Bull Rallies & Market Tops



- ***Bull Rallies & Market Tops***
- ***Sector & Market Analysis***
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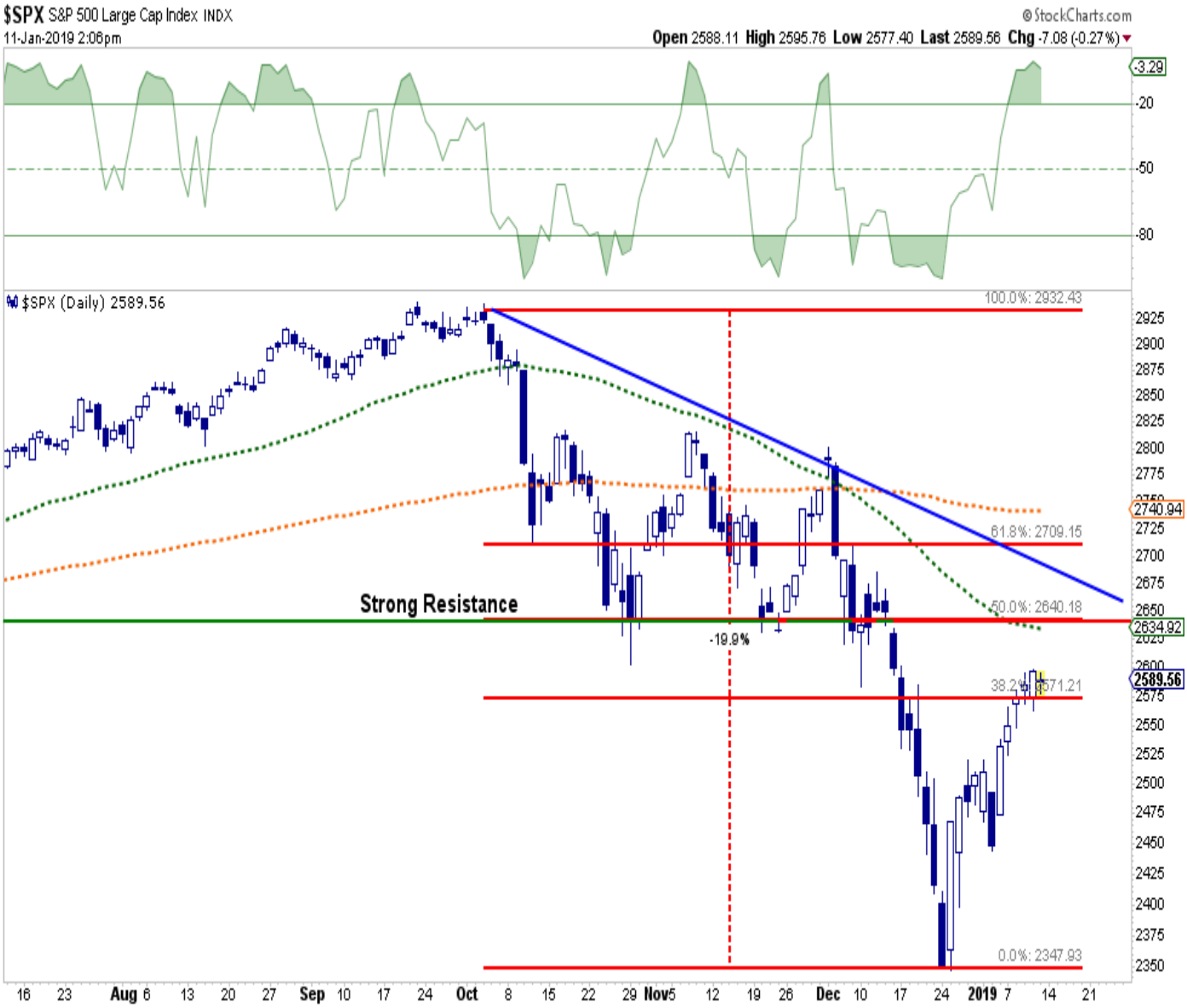
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Bull Rallies & Market Tops

Last week,&#2013266080;we discussed the fulfillment of our expectations for a bull rally. While the rally was attributed to&#2013266080;the rather *"dovish"* stance taken by Jerome Powell and commentary from the White House on potential progress on resolving the *"trade war"* with China. The reality is it had little to do with those headlines but was simply a reversal of the previous *"exhaustion extreme"* of sellers during November and December.&#2013266080;

The rally, as we laid out two weeks ago, continues to work within the expected range back to 2650-2700.&#2013266080;



Importantly, the previous deep "*oversold"* condition which was supportive of the rally following Christmas Eve has now been fully reversed back into extreme *"overbought"* territory. **While this doesn't mean the current rally will immediately reverse, it does suggest that upside from**

current levels is likely limited.&#2013266080;

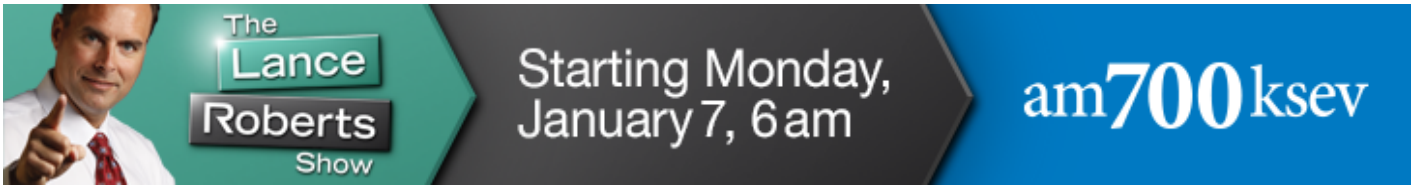
Nonetheless, the rally from the December lows has been impressive. However, I want to caution investors from extrapolating a deeply oversold bounce into something more than it is.

Beware The Headlines

> ***"The stock market just got off to its best start in 13 years.&#2013266080;****The 7-session start to the year is the best for the Dow, S&P 500 and Nasdaq since 2006." - Mark DeCambre via MarketWatch*

While headlines like this will certainly get&#2013266080;*"clicks"* and *"likes,"* it is important to keep things is perspective. **Despite the rally over the last several sessions, the markets are still roughly 3% lower than where we started 2018, much less the 11% from previous all-time highs.**

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



Importantly, there has been a tremendous amount of *"technical damage"* done to the market in recent months which will take some time to repair. **Important trend lines have been broken, major sell-signals are in place, and major moving averages have crossed each other signaling downward pressure for stocks.&#2013266080;**



While the chart is a bit noisy, just note the vertical red lines. There have only been a total of 6-periods in the last 25-years where all the criteria for a deeper correction have been met. While the 2011 and 2015 markets did NOT fall into more protracted corrections due to massive interventions by Central Banks, the current decline has no such support currently.&#2013266080;

So, while there are many headlines circulating the *"interweb"* currently suggesting the *"Great Bear Market Of 2018"* is officially over, I would caution you against getting overly bullish too quickly.&#2013266080;

Tops Are A Process

&#2013266080;As my friend and colleague Doug Kass wrote previously:

> ***"Tops are a process and bottoms are an event,*** *at least most of the time in the stock market. If you looked at an ice cream cone?s profile, the top is generally rounded and the bottom V-shaped. That is how tops and bottoms often look in the stock market, and I believe that the market is forming such a top now."*

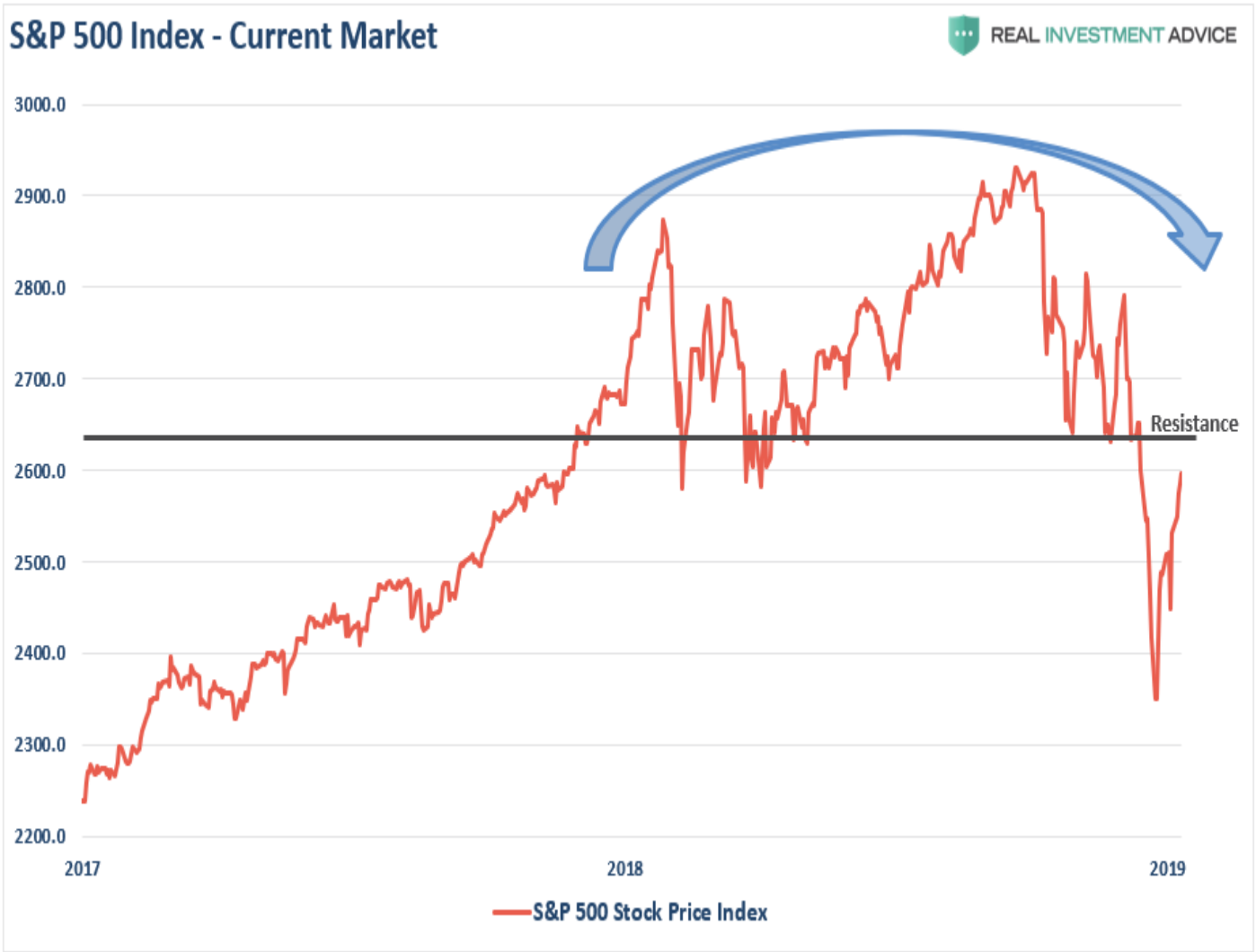
He is correct.&#2013266080;&#2013266080;

There have been several suggestions as of late that last years slide from October into December was simply a correction. Here is Mark Hulbert's take:

> *"The stock market?s recent correction has been more abrupt than you?d expect if the market were in the early stages of a major decline.*
>
> *I say that because one of the hallmarks of a major market top is that the bear market than ensues is relatively mild at the beginning, only building up a head of steam over several months. Corrections, in contrast, tend to be far sharper and more precipitous."*

However, I disagree.

I think Mark's mistake is in simply looking at the plunge from the mid-year highs rather than the entire topping process which started in November of 2017.&#2013266080;



After a record breaking number of positive months in 2017 with extremely low volatility; 2018 was a year where volatility returned as prices consolidated in a very broad range. Notice there was important price support being built by the markets by repeatedly testing price levels over time before giving way.&#2013266080;

"So...is the bear market over OR is it just starting?"

The honest answer is *"I don't know."*

But, anything is certainly possible.&#2013266080;

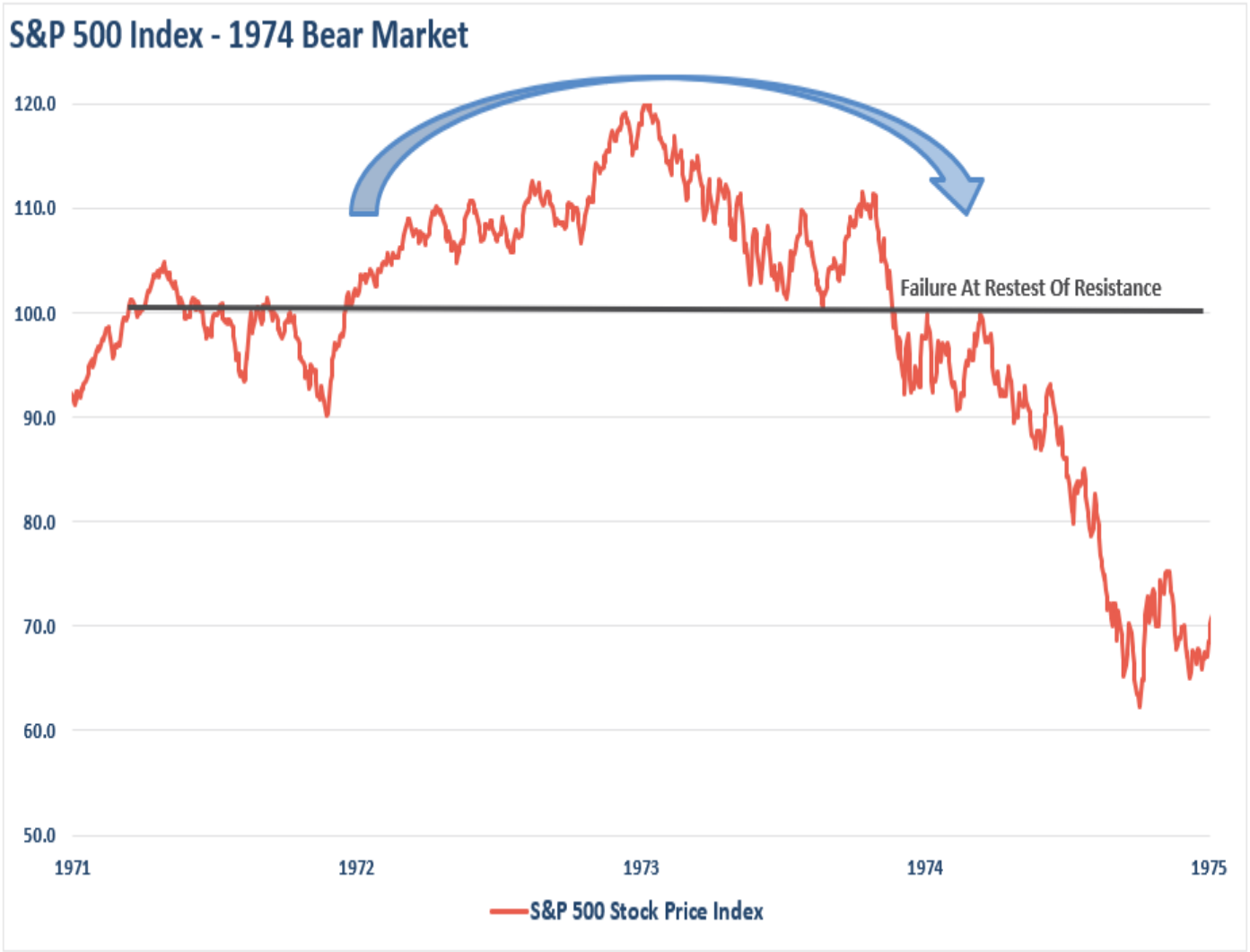
However, a look back through history at previous *"bear market beginnings"* can certainly give us some things to consider.

1974&#2013266080;

After two previous bear market declines, as I discussed just recently with respect to *"Secular Bear Markets,"*&#2013266080;the S&P 500 broke out to all-time highs convincing the *"bulls"* the worse was over.&#2013266080;

It wasn't.

Over the next several months the markets continued in volatile trade,&#2013266080; retesting support several times before breaking down.&#2013266080;



But, at this point, it was still believed just to be a correction.

The change occurred when the market rallied, and failed, at the previously broken support line.

That *"failure point"* marked the beginning of the *"1974 Bear Market."*

1999

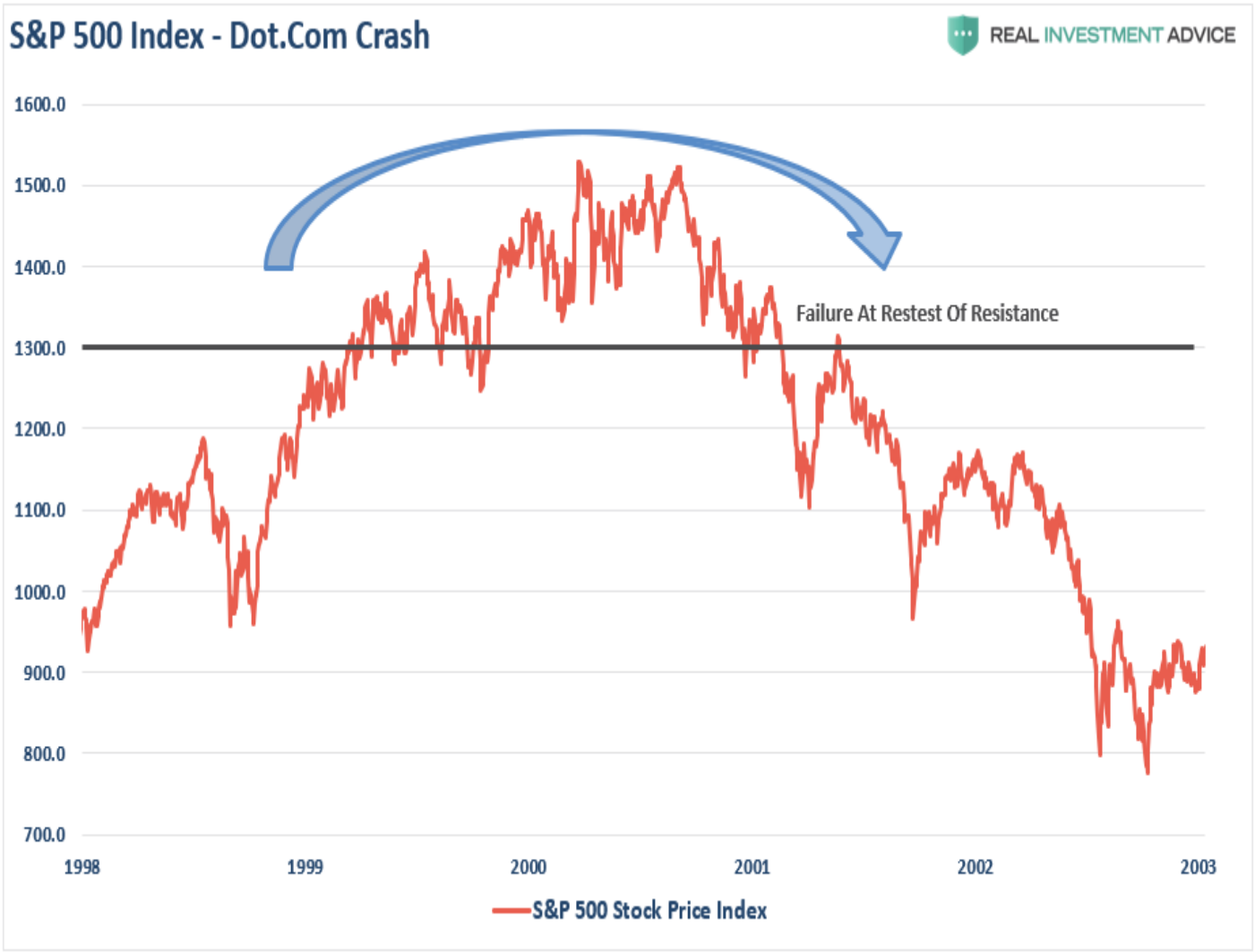
After the *"Long-Term Capital Management"* and the *"Asian Contagion,"* the market regained its footing and began a rampant run to all-time highs in 1999. The bulls were clearly in charge, and despite concerns of *"Y2K,"* stocks continued to press new highs.&#2013266080;

While Jim Cramer was busy publishing his list of the *"Top 10 Stocks For The Next Decade,"* the market begin to struggle to make new highs as volatility rose.

The early decline from "all-time highs" was only considered a correction as the demand by the bulls to *"buy the dip"* rang out loudly.&#2013266080;

> *"I think you'll see healthier and broader advances in the market. Now is the time for optimism," said Bill Meehan, chief market analyst with Cantor Fitzgerald (4/14/2000)*

It wasn't.



In early 2001, the market broke the support line that had contained the market over the last 24-months.&#2013266080;

Not to worry, it was simply just part of the *"correction process"* and many commentators on CNBC at the time were suggesting it was a *"buying opportunity."&#2013266080;*

It wasn't.&#2013266080;

The market rallied back, and failed, at the previously broken support line.&#2013266080;

That point marked the end of the topping process and the beginning of the *"Dot.com Crash."&#2013266080;*

2007

In 2006, the market was rallying as *"real estate"* was going wild across the country. Firms were hocking every type of exotic mortgage derivative they could find, leverage being laid on without concern, and pension funds were being pitched *"high yield"* opportunities.&#2013266080;

As the market broke out to new highs, there was little concern as there was *"no recession in sight," "subprime mortgages were contained,"* and it was a *"Goldilocks economy."*

Over the next year the market repeatedly hit new highs. Each new high was followed by a decline which tested broadening support giving the bulls repeated opportunities to call for *"dip buying."* &#2013266080;

It was believed the year-long consolidation process was simply the *"set up"* for the continuation of the bull market.&#2013266080;



In early 2008, the running support line was broken as *"Bear Stearns"* failed sending off alarm bells to which few listened. The market rallied backed, and failed, at the previously broken support line.&#2013266080;

That point marked the end of the topping process and the real beginning of the *"Financial Crisis."&#2013266080;*

By now, you should realize the similarities between all of these previous market tops and what is happening currently. However,&#2013266080;it wasn't just price movements that each of these previous bear markets had in common with the market today.&#2013266080;

Fundamental similarities existed also:

- *Valuations were high*
- *Dividend yields were low*
- *Federal Reserve was hiking interest rates*
- *Economy was believed to be strong*
- *Earnings were expected to continue to grow*
- *Corporate balance sheets were believed to be strong*
- *Yield curve was flattening*
- *"There was no recession in sight."&#2013266080;*

The Big Test

&#2013266080;Over the next couple of weeks, the market is going to face the *"test"* that has defined the *"bear markets"* of the past.



With the markets already back to very overbought conditions, multiple moving averages just overhead, and previously broken support; the market is going to have its work cut out for it.&#2013266080;

However, if the bulls can regain control and push prices back above the November highs, then the *"bear market correction of 2018"* will officially be dead.&#2013266080;

But such is only one possibility out of many others which pose a far greater risk to capital currently.&#2013266080;

With the Fed continuing to extract liquidity, economic data slowing, and earnings likely to be weaker than expected, the current bounce is likely to be just that.&#2013266080;

As we have continuously repeated, if you didn't like the November-December decline, it is simply a function that you have built up more uncontrolled risk in your portfolio than you previously realized.&#2013266080;

Use this rally to rebalance risk, sell losers and laggards, and add to fixed income and cash.&#2013266080;

Conclusion

We noted previously that we&#2013266080;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.

This past week, we did reduce our equity exposure by 6% to remove some positions which have not been performing as well as expected.&#2013266080;

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

Until the bullish trend is returned, we will continue to run our portfolios with a bit higher level of cash, fixed income, and tighter stops on our current long-equity exposure.&#2013266080;

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;

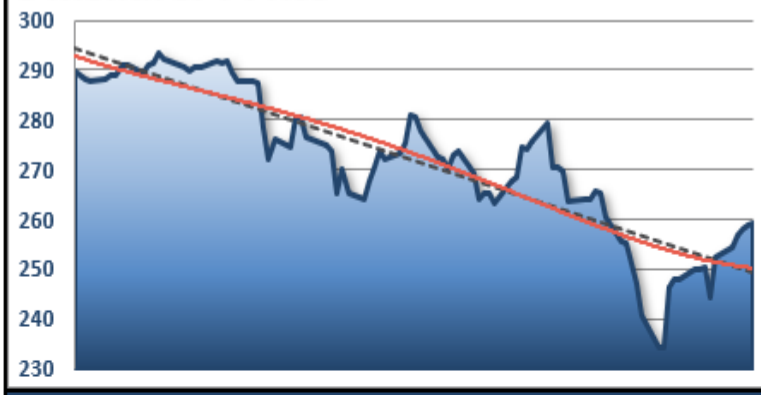
See you next week.&#2013266080;

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

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	14.04%	(6.21%)	3.63%	(158.40%)
Max Drawdown	-20.47%	-20.47%	-3.00%	-85.34%
Sharpe	0.63	(0.24)	8.66	(36.96)
Sortino	0.72	(0.29)	#DIV/0!	#DIV/0!
Volatility	13.28	17.50	25.30	0.45
Daily VaR-5%	(11.93)	(31.11)	181.73	(6.84)
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	1.97%	1.77%	2.01%	12.03%	2.17%	1.67%	(7.32%)	20.54%
P/E Ratio	20.06	22.29	16.95	(31.48%)	21.54	16.67	(21.3%)	1.72%
P/S Ratio	2.94	3.33	3.03	(9.64%)	3.53	2.40	(13.99%)	26.61%
P/B Ratio	3.39	3.77	3.69	(2.06%)	4.14	2.82	(10.92%)	31.07%
ROE	15.22%	15.97%	18.11%	11.86%	18.11%	15.01%	0.00%	20.68%
ROA	2.83%	3.01%	3.43%	12.28%	3.43%	2.82%	0.00%	21.51%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,447.3	2,418.0	(1.20%)
Sales	57,155	62,170	8.77%
SPS	23.4	25.7	10.09%
Earnings	7,805	9,210	18.00%
EPS TTM	3.7	4.6	23.47%
Dividend	1.4	1.6	11.17%

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	(18.93%)	5.58%	1.14	17.77	154.63	12.50	(88.5%)	9.0%	3.5%	5.63%	3.47	14.71
Materials	(17.72%)	2.72%	1.36	14.52	21.86	13.82	(33.6%)	11.5%	2.3%	6.90%	4.53	13.69
Industrials	(15.51%)	9.27%	1.00	16.25	22.21	14.71	(26.8%)	15.2%	2.1%	6.19%	4.68	15.01
Discretionary	3.00%	10.22%	0.96	22.76	27.47	19.96	(17.2%)	27.9%	1.3%	4.42%	4.25	20.48
Staples	(9.68%)	7.20%	0.62	18.23	22.83	17.43	(20.1%)	25.9%	3.1%	5.49%	3.73	17.76
Health Care	2.03%	15.20%	0.97	16.97	20.62	15.92	(17.7%)	28.4%	1.7%	5.94%	5.84	16.29
Financials	(15.14%)	13.26%	1.18	12.35	18.41	11.69	(32.9%)	10.9%	2.2%	8.16%	5.22	11.49
Technology	0.64%	19.91%	1.21	17.40	21.83	14.47	(20.3%)	37.2%	1.8%	5.77%	4.92	16.85
Telecom	(5.28%)	10.38%	0.85	19.48	26.97	19.96	(27.8%)	18.3%	1.0%	5.14%	4.57	21.24
Utilities	4.83%	3.22%	0.27	16.70	19.77	15.41	(15.5%)	11.1%	3.5%	5.98%	3.38	16.93
Real Estate	2.27%	2.91%	0.71	17.92	24.47	17.87	(26.8%)	9.4%	3.6%	5.58%	4.11	17.24

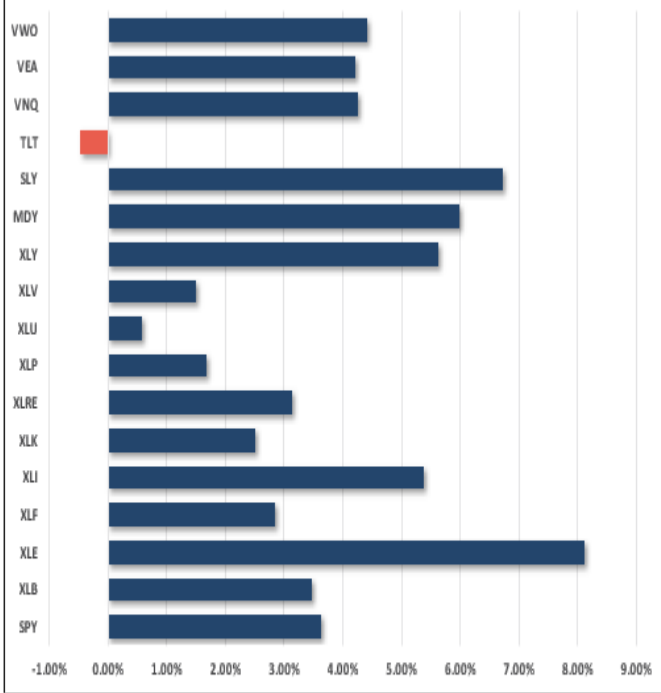
Momentum Analysis

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	258.98	(4.75%)	262.05	30	(1.17%)	273.95	30	(5.46%)	(4.34%)	(11.89%)	10.79%	Sell
Mid Cap	320.76	(5.40%)	322.35	30	(0.49%)	348.39	200	(7.93%)	(7.47%)	(14.26%)	12.76%	Sell
Small Cap	64.00	(7.53%)	64.34	#N/A	(0.53%)	70.69	#N/A	(9.46%)	(8.98%)	(18.21%)	13.68%	Sell

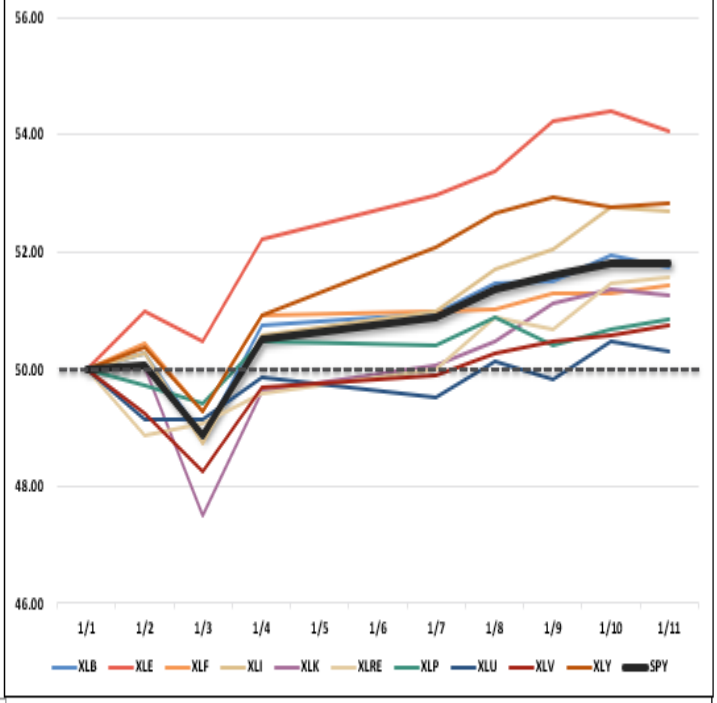
Performance Analysis

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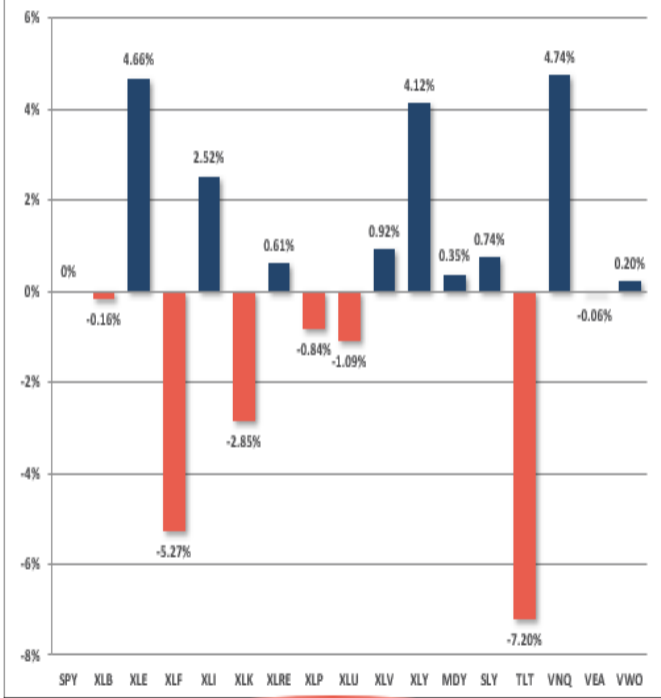
Year To Date Performance



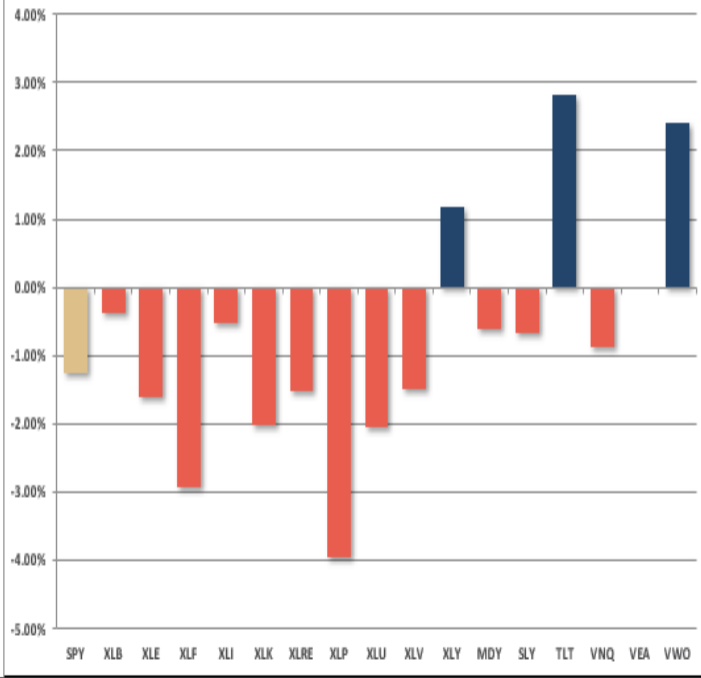
YTD Price - S&P Sectors Recalibrated To $50/share



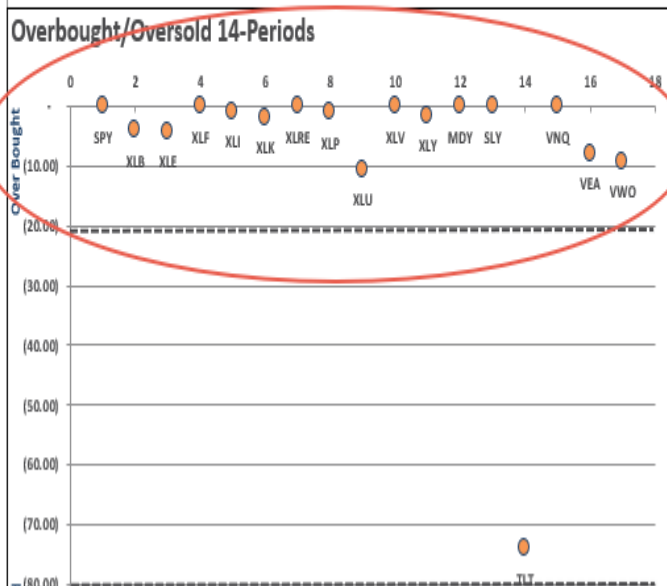
Year To Date Performance Relative To S&P 500



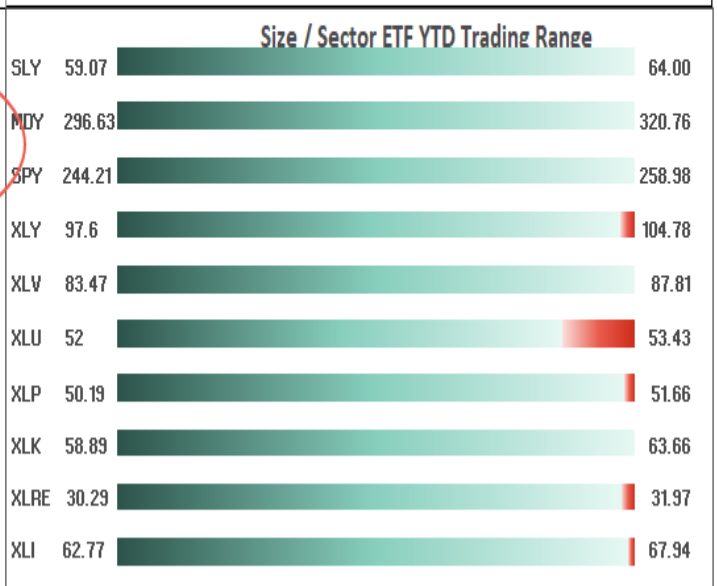
Price Deviation From 50-Day Moving Average



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	260.37	2.48	(0.77)	(6.43)	(8.11)	(6.98)	266.24	277.12	-2.21%	-6.04%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	52.27	(0.55)	2.62	4.87	(3.74)	(10.56)	52.47	56.39	-0.39%	-7.31%	SELL
		XLE	SPDR-EGY SELS	62.01	1.09	0.64	(6.88)	(10.97)	(12.92)	64.33	71.12	-3.61%	-12.81%	SELL
		XLF	SPDR-FINL SELS	24.50	(1.49)	1.85	(1.70)	(4.79)	(9.20)	25.42	26.89	-3.64%	-8.87%	SELL
		XLI	SPDR-INDU SELS	67.87	1.69	2.00	(0.82)	(2.60)	(8.36)	68.94	73.20	-1.56%	-7.28%	SELL
		XLK	SPDR-TECH SELS	63.54	0.83	(0.82)	(2.81)	(3.45)	2.09	65.85	69.98	-3.50%	-9.20%	SELL
		XLP	SPDR-CONS STPL	51.63	(1.76)	(4.49)	0.84	4.84	(1.88)	53.88	53.19	-4.17%	-2.93%	BUY
		XLU	SPDR-UTIL SELS	53.23	(1.61)	(5.54)	3.98	9.23	12.89	54.26	53.04	-1.91%	0.35%	BUY
		XLC	SPDR-COMM SV SS	44.05	0.20	1.78	0.72			44.03	46.96	0.05%	-6.19%	SELL
		XLV	SPDR-HLTH CR	87.81	(0.33)	(0.52)	2.39	7.94	8.12	89.32	89.00	-1.69%	-1.34%	BUY
		XLY	SPDR-CONS DISCR	104.58	1.24	2.97	4.78	1.79	6.55	103.99	109.09	0.56%	-4.13%	SELL
	SIZE	MGK	VANGD-MG CAP GR	111.15	0.48	0.87	(0.76)	(1.37)	2.01	113.07	119.40	-1.70%	-6.91%	SELL
		IJR	ISHARS-SP SC600	73.99	2.01	3.01	(0.03)	(5.40)	(0.02)	75.37	82.10	-1.83%	-9.88%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	95.96	1.08	1.00	1.63	(0.31)	(1.52)	97.29	101.87	-1.37%	-5.80%	SELL
	Dividend	VIG	VANGD-DIV APPRC	100.26	(0.02)	(0.73)	1.96	2.62	1.95	102.66	104.93	-2.34%	-4.45%	SELL
	Real Estate	VNQ	VIPERS-REIT	77.75	2.13	(1.61)	5.96	4.65	5.89	78.33	80.06	-0.74%	-2.89%	SELL
	International	IDV	ISHARS-INTL SD	29.95	(0.47)	1.34	1.97	(1.05)	(7.45)	30.26	31.77	-1.03%	-5.73%	SELL
		VWO	VANGD-FTSE EM	39.78	(0.12)	3.54	10.87	(0.94)	(10.95)	38.67	40.98	2.88%	-2.92%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	120.93	(3.45)	2.84	12.78	9.34	4.10	116.87	118.52	3.47%	2.03%	SELL
	International	BNDX	VANGD-TTL INT B	54.21	(2.59)	(0.73)	6.08	7.20	7.02	54.57	54.58	-0.66%	-0.68%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	83.89	(0.66)	1.65	5.24	5.76	2.77	83.23	84.81	0.80%	-1.09%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.62										

REAL INVESTMENT ADVICE

Sector & Market Analysis:

Sector-by-Sector



This past week:

Discretionary, Communications, and Health Care&#2013266080;all climbed above their respective 50-dma's and are currently holding support. Volume has dried up over the last several trading days, so it will be important for these sectors to maintain their current support without breaking back down. Stops are $102, $$43.50, and $87 respectively.

Technology, Industrials, Materials, Energy Staples, and Financials each rallied on declining volume last week but have failed to get above their 50-dma's currently. That overhead resistance is going to be challenged next week and it will be important, for the overall market, that these sectors make a move higher. Otherwise, I suspect we are going to see a correction evolve.

Current Postion: *Staples&#2013266080;*

Utilities and Real Estate&#2013266080;Last week, Utilities bounced off the 200-dma which sets up a decent trading opportunity with a trailing stop at the 200-dma.&#2013266080;Real Estate, also bounced and recovered back above its 200-dma. With rates coming back down, real estate can be added for a trade on a pullback to $31.50 that holds.

Current Positions:&#2013266080;*XLU added to Equity Trading Portfolio.*



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"* but are now back to very overbought. Take profits following last week's trading call.&#2013266080;

Current Position: *None*

Trading Position: *Close Trading Positions From Last Week*

- *SLY - Target: $64.50 - Close Position*
- *MDY - Target: $324 - Close Position*

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 this 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: *(Adjusting Buy Target Higher)*

- *TLT - Buy Target: Moved up to $120, Sell-Stop: $119*

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	OB	Negative	Negative	No Position					X	Above 50-DMA
XLK	Technology	Rising	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLI	Industrials	OB	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLB	Materials	OB	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLE	Energy	OB	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLP	Staples	Rising	Stabilizing	Neutral	Hold			X			Hold Current Positions
XLV	Health Care	Rising	Stabilizing	Neutral	Hold					X	Above 50-DMA
XLU	Utilities	Rising	Positive	Positive	Hold			X			Hold Current Positions
XLF	Financials	OB	Negative	Negative	No Position					X	Broke 200-DMA/Reduce
XLC	Telecom	OB	Negative	Negative	No Position			X			No Position / No History
XLRE	Real Estate	Rising	Positive	Positive	Hold			X			Hold Current Positions
$SML	Small Caps	OB	Negative	Negative	No Position					X	No Position
EEM	Emerging Mkt	OB	Negative	Negative	No Position					X	No Position
EFA	International	OB	Negative	Negative	No Position					X	No Position
GLD	Gold	OB	Improving	Improving	Look To Add					X	Trade Opprtunity Forming
MDY	Mid Cap	OB	Negative	Negative	No Position					X	No Position
RSP	SP500 Equal Wgt	OB	Negative	Negative	Hold			X			Hold
SDY	SP500 Dividend	OB	Stabilizing	Negative	Hold			X			Hold
IVV	SP500 Market W	OB	Negative	Negative	Hold			X			Reduced By 5% Last Week
TLT	20+ Yr. Bond	Declining	Improving	Improving	Look To Add			X			Target $120

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

Portfolio/Client Update:

No real change from last week as the market rally continues.&#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 sold 5-positions last week that technically have not been performing as well as we expected.&#2013266080;We sold MSFT, CDW, AXP, MDT and*

UNH. Stops across&#2013266080;all positions have been dramatically tightened up. This raised about 6% in cash with this rally and gives us an opportunity to add back positions on the anticipated retest of support.

- ***Equity/ETF blended****&#2013266080;- Same as with the equity model.&#2013266080;*
- ***ETF Model****: We will hold current holdings for now.*

As we noted last week:

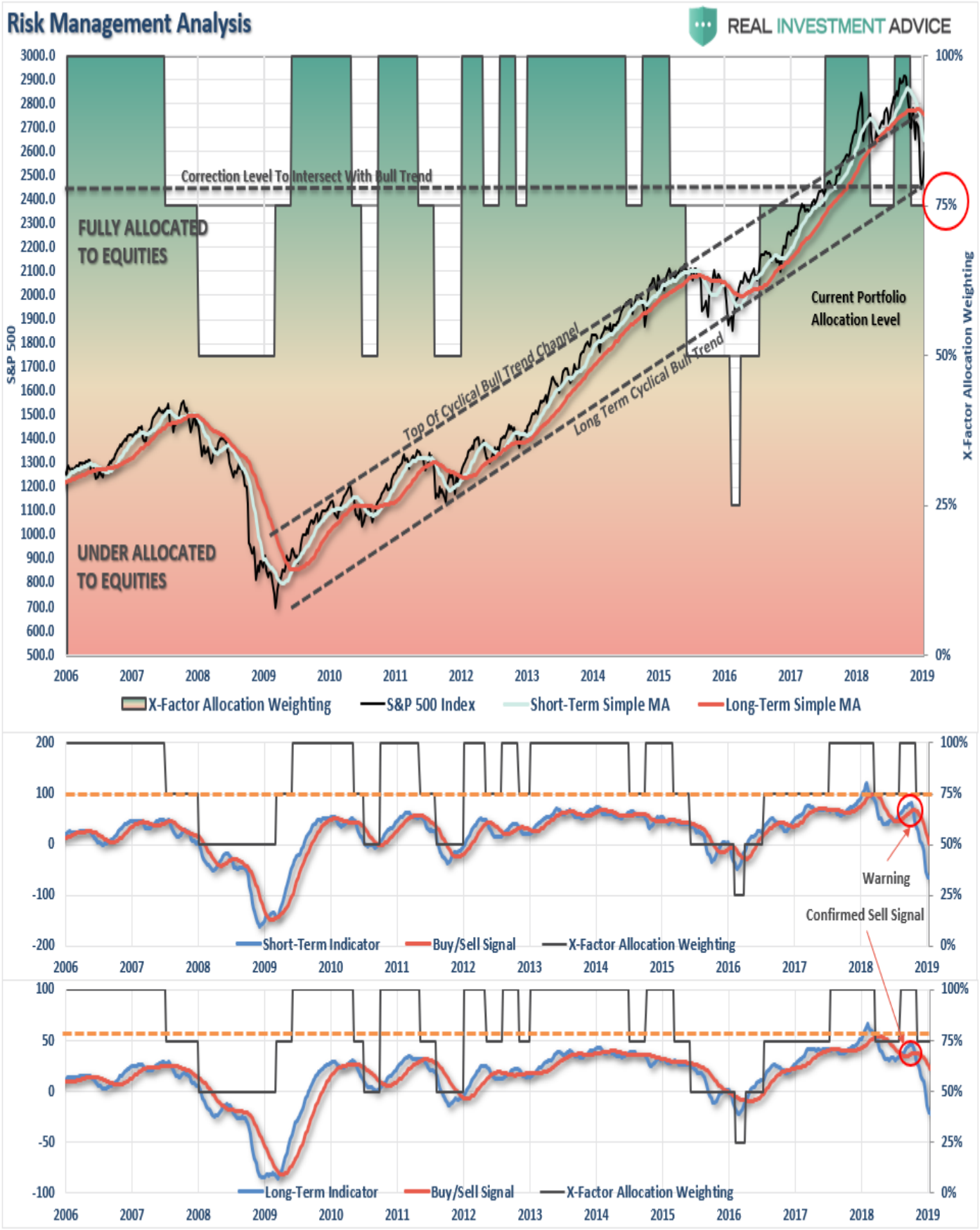
> *"There are certainly some catalysts which could reverse the current 'bearish'&#2013266080;backdrop of the market in the short-term such as Powell backing off tightening monetary policy further and Trump backing of the 'trade war' with China."*

Not surprisingly, we have seen just that happening as of last week. While these actions certainly improved the short-term outlook, the longer-term backdrop remains negative simply from the length of the current economic and market cycle. However, we are into the seasonally strong period of the year so we are giving the bulls the benefit of the doubt for now.&#2013266080;

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.*

401k-PlanManager-AllocationShift

Rally Runs Into Resistance

As I noted last week:

> *"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'&#2013266080;conditions will be used to lower equity exposure to 50%, or a target or 30% equity in our 60/40 model."*

This week, the market is indeed pushing up into short-term overbought levels and is testing the underside of important previous resistance.&#2013266080;

> *One thing to note in the chart above is the horizontal dotted line that I have had drawn on the chart for the past 18-months. I noted originally that the markets break above the long-term trend channel would eventually be challenged. The recent correction has challenged that important level, if we break that confluence of support, we will be in a much more important bear market cycle.&#2013266080;*

On Monday, take some action with respect to the following, if you haven't already:

- *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.*

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;**

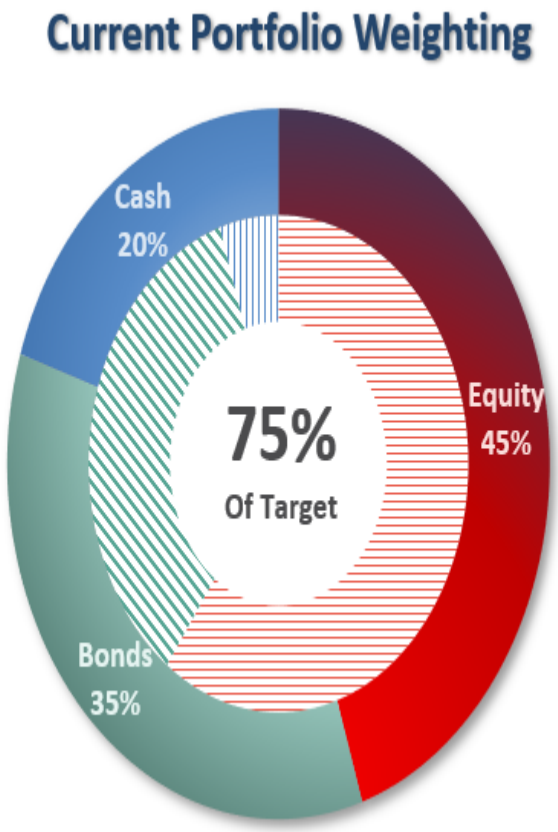
Unfortunately, since 401k plans don't offer a lot of flexibility and have trading restrictions in many cases,&#2013266080;**we have to minimize our movement and try and make sure we are catching major turning points.**

We want to make sure that we are indeed within a bigger correction cycle before reducing our risk exposure further.&#2013266080;

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 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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