

Santa "Grinch" Brings Lump Of Coal



- **Santa "Grinch" Brings A Lump Of Coal**
- **Sector & Market Analysis**
- **401k Plan Manager**

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As noted last week, I am in the process of moving this weekend so my access to my normal data feeds is a bit limited. However, given the market turmoil this past week, I wanted to address a few of the more relevant issues as we head into the last week of the year. Of course, as always, if you have any questions or concerns please don't hesitate to [email me](#).

A Lump Of Coal

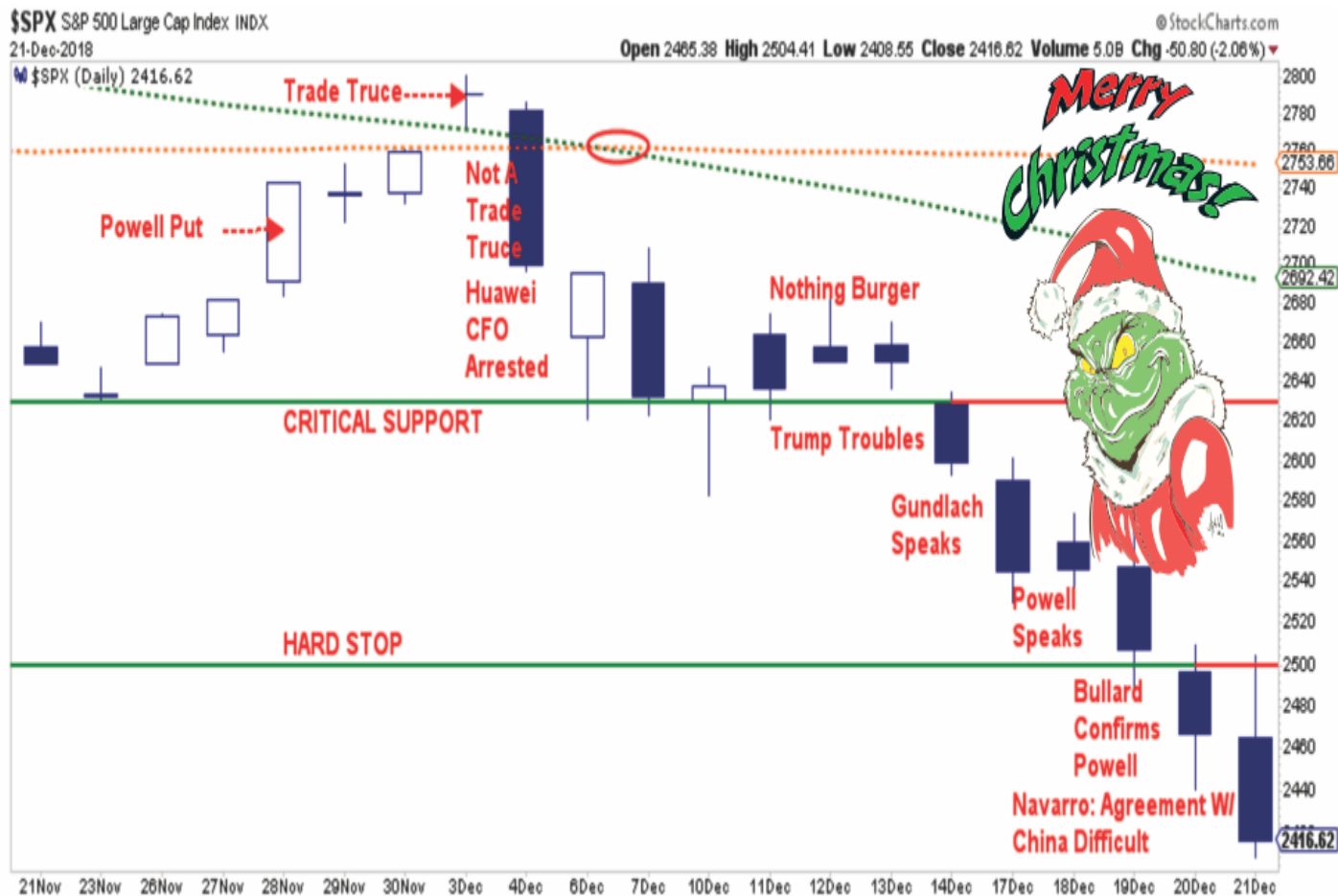
[Last week](#), I discussed the potential for a "Santa Claus" rally as we head into the end of the year based on both the more extreme levels of short-term oversold conditions coupled with the statistical tendencies going back to 1990. To wit:

*"If 'Santa' is going to visit 'Broad & Wall' this year, it will most likely occur between the 10th through the 17th trading days of the month. Such would equate to Friday, December 14th through Wednesday, December 26th. **While the current oversold condition is supportive of a rally over the next couple of weeks, that does not mean this is a 'stocking' you should stuff everything into.** Given the macro-backdrop, any rally may be short-lived going into 2019 unless some of the pressure from weaker economic data, Brexit, Washington politics, trade wars?, balance sheet reductions, and softer-earnings growth is relieved."*

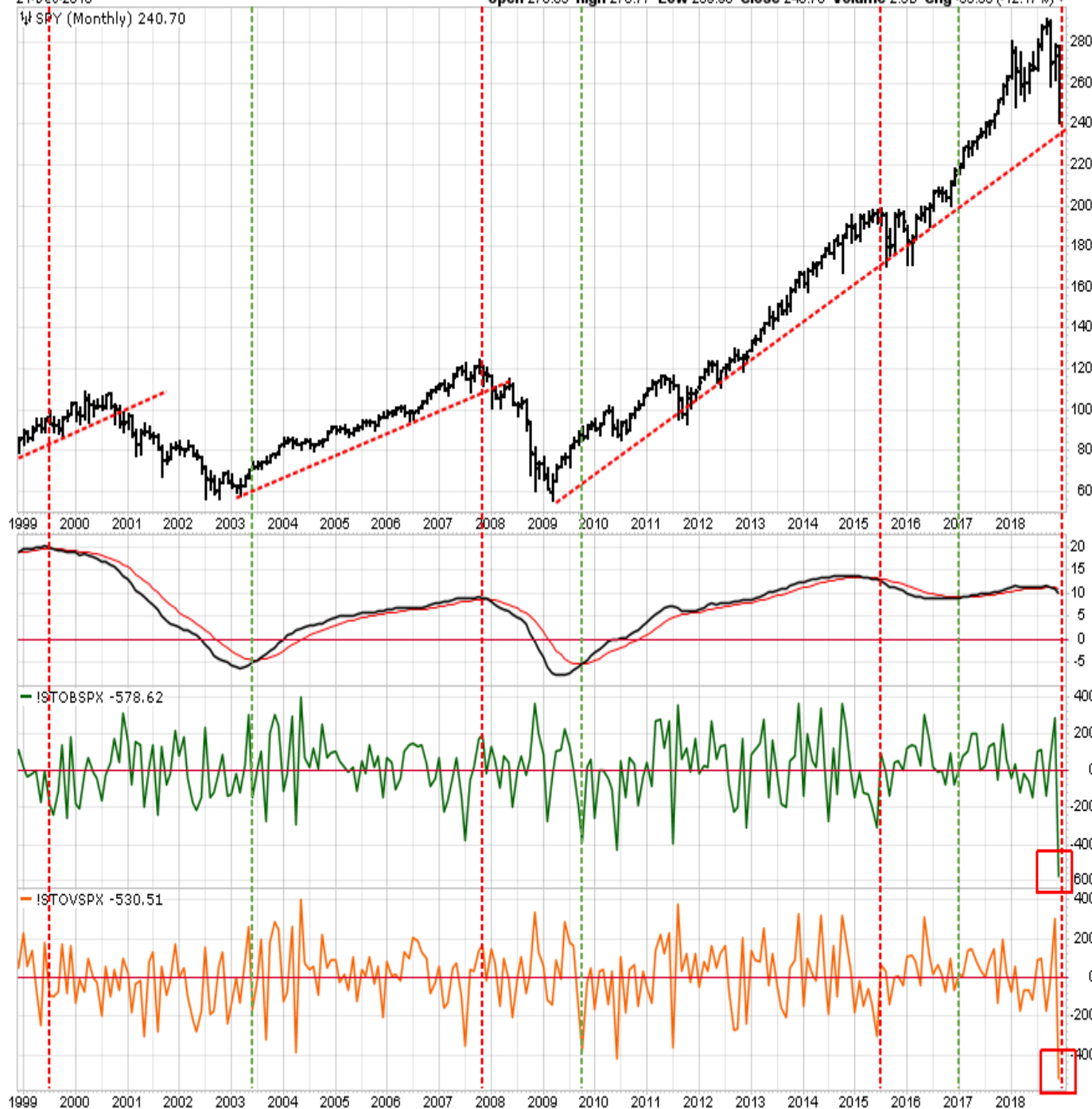
Well, I was clearly wrong. After being good all year, all investors got last week was a "big lump of coal." The relief that was needed to allow the "bulls" to take charge, at least temporarily, failed to materialize.


- *Trump doubled down on his "trade war" rhetoric.*
- *He picked a fight to "shut down" the Government over border wall funding.*
- *Economic data continued to weaken this past week in some of the most important areas*
- *The Fed said they will continue their balance sheet reductions*
- *They are also on track to continue hiking rates regardless of financial market conditions*
- *Fed Ex's global outlook noted marked deterioration in the past quarter.*
- *Geopolitical stresses continue to rise from France, to Russia, and China.*
- *Chinese economic growth has weakened markedly which is an immediate feedback into the U.S. economy.*

This past week was one of the worst December performances on record.



How about some Christmas cheer? The market has not been this oversold at any point in the last 20-years, on a monthly basis, as shown in the chart below.





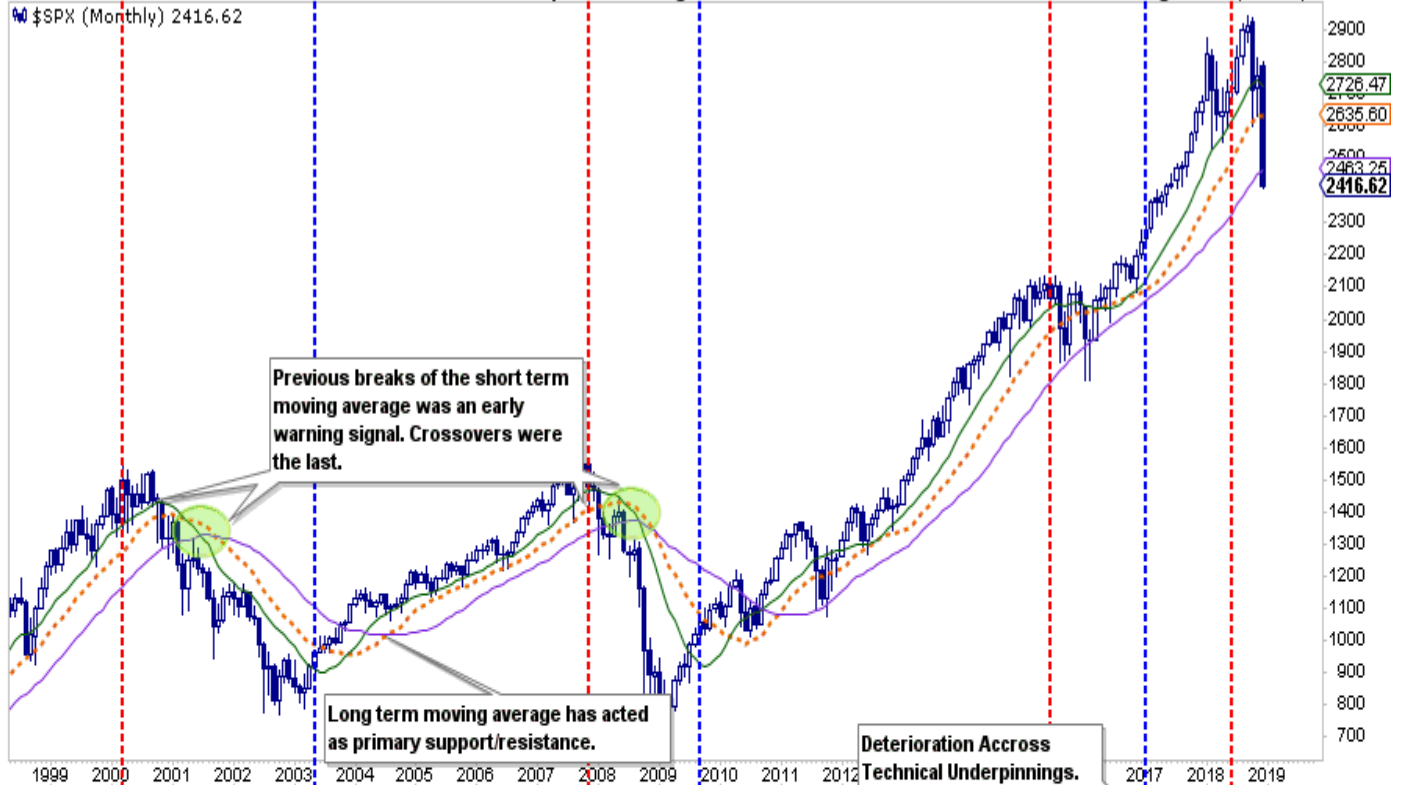
The
**Lance
Roberts**
Show

Starting Monday,
January 7, 6am

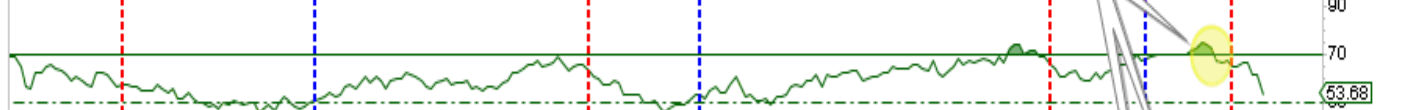
am700ksev

The other bit of good cheer for the bulls is that unlike the previous two starts to more protracted bear markets, the long-term monthly uptrend has not been broken, yet. As noted above, the market is sitting on that uptrend support line which began in 2009. At this point, the risk/reward for traders is clearly sided to the bulls...for now. Unfortunately, given that we have now triggered a monthly sell signal for only the 4th time in 20-years the longer-term outlook remains with the bears. As you will notice in both of the previous "bear" markets, oversold conditions reversed even as the bear market continued. Here is another way to look at it. When I look at price indicators, I like for an individual signal to be confirmed by other indicators which are measuring different aspects of the market. This helps reduce the number of false signals a single indicator can provide over time. The chart below combines several measures of the market into one monthly chart to look for periods of uniform confirmation.

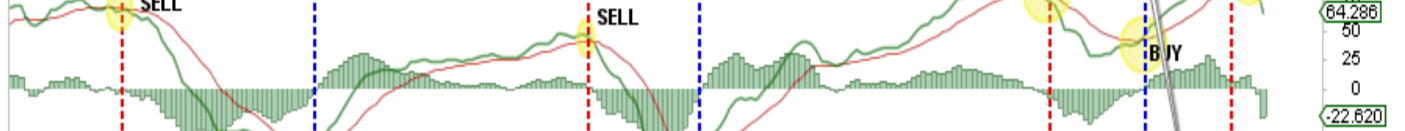
\$SPX (Monthly) 2416.62



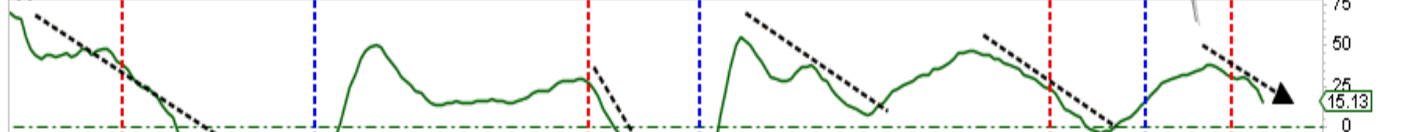
Ultimate Oscillator



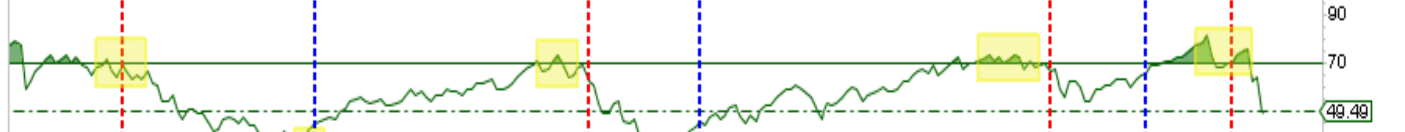
MACD



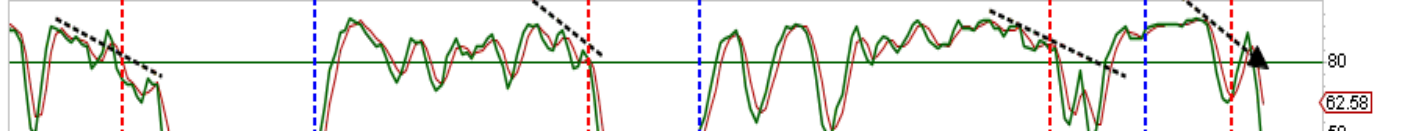
Coppock Curve



RSI



Full Stochastics



There are two important points to take away from this chart:

1. *With all of the signals now confirming a "bear" market is likely in progress, such does not mean there can not be **substantial counter-trend rallies to sell into**, and;*
2. *If this is indeed the beginning of a "bear" market, there is likely substantially more downside to go before a lasting bottom is formed and valuations are "mean reverted."*

But that is just my take. Tim Hayes of Ned Davis Research [recently suggested](#) a cut to the recommended equity allocation for a second time since October. **Down by 10 percentage points to 40 percent**, the assigned proportion is the lowest since 2008 and has *reached the downside extreme of what we would ever recommend for equity allocation.*



The downgrade comes as the MSCI World All-Country Index heads for its worst quarter in seven years. Stocks may not find a floor before March because the research firm's models on market trends and breadth keep deteriorating and extreme fear has yet to emerge.

"Advising maximum defensive positioning whatever your constraints and risk tolerance, we would view any rallying as an opportunity to lighten up ahead of increasing volatility in 2019. We have not seen the levels of panic, volatility, and downside volume needed to consider the market sufficiently washed out for the start of a bottoming process. Market conditions will get worse before they get better."

Greg Jensen, co-chief investment officer of Bridgewater Associates, the biggest hedge fund in the world,[recently stated:](#)

"The biggest theme developing is that you are going to have significantly weaker growth, near recession-level growth in 2019, based on our measures, and the markets are generally not pricing that in. Although the movement has been in that direction, the degree of [the market's decline] is still small relative to what we are seeing in terms of the shifts in likely economic conditions; 2019 will be a year of weaker growth and central banks struggling to move from their current tightening stance to easing and finding it difficult to ease because they have very little ammunition to ease."

All of this should sound very familiar if you have been reading our work over the past year.

- [Lower Yields](#)

- [Weaker Economic Growth](#)
- [Weaker Corporate Profits](#)
- [Recessionary Onset](#)
- [Bear Market](#)

I think that Carl Swenlin summed it all up best:

*"Less than three months ago there was a great lament about how employers couldn't fill job positions because of a shortage of job seekers. This week FedEx announced voluntary employee buyouts, presumably to reduce payroll. In view of this, I offer you the Swenlin Basic Economic Theory: **Things get better and better, until they are as good as they're going to get. Then they get worse and worse, until they are as bad as they're going to get. Repeat cycle.** If you have a kid headed for college to study economics, think how much money I just saved you. Seriously though, the BPI (Bullish Percent Index), which is the percentage of S&P 500 stocks on technical BUY signals, **shows that conditions are worse than they have been for almost 10 years.** What may offer some hope to the bulls is that the low readings in 2011 and 2015/16 set the market up for major rallies. **The problem is that those setups occurred during a secular bull market, and I think a secular bear market has begun.** The two periods I have bracketed between 2000 and 2009 are probably more typical of what we are going to experience."*



"Based upon that, it's probably going to get worse."

More and more evidence continues to mount that a bear market has begun. Again, as I stated above, it doesn't mean we can't have some extremely strong reflexive rallies along the way. When they do occur, the media will presume the bull market has returned and encourage you to jump in. Don't. There will be a time when the market trends have resumed a positive, healthy, trend. Currently, that is not the case. After have been stopped out of Emerging, International, Small Caps and Mid Caps earlier this year. We were stopped out of some of our core positions last week as well. With a lot of cash on hand, and our bond portfolio (*which [we have consistently recommended buying bonds](#) above 3% despite all the rhetoric about the end of the bond bull market*) performing well, **there is little for us to do right now except wait.** In the meantime, all of us at [Real Investment Advice](#) and [RIA Pro](#) want to wish you and your families a very Merry Christmas and a happy and safe New Year. **Merry Christmas**

**STARTING
IN 2019**

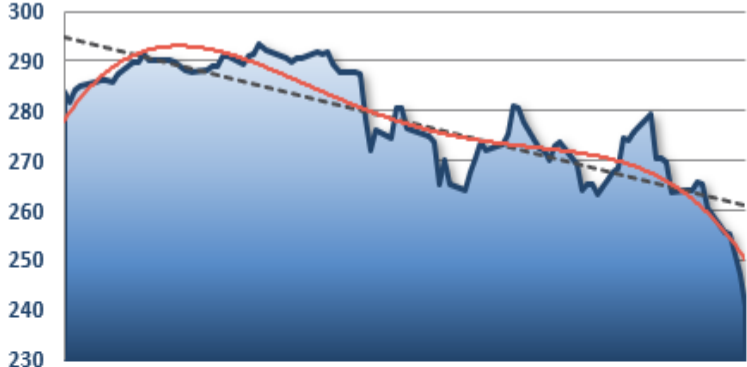
The following sections
will be for *RIA Pro*
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Market & Sector Analysis

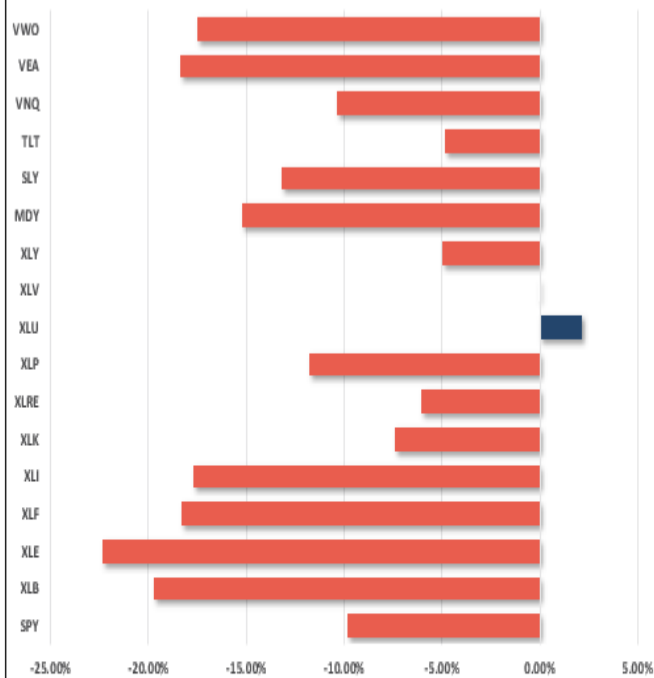
Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

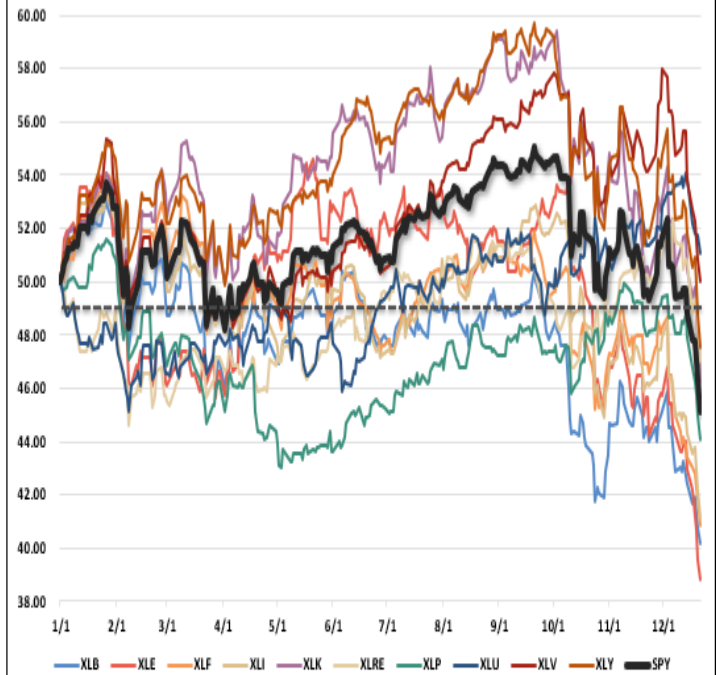
3 Month SPY Price										SPY RISK INFO				ZACKS REAL INVESTMENT ADVICE			
										Item		T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR		
										Price Return		6.61%	(10.05%)	(9.80%)	(2.42%)		
										Max Drawdown		-18.36%	-18.36%	-18.36%	0.00%		
										Sharpe		0.38	(0.44)	(0.63)	0.44		
										Sortino		0.39	(0.64)	(0.73)	0.14		
										Volatility		12.30	15.97	16.21	0.02		
										Daily VaR-5%		(14.39)	(33.33)	(35.02)	0.05		
										Mnthly VaR-5%		(0.37)	(13.18)	(14.88)	0.13		
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	1.97%	1.77%	2.17%	18.36%	2.17%	1.67%	0.02%	29.93%	Shares	2,445.0	2,416.4	(1.17%)					
P/E Ratio	19.97	21.61	15.75	(37.21%)	20.79	15.75	(24.3%)	(0.01%)	Sales	57,366	62,277	8.56%					
P/S Ratio	2.92	3.38	2.81	(20.27%)	3.51	2.39	(19.91%)	17.73%	SPS	23.5	25.8	9.85%					
P/B Ratio	3.30	3.75	3.43	(9.22%)	4.14	2.82	(17.15%)	21.75%	Earnings	7,802	9,206	18.01%					
ROE	15.09%	15.91%	18.12%	12.16%	18.12%	15.01%	0.00%	20.69%	EPS TTM	3.7	4.6	23.42%					
ROA	2.82%	2.98%	3.43%	13.28%	3.43%	2.82%	0.00%	21.49%	Dividend	1.4	1.5	9.48%					
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	(21.90%)	5.39%	1.11	16.05	154.63	12.50	(89.6%)	9.0%	3.8%	7.25%	4.26	13.72					
Materials	(19.52%)	2.63%	1.46	13.69	22.14	13.94	(38.2%)	11.5%	2.5%	7.45%	4.65	14.33					
Industrials	(18.23%)	9.23%	1.04	14.91	22.21	14.71	(32.9%)	15.2%	2.3%	6.89%	5.16	15.30					
Discretionary	(4.12%)	9.86%	0.90	20.22	27.47	19.96	(26.4%)	27.8%	1.5%	5.26%	4.64	20.51					
Staples	(12.78%)	7.48%	0.53	17.66	22.83	17.43	(22.6%)	25.9%	3.2%	5.80%	3.91	18.66					
Health Care	(0.12%)	15.41%	0.97	15.85	20.55	15.81	(22.9%)	28.4%	1.8%	6.48%	6.32	16.46					
Financials	(18.49%)	13.17%	1.15	11.50	18.40	11.68	(37.5%)	10.9%	2.4%	9.03%	5.71	11.84					
Technology	(3.63%)	20.26%	1.25	16.19	21.83	14.47	(25.8%)	37.2%	1.9%	6.01%	5.19	17.44					
Telecom	(12.54%)	10.17%	0.83	17.82	26.97	19.27	(33.9%)	18.3%	1.2%	5.61%	4.74	22.00					
Utilities	2.41%	3.38%	0.21	16.86	19.62	14.75	(14.1%)	11.1%	3.4%	6.60%	3.53	16.92					
Real Estate	(3.43%)	3.03%	0.66	17.40	24.47	17.86	(28.9%)	9.4%	3.7%	5.68%	4.25	18.07					
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	240.70	(12.77%)	268.86	15	#####	274.99	15	(12.47%)	(2.23%)	(18.11%)	0.30%	Sell					
Mid Cap	292.88	(13.92%)	332.05	15	#####	351.15	189	(16.59%)	(5.44%)	(21.71%)	0.25%	Sell					
Small Cap	57.71	(15.93%)	66.63	#N/A	#####	71.16	#N/A	(18.91%)	(6.37%)	(26.25%)	0.21%	Sell					

Performance Analysis

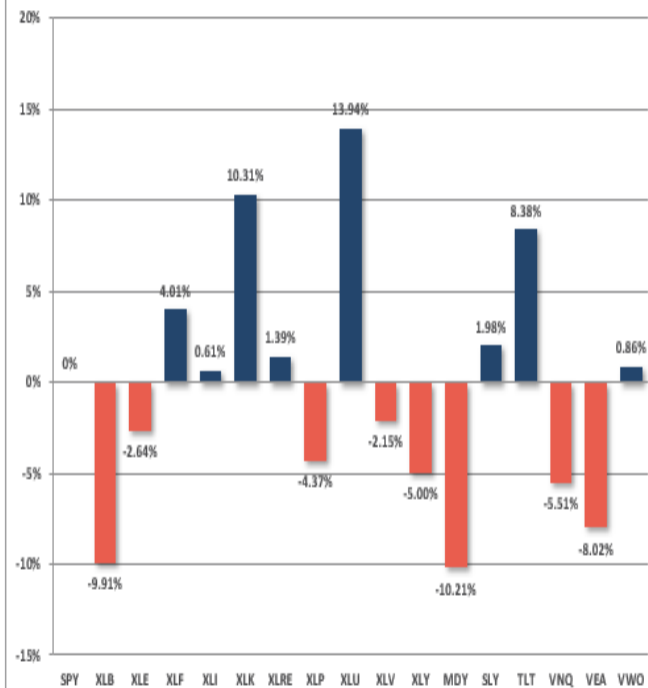
Year To Date Performance



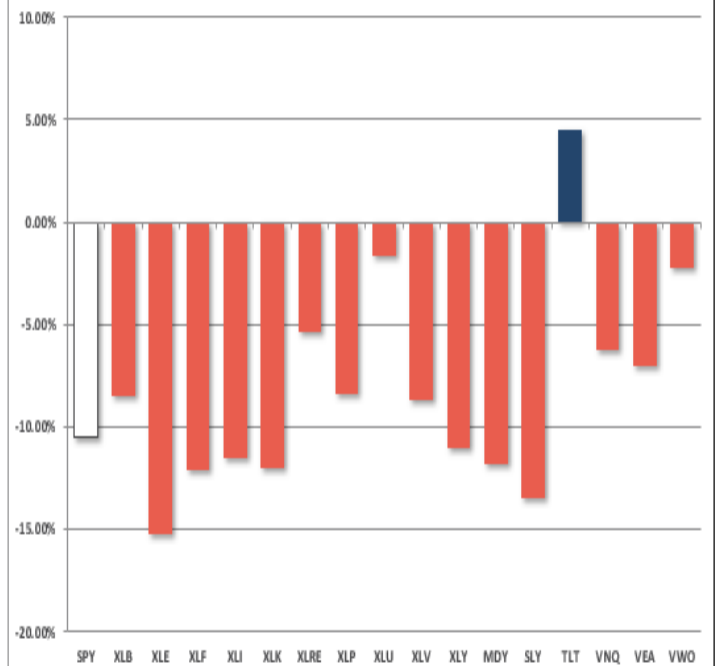
YTD Price - S&P Sectors Recalibrated To \$50/share



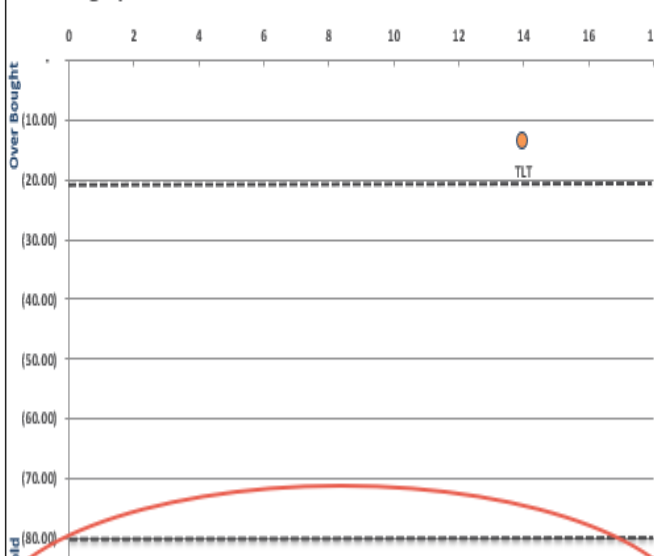
Year To Date Performance Relative To S&P 500



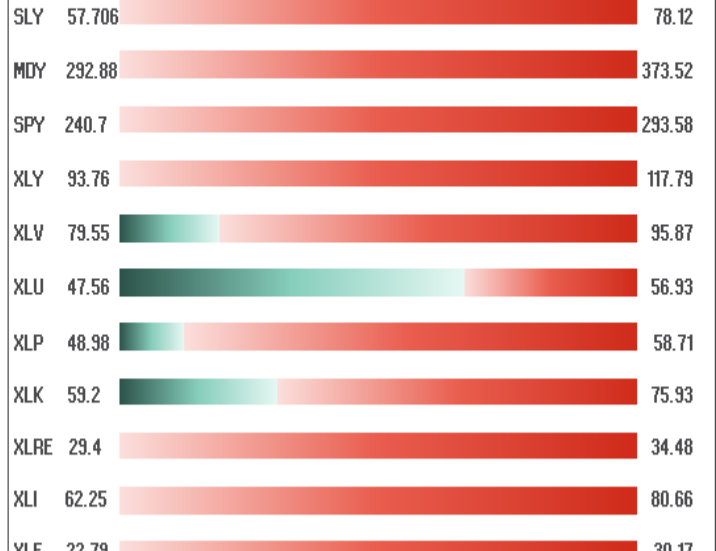
Price Deviation From 50-Day Moving Average



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	242.35	(7.64)	(8.65)	(17.21)	(12.58)	(10.06)	275.07	278.81	-11.89%	-13.08%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	48.60	2.34	(0.18)	1.10	(4.28)	(9.40)	54.06	57.09	-10.10%	-14.87%	SELL
		XLE	SPDR-EGY SELS	56.11	(1.99)	(3.55)	(8.71)	(13.27)	(11.98)	68.38	72.63	-17.94%	-22.75%	SELL
		XLF	SPDR-FINL SELS	22.79	1.66	(3.69)	(0.16)	(1.97)	(8.69)	26.34	27.24	-13.47%	-16.33%	SELL
		XLI	SPDR-INDU SELS	62.25	0.48	(2.07)	(3.39)	(1.16)	(7.38)	72.02	73.99	-13.57%	-15.86%	SELL
		XLK	SPDR-TECH SELS	59.20	(0.68)	1.04	(4.20)	(4.11)	1.79	68.68	70.58	-13.81%	-16.13%	SELL
		XLP	SPDR-CONS STPL	50.18	(0.29)	0.24	10.26	8.67	(1.70)	54.57	53.09	-8.05%	-5.49%	BUY
		XLU	SPDR-UTIL SELS	53.81	2.34	8.10	19.41	13.78	12.65	54.34	52.85	-0.98%	1.81%	BUY
		XLC	SPDR-COMM SV SS	39.81	(1.07)	1.47	(1.54)			45.40	47.51	-12.31%	-16.21%	SELL
		XLV	SPDR-HLTH CR	82.68	0.58	0.89	4.10	8.70	9.78	91.32	88.70	-9.46%	-6.79%	BUY
		XLY	SPDR-CONS DISCR	93.76	(0.73)	0.56	(2.80)	(2.42)	4.79	107.23	109.50	-12.56%	-14.37%	SELL
	SIZE	MGK	VANGD-MG CAP GR	101.98	(0.52)	1.06	(3.22)	(3.21)	0.91	117.43	120.19	-13.16%	-15.15%	SELL
		IJR	ISHARS-SP SC600	66.37	(0.65)	(5.24)	(6.71)	(10.45)	(3.81)	78.75	82.99	-15.72%	-20.03%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	89.01	0.61	(0.84)	0.55	(1.29)	(1.87)	100.41	102.65	-11.35%	-13.29%	SELL
	Dividend	VIG	VANGD-DIV APPRC	94.76	0.73	(0.16)	2.81	4.81	3.05	105.45	105.23	-10.14%	-9.95%	BUY
	Real Estate	VNQ	VIPERS-REIT	74.39	1.04	1.66	9.41	2.18	0.97	79.32	80.27	-6.21%	-7.32%	SELL
	International	IDV	ISHARS-INTL SD	28.16	2.20	0.74	3.51	(1.57)	(5.89)	31.02	32.22	-9.22%	-12.60%	SELL
		VWO	VANGD-FTSE EM	37.87	5.47	6.79	9.58	2.21	(6.58)	39.01	41.60	-2.93%	-8.96%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	120.72	9.53	13.50	20.15	10.92	6.81	115.48	118.24	4.53%	2.10%	SELL
	International	BNDX	VANGD-TTL INT B	55.09	7.73	9.46	18.22	13.10	10.24	54.61	54.61	0.89%	0.88%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	80.23	4.12	5.66	10.03	6.60	2.28	84.12	85.14	-4.62%	-5.76%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.48										

REAL INVESTMENT ADVICE

Sector & Market Analysis:

Sector-by-Sector



STOCK	YESTERDAY PRICE	PRICE CHANGE	SUPPORT	RESISTANCE	ALERT	LONG TERM TREND
SPY	\$240.7	-6.47 (-2.62%)	227.49	256.68	Oversold	Very Bearish 🐘
XLB	\$48.6	-0.76 (-1.54%)	46.49	51.2	Oversold	Very Bearish 🐘
XLE	\$56.11	-1.08 (-1.89%)	53.33	59.24	Full Gap Down	Very Bearish 🐘
XLE	\$56.11	-1.08 (-1.89%)	53.33	59.24	Oversold	Very Bearish 🐘
XLF	\$22.81	-0.59 (-2.52%)	21.55	24.34	Oversold	Very Bearish 🐘
XLI	\$62.25	-1.59 (-2.49%)	59.39	65.72	Oversold	Very Bearish 🐘
XLK	\$59.2	-2.12 (-3.46%)	55.27	63.91	Oversold	Very Bearish 🐘
XLP	\$50.18	-0.99 (-1.93%)	47.98	52.93	Crossed Below SMA150	Bearish 🐘
XLP	\$50.18	-0.99 (-1.93%)	47.98	52.93	Oversold	Bearish 🐘
XLRE	\$30.95	-0.85 (-2.67%)	29.37	32.91	Crossed Below SMA100	Bearish 🐘
XLRE	\$30.95	-0.85 (-2.67%)	29.37	32.91	MACD BELOW CENTER	Bearish 🐘
XLU	\$53.81	-0.69 (-1.27%)	51.4	56.71	MACD BELOW SIGNAL	Neutral
XLV	\$82.68	-1.42 (-1.69%)	78.94	87.22	Full Gap Down	Bearish 🐘
XLV	\$82.68	-1.42 (-1.69%)	78.94	87.22	Oversold	Bearish 🐘
XLY	\$93.76	-2.55 (-2.65%)	88.03	100.75	Full Gap Down	Very Bearish 🐘
XLY	\$93.76	-2.55 (-2.65%)	88.03	100.75	Oversold	Very Bearish 🐘


RIA Pro

POSITION ALERTS
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Set Up Your Own Portfolio
 Today And Start Getting
 Actionable Intelligence

Discretionary and Technology; sectors both broke multiple bottoms last week within a defined downtrend. After having removed all of our excess holdings in these sectors earlier this year, there is no reason currently to take on additional exposure. We continue to recommend reducing holdings on any rally into the end of the year. **Industrials, Materials, Energy, Financials, Communications**; As we have noted over the last several weeks:

"We are currently out of all of these sectors as the technical backdrop is much more bearish. With all of these sectors below their respective 50- and 200-dma's, the downside pressure remains on for these sectors for now particularly as Industrials and Energy have broken recent bottoms to new lows for the year. The ongoing 'trade war' and flattening yield curve continues to weigh on the outlook for these sectors. Continue to reduce weightings markedly on rallies."

Real Estate, Staples, Healthcare, and Utilities continue to be "relatively better" as "defensive" sectors. But "relative" is only a term meaning they aren't losing as much. We were stopped out of our healthcare exposure last week on the break of the 200-dma. Real Estate and Utilities remain above their rising 200-dma and are oversold. With trends still positive a trading opportunity may be

presenting itself but we need to see the whole market *"get its act together"* next week.



STOCK	YESTERDAY PRICE	PRICE CHANGE	SUPPORT	RESISTANCE	ALERT	LONG TERM TREND
EEM	\$38.5	-0.29 (-0.75%)	37.39	39.76		Very Bearish 🐘
EFA	\$57.55	-1.03 (-1.76%)	56.15	59.24	New Low	Very Bearish 🐘
EFA	\$57.55	-1.03 (-1.76%)	56.15	59.24	Oversold	Very Bearish 🐘
GLD	\$118.72	-0.52 (-0.44%)	117.76	119.8	Full Gap Up	Neutral
IVV	\$242.35	-5.08 (-2.05%)	229.22	258.29	Full Gap Down	Very Bearish 🐘
IVV	\$242.35	-5.08 (-2.05%)	229.22	258.29	Oversold	Very Bearish 🐘
MDY	\$292.9	-7.3 (-2.43%)	278.67	310.14	Full Gap Down	Very Bearish 🐘
MDY	\$292.9	-7.3 (-2.43%)	278.67	310.14	Extremely Oversold	Very Bearish 🐘
RSP	\$89.01	-1.61 (-1.78%)	84.53	94.46	Oversold	Very Bearish 🐘
SDY	\$87.55	-1.68 (-1.88%)	83.75	92.18	Negative Volume	Bearish 🐘
SDY	\$87.55	-1.68 (-1.88%)	83.75	92.18	Oversold	Bearish 🐘
SLY	\$57.71	-1.23 (-2.09%)	55.12	60.85	Negative Volume	Very Bearish 🐘
SLY	\$57.71	-1.23 (-2.09%)	55.12	60.85	Extremely Oversold	Very Bearish 🐘
TLT	\$120.72	-0.02 (-0.02%)	119.53	121.96	Full Gap Up	Neutral
TLT	\$120.72	-0.02 (-0.02%)	119.53	121.96	Positive Volume	Neutral
TLT	\$120.72	-0.02 (-0.02%)	119.53	121.96	Overbought	Neutral


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Small-Cap and Mid Cap—both of these markets are currently on macro-sell signals and have broken to new lows for the year. We closed out our holdings in these sectors earlier this year given their sensitivity to the U.S. economy. Sell on any rally.

Emerging and International Markets—As suspected, emerging markets failed to hold above the 50-dma again last week and continues along its entrenched downtrend. *(Although, on a relative basis they are now outperforming the S&P 500 by not going down as much. This is not an argument for diversification.)* International markets still look terrible and no improvement is being made there either with the index breaking to new lows last week. With major sell signals in place currently, there is still no compelling reason to add either of these markets to portfolios at this time. **The global economic weakness is accelerating and is spreading to the U.S.**

Dividends, Market, and Equal Weight—Not surprisingly, given the rotation to "defensive" positioning in the market, dividend-based S&P Index continues to outperform other weighting structures. All three sold off last week as downward pressure was broad-based across all sectors. The overall market dynamic remains negative for now and important supports are being tested. We were stopped out of our trading position on the cap-weighted S&P index last week. **Gold**? Gold has continued to trend along a rising 50-dma but is currently very overbought. The better news is Gold finally broke back above its 200-dma. Look for a rally in stocks to cause gold to pull back enough to work off the overbought

condition. A trading position can be added with stops moved up to \$115. **Bonds**? As we have been repeatedly suggesting since the beginning of the year, **bonds would be the "GO TO" haven when "SAFETY" became a real concern.** Look for a rally in the markets going into the new year which will likely pull some of the froth off of 10-year treasuries. Pullbacks to support should be bought. As we have stated over the last several months:

"We remain long our core bond holdings for capital preservation purposes and will look for a trading opportunity which does not violate the 200-dma."

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.)



		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLV	Discretionary	OS	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLK	Technology	OS	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLI	Industrials	OS	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLB	Materials	OS	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLE	Energy	OS	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLP	Staples	OS	Positive	Positive	Hold			X			Hold Current Positions
XLV	Health Care	OS	Declining	Positive	Stopped Out					X	Broke 200-DMA/Reduce
XLU	Utilities	Declining	Positive	Positive	Hold			X			Hold Current Positions
XLF	Financials	OS	Negative	Negative	No Position					X	Stopped Out
XLC	Telecom	OS	Negative	Negative	No Position			X			No Position / No History
XLRE	Real Estate	OS	Positive	Positive	Hold			X			Hold Current Positions
\$SML	Small Caps	OS	Negative	Negative	No Position					X	No Position
EEM	Emerging Mkt	OS	Negative	Negative	No Position					X	No Position
EFA	International	OS	Negative	Negative	No Position					X	No Position
GLD	Gold	OB	Negative	Negative	Look To Add					X	Trade Opprtunity Forming
MDY	Mid Cap	OS	Negative	Negative	No Position					X	No Position
RSP	SP500 Equal Wgt	OS	Weakening	Negative	Hold			X			Hold
SDY	SP500 Dividend	OS	Weakening	Negative	Hold			X			Hold
IVV	SP500 Market Wt	OS	Weakening	Negative	Hold			X			Reduced By 5% Last Week
TLT	20+ Yr. Bond	OB	Negative	Improving	Look To Add			X			Pullback To 200-DMA

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

Portfolio/Client Update:

The market continued to go through a liquidation process last week as newsflow remained decidedly negative. We have been reducing equity exposure all year, but sell-offs like the last two weeks, with no counter-trend bounces, are difficult to navigate, to say the least. Last week we were stopped out of our trading position in IVV and our position in Healthcare (XLV). With only our "core" equities currently remaining we will look to reduce equity exposure further on

rallies into January. As noted above, the bullish trend, longer-term, remains intact, but the bearish backdrop continues to mount. We will continue to use rallies to liquidate equities, buy bonds, and raise cash. It is not yet viable to short the broader market but, as we noted last week, that time is coming. However, shorting the market has capital risk just like being long. Given the recent uncertainty of the market, the best "hedge" remains cash for now. While we expect a rally next week from short-term oversold conditions, we will remain on hold with any actions.

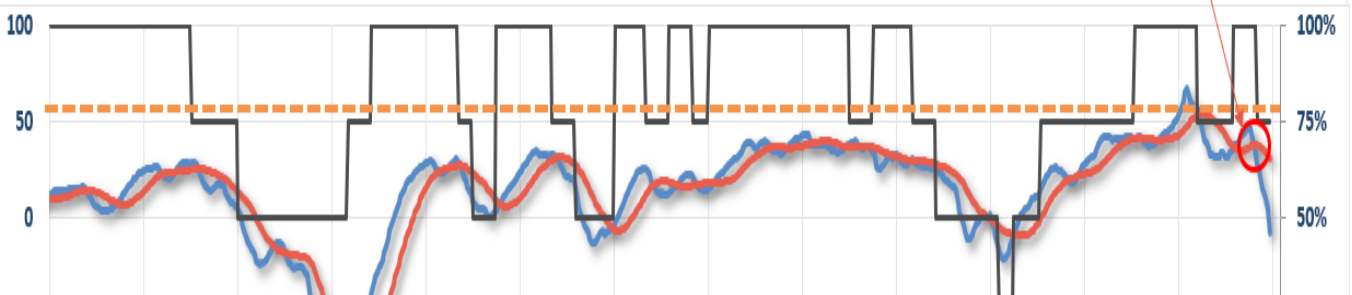
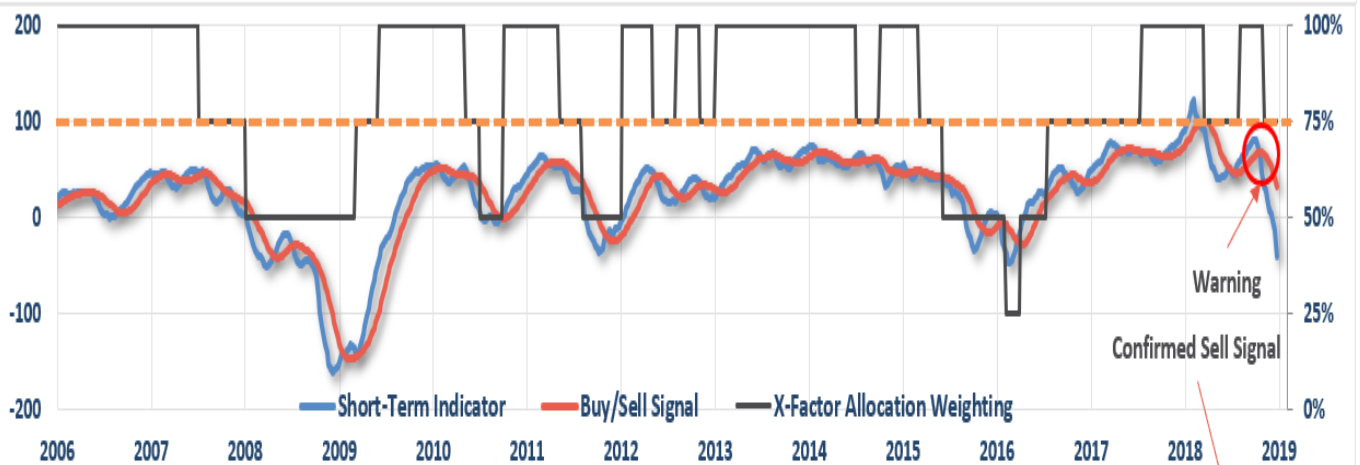
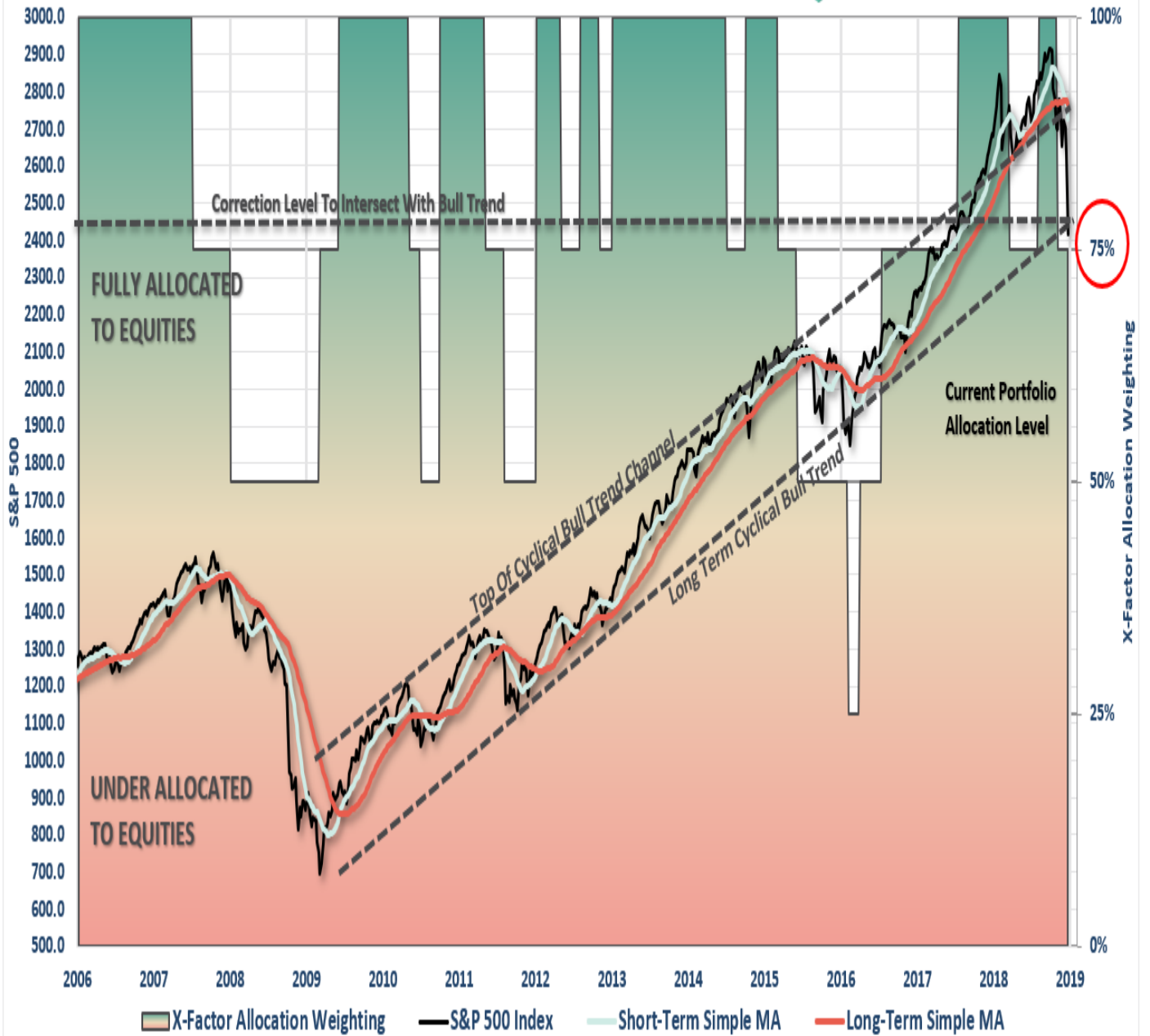
- **New clients:** We will continue to hold existing positions and sell "out of model" holdings on rallies.
- **Equity Model:** We will continue to hold current positions which are mostly 1/2 weights. Stops have been dramatically tightened up.
- **Equity/ETF blended**:- Same as with the equity model.
- **ETF Model:** We will hold current holdings for now.

There is mounting evidence of short to intermediate-term risks of which we are very aware. However, with the market moving into the seasonally strong period of the year, we realize that short-term performance is just as important as the 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.**

THE REAL 401k PLAN MANAGER

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

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

Bull Failure - Part Deux

As I noted in last week's update:

"Last week, the bulls failed to gain control of the market. Early morning bounces were meet with selling each day last week. The overall market environment remains difficult and dangerous."

Such remained again this past week, and, once again, it is critically important for the "bulls" to try and rally the market next week. With the portfolio managers needing to reposition next week for the end of year reporting, a rally, which so far has proved elusive, is once again likely as reward outweighs risk. However, such a rally should be used to "sell into" as our model allocation percentages need to be reduced given the recent breaks of long-term support. As I have stated previously, when signals are triggered, the markets are generally extremely oversold. Therefore, we want to use "clearing rallies" to reduce equity risk to the markets. In the coming weeks, any rally that takes the markets back to short-term over "bought" conditions will be used to lower equity exposure to 50% of target or 30% of our 60/40 model. Continue to use rallies to reduce risk towards a target level with which you are comfortable. **Remember, this model is not ABSOLUTE - it is just a guide to follow.**

- If you are **overweight equities** - reduce international, emerging market, mid, and small-capitalization funds on any rally next week. Reduce overall portfolio weights to 75% of your selected allocation target.
- If you are **underweight equities** - reduce international, emerging market, mid, and small-capitalization funds on any rally next week but hold everything else for now.
- If you are at **target equity allocations**; hold for now.

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. **(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	

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