The "New Year" Starts With A Rally

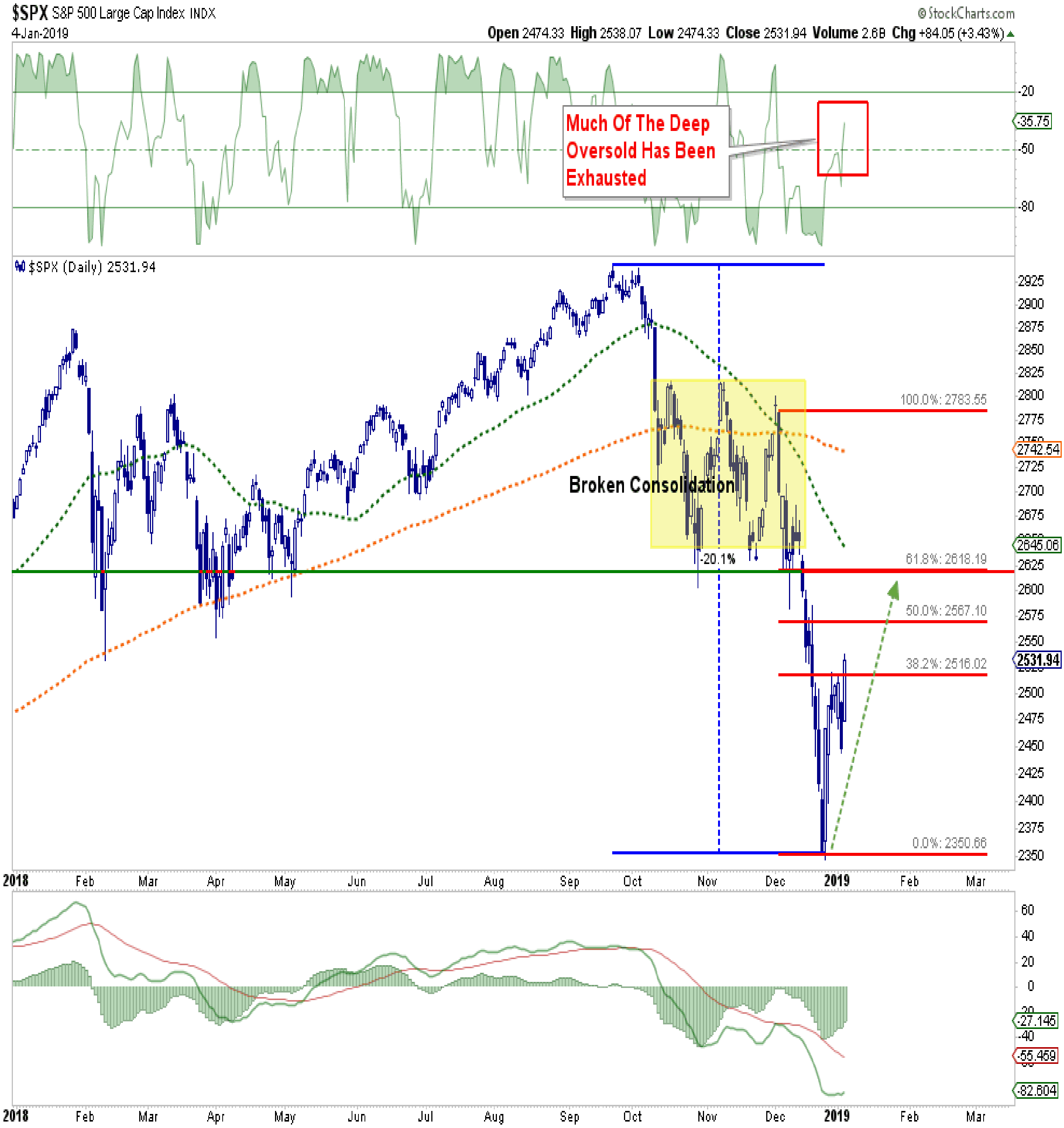
&#2013266080;

- ***New Year Starts With A Rally***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

New Year Starts With A Rally

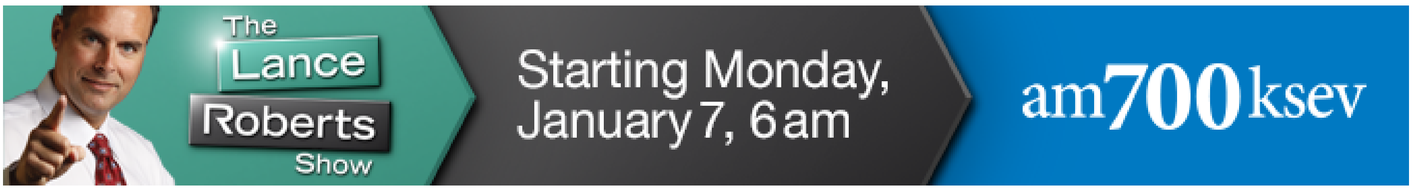
Last week,&#2013266080;I discussed&#2013266080;the potential for a rally as we head into the New Year based on both the more extreme levels of short-term oversold conditions coupled with the statistical tendencies going back to 1990. To wit:

> *"Interestingly, the market retraced exactly 38.2% of the previous decline and failed at important overhead support...it is critically important the markets muster a rally, otherwise,&#2013266080;**we are most likely looking at a retest of recent lows at a minimum, or new lows at the worst.***
>
> ***While I still expect a rally which could potentially reach 2650-2700,&#2013266080;*** *the overall market environment remains negative which, for longer-term investors, continues to favor higher levels of cash and fixed income."*



Don't forget to grab a cup of coffee and start your trading/investing day with me as I kick off my new radio show.&#2013266080;

Streaming Live On The Web



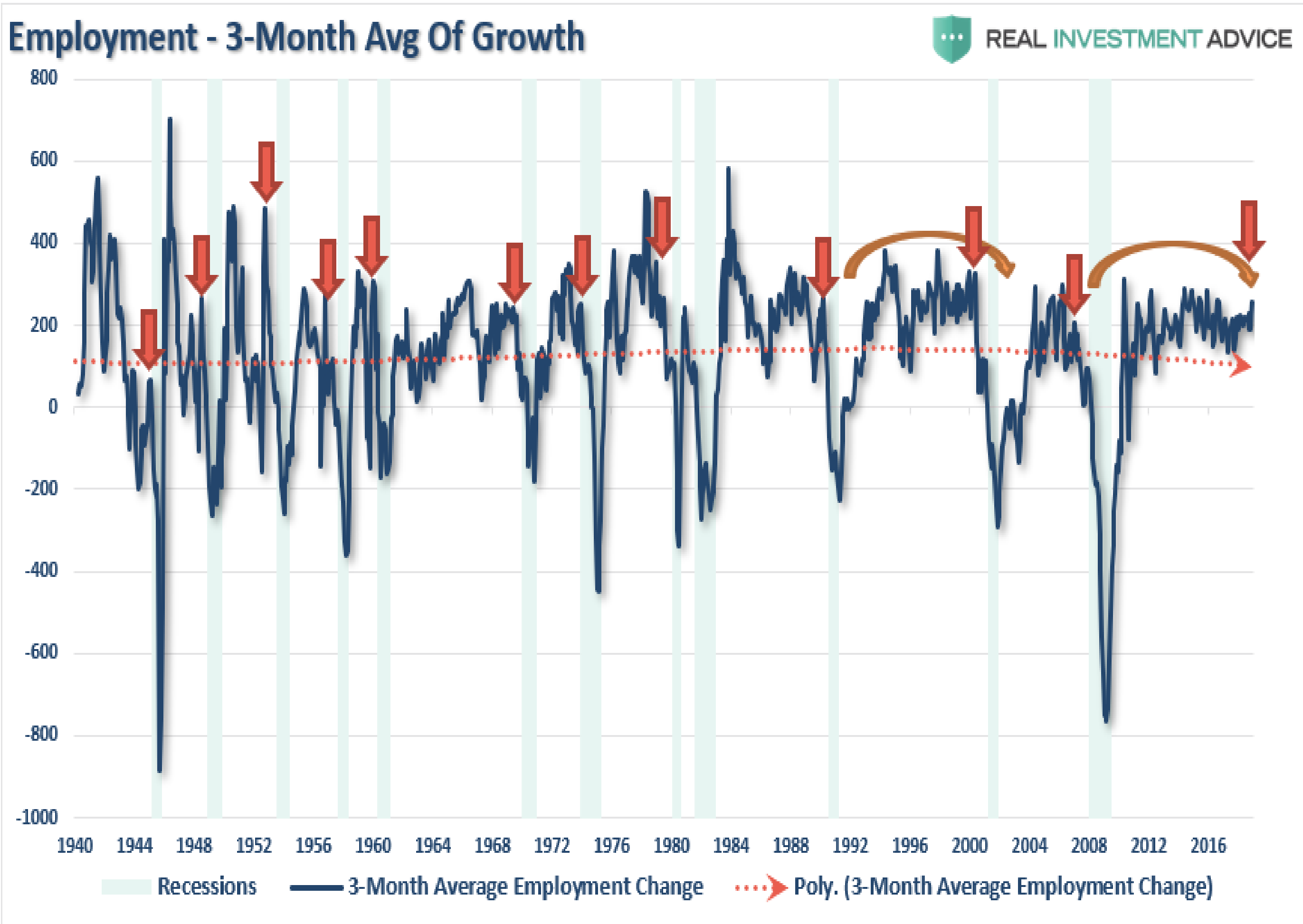
Well, on Friday, Jerome Powell, who was speaking on a panel with Janet Yellen and Ben Bernanke, said the Central-Bank's policy is flexible and officials are *?listening carefully?* to the financial markets. Critically, for traders worried about shrinking liquidity in the economy, Powell also signaled a willingness to consider changes to the Fed?s gradual run-off of its balance-sheet in any policy review.

That statement led to a flurry of buying activity which reversed all of Thursday's rout which was driven by a collapse in the ISM Manufacturing Report and a severe economic warning coming from Apple (AAPL).&#2013266080;

While, at this point, the risk/reward for traders remains on the *"bullish"* side, the economic warnings from Fed Ex (FDX), Apple (AAPL), and the economic surveys should not be dismissed.&#2013266080;

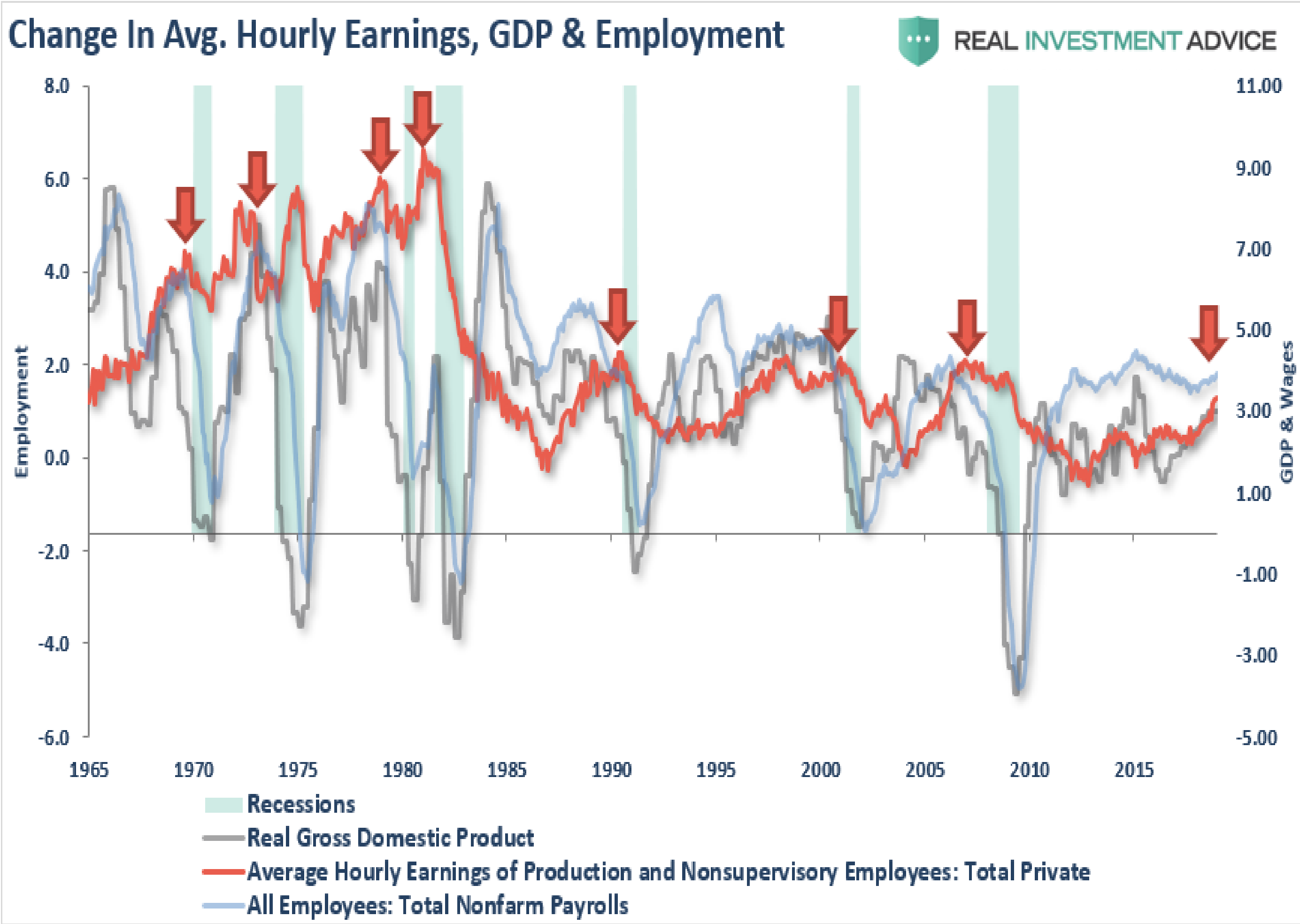
But what about that surging jobs report?

On Friday, the employment report showed an increase of 312,000. While that was indeed a good number, such doesn't mean much within the context of the overall employment trend. More importantly, employment ALWAYS tends to spike up just before the onset of a recession as employment is a lagging indicator of the overall economic cycle.&#2013266080;



Here is another way to look at it.&#2013266080;

While employment ticked up, so did wages which directly impacts corporate profit margins. Not surprisingly, wage increases are a late-economic indicator and precede the onset of recessionary environments.



While Larry Kudlow was quick to jump on *"the Twitter"* and proclaim *"no recession in sight,"* **I would suggest the recent components of the report likely suggests one in closer than most think.&#2013266080;**

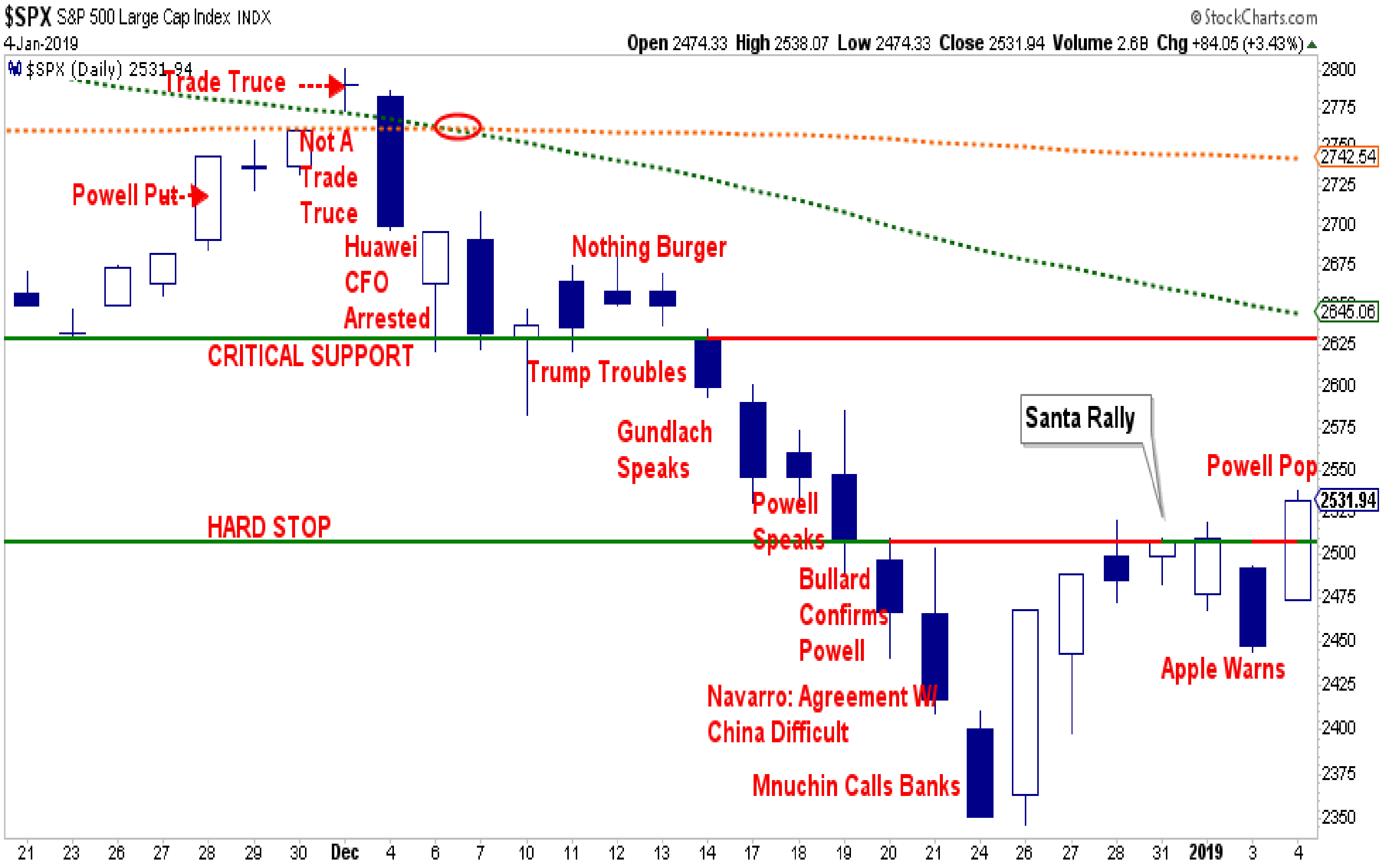
The importance of this goes back to the market's latest rally.&#2013266080;

While the market is indeed working off a very oversold condition, it is most likely not the resumption of the previous *"bull market"* yet.&#2013266080;

Let's go to the charts.

Daily&#2013266080;

First, the rally on Friday, while very positive, did little to reverse the overall negative trend of the market.&#2013266080;



However, from a bullish setup, the market did establish a *"higher low"* from the Christmas Eve rout. With the break above the previous resistance level, the market is now set up to rally to our next resistance levels.

If we use a Fibonacci retracement from the previous market highs, we can see a potential retracement back to the previous lows from early 2018 which would equate to a 38.2% retracement.&#2013266080;

This is the most likely the easiest level for the markets to achieve over the next month or so.

But, if Powell does indeed begin to back off rate hikes, President Trump acquiesces to some deal with China, and corporate outlooks begin to improve somewhat, then a rally back to the 50% or 68.2% retracement levels become much more possible.&#2013266080;

Such a rally will continue to be a *"sellable rally"* as the technical damage done to the markets last year has rendered the weekly and monthly charts much more bearish currently.&#2013266080;

Weekly

For the first time since 2015, which led to the correction heading into 2016, the markets have registered a weekly *"sell"* signal.&#2013266080;&#2013266080;

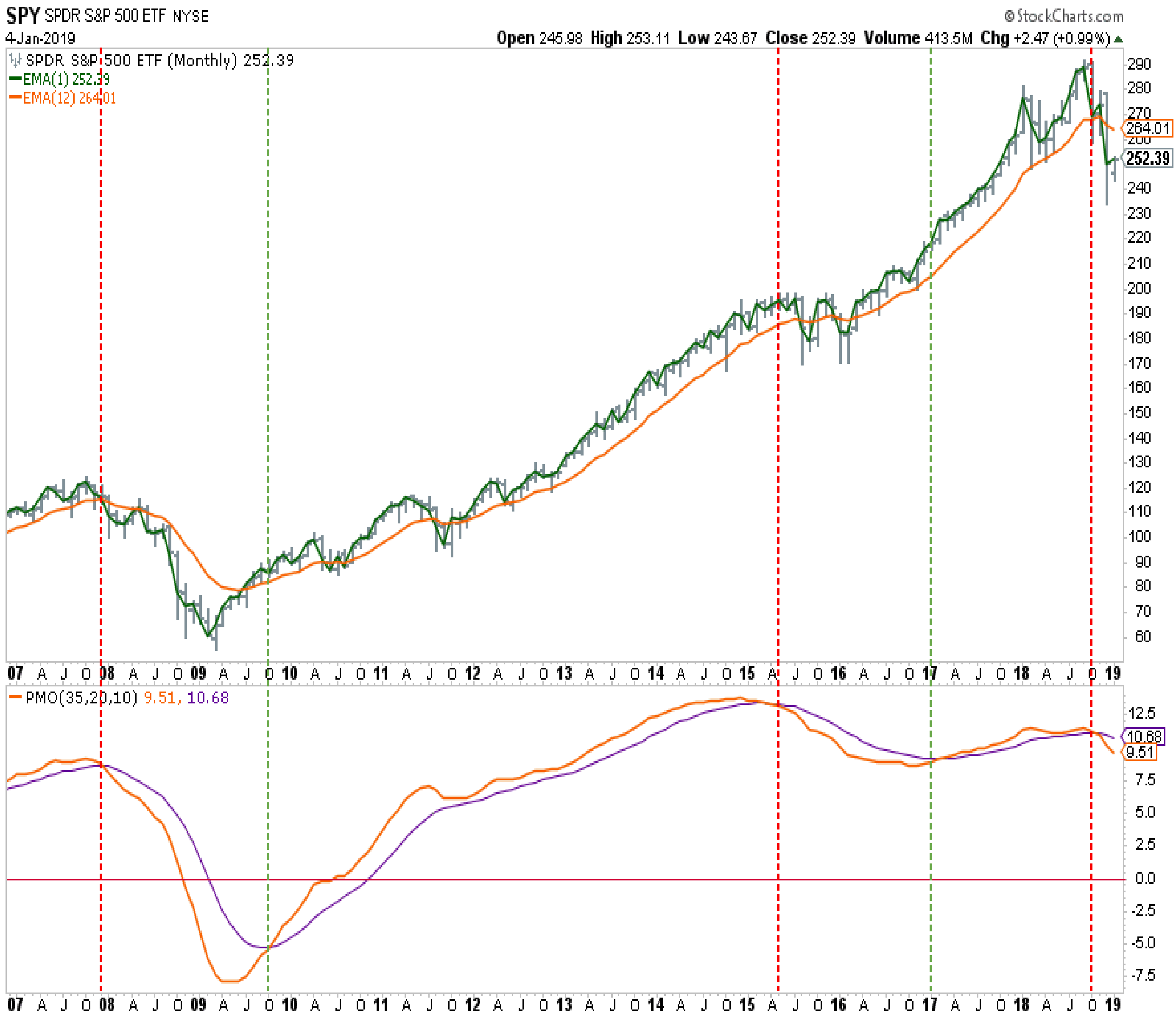
While many market participants are quick to assume the current correction is going to be like 2015-2016, the difference this time is that the Federal Reserve is extracting liquidity from the markets and interest rates are substantially higher.&#2013266080;

In fact, the last time the Fed was hiking rates, the economy had begun to show signs of slowing, and corporate profits and stock buybacks had peaked - was in late 2007.

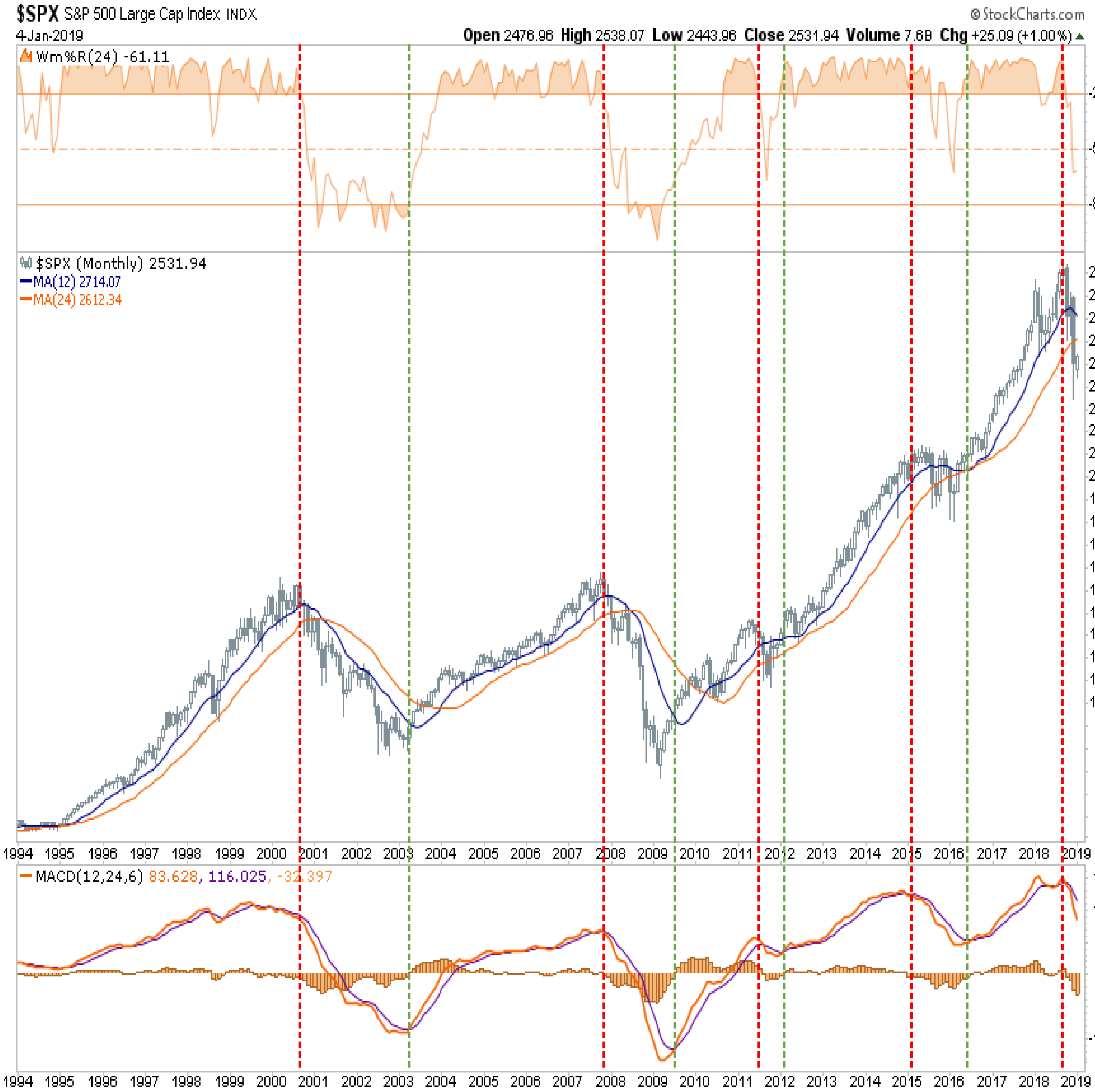
Just sayin'

Monthly

More importantly, the warning from the recent market rout is much more prevalent on a monthly, long-term, chart. With long-term bullish trends broken, long-term moving averages negative crossing, and sell-signals registered across the board, it is time for long-term investors to be much more cautious.&#2013266080;



This is particularly the case given that our long-term monthly "SELL" signal has been registered for only the 5th time since the turn of the century.&#2013266080;



Unfortunately, given that we have now triggered a monthly sell signal for only the 5th 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 remained oversold for quite some time.&#2013266080;

Conclusion

Are becoming much more cautious at the beginning of 2018, we remain overweight cash and fixed income.

However, we also remain long many of our core holdings and in November and late December added positions in companies which had been discounted due to the market's downdraft.&#2013266080;

Our positions in ABBV, MSFT, PFE, MDT, VZ, V, DUK, PEP, AEP, AXP, and others have performed better than the market over the last couple of months and we will look to add to these positions opportunistically if the market continues to improve.&#2013266080;

Our bond positions, which we recommended adding to every time rates popped above 3%, were stellar winners last year and protected the overall portfolio from a more substantial decline.&#2013266080;

However, not everything went according to plan with FDX and CDW performing poorly. These positions are set to be sold on this rally with the funds being allocated to other opportunities.&#2013266080;

The risk to the market remains high, but that doesn't mean we can't make money along the way.

We are excited about the opportunity to finally be able to add a ***"short book"*** to our portfolios for the first time since 2008. It is too early in the market transition process to implement such a strategy, but the opportunity is clearly forming.&#2013266080;

See you next week.&#2013266080;

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

SPY RISK INFO ZACKS REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	11.39%	(7.08%)	0.99%	(113.97%)
Max Drawdown	-20.47%	-20.47%	-3.00%	-85.34%
Sharpe	0.54	(0.49)	2.88	(6.86)
Sortino	0.63	(0.37)	#DIV/0!	#DIV/0!
Volatility	13.26	17.47	46.56	1.67
Daily VaR-5%	(13.02)	(32.26)	73.15	(3.27)
Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00

S&P 500 Fundamental Analysis

Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low
Dividend Yield	1.98%	1.77%	2.07%	14.44%	2.17%	1.67%	(4.67%)	23.95%
P/E Ratio	19.99	21.92	16.56	(32.43%)	21.54	16.56	(23.1%)	(0.01%)
P/S Ratio	2.92	3.40	2.96	(14.88%)	3.53	2.40	(15.98%)	23.60%
P/B Ratio	3.30	3.75	3.60	(4.03%)	4.14	2.82	(12.99%)	28.00%
ROE	15.08%	15.91%	18.11%	12.17%	18.11%	15.01%	0.00%	20.68%
ROA	2.82%	2.97%	3.43%	13.28%	3.43%	2.82%	0.00%	21.51%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,447.4	2,418.9	(1.17%)
Sales	57,124	62,179	8.85%
SPS	23.3	25.7	10.13%
Earnings	7,806	9,211	18.00%
EPS TTM	3.7	4.6	23.43%
Dividend	1.4	1.5	9.49%

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	(20.07%)	5.41%	1.14	17.14	154.63	12.50	(88.9%)	9.0%	3.6%	6.93%	3.50	16.66
Materials	(17.95%)	2.74%	1.36	14.26	21.86	13.82	(34.8%)	11.5%	2.3%	7.38%	4.54	14.81
Industrials	(16.24%)	9.23%	1.00	15.62	22.21	14.71	(29.7%)	15.2%	2.2%	6.83%	4.68	16.87
Discretionary	2.31%	9.98%	0.96	21.97	27.47	19.96	(20.0%)	27.8%	1.4%	5.10%	4.23	22.47
Staples	(10.59%)	7.34%	0.62	18.10	22.83	17.43	(20.7%)	25.9%	3.1%	5.78%	3.73	19.57
Health Care	1.77%	15.31%	0.97	16.60	20.62	15.92	(19.5%)	28.4%	1.8%	6.37%	5.83	17.86
Financials	(14.24%)	13.45%	1.18	12.20	18.40	11.68	(33.7%)	10.9%	2.3%	8.77%	5.24	12.90
Technology	(1.39%)	20.11%	1.21	16.82	21.83	14.47	(22.9%)	37.2%	1.8%	6.12%	4.92	18.40
Telecom	(5.16%)	10.24%	0.85	19.25	26.97	19.27	(28.6%)	18.3%	1.1%	5.53%	4.53	23.03
Utilities	2.54%	3.28%	0.26	16.56	19.62	14.75	(15.6%)	11.1%	3.5%	6.90%	3.37	17.73
Real Estate	(4.10%)	2.89%	0.71	17.24	24.47	17.86	(29.5%)	9.4%	3.7%	5.85%	4.11	18.73

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	252.39	(4.88%)	263.26	25	(4.13%)	274.05	25	(7.90%)	(3.94%)	(14.14%)	7.97%	Sell
Mid Cap	306.35	(6.21%)	324.00	25	(5.45%)	348.94	199	(12.20%)	(7.15%)	(18.11%)	7.70%	Sell
Small Cap	61.17	(7.70%)	64.80	#N/A	(5.60%)	70.77	#N/A	(13.56%)	(8.44%)	(21.83%)	8.65%	Sell

Performance Analysis

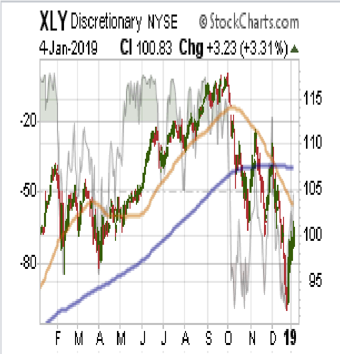
Will return next week. Since it is YTD data, I need two weeks of data for the graphs to build.&#2013266080;

ETF Model Relative Performance Analysis

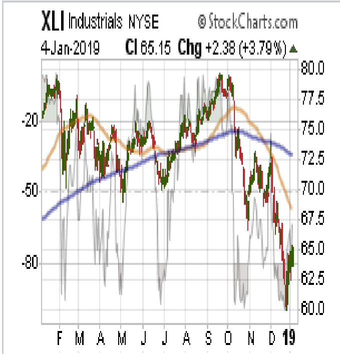
RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	254.06	1.90	(4.34)	(8.62)	(9.79)	(7.73)	268.05	277.56	-5.22%	-8.47%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	51.28	0.46	3.13	4.01	(2.24)	(10.70)	52.70	56.61	-2.70%	-9.42%	SELL
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	59.87	3.05	(2.21)	(9.36)	(10.27)	(12.42)	65.37	71.60	-8.41%	-16.38%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	24.26	0.94	0.96	0.41	(2.19)	(6.88)	25.65	27.00	-5.40%	-10.13%	SELL
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	65.15	0.27	0.11	(3.22)	(2.69)	(8.34)	69.63	73.42	-6.43%	-11.27%	SELL
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	61.50	(1.73)	(0.45)	(4.55)	(5.44)	0.49	66.46	70.16	-7.46%	-12.35%	SELL
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	51.26	(0.53)	(1.98)	6.48	6.76	(2.23)	54.01	53.14	-5.10%	-3.53%	BUY
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	52.77	(2.01)	(2.19)	8.28	10.70	10.53	54.32	52.94	-2.85%	-0.32%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	42.90	2.18	3.19	1.14			44.22	47.06	-2.99%	-8.84%	SELL
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	85.96	(1.06)	(0.73)	3.01	8.86	8.56	89.71	88.88	-4.18%	-3.29%	BUY
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	100.83	1.03	1.89	1.57	(0.31)	6.79	104.41	109.11	-3.43%	-7.59%	SELL
TACTICAL	SIZE	MGK	VANGD-MG CAP GR	107.95	(0.08)	0.80	(1.93)	(2.67)	1.61	113.93	119.60	-5.25%	-9.74%	SELL
TACTICAL	SIZE	IJR	ISHARS-SP SC600	70.81	0.88	(0.58)	(2.08)	(8.56)	(1.33)	76.00	82.35	-6.83%	-14.01%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	92.66	0.30	(0.46)	0.69	(1.25)	(2.44)	97.87	102.06	-5.32%	-9.21%	SELL
CORE	Dividend	VIG	VANGD-DIV APPRC	97.85	(0.99)	(0.72)	2.01	2.84	1.79	103.20	104.99	-5.18%	-6.80%	SELL
CORE	Real Estate	VNQ	VIPERS-REIT	74.32	(1.96)	(5.15)	6.64	1.45	(0.58)	78.41	80.05	-5.22%	-7.16%	SELL
CORE	International	IDV	ISHARS-INTL SD	29.36	0.65	2.07	3.15	(0.40)	(7.61)	30.38	31.90	-3.37%	-7.95%	SELL
CORE	International	VWO	VANGD-FTSE EM	38.86	(0.09)	4.97	8.98	0.35	(11.08)	38.60	41.15	0.68%	-5.58%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	122.11	(1.02)	7.47	15.30	10.90	4.86	116.31	118.40	4.99%	3.13%	SELL
FI	International	BNDX	VANGD-TTL INT B	54.27	(1.69)	3.05	8.68	8.66	7.67	54.57	54.59	-0.56%	-0.58%	SELL
FI	High Yield	HYG	ISHARS-IBX HYCB	82.39	(0.23)	3.81	5.38	6.01	1.38	83.32	84.86	-1.11%	-2.91%	SELL
FI	Cash	BSV	VANGD-SHT TRM B	78.62										

Sector & Market Analysis:

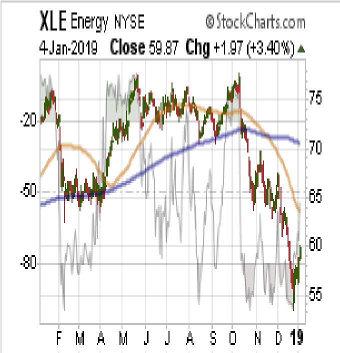
Sector-by-Sector

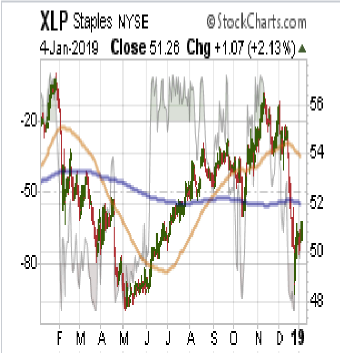

XLY Discretionary NYSE
@StockCharts.com
4-Jan-2019 Cl 100.83 Chg +3.23 (+3.31%)


XLK Technology NYSE
@StockCharts.com
4-Jan-2019 Cl 61.50 Chg +2.61 (+4.43%)

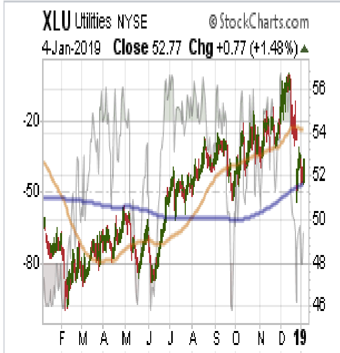

XLI Industrials NYSE
@StockCharts.com
4-Jan-2019 Cl 65.15 Chg +2.38 (+3.79%)


XLB Materials NYSE
@StockCharts.com
4-Jan-2019 Cl 51.28 Chg +1.94 (+3.93%)

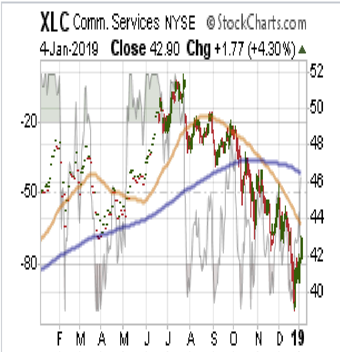

XLE Energy NYSE
@StockCharts.com
4-Jan-2019 Close 59.87 Chg +1.97 (+3.40%)


XLP Staples NYSE
@StockCharts.com
4-Jan-2019 Close 51.26 Chg +1.07 (+2.13%)


XLV Health Care NYSE
@StockCharts.com
4-Jan-2019 Cl 85.96 Chg +2.49 (+2.98%)


XLU Utilities NYSE
@StockCharts.com
4-Jan-2019 Close 52.77 Chg +0.77 (+1.48%)


XLF Financials NYSE
@StockCharts.com
4-Jan-2019 Close 24.26 Chg +0.78 (+3.32%)


XLC Comm. Services NYSE
@StockCharts.com
4-Jan-2019 Close 42.90 Chg +1.77 (+4.30%)


XLRE Real Estate NYSE
@StockCharts.com
4-Jan-2019 Close 30.74 Chg +0.31 (+1.02%)


SPY S&P 500 SPDRs NYSE
@StockCharts.com
4-Jan-2019 Cl 252.39 Chg +8.18 (+3.35%)

STOCK	YESTERDAY PRICE	PRICE CHANGE	SUPPORT	RESISTANCE	ALERT	LONG TERM TREND
SPY	$252.39	8.18 (3.35%)	242.73	260.55	MACD ABOVE SIGNAL	Bearish
XLB	$51.28	1.94 (3.93%)	48.98	53.24	MACD ABOVE SIGNAL	Bearish
XLE	$59.96	2.06 (3.56%)	57.51	61.98	MACD ABOVE SIGNAL	Very Bearish
XLF	$24.24	0.76 (3.24%)	23.45	24.92	MACD ABOVE SIGNAL	Very Bearish
XLI	$65.16	2.39 (3.81%)	62.65	67.24	MACD ABOVE SIGNAL	Very Bearish
XLK	$61.5	2.61 (4.43%)	58.29	64.23	MACD BELOW SIGNAL	Very Bearish
XLP	$51.23	1.04 (2.07%)	49.85	52.34		Bearish
XLRE	$30.74	0.31 (1.02%)	29.92	31.57		Bearish
XLU	$52.77	0.77 (1.48%)	50.94	54.24		Neutral
XLV	$85.91	2.44 (2.92%)	82.72	88.78	MACD ABOVE SIGNAL	Bearish
XLY	$100.83	3.23 (3.31%)	96.33	104.88	MACD ABOVE SIGNAL	Bearish

Over the last couple of months, there has been no *"safe place"* to hide in the markets. While Staples, Utilities, Healthcare, and Real Estate outperformed the market and their respective counterparts, these sectors lost ground as well.&#2013266080;

Discretionary, Technology, Staples, Financials and Healthcare each violated their respective 50 and 200-dma's and are now trying to rally back towards overhead resistance. While the recent rally over the last week has been admirable, it has done little to change the overall tenor of the market.

Current Postion: *Staples&#2013266080;*

Industrials, Telecom, Materials, and Energy still look terrible despite the recent rally. The recent warnings from multi-national companies suggests there is likely more pain coming in forthcoming earnings reports which kick off over the next couple of weeks.

Current Postion: *None&#2013266080;*

Utilities and Real Estate have held up better than the overall market, as stated above, but were not immune from recent selling pressure. Last week, Utilities bounced off the 200-dma which sets up a decent trading opportunity with a trailing stop at the 200-dma.

Real Estate, on the other hand, violated its 200-dma which is now overhead resistance. Currently, the risk/reward for Real Estate is not there as the overall real estate market is coming under pressure from higher interest rates and slowing economic growth. Stops for real estate holdings should be set at recent lows.&#2013266080;

Current Positions: *None,&#2013266080;*

Trading Position: *XLU - Buy with a stop at $51.90. Initial target is $54.11*

STOCK	YESTERDAY PRICE	PRICE CHANGE	SUPPORT	RESISTANCE	ALERT	LONG TERM TREND
EEM	$39.69	1.24 (3.22%)	38.18	41	MACD BELOW SIGNAL	Bearish
EFA	$59.91	1.78 (3.06%)	58.1	61.49		Bearish
GLD	$121.48	-0.95 (-0.78%)	120.02	122.72		Neutral
IVV	$253.92	8.49 (3.46%)	244.23	262.08	MACD ABOVE SIGNAL	Bearish
MDY	$306.35	9.72 (3.28%)	294.83	316.28	MACD ABOVE SIGNAL	Very Bearish
RSP	$92.66	2.98 (3.32%)	89.08	95.68		Bearish
SDY	$89.84	2.04 (2.32%)	87.21	92.07	MACD ABOVE SIGNAL	Bearish
SLY	$61.17	2.1 (3.56%)	58.68	63.27	MACD ABOVE SIGNAL	Very Bearish
TLT	$122.11	-1.43 (-1.16%)	120.74	123.47	Full Gap Up	Neutral

Small-Cap and Mid Cap&#2013266080;- both of these markets are currently on macro-sell signals but did rally last over the last couple of weeks with the rest of the market. Currently, both are on short-term "buy signals" and not yet overbought. If this market is going to continue to rally, these two markets may give you a bit more *"bang for the buck."&#2013266080;* However, I would be a seller on any rally back to the 50-dma which is well below the 200-dma currently.&#2013266080;

Current Position: *None*

Trading Position:

- *SLY - Target: $64.50, Sell-Stop: $56*
- *MDY - Target: $324, Sell-Stop: $265*

Emerging and International Markets&#2013266080;-Emerging markets are once again trying to climb above its 50-dma again. This has been consistently a trading trap over the last year. With the market very overbought, I would wait to see a better set up before adding exposure back into portfolios.&#2013266080;

International markets still look terrible and no real improvement is being made with the recent rally still confined to a very strong downtrend. With major sell signals in place currently, and very over-bought short-term, there&#2013266080;**is no compelling reason to add either of these markets to portfolios at this time.**

Current Position: *None*

Dividends, Market, and Equal Weight&#2013266080;- Not surprisingly, given the rotation to *"defensive"* positioning in the market, dividend-based S&P Index continues to outperform other weighting structures. The overall market dynamic remains negative for now and important supports are being tested. We are looking to sell our cap-weighted position entirely during the expected rally and reduce back to just our core, long-term, holdings of Equal and Dividend-Weighted indices.

Current Position:&#2013266080;*SDY, VYM, IVV*

Gold&#2013266080;? After having been out of Gold since early 2013, the metal is now improving to the point to where the risk/reward is now much more favorable for a longer-term hold. We are looking for two things to confirm a longer-term buy: 1) the 50-dma to cross back above the 200-dma, and 2) a pullback to the 200-dma for an entry point. With Gold very overbought short-term a continued short-term rally in the market over the next month will likely pull the froth out of the metal. If our conditions are met we will add a position to our portfolios.&#2013266080;

Current Position: *None*

Trading Position:

- *GLD - Buy Target: $119.00, Sell-Stop: $117*

Bonds&#2013266080;? Let me just repeat what I wrote two weeks ago:

"As we have been repeatedly suggesting since the beginning of the year, **bonds would be the '*GO TO'*&#2013266080;haven when '*SAFETY'*&#2013266080;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.**

Current Positions: *DBLTX, SHY, TFLO, GSY*

Trading Position:

- *TLT - Buy Target: $118, Sell-Stop: $116*

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.)

REAL INVESTMENT ADVICE

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

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

Portfolio/Client Update:

After a very rough December, the market finally mustered the long-expected year-end rally and January pop. What happens next will be critically important to the outlook for our portfolios for the rest of this year.&#2013266080;

With only our *"core"* equities currently remaining we will look to reduce equity exposure further during the month if things don't begin to markedly improve.&#2013266080;While the bullish trend, longer-term, remains intact, the bearish backdrop continues to mount. We will continue to use rallies to reduce risk, buy bonds, and maintain higher levels of cash for now.

As noted in the *"Portfolio Positioning"* section above, it is not yet viable to short the broader market. However, while that opportunity may be coming, shorting the market has capital risk just like being long. Given the recent uncertainty of the market, the best *"hedge"* remains cash for now.

Given the pullback in the market and the recent rally, we did take the opportunity to deploy some cash.&#2013266080;

- ***New clients:****&#2013266080;We added 1/4th of our "core" long-term equity holdings and bond positions. We will continue to add to these positions on weakness.&#2013266080;*

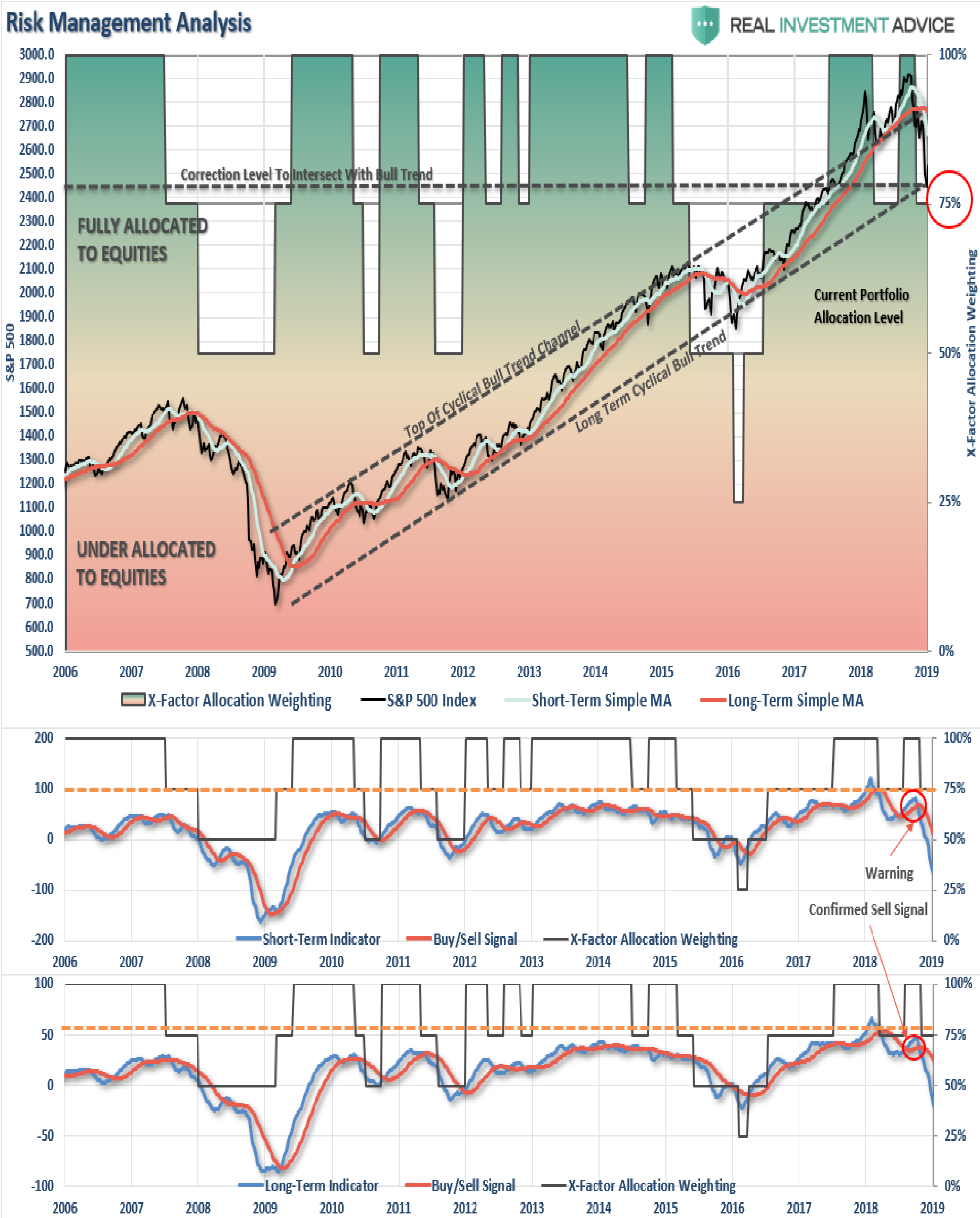
- ***Equity Model:****&#2013266080;We added 5-trading positions (1/2 weights) to accounts near the recent bottom of the market in V, MSFT, ABBV, PFE, and hedged those holdings with a position in GDX. Stops across&#2013266080;all positions have been dramatically tightened up.&#2013266080;*
- ***Equity/ETF blended****&#2013266080;- Same as with the equity model.&#2013266080;*
- ***ETF Model****: We will hold current holdings for now.*

There are certainly some catalysts which could reverse the current *"bearish"* backdrop of the market in the short-term such as Powell backing off tightening monetary policy further and Trump backing of the "trade war" with China. While those would certainly improve the short-term outlook, the longer-term backdrop remains negative simply from the length of the current economic and market cycle. 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&#2013266080;*?trades?*&#2013266080;that can, and will, be closed out quickly if they fail to work as anticipated.&#2013266080;This is why we&#2013266080;*?step?*&#2013266080;into positions initially. Once a&#2013266080;*?trade?*&#2013266080;begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment.&#2013266080;**We will unwind these actions either by reducing, selling, or hedging, if the market environment changes for the worse.**

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



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

to a positive trend. *Emotions keep us from taking the correct action.*

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Finally, A Rally

Since I was trapped in a *"snow storm"* last week, literally, let's review where we left off two weeks ago.&#2013266080;

> "The overall market environment remains difficult and dangerous...it is critically important for the *"bulls"* to try and rally the market next week.&#2013266080;
>
> *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.*

Well, we finally got the rally we were looking for which could possibly extend into next week. However, as I have stated previously, with sell signals triggered on both a weekly and monthly basis, these *"clearing rallies"* should be used 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%, or a target or 30% equity in 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.&#2013266080;**

- *If you are **overweight&#2013266080;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** -&#2013266080;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**&#2013266080;hold for now.*

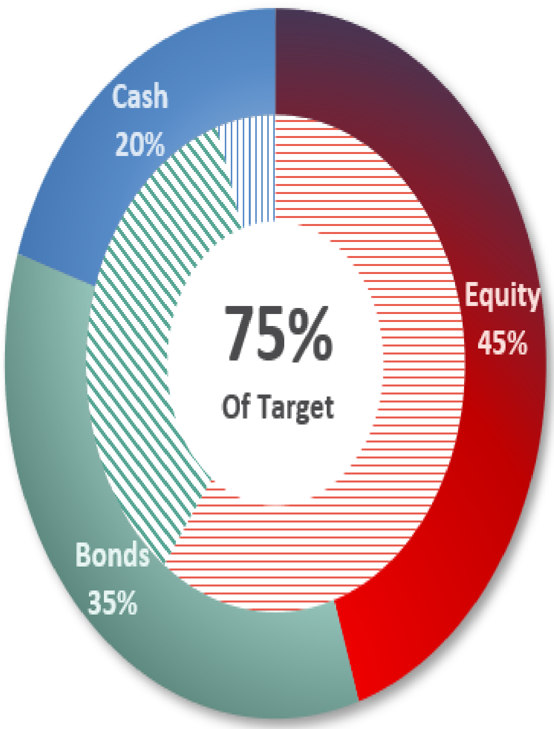
Unfortunately, 401k plans don't offer a lot of flexibility and have trading restrictions in many cases. **Therefore, we have to minimize our movement and try and make sure we are catching major turning points.** Over the next couple of weeks, we will know for certain as to whether more changes need to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

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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