

Bulls Charge Into Economic Slowdown



Real Investment Report

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- *Bulls Charge Into Economic Slowdown*
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[Last weekend](#), we discussed the two things driving the markets currently:

"The first is the Fed.

As we discussed with our [RIA PRO subscribers](#) (use code **PRO30** for a 30-day free trial) last week,

"Today, [Cleveland Fed Reserve Governor Loretta Mester] all but put the kibosh on further rate hikes and, per Mester's comments, will end balance sheet reduction (QT) in the months ahead."

The second is "hope."

On Friday, on headlines that talks are continuing with China, the market pushed through those resistance levels as shown below. "

"Not" Stuck In The Middle



It is virtually the same story during this past week.

No...wait...let me restate that.

It is EXACTLY the same story this week.

1. *The release of the Fed minutes showed a broad consensus by the Fed to end "Quantitative Tightening" or "QT" by the end of 2019 as well as a removal of any effort to normalize the Fed's balance sheet.*
2. *The markets rallied on continued hopes of a resolution to the ongoing trade dispute between China and the U.S.*

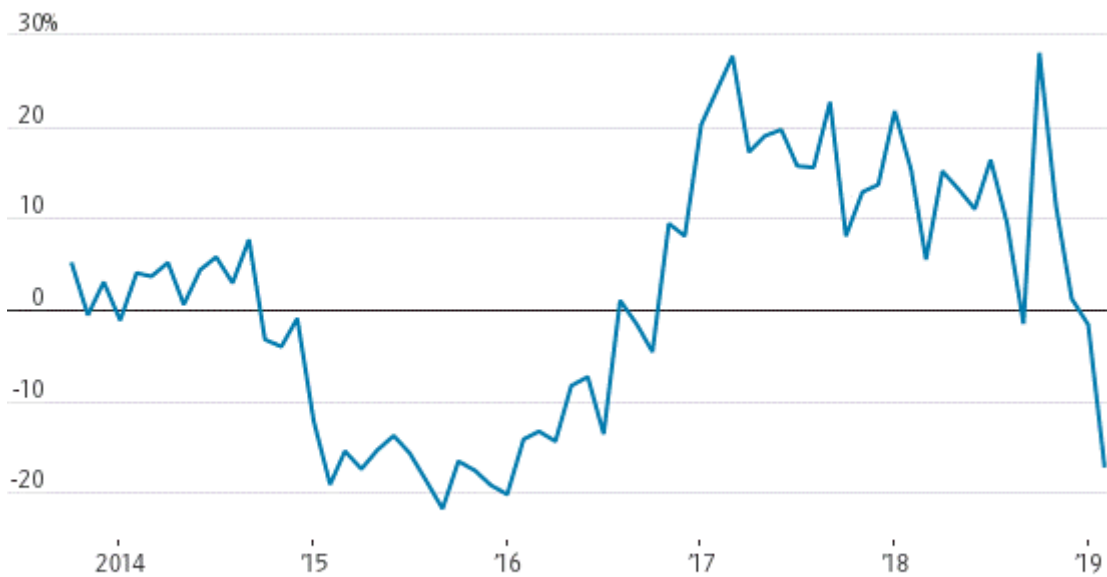
However, the Fed's actions should actually make you question the significance of any resolution on trade.

"Why do you say that? Everyone knows the trade dispute was a big factor in the sell-off last year?"

Maybe.

But, if that was indeed the case, then the economic turmoil should be primarily tied between the U.S. and China. However, as I discussed in ["The 'There Is No Recession In Sight' Chartbook,"](#) the economic disintegration has gone global.

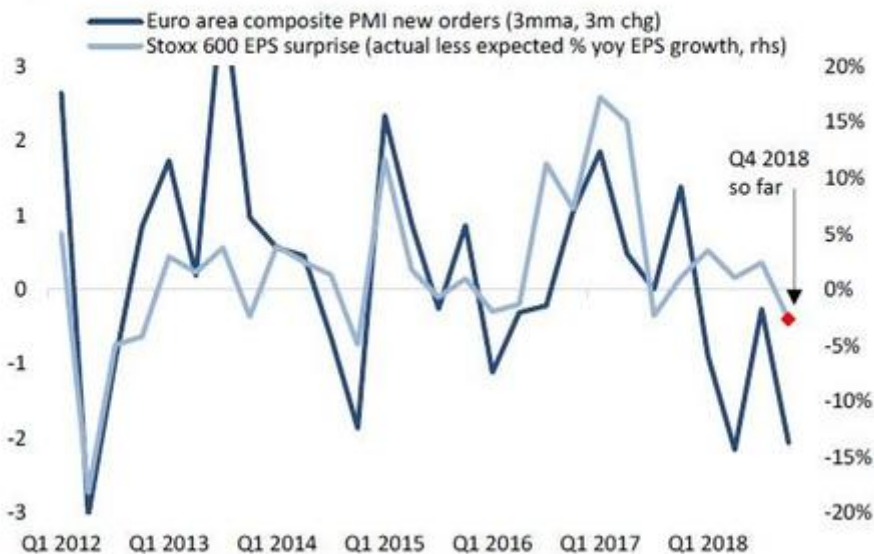
South Korean imports, change from previous year



Note: Data for February based on the first 20 days of the month

Source: Korea Customs Service

The negative surprise in Q4 so far is a reflection of the downside risks to consensus projections suggested by the decline in Euro area economic momentum in recent months



And as David Rosenberg noted:

�

"The Citi Global Economic Surprise index, at -21.6, is nearly the same as it was at the Dec 24th market low. It's now 227 days below zero -- only exceeded by the Great Recession of 2008-09. Markets totally devoid of economic realities.

pic.twitter.com/KnbnohRjly"

? David Rosenberg (@EconGuyRosie) [February 22, 2019](#)

In other words, there is more going on globally which has very little, if anything, to do with U.S. trade wars with China.�

Which brings us back to the Fed.�

*"Participants supported the removal of the hiking bias and its replacement with a sentence emphasizing a 'patient and flexible approach.' **Participants pointed to tighter financial conditions, softer inflation, slower foreign growth, and trade policy uncertainty as justifying a patient approach to policy.** However, a range of views were expressed on what adjustments to the funds rate may be appropriate later this year. 'Several' participants argued rates increases were necessary 'only if' inflation was higher than in their baseline, but 'several' other participants indicated that hikes would be appropriate if the economy evolved as they expected. In addition, 'many participants noted that if 'uncertainty abated,' the FOMC could alter the 'patient' statement language."*

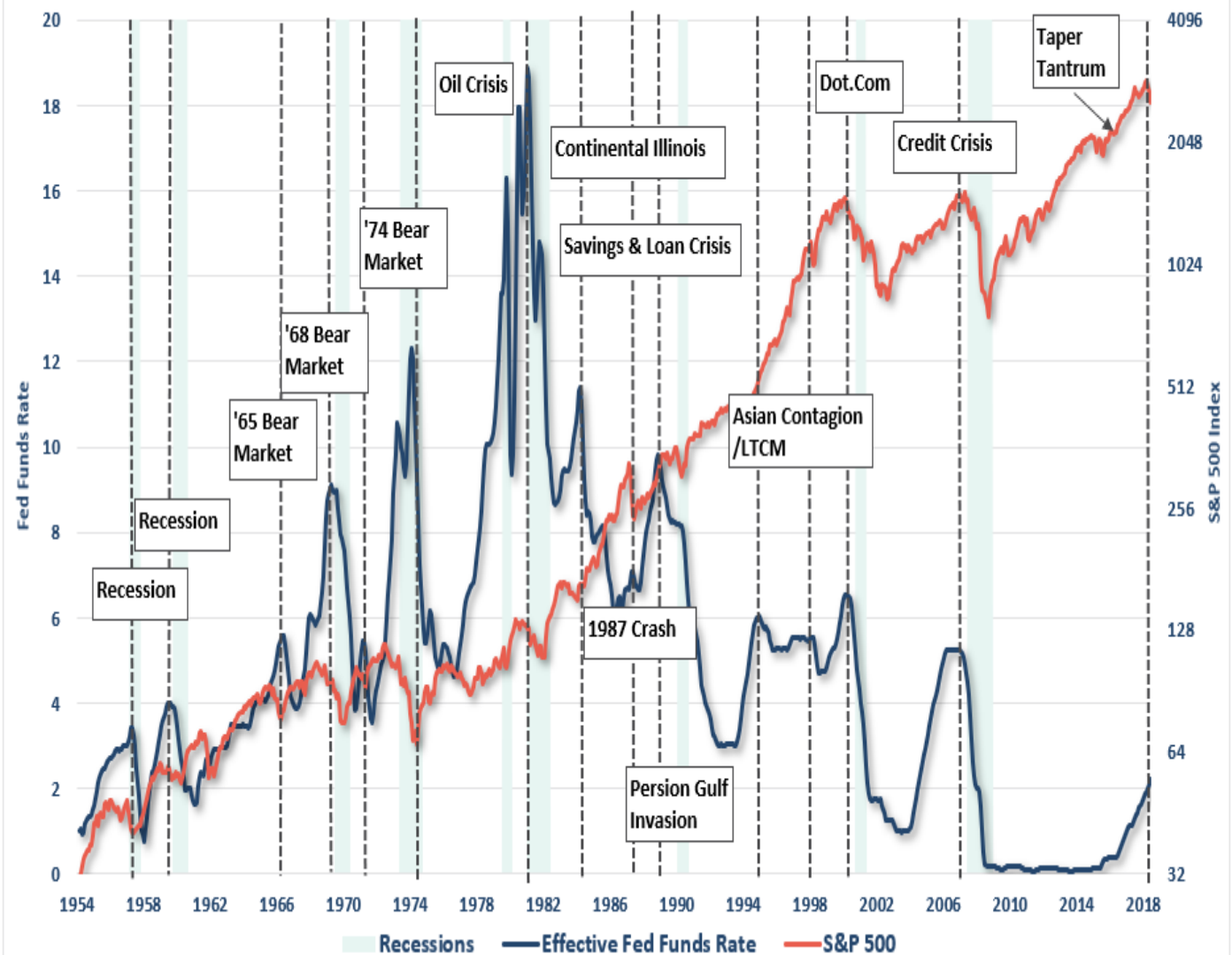
Why the sudden switch from "hawkish" to "dovish?"� Was it just the market correction that sent Jerome Powell scurrying for cover, or, despite still optimistic views on U.S. economic data, is there more to the story than they are currently saying.

If such is the case, then the recent rally in the markets may NOT be justified and further deterioration in forward earnings may become more problematic. This is particularly the case as valuations have quickly reverted back to near 30x earnings.�

The bull charge into an economic slowdown is�not a trivial matter.

Historically, it is the point where Fed has stopped their monetary policy interventions that things have gone wrong.

Effective Fed Funds Rate (3 Mth Avg.) Versus S&P 500



But that is not necessarily a bad thing. As we discussed with our [Pro-Subscribers](#) last week, this is where opportunity also lives:

*"Those who see that the last 10-years of experimental stimulus has been on par with, or arguably exceeded, policies historically reserved for major wars gain a unique and valuable perspective of the current monetary mirage. **The demise of those policies, as they are bound to unravel, will reveal a multitude of investment opportunities left behind in the ill-advised euphoria of anti-capitalism.**"*

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There is nothing wrong with **"hoping"** for a positive outcome; from **"trade talks."** We should be hoping for that. The problem is the rush to **"buy"** equities has effectively **"priced in"** the best of all possible outcomes which suggests

any resolution could be disappointing.�

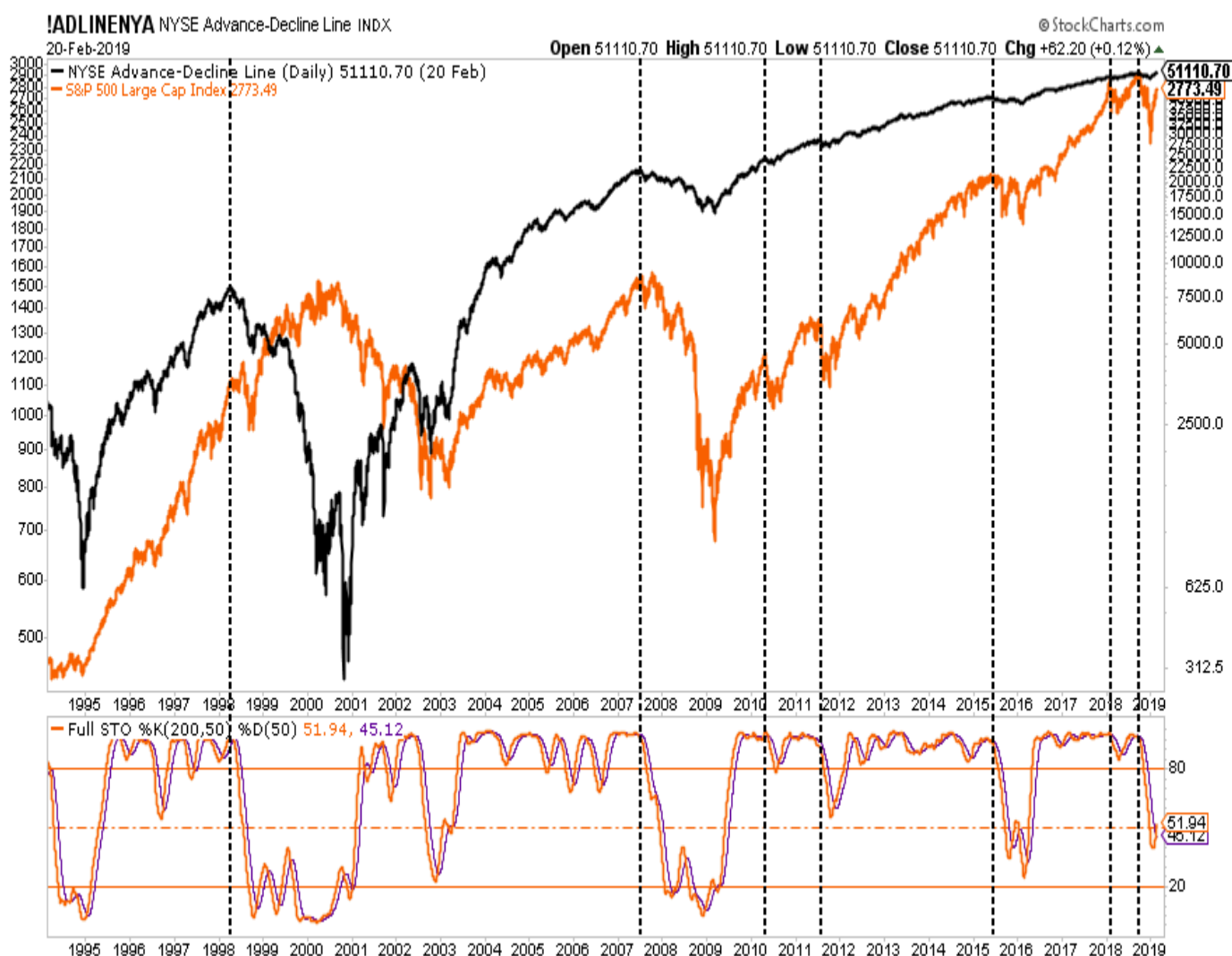
The Technical Backdrop Is No Longer Optimal

As we have discussed over the last several weeks, we have been increasing and rebalancing exposures in our equity portfolios following the December 24th low. This is simply because the technical backdrop had gotten extremely lopsided, very quickly, into extremely "bearish" territory. **Now, eight-short weeks later, the reverse is now true.**

Last week, Mark DeCambre penned [an article for MarketWatch](#) stating:

"Paul Schatz, the president of Heritage Capital, told MarketWatch in a phone interview that 'bear markets never, ever, ever begin when the A/D line is making an all-time high.'?"

Uhm...that isn't exactly true.



It also makes no sense.�

Bear markets, or even just simple garden-variety corrections, start **AFTER** markets have been advancing. **Therefore, it is only logical that bear markets ALWAYS start after advance-decline lines have reached higher levels.**

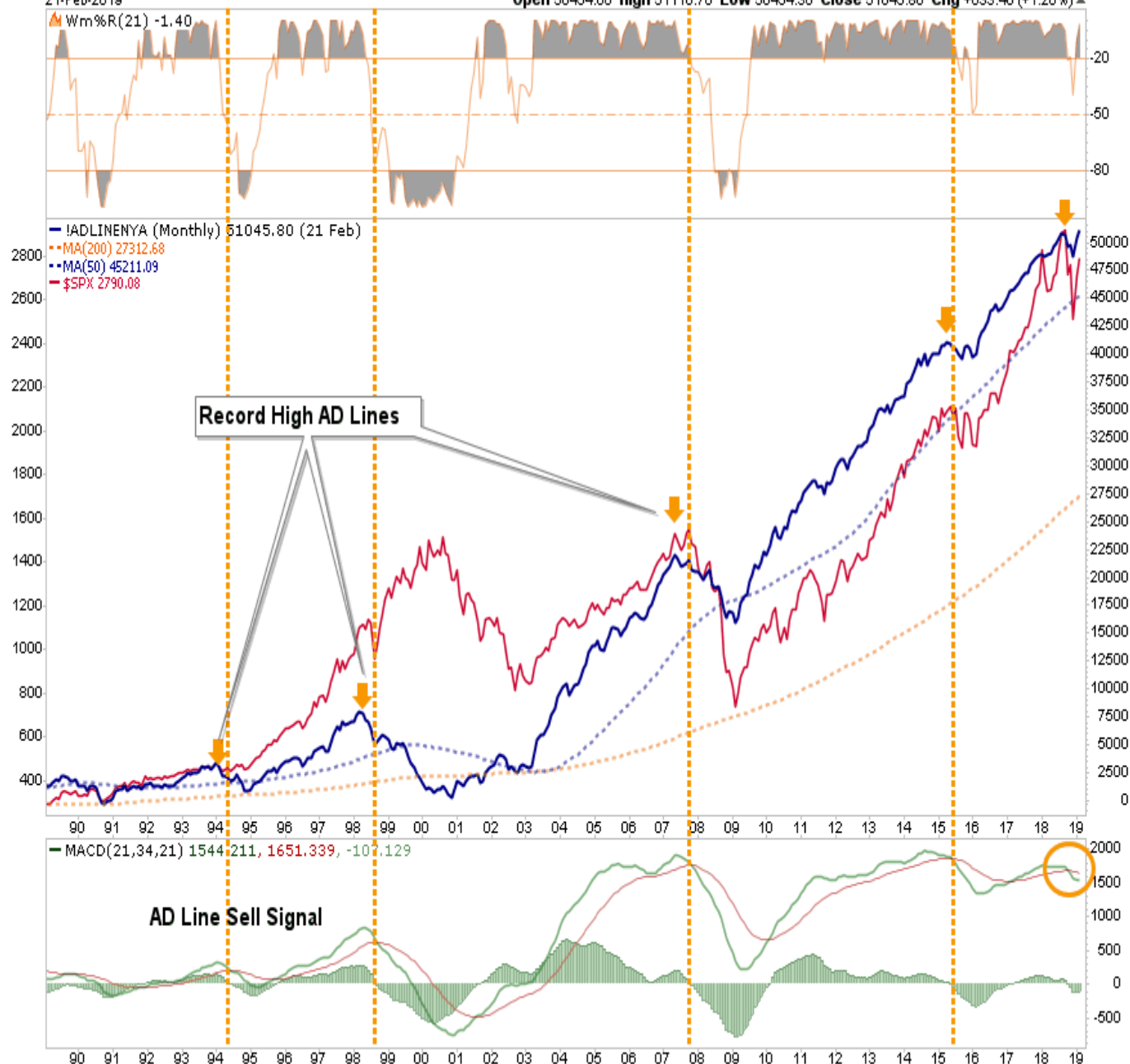
Here is a monthly chart of the NYSE Advance/Decline line versus the S&P 500.�

IADLINENYA NYSE Advance-Decline Line INDX

21-Feb-2019

© StockCharts.com

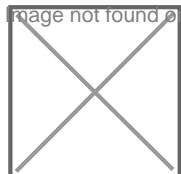
Open 50454.80 High 51110.70 Low 50454.30 Close 51045.80 Chg +633.40 (+1.26%) ▲



Grab a cup of coffee and start your trading/investing day with me.

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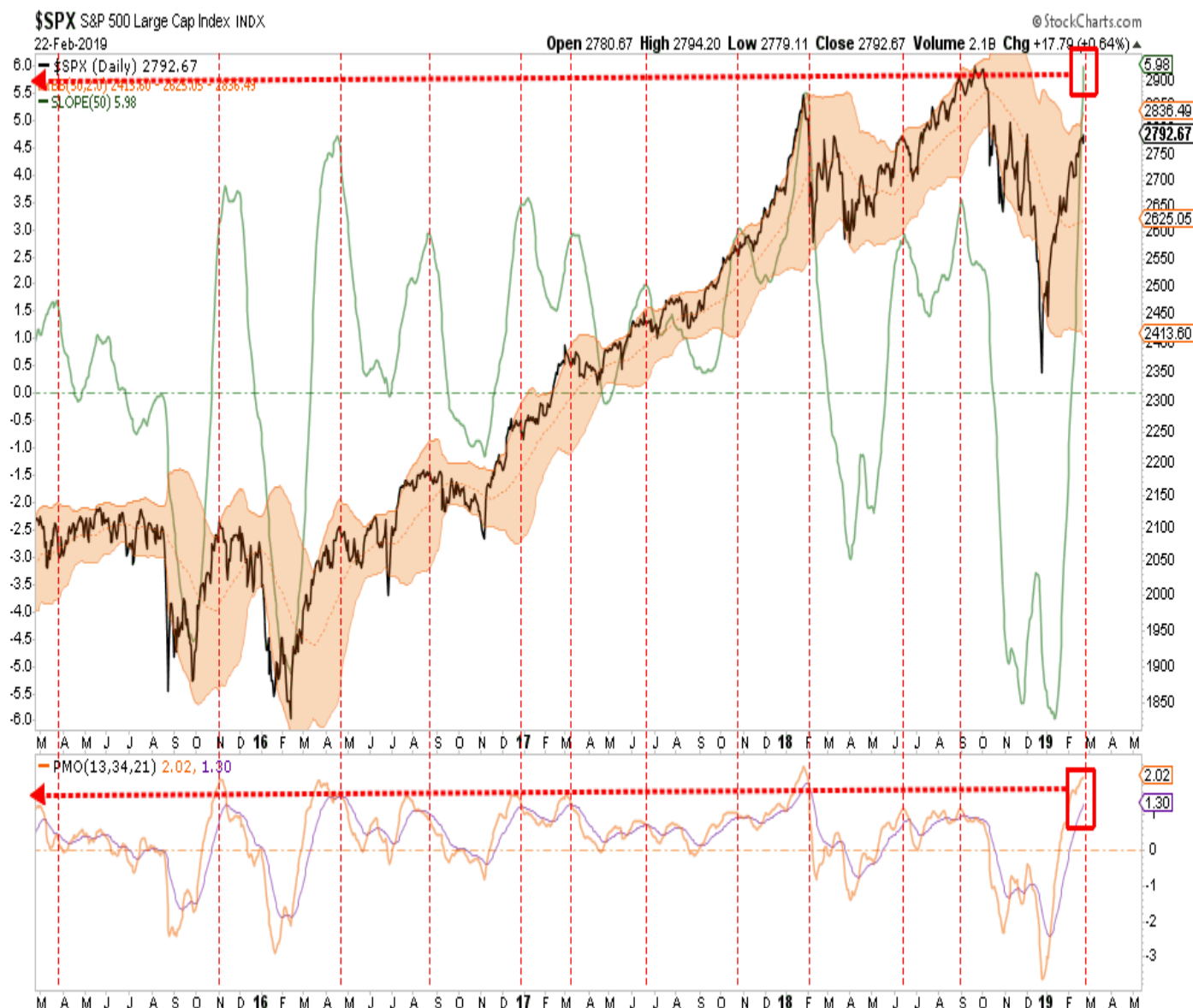


As you will note, we are currently on an Advance-Decline line monthly "sell signal" from a high level. The last time this occurred was during the 2015-2016 bear market. 2013266080;

While this time could certainly be different, as anything is always possible, the alignment of weaker earnings, weaker economic growth, and extremely overbought and extended technicals suggest

the current rally is likely limited in its current advance.�

As I noted last week, the slope of the advance in the market since the December 24th lows has not been this sharp...well....ever.



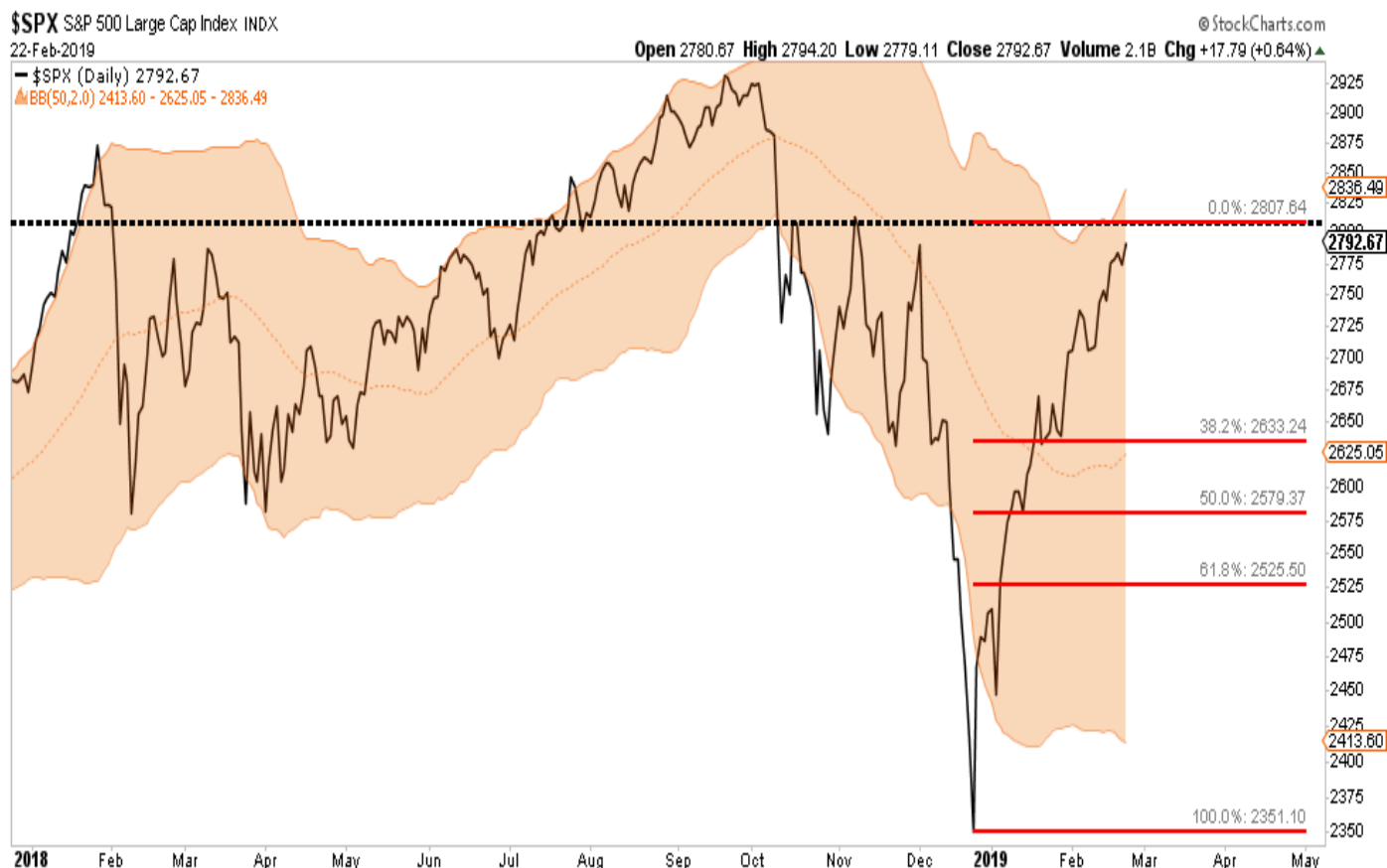
What To Expect Next

This analysis continues to confirm what we said last week:

"First, I am making the assumption the momentum of the market continues to push stocks toward the psychologically important level of 2800 on the index over the next few days."

That occurred last week as the markets closed the week just shy of that level. This keeps the analysis from last week in "play" at the moment.�

"Given the magnitude of the advance from the December 24th lows, we can use a Fibonacci sequence to "guesstimate" the magnitude of a corrective process.�"



With the markets extremely overbought, and much of the Fed "news" and Trump "trade" agreements already built into the market, the most likely outcome remains a "sell the news" event. The levels for that correction remain as follows:

Level 1 = 38.2%: *The first correction to relieve some of the extreme overbought condition of the market, and provide investors with a better opportunity to increase equity risk is at the 38.2% retracement level. This would be a retest of the support levels from the Oct-Nov lows and the 50-dma. (Most likely for now)*

Level 2 = 50%: *If the markets are unable to hold support at the Level 1 correction, then a fall to the 50% level is highly likely. Such a correction is much more bearish in nature and suggests a retest of the December 24th lows is probable. (Bearish, important support could make a tradeable bottom.)*

Level 3 = 61.8%: *If the markets get to this level, it is likely the markets will be oversold short-term and a bounce likely. However, that bounce should be sold into as a retest of lows is probable. (Bearish, something more material has gone wrong.)*

This analysis also corresponds to the extremely rapid reversion of both technical and sentiment measures, as well as the level of short-interest in the market which has now fallen to levels not seen since 2008.

Chart courtesy of [Zero Hedge](#)

Exhibit 5: S&P 500 short interest is lowest since 2007
as of January 31, 2019



Source: FactSet, Goldman Sachs Global Investment Research

Let me reiterate from last week:

"The important point here is that from a contrarian standpoint, markets have gotten way ahead of the underlying fundamentals. While the market may indeed end the year on a higher note, it will most likely not do that without lower prices first."

While our portfolios remain primarily long -biased currently, we are holding a higher level than normal of cash and have added small levels of "hedges" to portfolios which we will begin building into as the market reverses.

Statements like these are always misinterpreted to mean that we are "bearish," hiding in cash, and have 6-cases of spam and a carton of Twinkies sitting on our desk.

Our job as investors, and portfolio managers, is to navigate the market capitalizing on opportunity when they are available, and preserving capital when risks exceed our thresholds.

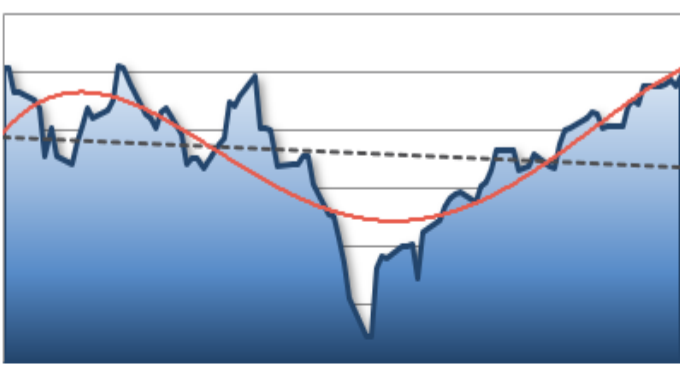
Currently, risk exceeds our threshold.

See you next week.

Market & Sector Analysis

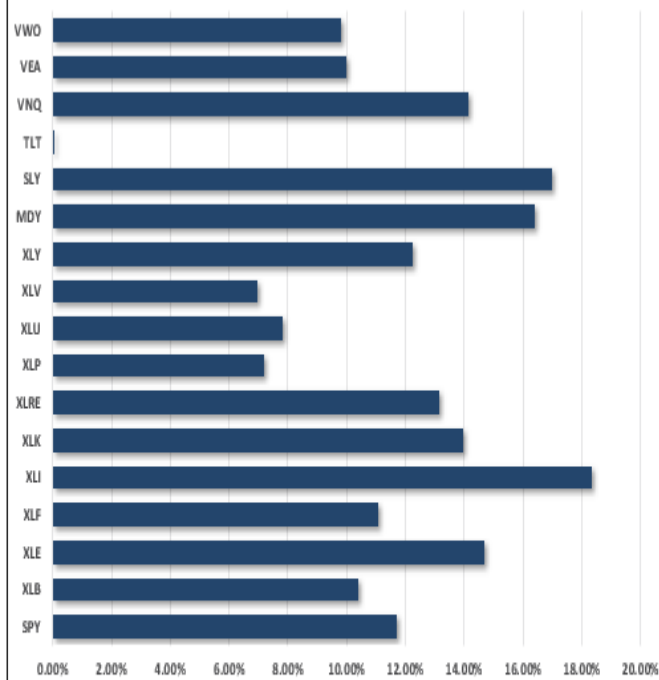
Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

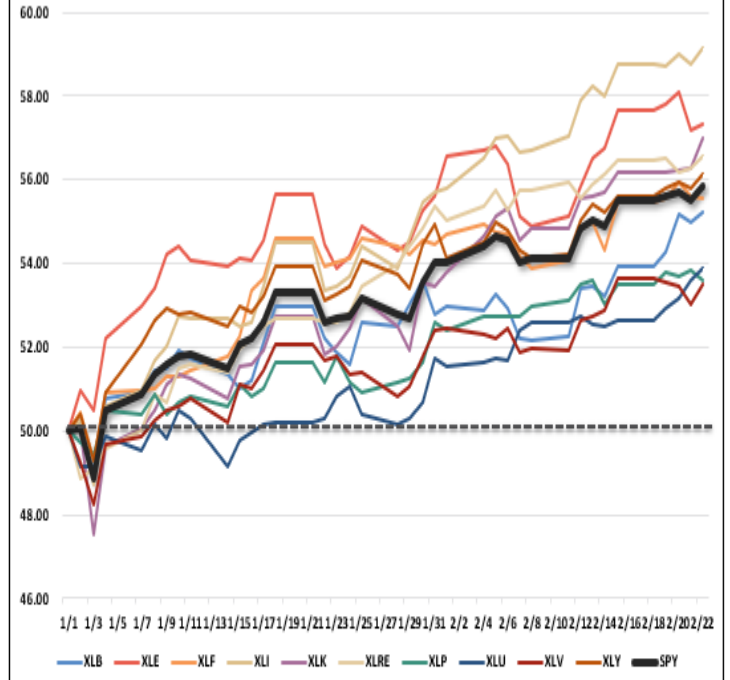
3 Month SPY Price									SPY RISK INFO		ZACKS		REAL INVESTMENT ADVICE	
									Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR	
									Price Return	18.14%	3.23%	11.69%	261.72%	
									Max Drawdown	-20.47%	-20.47%	-3.00%	-85.34%	
									Sharpe	0.77	0.26	7.56	28.54	
									Sortino	0.87	0.38	9.48	24.06	
									Volatility	13.49	16.34	14.86	(0.09)	
									Daily VaR-5%	(10.49)	(20.20)	90.10	(5.46)	
									Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00	
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	1.93%	1.67%	1.90%	12.15%	2.17%	1.67%	(12.56%)	13.84%	Shares	2,429.2	2,546.1	4.81%		
P/E Ratio	20.84	21.85	17.63	(23.97%)	21.57	16.67	(18.3%)	5.72%	Sales	58,533	63,675	8.79%		
P/S Ratio	3.00	3.53	3.36	(5.02%)	3.53	2.39	(4.78%)	40.35%	SPS	24.1	25.0	3.79%		
P/B Ratio	3.46	4.00	4.00	(0.04%)	4.15	2.82	(3.62%)	41.90%	Earnings	7,978	9,651	20.97%		
ROE	15.22%	15.97%	19.04%	16.11%	19.04%	15.01%	0.00%	26.81%	EPS TTM	3.9	4.8	24.19%		
ROA	2.83%	3.00%	3.47%	13.49%	3.47%	2.82%	0.00%	23.02%	Dividend	1.4	1.6	10.93%		
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	(2.19%)	5.49%	1.20	16.28	156.27	12.49	(89.6%)	9.0%	3.4%	5.26%	3.24	17.58		
Materials	(3.58%)	2.71%	1.31	16.06	21.86	13.82	(26.5%)	11.6%	2.1%	6.18%	4.68	14.59		
Industrials	(1.96%)	9.73%	1.12	17.48	22.21	14.01	(21.3%)	15.6%	1.9%	6.07%	5.25	14.89		
Discretionary	7.19%	9.94%	0.99	23.30	27.47	19.96	(15.2%)	28.1%	1.2%	4.17%	4.76	20.29		
Staples	0.30%	7.12%	0.60	18.82	22.83	17.95	(17.5%)	26.8%	3.0%	5.24%	3.91	17.71		
Health Care	10.29%	14.95%	0.95	17.35	20.62	15.93	(15.9%)	31.8%	1.7%	5.63%	6.29	15.77		
Financials	(7.55%)	13.38%	1.22	12.99	18.41	11.69	(29.4%)	11.5%	2.1%	7.44%	5.70	11.42		
Technology	10.27%	20.26%	1.19	18.71	21.83	14.47	(14.3%)	38.7%	1.6%	5.21%	5.12	17.33		
Telecom	0.54%	10.07%	0.88	19.46	26.97	19.96	(27.8%)	18.2%	1.0%	4.91%	4.98	21.39		
Utilities	19.02%	3.21%	0.33	19.05	20.31	15.58	(6.2%)	11.2%	3.3%	5.38%	3.57	17.36		
Real Estate	16.65%	2.98%	0.81	19.75	24.47	17.87	(19.3%)	10.1%	3.3%	5.10%	4.28	18.32		
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	279.14	7.17%	261.58	27	6.71%	274.28	9	1.77%	(4.63%)	(5.04%)	19.41%	Sell		
Mid Cap	352.26	11.38%	323.26	28	8.97%	346.85	6	1.56%	(6.80%)	(5.84%)	23.84%	Sell		
Small Cap	70.15	12.06%	64.12	28	9.40%	70.38	275	(0.33%)	(8.89%)	(10.35%)	24.60%	Sell		

Performance Analysis

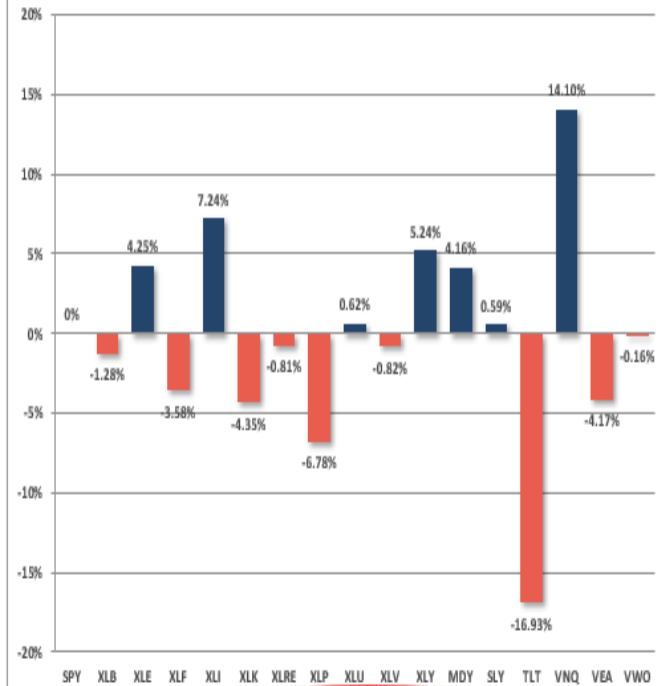
Year To Date Performance



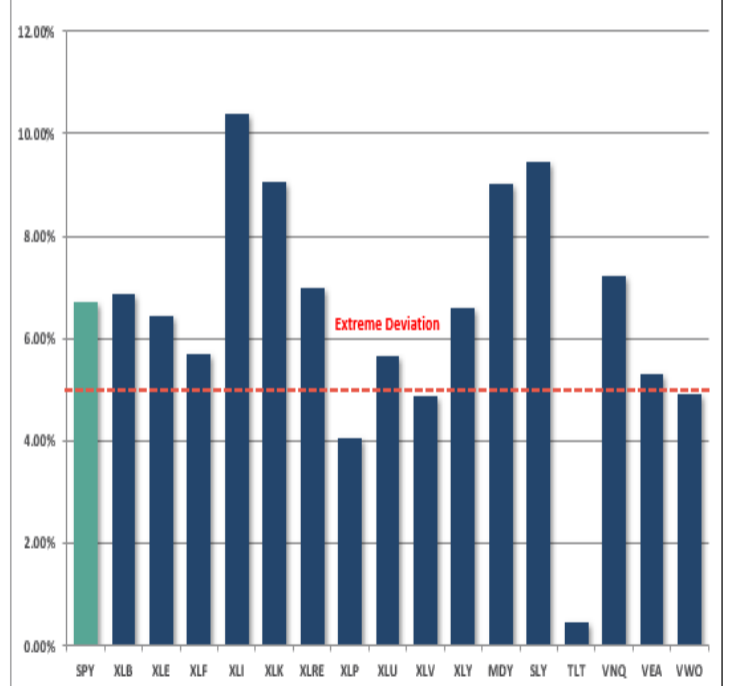
YTD Price - S&P Sectors Recalibrated To \$50/share



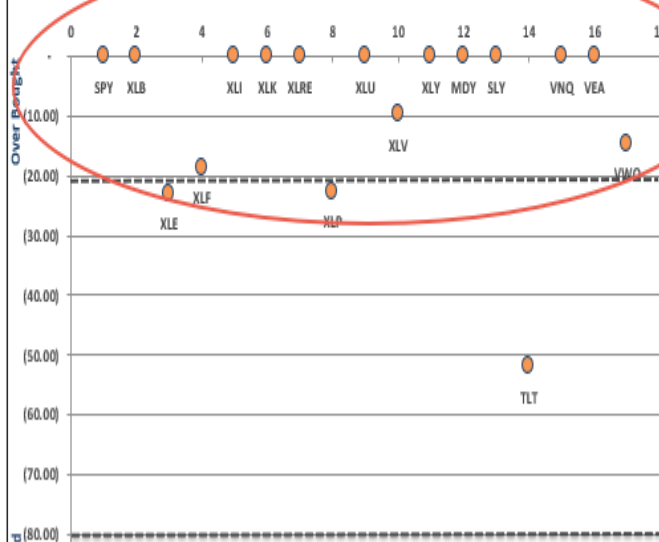
Year To Date Performance Relative To S&P 500



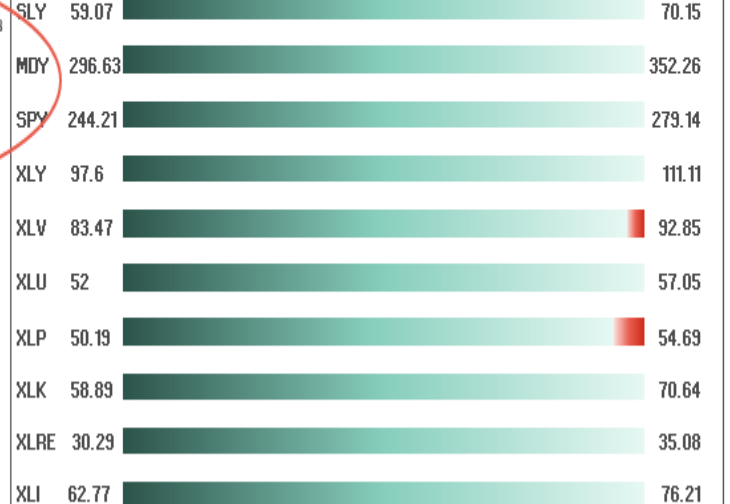
Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



ETF Model Relative Performance Analysis

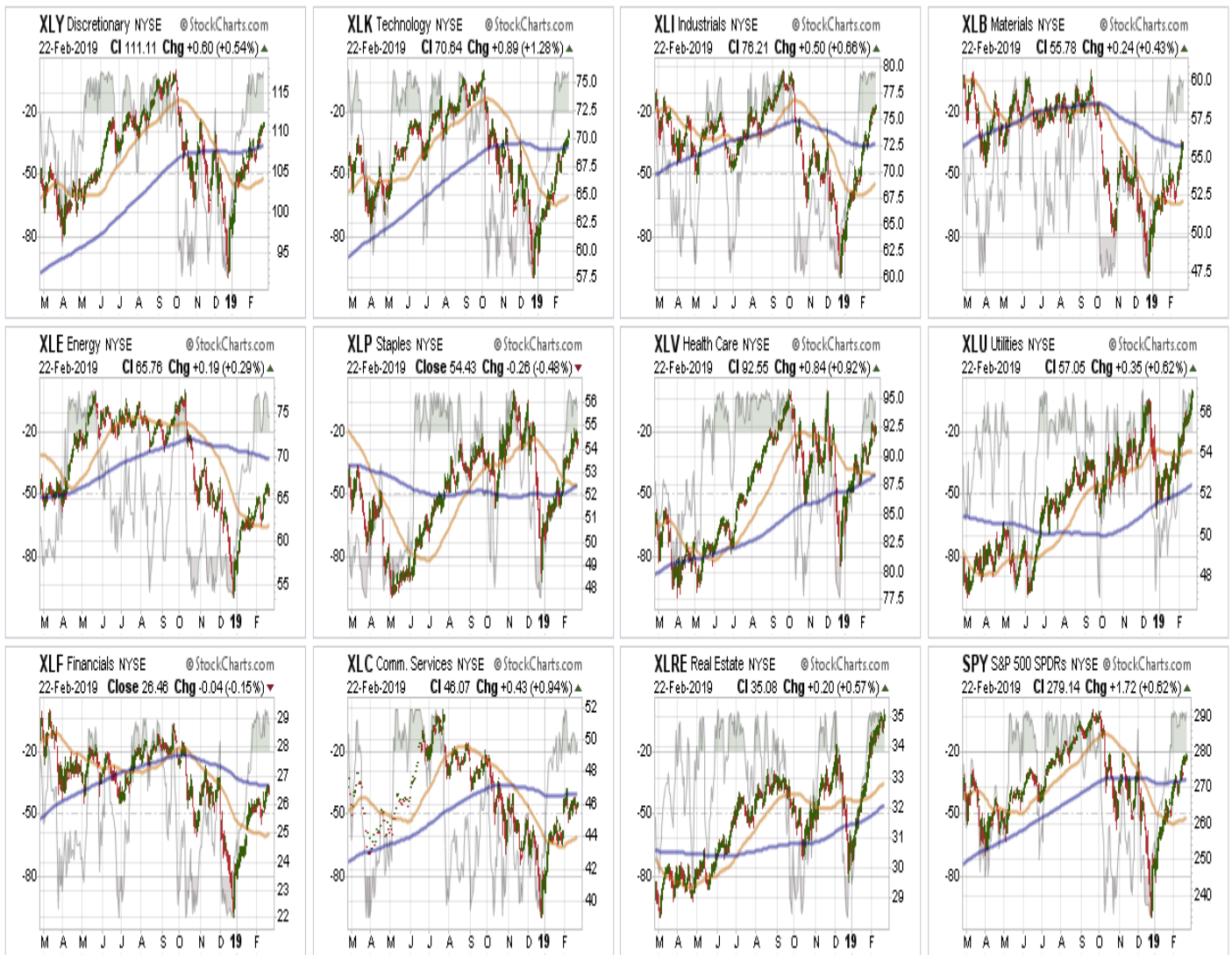
RELATIVE PERFORMANCE		Ticker ETF NAME		Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
				BENCHMARK		IVV	ISHARS-SP500	280.82	0.59	4.98	1.01	(3.03)	1.48	264.91
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	55.78	1.79	0.03	1.13	(2.39)	(10.47)	52.45	55.38	6.36%	0.72%	SELL
		XLE	SPDR-EGY SELS	65.76	(1.14)	(0.48)	(1.54)	(6.64)	(5.90)	62.44	69.02	5.31%	-4.73%	SELL
		XLF	SPDR-FINL SELS	26.46	(0.48)	(3.21)	(2.91)	(3.57)	(10.62)	25.21	26.61	4.95%	-0.57%	SELL
		XLI	SPDR-INDU SELS	76.21	0.09	3.78	4.04	1.25	(3.37)	69.26	72.76	10.04%	4.74%	SELL
		XLK	SPDR-TECH SELS	70.64	0.87	2.16	2.96	(0.96)	1.96	65.17	69.32	8.40%	1.91%	SELL
		XLP	SPDR-CONS STPL	54.43	(0.45)	0.24	(4.27)	3.14	(1.33)	52.98	53.63	2.75%	1.49%	SELL
		XLU	SPDR-UTIL SELS	57.05	1.81	2.02	1.61	8.48	11.83	54.40	53.82	4.87%	6.00%	BUY
		XLC	SPDR-COMM SV SS	46.07	(0.83)	(1.68)	1.34			43.99	46.51	4.73%	-0.94%	SELL
		XLV	SPDR-HLTH CR	92.55	(0.92)	(0.90)	(4.48)	3.03	6.98	89.20	90.10	3.76%	2.72%	SELL
		XLY	SPDR-CONS DISCR	111.11	0.36	(1.17)	1.87	(0.84)	3.43	104.54	108.89	6.28%	2.04%	SELL
	SIZE	SLY	SALOMON LEASING	70.15	0.65	2.05	1.26	(5.71)	2.86	64.53	69.91	8.71%	0.35%	SELL
		MDY	SPDR-SP MC 400	352.26	0.37	1.45	1.76	(1.62)	0.21	325.08	344.72	8.36%	2.19%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	104.53	0.09	0.73	1.81	1.20	0.49	97.46	101.45	7.25%	3.03%	SELL
	Dividend	SDY	SPDR-SP DIV ETF	99.63	0.55	1.25	0.84	4.20	5.36	93.71	95.27	6.32%	4.58%	SELL
	Real Estate	XLRE	SPDR-RE SELS	35.08	(0.37)	0.91	2.62	7.94	12.79	32.97	32.89	6.39%	6.66%	BUY
	International	EEM	ISHARS-EMG MKT	43.04	1.66	(2.99)	3.76	6.62	(14.92)	40.86	41.58	5.34%	3.51%	SELL
		EFA	EMG MKT FREE A S	64.12	0.19	(1.84)	1.14	1.03	(11.60)	61.28	64.22	4.63%	-0.15%	SELL
		IXUS	ISHARS-CR INT S	57.59	0.67	(2.10)	1.94	1.61	(12.33)	54.88	57.28	4.95%	0.54%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	121.57	(0.93)	(4.12)	4.40	5.08	1.43	120.13	118.69	1.20%	2.42%	BUY
	International	BNDX	VANGD-TTL INT B	55.03	(0.36)	(4.25)	(0.52)	3.64	0.24	54.66	54.63	0.68%	0.74%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	85.59	(0.37)	(3.58)	1.37	2.90	(2.41)	83.48	84.65	2.52%	1.11%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.98										

REAL INVESTMENT ADVICE

Sector & Market Analysis:

Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels

Sector-by-Sector



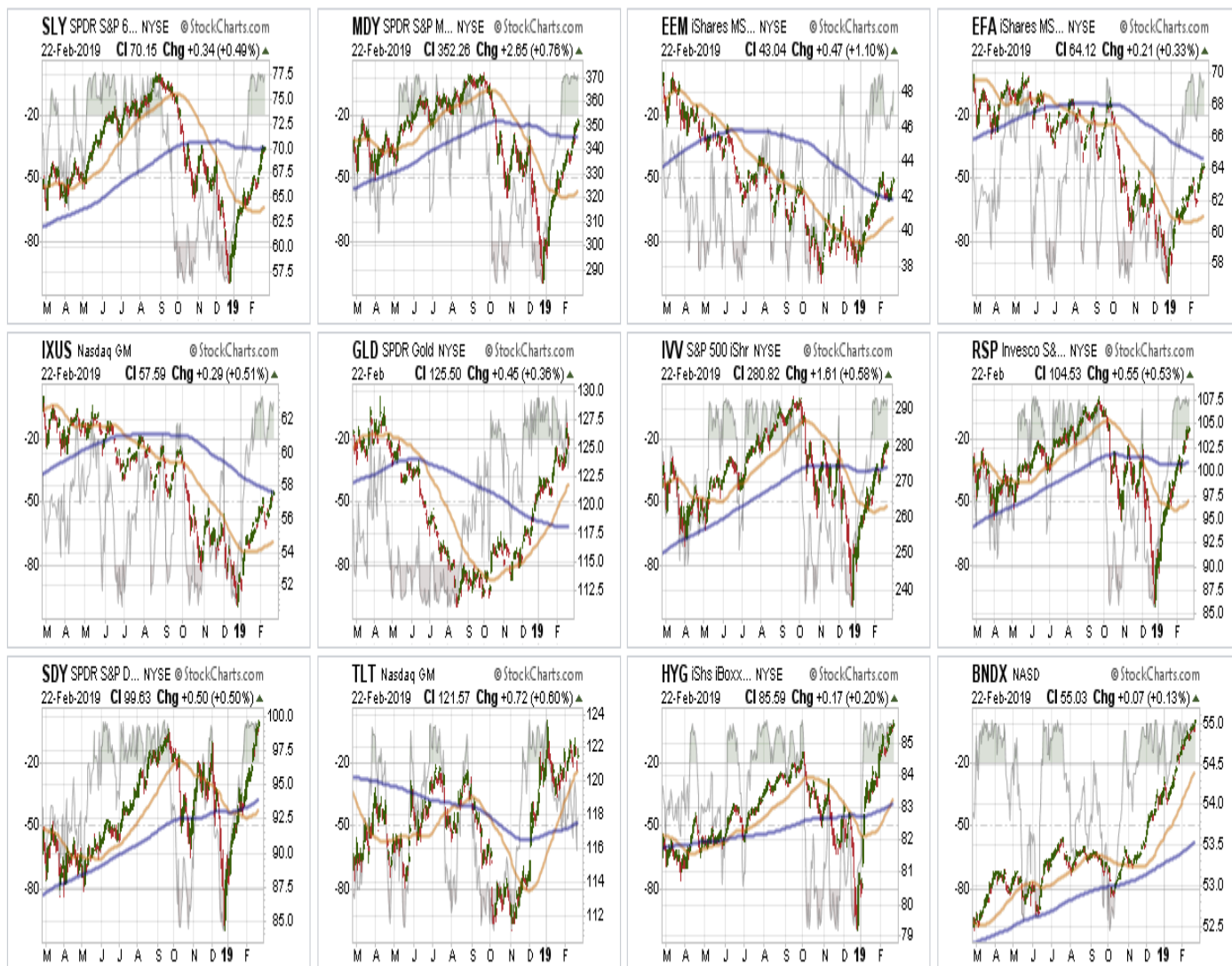
Discretionary, Technology, Industrials, Staples, Health Care, Utilities, Real Estate - The unabated rally since the December 24th lows continued last week pushing these sectors into an extremely long rally historically speaking. With all of these sectors crossing back above their respective 200-dma, the bullish backdrop has improved. With all of these sectors extremely overbought short-term, take some profits and rebalance risks accordingly. [2013266080](#);

Current Positions: [2013266080](#); XLP, XLY, XLU, XLI, XLK - Stops moved up to 50-dmas.

Materials, Energy, Financials, and Communications - While other sectors of the market have performed much better, these sectors have rallied but have failed to climb above their respective 200-dma's. As with the whole market complex, all of these sectors are still operating within a bearish crossover of the 50- and 200-dma's. Given the extreme overbought conditions these sectors, take profits and rebalance risks accordingly and wait for a better risk/reward opportunity to add exposure.

Current Positions: [2013266080](#); XLB, XLF - Stops moved up to 200-dmas.

Market By Market



Small-Cap and Mid Cap - both of these markets are currently on macro-sell signals but have rallied along with the entire market complex. Like everything currently, both markets are extremely overbought and are vulnerable to signs of rising economic weakness. The overall trend remains negative and, while on short-term "buy signals," both markets are now back to extreme short-term overbought conditions. Take profits and rebalance risks accordingly, look for a pullback that reduces the overbought condition before adding exposure;

Current Position: None

Emerging, International & Total International Markets;

Last week, Emerging Markets pulled back to its 200-dma after breaking above that resistance. With the 50-dma turning up we have been looking for an opportunity to add exposure. In the short-term emerging markets are extremely overbought, however, the 200-dma did hold on the recent test. 1/2 of a position can be added on a tactical basis with a stop at the 200-dma.

Major International & Total International shares are extremely overbought but not performing nearly as well as Emerging Markets. Keep stops tight on existing positions, but no rush here to add new exposure. Emerging Markets are much more interesting.

Stops should remain tight at the running 50-dmas;

Current Position: Adding 1/2 position in EEM

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. The overall market dynamic remains negative and markets are pushing into very tough levels of overhead resistance. Two weeks ago we took profits and reduced back to our target portfolio weightings. Stops are moved up to the running 50-dma's;

Current Position: RSP, VYM, IVV

Gold? We have been discussing a pullback in Gold to add exposure to portfolios. Gold remains very-overbought short-term, however, the short-term pullback last week gives us an entry for a tactical position;

Current Position: GDX (Gold Miners)

Next Position: Adding 1/2 position in IAU

Bonds?

Intermediate duration bonds remain on a buy signal after we increased exposure last month. We are holding our current bond allocation for the time being;

Current Positions: DBLTX, SHY, TFLO, GSY

High Yield Bonds, representative of the "risk on" chase for the markets have continued to push higher and are extremely overbought. Look for a "risk off" rotation sooner which could see high yield bonds contract rather sharply. The same holds for international bonds as well;

The table below shows thoughts on specific actions related to the current market environment;

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

						OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
		Over Bought / Sold	50/200 DMA	Trend	Action						
XLY	Discretionary	OB	Negative	Negative	Hold			X			Hold Position
XLK	Technology	OB	Negative	Negative	Hold			X			Hold Position
XLI	Industrials	OB	Negative	Negative	Hold			X			Hold Position
XLB	Materials	OB	Negative	Negative	Hold			X			Hold Position
XLE	Energy	OB	Negative	Negative	No Position					X	Add On Pullback
XLP	Staples	OB	Stabilizing	Neutral	Hold			X			Hold Position
XLV	Health Care	OB	Stabilizing	Neutral	No Position					X	Add On Pullback
XLU	Utilities	OB	Positive	Positive	Hold			X			Hold Position
XLF	Financials	OB	Negative	Negative	Hold			X			Hold Position
XLC	Telecom	OB	Negative	Negative	No Position					X	Not Enough History Yet
XLRE	Real Estate	OB	Positive	Positive	No Position					X	Take Profits
SLY	Small Caps	OB	Negative	Negative	No Position					X	Above 50-DMA
MDY	Mid Caps	OB	Negative	Negative	No Position					X	Above 200-DMA
EEM	Emerging Mkt	OB	Negative	Improving	Trade Oppty		X				Adding 1/2 Position
EFA	International	OB	Negative	Negative	No Position					X	Above 50-DMA
IXUS	Total International	OB	Negative	Negative	No Position					X	Above 50-DMA
GLD	Gold	OB	Positive	Improving	Trade Oppty		X				Adding 1/2 Position
RSP	SP500 Equal Wgt	OB	Negative	Negative	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	OB	Stabilizing	Negative	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	OB	Negative	Negative	Hold			X			Reduce to Target Weight
TLT	20+ Yr. Bond	Rising	Positive	Improving	Hold			X			Hold
HYG	Corporate High Yield	OB	Improving	Improving	No Position			X			Way Too Overbought Currently
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position			X			Way Too Overbought Currently
LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING							X	No Position			

Portfolio/Client Update:

As noted last week, the market was able to close the week above the 200-dma and is now in the process of testing the psychological resistance level of 2800.

Given the markets have had 9-straight weeks of advance, a week or two of corrective/consolidative action is likely. That corrective action (which could just be sideways) will provide additional opportunities to increase exposure to risk.

- **New clients:** We previously added core positions and our fixed income holdings to new portfolios. Since our "core" positions are our long-term holds for inflation adjustments to income production we can add without too much concern. Tactical positions for growth will be added accordingly. As we talked about in the missive above, this includes IAU and EEM currently.
- **Equity Model:** This past week we sold CVS on a very poor earnings report which violated our stop loss level. We swapped the position in to WBA which has similar

fundamentals and plays in the same space as CVS. Overall, performance of positions are doing well, but many are very extended. However, since we are mostly carrying reduced weightings in portfolios, we will look to add to these positions on pullbacks that maintain support levels.

- **ETF Model:** No changes this past week. Adding IAU and EEM this coming week.

Note for new clients:

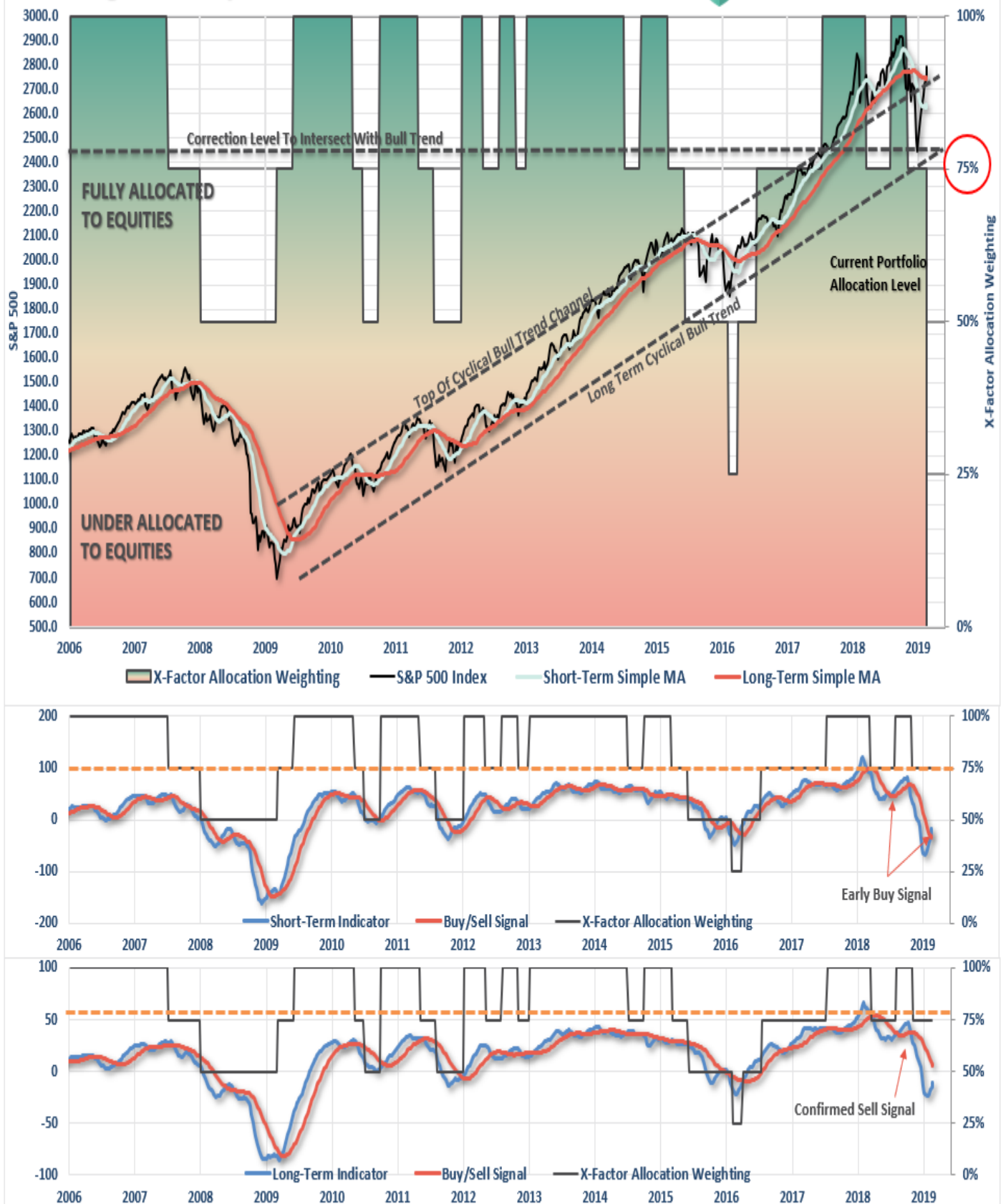
It is important to understand that when we add to our equity allocations, **ALL** purchases are initially **trades** that can, and will, be closed out quickly if they fail to work as anticipated. This is why we **step** into positions initially. Once a **trade** begins to work as anticipated, it is then 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

A Conservative Strategy For Long-Term Investors

Risk Management Analysis

REAL INVESTMENT ADVICE



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

Initial Buy Signal Is In...But Caution

As noted in the 401k chart above, the short-term weekly "buy" signals was triggered last week. **This is bullish but requires the lower signal to "confirm" the upper before we increase the portfolio model back to 100% target levels.**

However, note that back in early 2018, that the signals went from "sell" to "buy" but were quickly reversed due to the intense sell-off in the last quarter of the year. As always, we adhere to the signals closely as they tend to be right more often than not.

So, the early "alert" signal is bullish so we are watching things closely.

As we have noted previously, by the time weekly signals are triggered the market is ALWAYS very overbought or oversold. **Therefore, when signals are registered we don't immediately take action. Instead, like now with markets are extremely overbought on a short-term basis, we want to wait for some type of pullback to add exposure.**

As we have been discussing over the last several weeks, the sharp rally in stocks has gone too far, too quickly.

No change to allocations this week, we are looking for this rally to "rest" a bit and allow for a better opportunity to increase exposure. Continue to follow the model strategy for the time being.

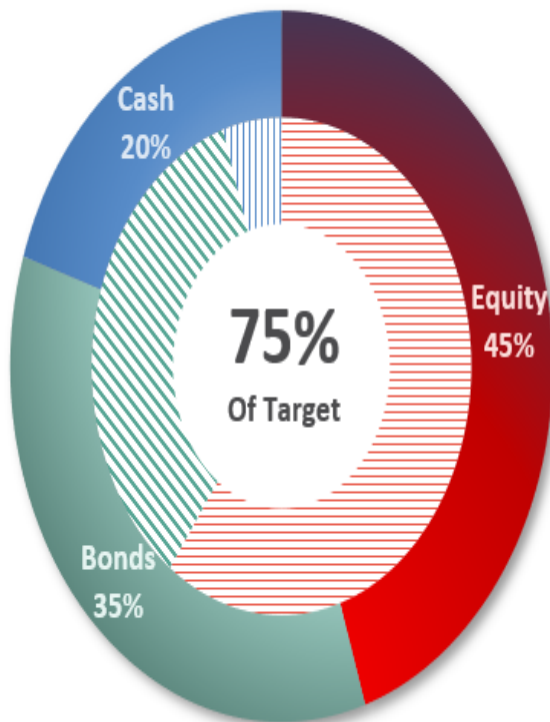
- If you are **overweight equities** - take some profits and overall portfolio weights to 75% of your selected allocation target.
- If you are **underweight equities or at target** - hold positions for now.

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

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