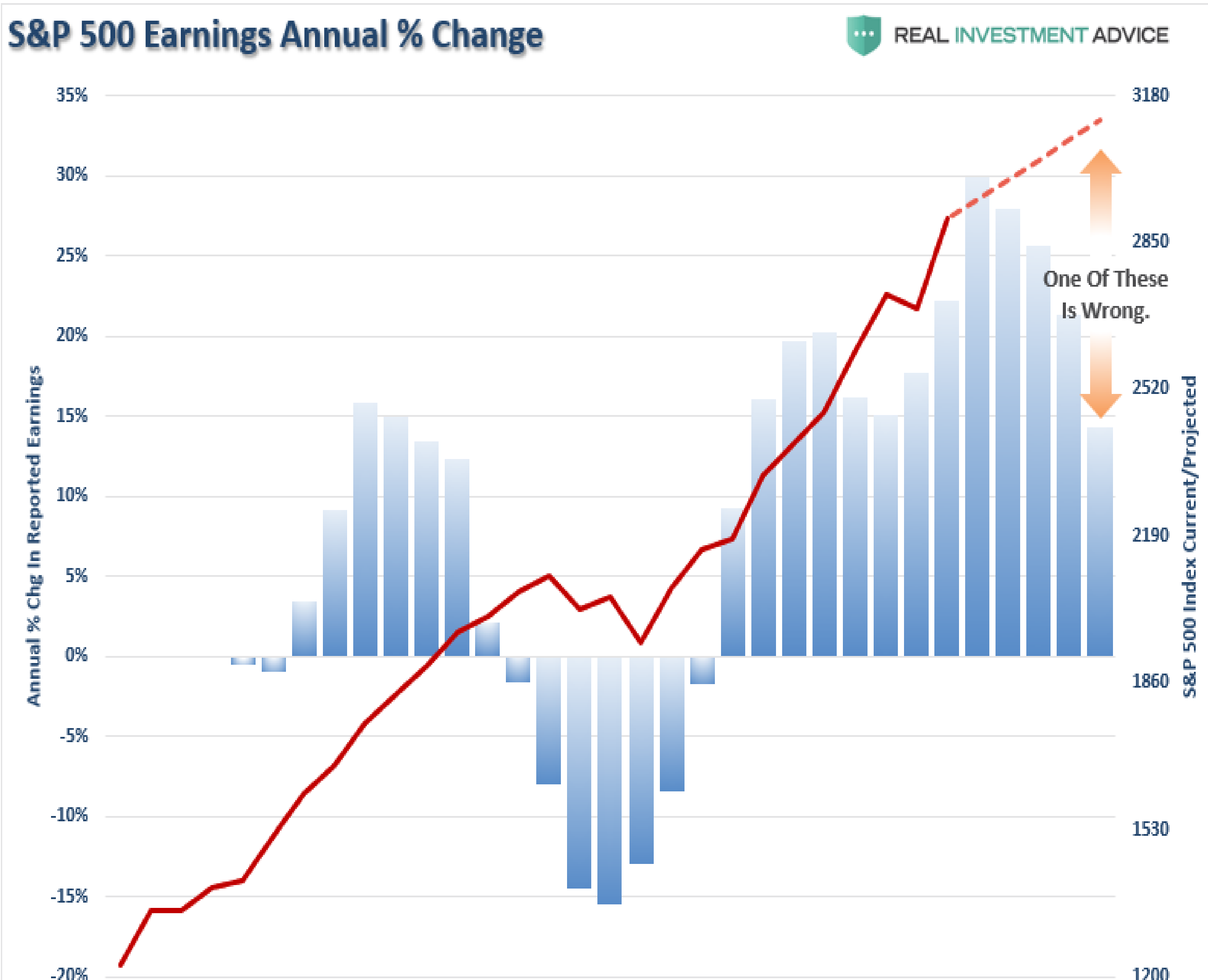
Of course, you can now add Hurricane Michael to the list. **But don't forget the current spat of economic growth this year was from the 3-massive Hurricanes in 2017.** But here is her conclusion:

> ***"In the event you?re hoping the virtuosity of panic buying can become a permanent prop to the&#2013266080;economy, you might want to rethink your thesis.***&#2013266080; ***Rather, artificial, tariff-driven panic buying pumps up GDP growth in the short term but ensures it will disappoint in the future.*** *Look for fourth quarter estimates to be revised upwards and then look out below into the first of the year. And no, the first-quarter disappointment will not be the seasonal anomaly many economists typically ascribe to economic growth in the first three months of the year.* ***In other words, it could be that much worse."***

More Than Just Rates

But it isn't just the rise in interest rates, and the threat of slowing economic growth, that is most concerning for the outlook of investors going forward. Both of those issues also translate into weaker earnings growth as well.

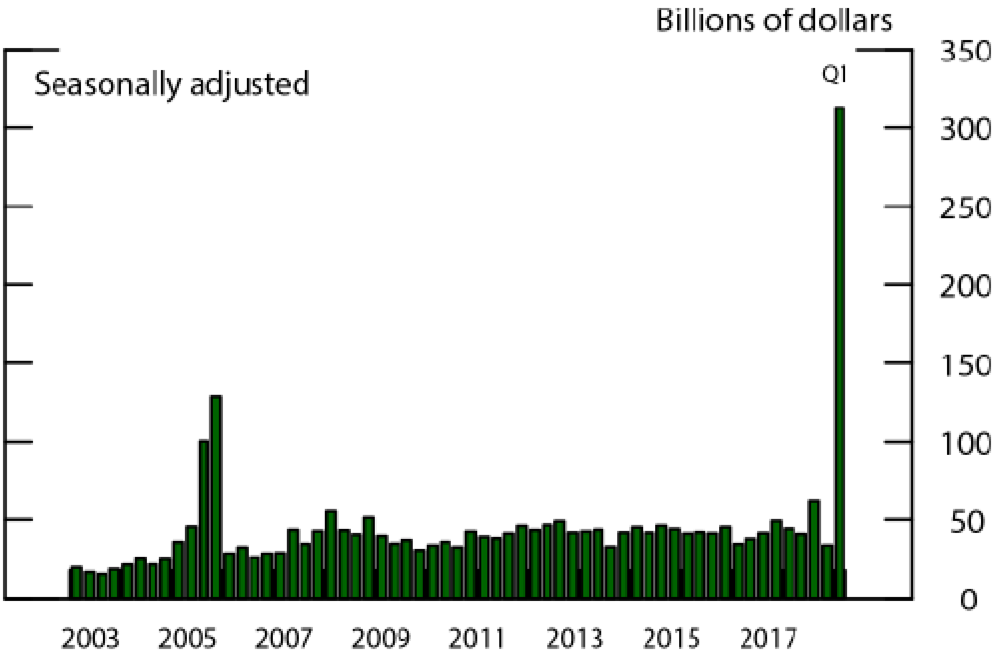
> *"As stated, the risk to current estimates remains higher rates, tighter monetary accommodation, and trade wars. More importantly,&#2013266080;year over year comparisons is going to become markedly more troublesome even as expectations for the S&P 500 index continues to rise."*



"With&#2013266080;the number of S&P 500 companies issuing negative EPS guidance is now the highest since 2016, it is only a function of time until we see forward estimates into 2019 begin to revised substantially lower."

The issue of earnings, combined with higher rates, tariffs, and valuations, will likely continue to way on asset prices as we move into 2019. **The one bright spot going into the end of this year is that corporations have been in a *"blackout"* period for buying back their own shares heading into Q3-earnings reporting period.&#2013266080;**

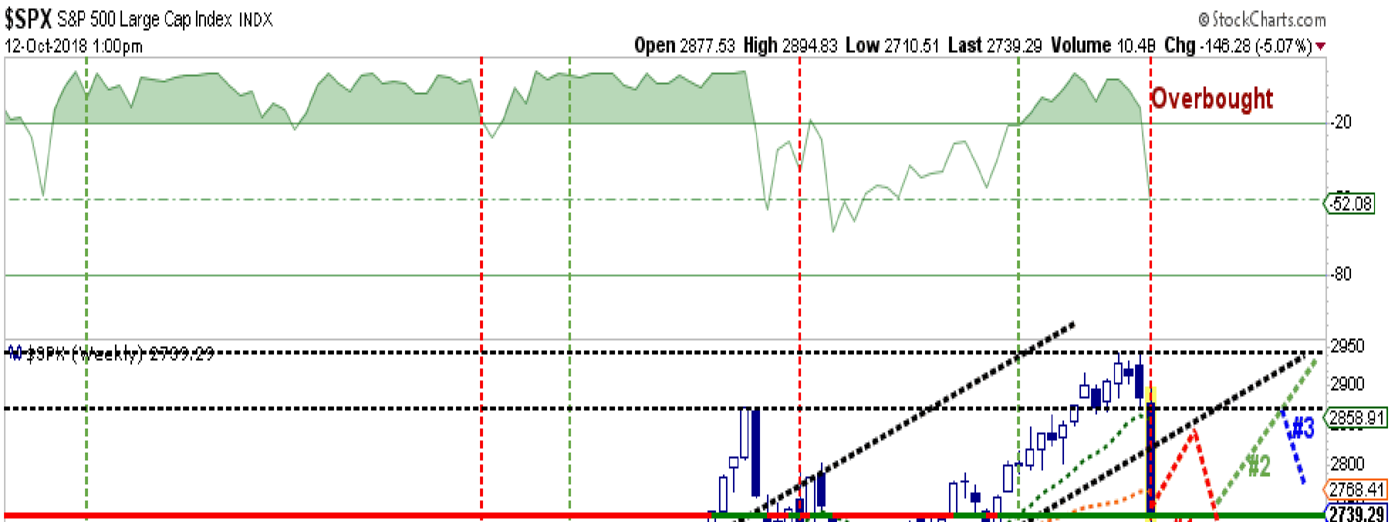
;?one-
lowed directly



By the beginning of November, that restriction will be lifted and the markets will likely get some support from an acceleration of buybacks headed into year end. However, as stated, that growth&#2013266080;[will become much more muted.]

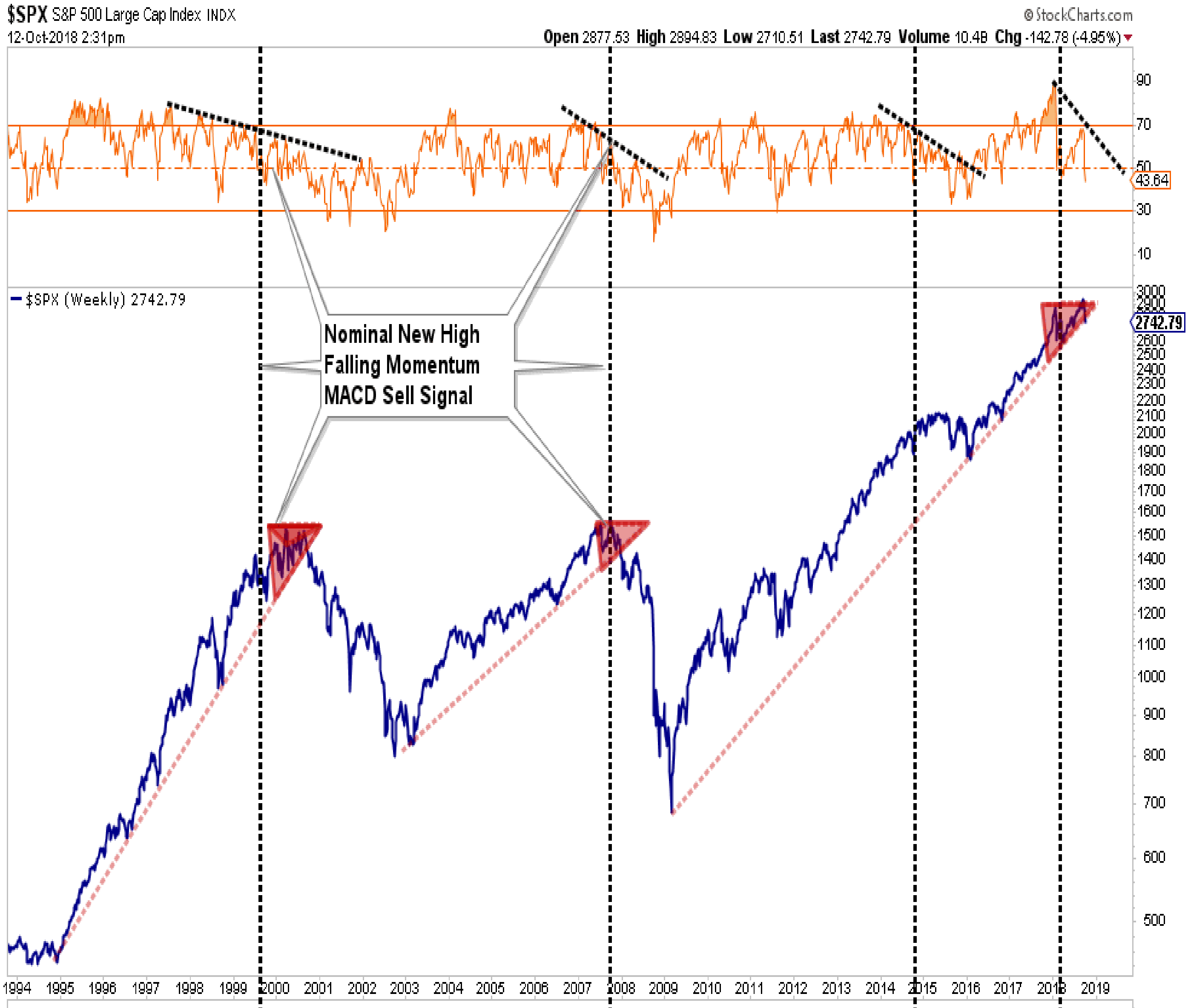
This Time IS Different

With the understanding the economic and fundamental background may not be supportive for higher asset prices heading into 2019, the market is also sending a very different technical signal as well. [As I showed on Thursday], **this is the FIRST time the market has broken the bullish trend line that began in 2016.** As shown below, that break of the bullish trend pulls in a new dynamic of potential market action over the next several months which **is more akin to a market topping process than the continuation of the previous bullish trend.&#2013266080;**



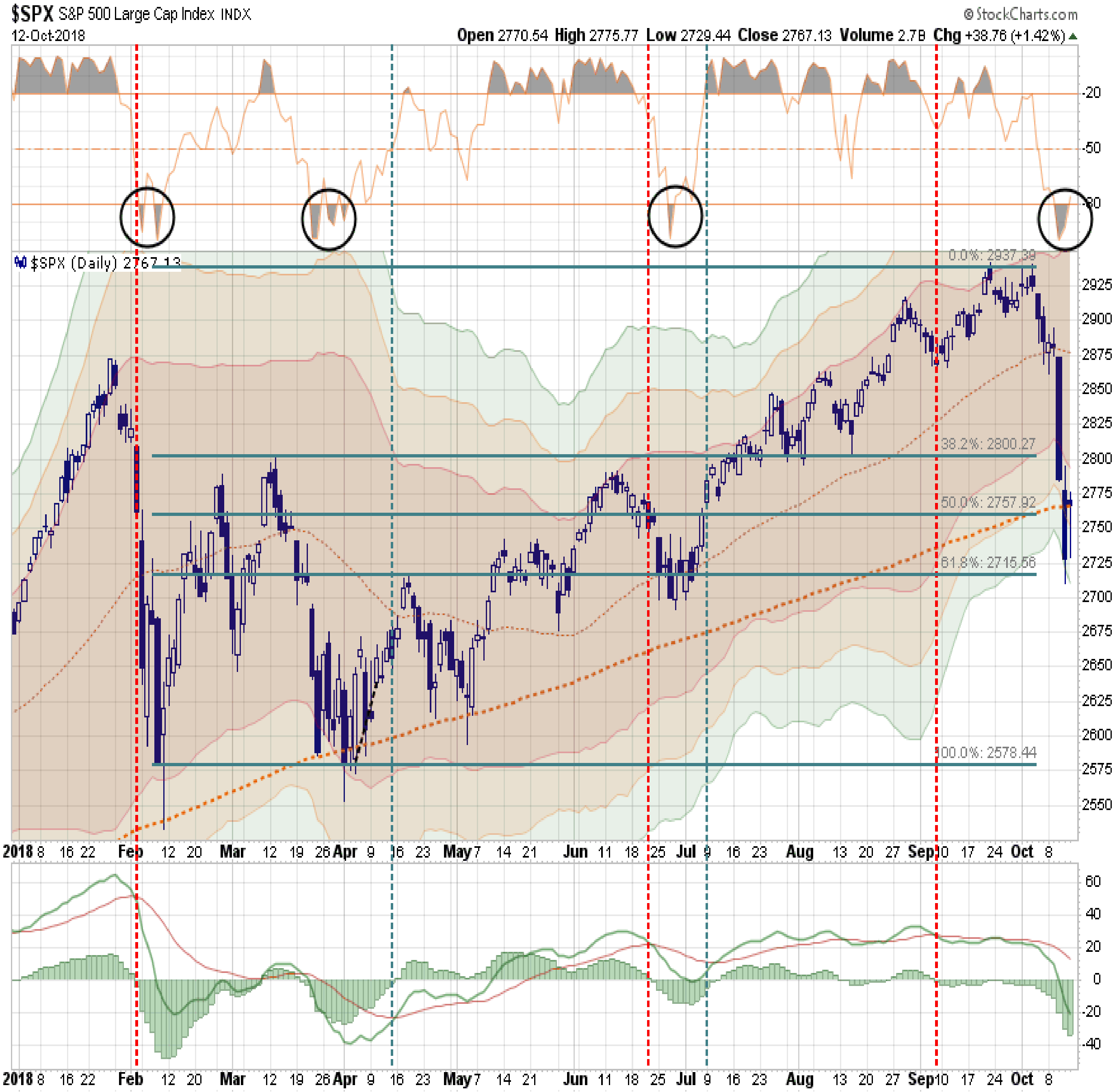
*"**Given the short-term OVERSOLD condition of the market, we want to use rallies to rebalance risks in portfolios. #1**&#2013266080;? A rally back to the bullish trend line&#2013266080;will be used to reduce risk (ie. raise cash) in portfolios by selling lagging positions and rebalancing risk in winning positions.&#2013266080;**Rule: sell losers and let winners run.&#2013266080;** We fully expect an initial rally to fail as investors caught in the sell-off&#2013266080;will be looking for an opportunity to sell. However,&#2013266080;**if that sell-off&#2013266080;fails to hold support at the recent lows it will suggest a bigger corrective action is in process. We will be looking to reduce equity risk further, raise cash, evaluate portfolio allocation models.&#2013266080; #2**? If the sell-off&#2013266080;following a failed rally holds support at the recent lows, and turns up, such will suggest a rally back to either the January highs or all-time highs.&#2013266080;**NOTE: A rally back to all-time highs following a corrective pullback will again retest the underside of the bullish trend line from the 2016 lows.**&#2013266080;Such remains a 'bearish' backdrop from equity risk going into 2019 where economic and earnings data is expected to slow further. We will use any rally back to those levels to reduce risk as noted in #1. **#3**? If the rally from the recent lows fails at the January highs we will again use that opportunity to reduce equity risk and rebalance portfolio allocations."*

Back in April of this year, I wrote [10-Reasons The Bull Market Ended In 2018](). Primarily, that analysis was built around fundamental issues that would potentially plague markets going forward. With the failure of the markets this past week, along with the break of the bull trend, **the bull market still has not yet resumed.**&#2013266080;More importantly, **the current actions are consistent with both previous major market peaks as shown below.** *(Nominal new highs, declining momentum, and weekly MACD sell signal)*



What To Expect Next Week

As shown in the chart below, the market was more than 4-standard deviations below its 50-dma on Friday. This is a very rare event and is an extreme oversold condition. **However, along with the evidence above, also suggests the recent bull market trend is finished for the time being.** Portfolio management processes should be switched from *"buying dips"* to *"selling rallies"* until the technical backdrop changes.



Next week, I would expect to see a rally from the short-term oversold conditions. **The good news is that the market WAS ABLE TO CLOSE ABOVE THE 200-DMA on Friday which will keep buyers (algos) in play into next week**. However, it will be the breadth and strength of that rally that will be important to watch. **If it is a weak, narrow bounce with little conviction, use the rally to lift positions, trim losers, raise cash and potentially look at initiating some hedges.** As I wrote last week:

> *"Our bigger concern remains interest rates simply for one reason - **you can NOT have higher stock prices AND higher interest rates. Period.&#2013266080;**One or the other will have to give."*

We now know that was indeed the case.

Checklist Summary Of Actions To Take

As stated, it is **highly unlikely**&#2013266080;the bull market will quickly resume without a further shakeout first. **This doesn't mean we can't have some hellacious rallies in the meantime.** However, the entire supportive structure of the market has now changed which suggests a very different set of actions need to be taken on rallies over the next several months. Here is what we will specifically be doing on subsequent rallies.

1. **Re-evaluating overall portfolio exposures.** *It is highly likely that equity allocations have gotten out of tolerance from the original allocation models. We will also look to reduce overall allocation models from 60/40 to 50/50 or less.*
2. **Look to add bond exposure to mitigate volatility risk.** ***(Read:*** *&#2013266080;&#2013266080;The Upcoming Bond Bull Market)*
3. **Use rallies to raise cash as needed.** *(Cash is a risk-free portfolio hedge)*
4. **Review all positions**&#2013266080;*(Sell losers/trim winners)*
5. **Look for opportunities in other markets** *(Gold may finally shine)*
6. **Add hedges to portfolios** *(If the market begins to show a negative trend we will add short positions)*
7. **Trade opportunistically&#2013266080;***(There are always rotations that can be taken advantage of)*
8. **Drastically tighten up stop losses.&#2013266080;***(We&#2013266080; had previously given stop losses a bit of leeway as long as the bull market trend was intact. Such is no longer the case.)*

If I am right, the conservative stance and hedges in portfolios will protect capital in the short-term. The reduced volatility allows for a logical approach to further adjustments as the correction becomes more apparent.&#2013266080;*(The goal is not to be forced into a ?panic selling? situation.)* **If I am wrong, and the bull market resumes, we simply remove hedges, and reallocate equity exposure.**

> ***?There is little risk, in managing risk.?&#2013266080;***

The end of bull markets can only be verified well after the fact, but therein lies the biggest problem. Waiting for verification requires a greater destruction of capital than we are willing to endure.

> ***"It?s probably wiser to assume [that God] exists because infinite damnation is much worse than a finite cost." - Blaise Pascal***

See you next week.

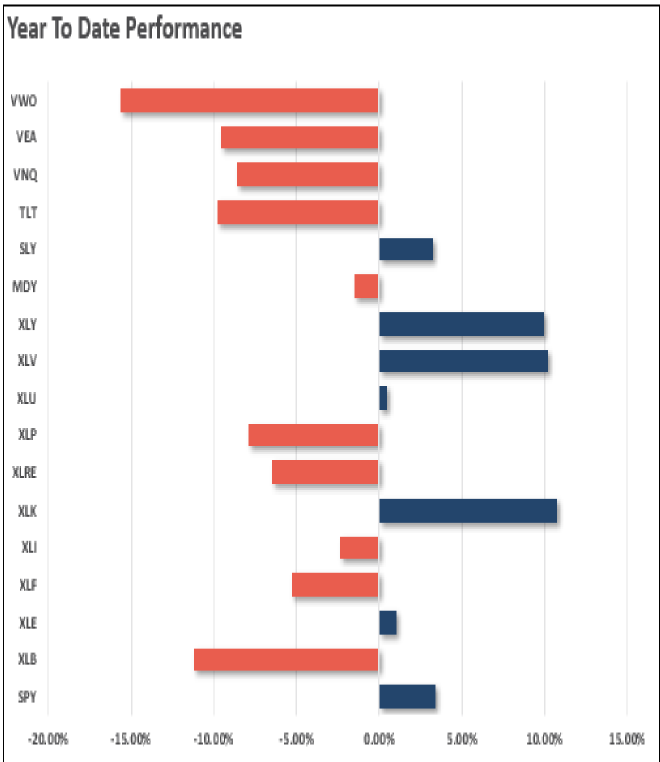
Market & Sector Analysis

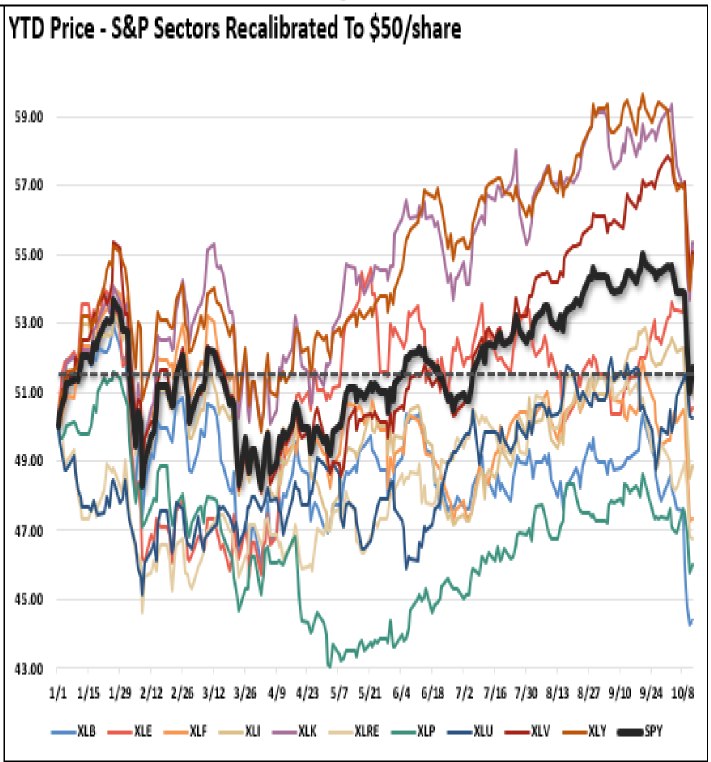
Data Analysis Of The Market & Sectors For Traders

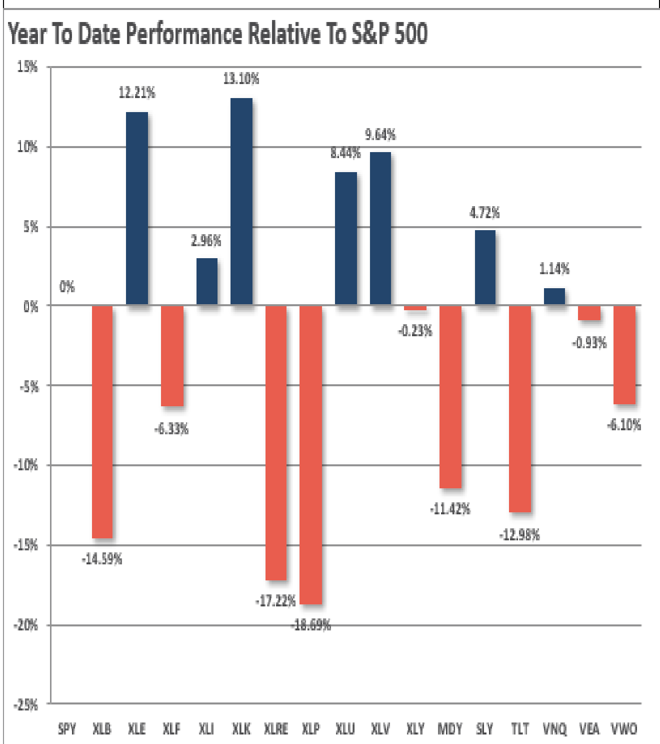
S&P 500 Tear Sheet

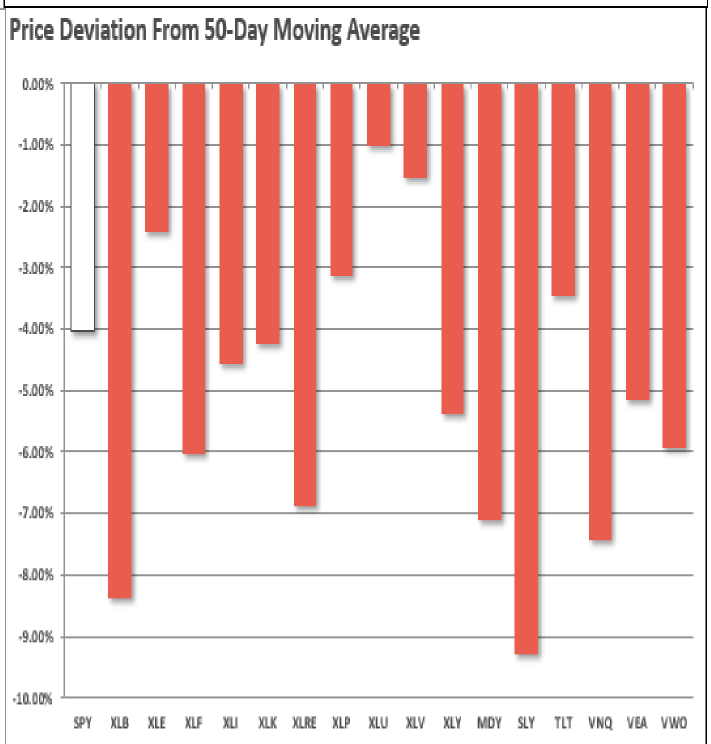
SPY RISK INFO				
Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR

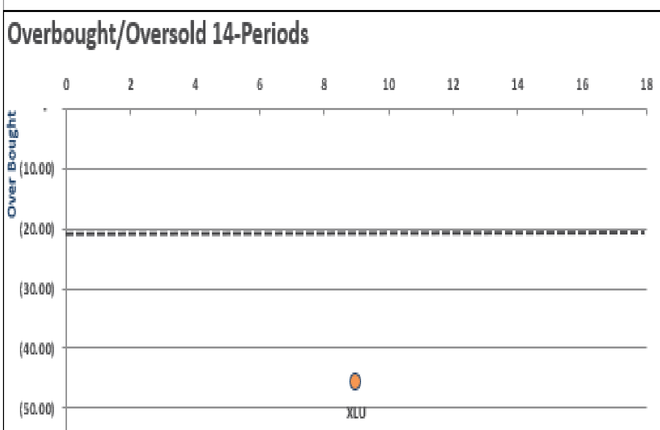
Performance Analysis

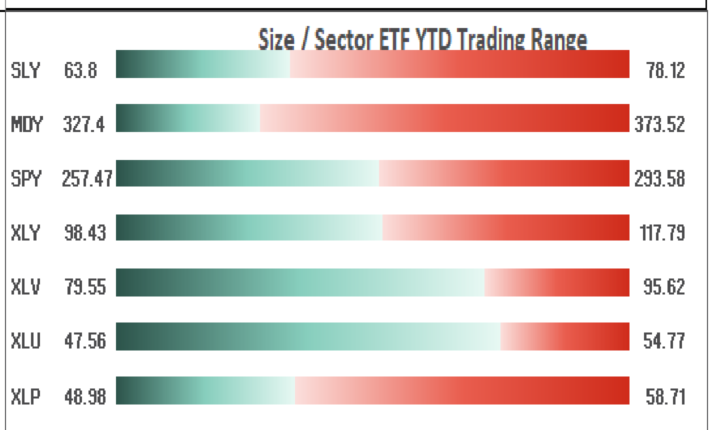












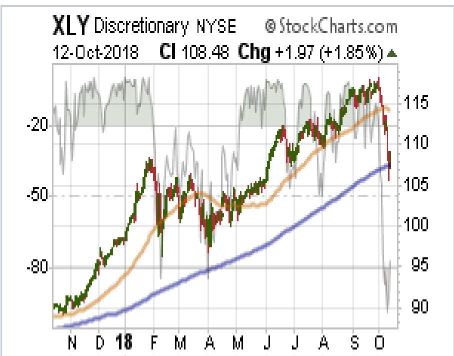
ETF Model Relative Performance Analysis

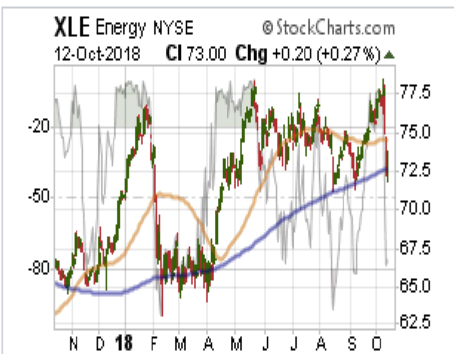
RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	278.03	(4.10)	(5.08)	(1.27)	3.59	8.34	288.26	278.68	-3.55%	-0.23%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	53.76	(2.63)	(4.43)	(6.50)	(10.52)	(16.21)	58.71	58.74	-8.43%	-8.48%	SELL
		XLE	SPDR-EGY SELS	73.00	(1.29)	3.38	(1.25)	(4.70)	(1.21)	75.03	73.47	-2.71%	-0.64%	BUY
		XLF	SPDR-FINL SELS	26.43	(1.50)	(1.30)	(2.83)	(8.18)	(7.19)	28.07	27.91	-5.86%	-5.29%	BUY
		XLI	SPDR-INDU SELS	73.90	(2.27)	(1.46)	0.55	(2.62)	(5.79)	76.91	75.46	-3.91%	-2.07%	BUY
		XLK	SPDR-TECH SELS	70.83	0.31	(0.40)	(1.10)	3.91	8.74	73.63	70.53	-3.80%	0.42%	BUY
		XLP	SPDR-CONS STPL	52.38	2.12	0.73	0.37	(0.42)	(12.35)	53.85	52.48	-2.73%	-0.20%	BUY
		XLU	SPDR-UTIL SELS	52.95	2.84	2.59	2.54	(1.19)	(10.55)	53.27	51.45	-0.59%	2.91%	BUY
		XLC	SPDR-COMM SV SS	46.37	1.07	0.95	(7.57)			48.93	49.22	-5.24%	-5.80%	SELL
		XLV	SPDR-HLTH CR	91.07	0.69	2.45	6.24	5.42	2.16	91.51	86.53	-0.48%	5.24%	BUY
		XLY	SPDR-CONS DISCR	108.48	0.75	(2.14)	(2.00)	0.61	10.58	114.07	108.89	-4.90%	-0.38%	BUY
	SIZE	MGK	VANGD-MG CAP GR	120.68	0.39	0.01	(0.86)	3.11	4.71	125.23	120.10	-3.63%	0.49%	BUY
		IJR	ISHARS-SP SC600	79.30	(1.28)	(6.29)	(7.28)	(2.60)	(2.02)	87.23	83.28	-9.10%	-4.78%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	100.64	(0.42)	(1.51)	(2.10)	(3.72)	(4.09)	105.83	103.15	-4.91%	-2.44%	BUY
	Dividend	VIG	VANGD-DIV APPRC	104.78	(0.11)	(0.46)	0.92	0.25	0.77	108.29	104.57	-3.24%	0.20%	BUY
	Real Estate	VNQ	VIPERS-REIT	75.82	1.06	(3.72)	(5.21)	(4.34)	(18.92)	81.78	78.93	-7.29%	-3.93%	BUY
	International	IDV	ISHARS-INTL SD	31.06	0.89	0.99	(3.71)	(12.85)	(16.93)	32.61	33.07	-4.74%	-6.08%	SELL
		VWO	VANGD-FTSE EM	38.72	2.83	0.12	(8.49)	(19.40)	(22.64)	41.61	44.07	-6.95%	-12.13%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	114.47	5.37	1.64	(3.93)	(7.31)	(17.38)	118.89	119.41	-3.72%	-4.13%	SELL
	International	BNDX	VANGD-TTL INT B	54.24	4.31	4.38	0.09	(4.25)	(9.16)	54.62	54.54	-0.70%	-0.54%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	85.15	3.93	3.71	0.73	(4.30)	(11.94)	85.94	85.76	-0.92%	-0.71%	BUY
	Cash	BSV	VANGD-SHT TRM B	77.80										

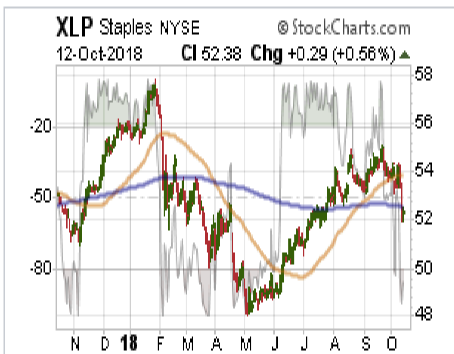
Sector & Market Analysis:

Everything changed last week as the *"bull market"* stumbled.

Sector-by-Sector

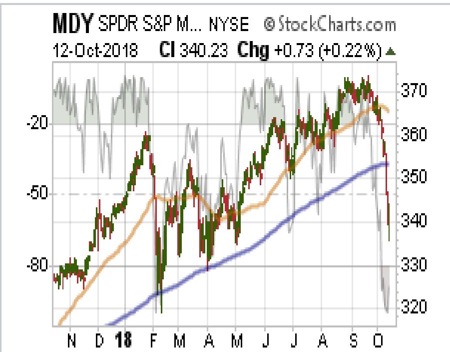


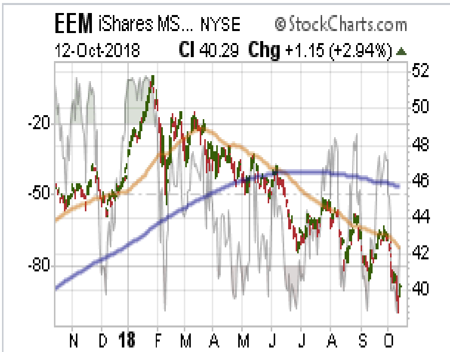




Symbol	Security	Today's Change	Shares	Average Cost	Current Price	Current Value ($)	Gain & Loss ($)	YTD	21 SMA	50 SMA	100 SMA	Current Trend
SPY	SPDR S&P 500	3.82 (1.4)%	1	273.99	275.99	275.99	2.00	4.30	290.52	287.57	281.38	7 out of 10
XLB	Sector - Materials	0.15 (0.28)%	1	60.56	53.76	53.76	-6.80	-10.43	59.14	59.09	58.99	0 out of 10
XLE	SPDR Select Sector Fund - Energ	0.2 (0.27)%	1	1.00	73.00	73.00	72.00	2.43	75.44	74.96	75.33	7 out of 10
XLF	Sector - Financial	0.03 (0.11)%	1	28.85	26.43	26.43	-2.42	-4.55	28.17	28.20	27.81	3 out of 10
XLI	Sector - Industrials	0.49 (0.67)%	1	79.73	73.90	73.90	-5.83	-1.56	78.93	77.43	75.76	8 out of 10
XLK	Sector - Technology	2.2 (3.21)%	1	74.61	70.83	70.83	-3.78	11.49	74.76	73.98	72.49	7 out of 10
XLP	Sector - Con. Goods	0.29 (0.56)%	1	55.02	52.38	52.38	-2.64	-6.70	54.33	54.11	52.60	5 out of 10
XLRE	Real Estate Select Sector SPDR	-0.02 (-0.06)%	1	33.15	30.81	30.81	-2.34	-5.11	32.87	33.20	32.58	3 out of 10
XLU	Sector - Utilities	-0.06 (-0.11)%	1	53.06	52.95	52.95	-0.11	2.20	53.26	53.39	52.04	7 out of 10
XLV	Sector - Health Care	1.38 (1.54)%	1	94.27	91.07	91.07	-3.20	10.94	94.10	92.13	88.46	10 out of 10
XLY	Sector - Con. Service	1.97 (1.85)%	1	116.92	108.48	108.48	-8.44	10.54	116.26	114.76	112.15	6 out of 10

Industrials, Materials, Staples, Real Estate, and Financials&#2013266080;all violated their 200-dma last week and failed to recover. Financials are particularly troubling given the decent fundamental backdrop for banks currently. Also, Real Estate finally woke up to the risk of rising rates. These sectors are now in *"sell rallies"* mode until there is a resumption of a more bullish trend. Basic Materials violated its April lows and all previous stop levels. This sector should be sold on any rally in the coming days. **Discretionary, Healthcare, Energy and Technology&#2013266080;**violated their 50-dma last week but held their 200-dma support during the recent rout. Energy's double top suggest a reduction in energy weightings on any rally that fails at the 50-dma in the next few days.&#2013266080; Rebalance risk in Healthcare (after a huge run-up), Technology, and Discretionary sectors by rebalancing back to original portfolio weightings. **Utilities -&#2013266080;**despite breaking the 50-dma last week, the overall trend for Utilities remains very bullish. Look for continued rotation into this sector if market volatility continues. **Telecommunications** - with the new reshuffle in this sector could well see a pick up in volatility. There is no reason to add this sector to holdings right now as there simply isn't enough data yet to determine much of anything from a trading perspective. We will watch this over the next couple of months to see how things develop.





Symbol	Security	Today's Change	Shares	Average Cost	Current Price	Current Value ($)	Gain & Loss ($)	YTD	21 SMA	50 SMA	100 SMA	Current Trend
EEM	iShares MSCI Emerging Index	1.12 (2.86)%	1	42.91	40.26	40.26	-2.65	-13.99	42.21	42.83	43.74	0 out of 10
EFA	iShares MSCI EAFE ETF	0.23 (0.36)%	1	67.99	63.85	63.85	-4.14	-7.38	67.47	67.42	67.84	0 out of 10
GLD	SPDR Gold Shares	-0.55 (-0.48)%	1	112.76	115.23	115.23	2.47	-6.81	113.41	113.64	116.93	0 out of 10
IVV	iShares Core S&P 500 ETF	3.7 (1.35)%	1	292.73	278.03	278.03	-14.70	4.37	292.79	289.67	283.37	7 out of 10
MDY	SPDR MidCap Trust Series I	0.73 (0.22)%	1	367.46	340.23	340.23	-27.23	-0.98	368.11	367.32	363.40	2 out of 10
RSP	Guggenheim S	0.87 (0.87)%	1	106.81	100.64	100.64	-6.17	0.42	107.12	106.38	104.67	4 out of 10
SDY	SPDR S	0.05 (0.05)%	1	106.81	93.00	93.00	-13.81	-0.31	98.61	97.91	95.53	5 out of 10
SLY	SPDR S&P 600 Smal	-0.05 (-0.08)%	1	75.47	68.67	68.67	-6.80	3.84	75.65	76.03	74.71	4 out of 10
TLT	iShares 20 Year Treasury Bond E	-0.4 (-0.35)%	1	117.27	114.47	114.47	-2.80	-8.38	117.11	119.01	119.44	0 out of 10

Small-Cap and Mid Cap&#2013266080;- the breakdown in small and mid-cap stocks suggest a broader change to the overall market complexion. Last week, both markets violated their 200-dma and their bullish trend lines from February of this year. Sell rallies back to the 200-dma and put stops at the recent lows. **Emerging and International Markets**&#2013266080;as I noted two weeks ago.

> *"Both sectors rallied a bit last week, **providing an opportunity to reduce exposure for the time being and reallocate that capital to better performing areas**. WHEN international and emerging markets begin to perform more positively we will add positions back to portfolios. There is just no reason to do so now."*

This past week, both markets collapsed to new lows. **There still remains, since we recommended selling in January of this year, no reason to be long these sectors just yet.** If we start to see real improvement, versus a bounce in a downtrend, we will reconsider our weightings. **Dividends, Market, and Equal Weight**&#2013266080;- The overall market dynamic appears to have changed last week. With the markets deeply oversold short-term look for a rally to reduce risk, rebalance weightings in portfolios, and raise some cash. **Gold**&#2013266080;? after repeated failures at the 50-dma, the metal finally found some life in the midst of the recent market meltdown. With Gold now extremely overbought short-term, use this rally to sell holdings if you are deeply underwater. From a trading perspective, **IF, and this is a big if, Gold can hold the 50-dma on a pullback and turn higher, a rally to the 200-dma is feasible. Such would coincide with a much bigger sell-off in stocks.&#2013266080; Bonds&#2013266080;**?&#2013266080;broke their near-term support at $114 triggering the stop loss on trading positions. However, we are now aggressively buying individual bonds at depressed prices and increasing yield in portfolios. All trading positions are currently closed. The table below&#2013266080;**shows thoughts on specific actions related to the current market environment.&#2013266080;**

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

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OS	Positive	Positive	Reduce			X			Broke 50-DMA/Take Profits On Rally
XLK	Technology	OS	Positive	Positive	Reduce			X			Broke 50-DMA/Take Profits On Rally
XLI	Industrials	OS	Neutral	Neutral	Reduce			X			Double Top Failure
XLB	Materials	OS	Negative	Negative	Sell			X			No Holding
XLE	Energy	OS	Positive	Positive	Reduce			X			Double Top Failure
XLP	Staples	OS	Positive	Positive	Reduce			X			Broke 50-DMA/Take Profits On Rally
XLV	Health Care	OS	Positive	Positive	Reduce			X			Take Profits
XLU	Utilities	OB	Positive	Positive	Hold			X			Hold
XLF	Financials	OS	Positive	Positive	Reduce			X			Stops At Recent Lows
XLC	Telecom	OS	Neutral	Neutral	N/A			X			No Position / No History
XLRE	Real Estate	OS	Positive	Positive	Warning			X			Broke 50-DMA/Take Profits On Rally
$SML	Small Caps	OS	Positive	Positive	Reduce			X			Broke Uptrend
EEM	Emerging Mkt	OS	Negative	Negative	Sell					X	No Postion
EFA	International	OS	Negative	Positive	Sell					X	No Position
GLD	Gold	OB	Negative	Negative	Sell					X	Use Rally To Reduce Losses
MDY	Mid Cap	OS	Positive	Positive	Reduce			X			Broke Uptrend
RSP	SP500 Equal Wgt	OS	Positive	Positive	Hold			X			Hold
SDY	SP500 Dividend	OS	Positive	Positive	Hold			X			Hold
IVV	SP500 Market Wg	OS	Positive	Positive	Hold			X			Hold
TLT	20+ Yr. Bond	OS	Negative	Negative	Hold			X			No Trading Pos/Buying Ind. Bonds

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

Portfolio/Client Update:

This past week was another example of just how fast and brutal sell-offs in the market can be. Importantly, while these sell-offs are brutal we do not want to get emotionally swept up in the moment and *"panic sell"* a market low. **With the markets holding their 200-dma last week, and hitting 4-standard deviations below the 50-dma, a rare event, we want to give the markets an opportunity to trade back up to previous resistance next week.**

Please review the ***"Checklist Summary Of Actions To Take"*** in the main missive above. We will be applying this rules to our portfolios as well.

- ***New clients:****&#2013266080;We are holding OFF on-boarding into our portfolio models until a better risk/reward opportunity emerges.&#2013266080;*
- ***Equity Model:****&#2013266080;All positions are being reviewed and positions that have violated stop levels will be sold to reduce portolio risk.*
- ***Equity/ETF blended****&#2013266080;- Same as with the equity model.&#2013266080;*
- ***ETF Model****: We will reduce small and mid-cap holdings on any rally back toward the 50-dma.*
- ***Option-Wrapped Equity Model****&#2013266080;- If the market rallies back to previous resistance levels, we will add a long-dated S&P 5oo put option to portfolios to hedge risk.&#2013266080;*

As we have repeatedly stated,&#2013266080;**we are well aware of the present risk.**

&#2013266080;However, these violent declines are symptomatic of the liquidity issues posed by the massive surge in passive indexing. **As we have stated previously:&#2013266080;**

> ***"****This is why we 'step'&#2013266080;into positions initially. Once a '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."***

This past week, it did.

THE REAL 401k PLAN MANAGER

The Real 401k Plan Manager - A Conservative Strategy For Long-Term Investors

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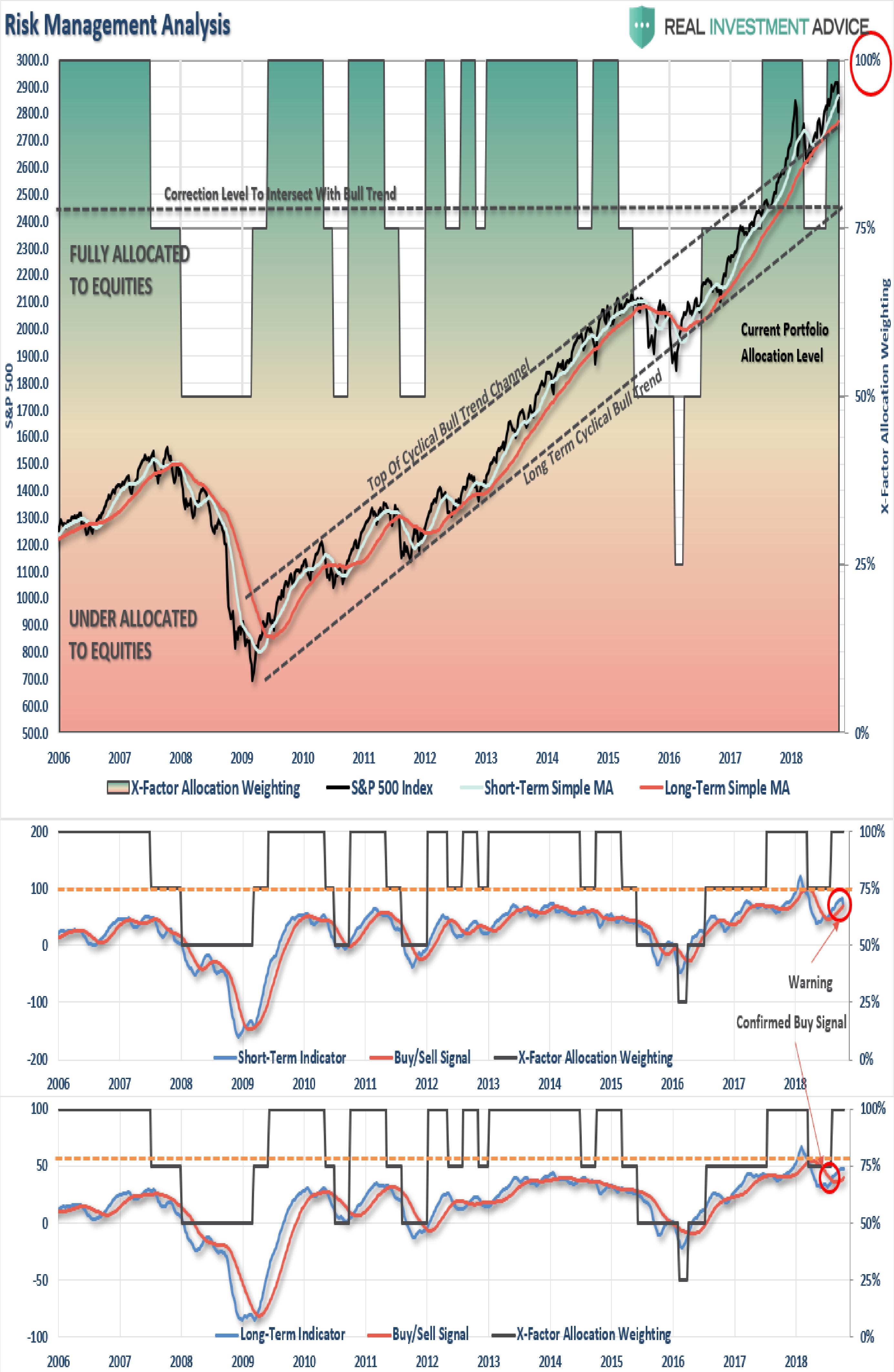


Risk Management Analysis
REAL INVESTMENT ADVICE
Correction Level To Intersect With Bull Trend
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Top Of Cyclical Bull Trend Channel
Long Term Cyclical Bull Trend
Current Portfolio Allocation Level
S&P 500
X-Factor Allocation Weighting
X-Factor Allocation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

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-PlanManager-AllocationShift Image not found or type unknown

Market Breaks

As I noted three weeks ago:

> *"With the move in portfolios back to full target allocations, there is not much for us to do right now except to remain on the lookout for the risks which could rapidly take away our performance...**but I do want to note that the market is extremely extended above its longer-term trend lines and moving averages. Historically, short-term corrective processes like we saw in February are NOT uncommon."***

Then last week I specifically noted:

> *"However, with rates above 3%, **there could be more angst as we move into next week.** Also, given the deterioration in the breadth of performance, risk has risen in the short-term."*

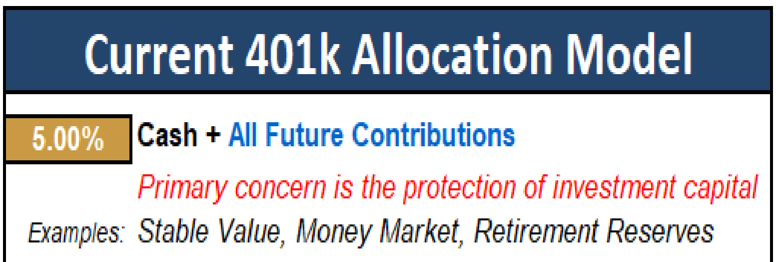
Well, we got *"angst."* Importantly, there are some early indications that, as discussed in the main body of this missive, that things may have changed. But it is still way too early to tell. **With the markets VERY oversold, the best course of action going into next week is to WAIT AND SEE what happens.&#2013266080;** However, as we have repeated over the last couple of weeks, use ANY rally next week to make sure your 401k plans are balanced. Use the&#2013266080;following guidelines for now.

- *If you are **overweight&#2013266080;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** - Hold for the moment and let's see if the market can stabilize.*
- *If you are at **target equity allocations** use rallies to rebalance risk in portfolios.*

Unfortunately, 401k plans don't offer a lot of flexibility and have trading restrictions in many cases. **Therefore, we have to minimize our movement and try and make sure we are catching major turning points.** Over the next couple of weeks, we will know for certain as to whether more changes need to be done to allocations as we head into the end of the year. 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.

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401k-Selection-List