Real Investment Report: Experience Is The Only Cure

- ***Market Review - The Run For The Highs Continues***
- ***Experience Is The Only Cure***
- ***Sector & Market Analysis***
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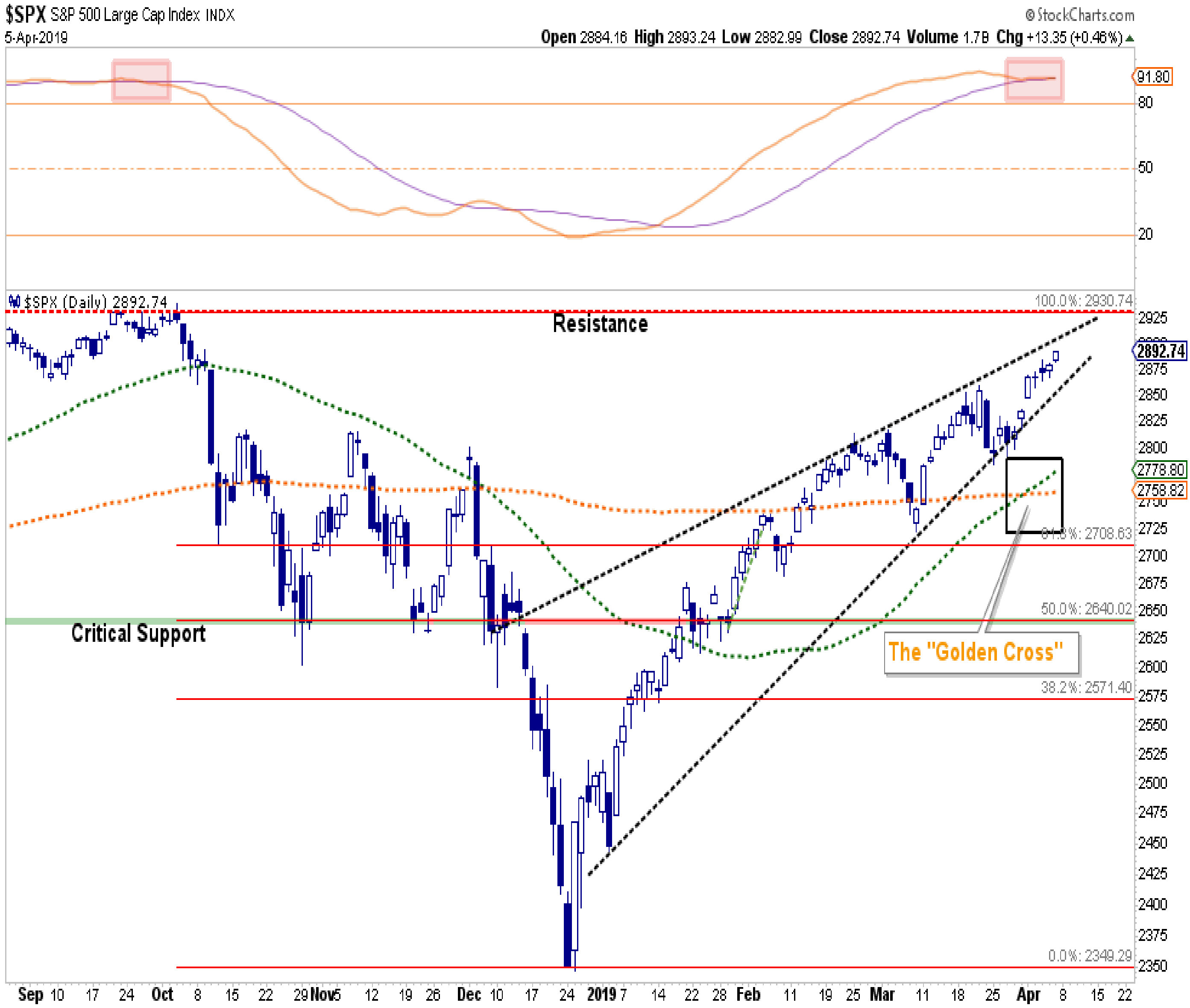
A Run For The Highs Continues

> *"Fueling the markets are statements from past and present Fed Governors that are not only dovish but discuss a resumption of QE and negative interest rates. Former Fed Chairman, Janet Yellen, recently said the Fed needs more&#2013266080;tools to battle a financial crisis. This is the same Janet Yellen that, in June of 2017, stated that she did not believe we would have a financial crisis in our lifetimes.*
>
> *The Fed is sounding the alarms." - Michael Lebowitz,* ***RIAPRO.net (Try it FREE for 30-days)***

Last week, we discussed the market's advance from the lows and why retesting old highs was quite probable. To wit:

> *"The markets are close to registering a 'golden cross.'&#2013266080;This is some of that technical 'voodoo'&#2013266080;where the 50-day moving average&#2013266080;(dma) crosses above the longer-term 200-dma. This 'cross'&#2013266080;provides substantial support for stocks at that level and limits downside risk to some degree in the short-term."*&#2013266080;



Not surprisingly, this headline on Friday:&#2013266080;

> ["S&P Logs Longest Win Streak In 18-Months After Strong Jobs Report."&#2013266080;]()

Okay, two things are important here:

1. ***If this is the longest "win streak" in 18-months that should tell you we are likely near the end of the run and not the beginning.*** *That doesn't mean the markets are going to crash, but a short-term correction is likely to provide a better risk-reward entry point.&#2013266080;*
2. ***The employment report wasn't why the market rallied on Friday.*** *In actuality, it was Trump's comments about "trade," the Fed needing lower rates, and the nomination of Herman Cain, another Trump supporter along with Stephen Moore, to the Federal Reserve Board.*

So, stocks rallied once again on the same trade deal talk we have had for weeks with both China and the US claiming progress in talks and pushing for a rapid conclusion. While President Trump was talking up prospects for a *?monumental?* agreement, such will likely be an agreement in *"name only"* with no actions required until 2025. **[To wit:]()**

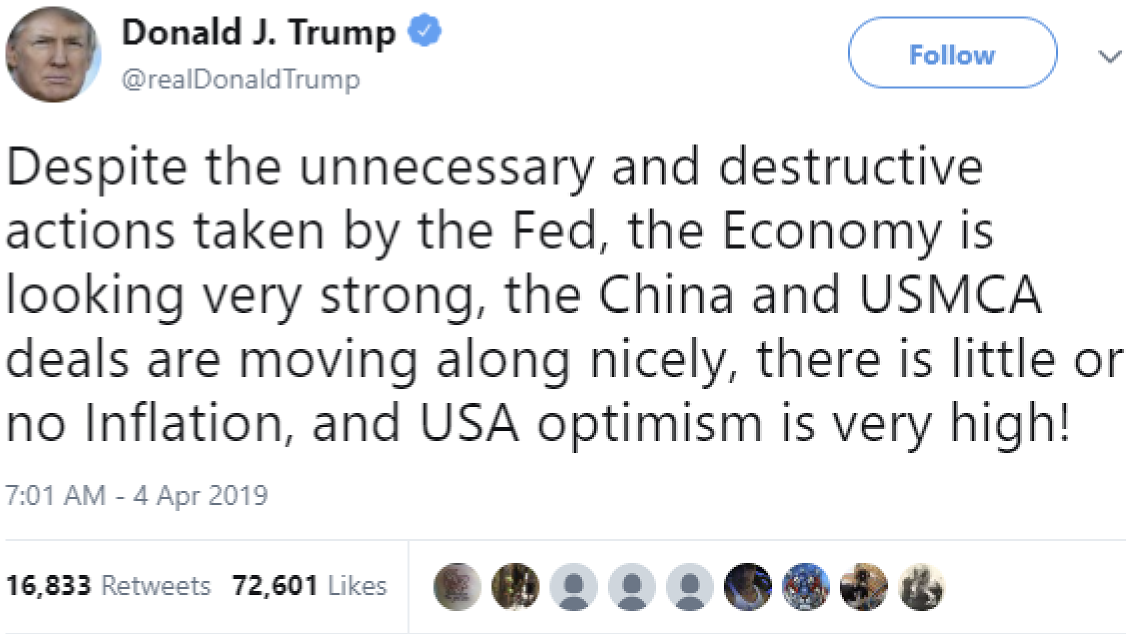
> *"**China would commit by 2025 to buy more U.S. commodities, including soybeans and energy products, and allow 100 percent foreign ownership for U.S. companies operating in China&#2013266080;**as a binding pledge that can trigger retaliation from the U.S. if left unfulfilled."*

If this turns out to be the case, President Trump may claim a victory for resolving a dispute he started in the first place but the markets will likely quickly see through the fiasco.&#2013266080;

The real impetus behind the rally last week was the comments from Trump the Fed should drop interest rates and start more *"Q.E."&#2013266080;*As my dear Canadian friend, Victor Adair of Polar Futures Group, penned on Friday:

> ***"'Politics' is increasingly on a collision course with Central Banks?and&#2013266080; that may be become the 'new' most important driver of world markets.***
>
> *On July 7/18 I wrote: &#2013266080;**Politics has replaced Central Banks as the most important driver of world markets according to Christopher Wood, financial analyst with CLSA, and I agree.** It seems that for the last several years it was, 'All about the Central Banks,' but since Trump?s election the markets have been buffeted at least as much by political developments as by Central Bank actions. The recent Italian 'existential crisis' is a fine example of politics rattling the markets.*
>
> ***Today we have Trump constantly badgering Fed Chairman Powell, now calling for interest rate cuts and the resumption of QE?and proposing to nominate Stephen Moore and Herman Cain to the Fed board.** (Not to mention Larry Kudlow calling for the Fed to cut interest rates by 50 bps.)*
>
> ***Is this really a Republican President effectively calling for the Fed to begin monetizing government deficits? &#2013266080;**We?ve come a long way from Fed Chair William Martin declaring that it was the Fed?s job 'to take away the punch bowl just as the party gets going.'"*

Importantly, and as we will discuss in more detail momentarily, lowering interest rates and introducing QE are tools the Fed will use when real weakness shows up in the economy. **While Trump may want further *"emergency measures,"* he isn't arguing the *"need"* for those measures very well.&#2013266080;**



The infighting though is setting up an serious collision between *"Fed Independence"* and the White House. Trump wants lower rates and Q.E. to continue to inflate asset prices since he has pegged the "success" of his Presidency on the stock market. *(This was a mistake we have argued previously.)* However, the Fed is already beginning to leak *"hints*" about needing to hike rates further due to the same reasons Trump&#2013266080; tweets about **- a still growing economy.** *(This is a reversal of the very policy comments which sparked the rebound from the December 24th lows.)*

> **Cleveland Fed President Loretta Mester**:
>
> *"Could we be done with policy rate increases this cycle? It is possible, but **if the economy performs along the lines I think is the most likely case...the fed-funds rate may need to move a bit higher than current levels."***
>
> **Philadelphia Fed President Patrick Harker**:
>
> *?I continue to be in 'wait-and-see mode' with expectations of at most, one hike for 2019 and one for 2020.?*

Those comments don't align with a Fed eager to sit on the sidelines, reduce rates, or begin to inject further stimulus. Furthermore, Fed officials think the economy is in a good place with low unemployment and benign inflation. If they sense a slowdown, Fed officials would first act by trimming their benchmark interest rate.

Then, there is the&#2013266080;question of its effectiveness anyway:

> *"The current belief is that QE4 will be implemented at the first hint of a more protracted downturn in the market. However, as we noted above, QE will likely only be employed when rate reductions aren?t enough. Such was noted in 2016 by David Reifschneider, deputy director of the division of research and statistics for the Federal Reserve Board in Washington, D.C., released a staff working paper entitled 'Gauging The Ability Of The FOMC To Respond To Future Recessions.'&#2013266080;*
>
> *The conclusion was simply this:*

> *'Simulations of the FRB/US model of a severe recession* ***suggest that large-scale asset purchases and forward guidance about the future path of the federal funds rate&#2013266080;should be able to provide enough additional accommodation*** *&#2013266080;to fully compensate for a more limited [ability] to cut short-term interest rates in most,&#2013266080;* ***but probably not all, circumstances.'***
>
> *In other words, the Federal Reserve is rapidly becoming aware they have become caught&#2013266080;in a&#2013266080;liquidity trap&#2013266080;keeping them unable to raise interest rates sufficiently to reload that particular policy tool. There are certainly growing indications, as&#2013266080;* ***discussed recently, the U.S. economy maybe be heading towards the next recession.&#2013266080;***
>
> *Interestingly, David compared three policy approaches to offset the next recession.*
>
> 1. *Fed funds goes into negative territory but there is no breakdown in the structure of economic relationships.*
> 2. *Fed funds returns to zero and keeps it there long enough for unemployment to return to baseline.*
> 3. *Fed funds returns to zero and the FOMC augments it with additional $2-4 Trillion of QE and forward guidance.&#2013266080;*
>
> *In other words, the Fed is already factoring in a scenario in&#2013266080;* ***which a shock to the economy leads to additional QE of either $2 trillion, or in a worst-case scenario, $4 trillion,*** *effectively doubling the current size of the Fed?s balance sheet."*

What investors should realize is that markets will be in a deep bear market, and recession, before QE would be restarted. However, that appears to be a point lost on market participants currently. As Victor concluded:

> *"The benchmark S+P 500 Index (my bellwether for global risk appetite) had its best Q1 performance in over 20 years and is now only a few percentage points away from All-Time-Highs.* ***Monetary conditions are easy, FOMO and TINA are the key words while DeMark technical indicators and sentiment measures are at extremes.*** *Implied Volatility keeps falling as stocks rally?currently at one month lows."*

He is right, But we are only one-quarter of the way through the year, and while stocks could well reach all-time highs, the potential for a decent correction has been put into place.&#2013266080;

> ***"A veteran Chicago trader told me the other day that, 'stocks are bid because there are no alternatives to lower interest rates.' He followed that up a few days later with, 'The only people buying here are people NIT using their own capital.'*** *? - Victor Adair*

Risks very much outweighs reward at this juncture and there is no real victory to be had by chasing markets currently.&#2013266080;

While we are currently maintaining our long-equity exposure, we did take actions last week to rebalance risk, take profits, and adjust holdings to offset an increase in short-term volatility.&#2013266080;

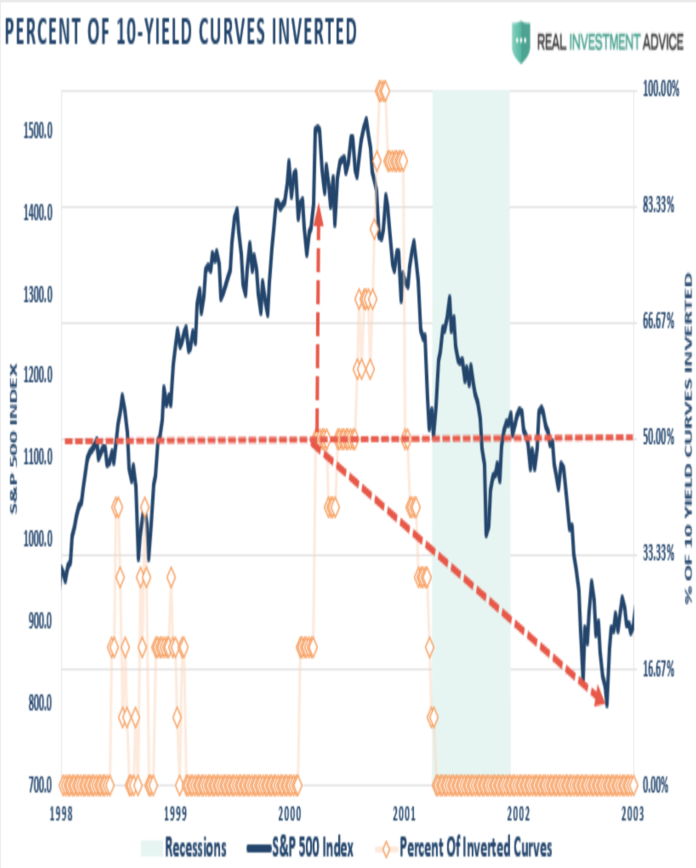
If you don't know what to do, that is okay.

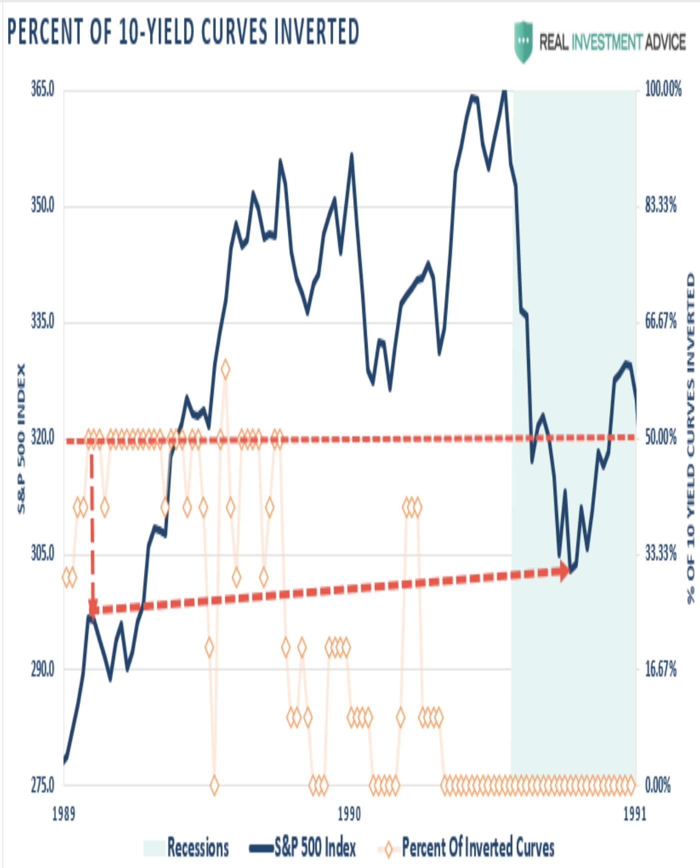
Cash now has a yield equivalent to inflation with no volatility and no risk of loss. **What more could you ask for if you aren't letting *"greed*" dictate your investing?**

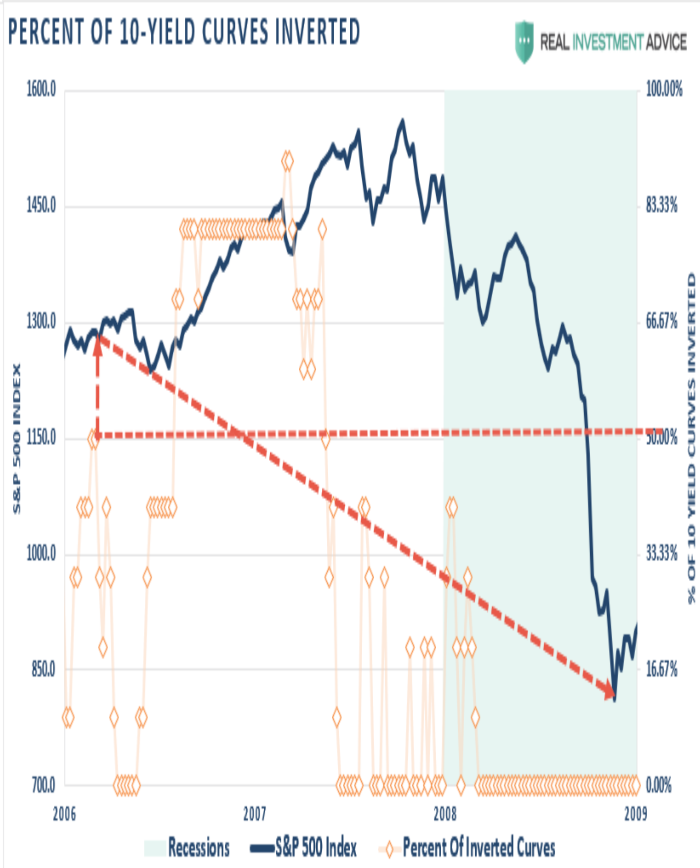
Experience Is The Only Cure

Last week, we discussed the inversion of 50% of the 10-yield curves that we track. To wit:

> *"This quad-panel chart below shows the 4-previous periods where 50% of 10-different yield curves were inverted. I have drawn a horizontal red dashed line from the first point where 50% of the 10-yield curves we track inverted. I have also denoted the point where you should have sold and the subsequent low."*







"As you can see, in every case, the market did rally a bit after the initial reversion. However, had you reduced your equity-related risk, not only did you bypass a lot of market volatility (which would have led to investor mistakes anyway) but ended up better off than those trying to just ride it out."

But that was so last week.

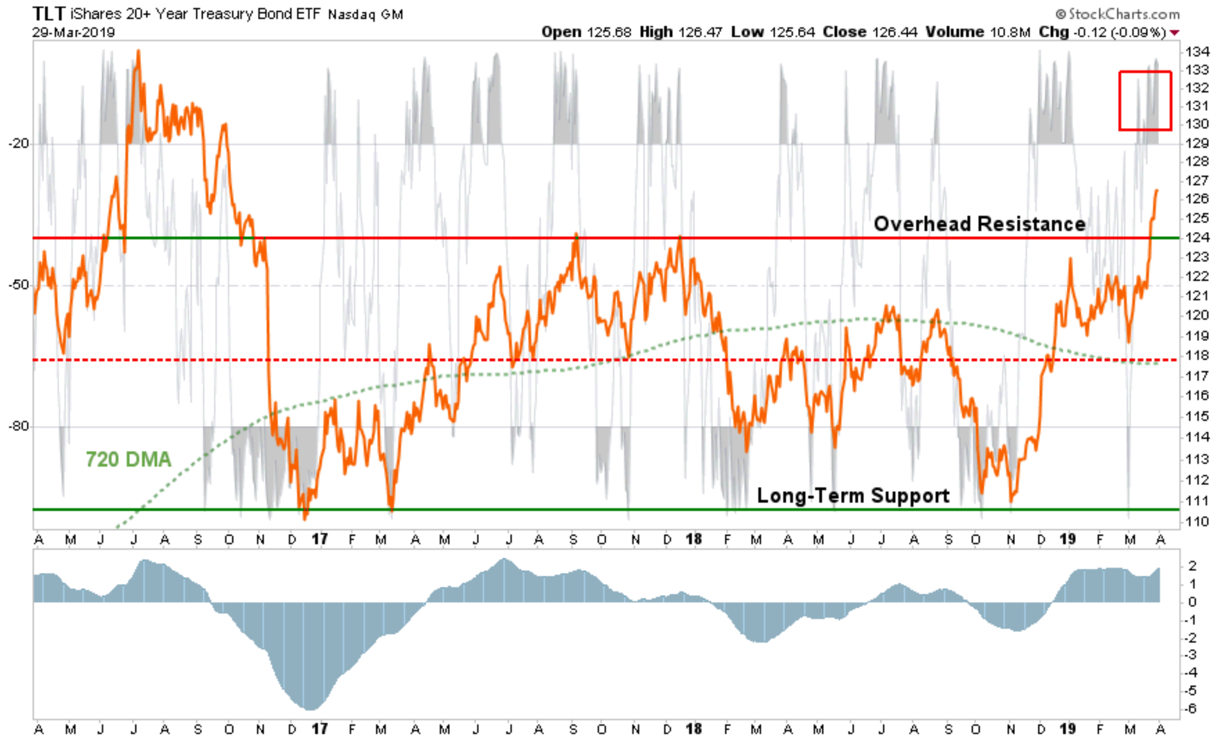
The bulls were quick to note that bond yields reversed their inversion this week, so the yield curve was wrong.

Uhm...not so fast, as we noted for our ***RIA PRO*** subscribers last week:

> *"The big move two weeks ago was in Bonds. If you have been following our recommendations of adding bonds to portfolios over the last 13-months, this portion of the portfolio has performed well in offsetting market volatility. As noted previously, intermediate duration bonds remain on a buy signal after increasing exposure last month. However, they are now extremely overbought, so look for a pullback that holds 2.50% on the 10-year Treasury to increase exposure."*

I have **UNLOCKED our weekly Major Market Review** where I stated;

*(If you haven't tried out RIA PRO you are missing a lot of great stuff - **Try it FREE for 30-days**.)*

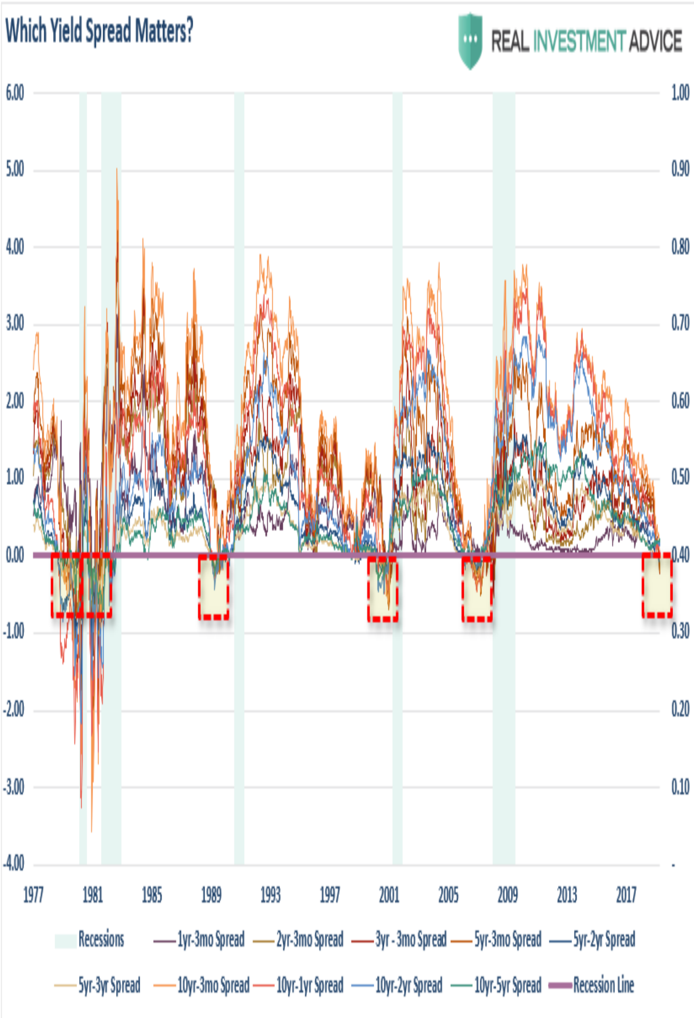


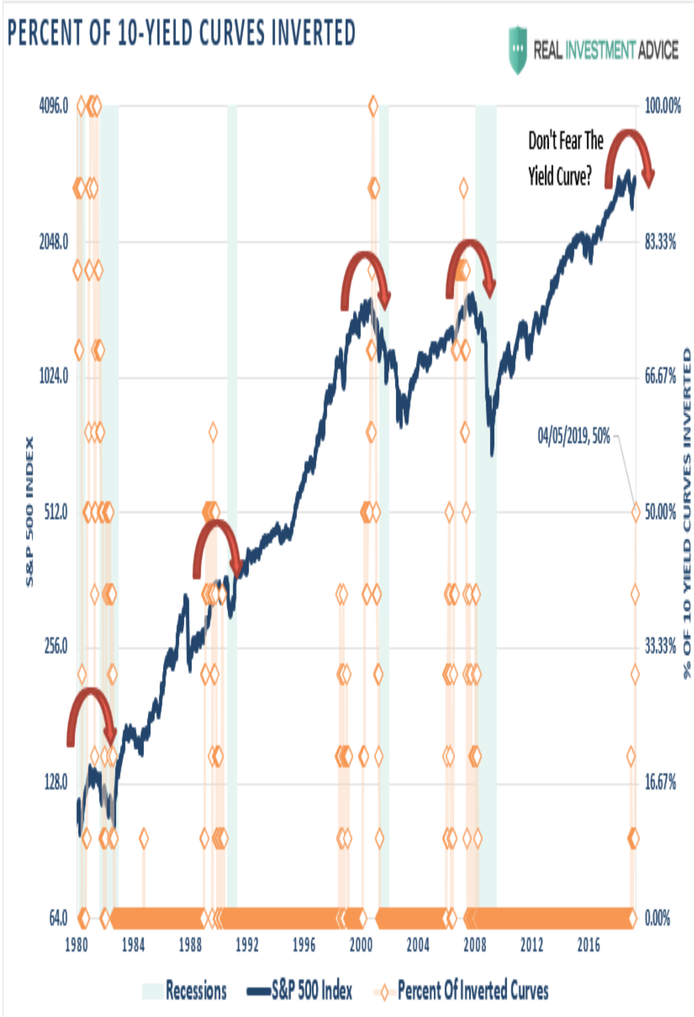
- While&#2013266080;*resistance remains from $122 to $124, the breakout is bullish for bonds.*
- ***However, bonds are now EXTREMELY overbought. Look for a pullback to previous resistance which holds to add to exposures.***
- *Strong support at the 720-dma (2-years) (green dashed line) which is currently $118.*
- *Short-Term Positioning: Bullish*
  - *Last Week: Hold positions*
  - ***This Week: Trim 1/4 of position just to take profits.***
  - *Stop-loss adjusted to $121*
- *Long-Term Positioning: Bullish*

As noted, we correctly predicted the pullback in rates this past week because of the extreme overbought condition which existed previously.&#2013266080;

However, a TECHNICAL reversion is not the same thing as a statement on the economic recovery.&#2013266080; The&#2013266080;rotation between bonds and equities this past week does NOT represent a false signal by rates that economic growth is set rebound. As with all things, the trend of the data is far more important than a specific data point **and currently the *"trend"* of yields is lower...not higher.**

Furthermore, while the 10-year yield did pick up, 50% of the yields tracked still remain inverted as of Friday.





However, let's review the important points which **HAVE NOT changed:**

- *The Fed isn?t hiking rates, but they aren?t reducing them either.* ***(In fact, [two Fed officials](#) came out this week stating the Fed is likely to hike rates at least once in 2019 and again in 2020.)***
- *The Fed isn?t reducing their balance sheet any more after September, but they aren?t increasing it either.*
- *Economic growth outside of China remains weak*
- *Employment growth is slowing.*
- *There is no massive disaster currently to spur a surge in government spending and reconstruction.*
- *There isn?t another stimulus package like tax cuts to fuel a boost in corporate earnings*
- *With the deficit already pushing $1 Trillion, there will only be an incremental boost from additional deficit spending this year.&#2013266080;*
- *Unfortunately, it is also just a function of time until a recession occurs.*

As my dad use to tell me growing up:

?The only permanent cure of ignorance, is experience.?

There Is A Decent Probability You Have Never Seen A Bear Market

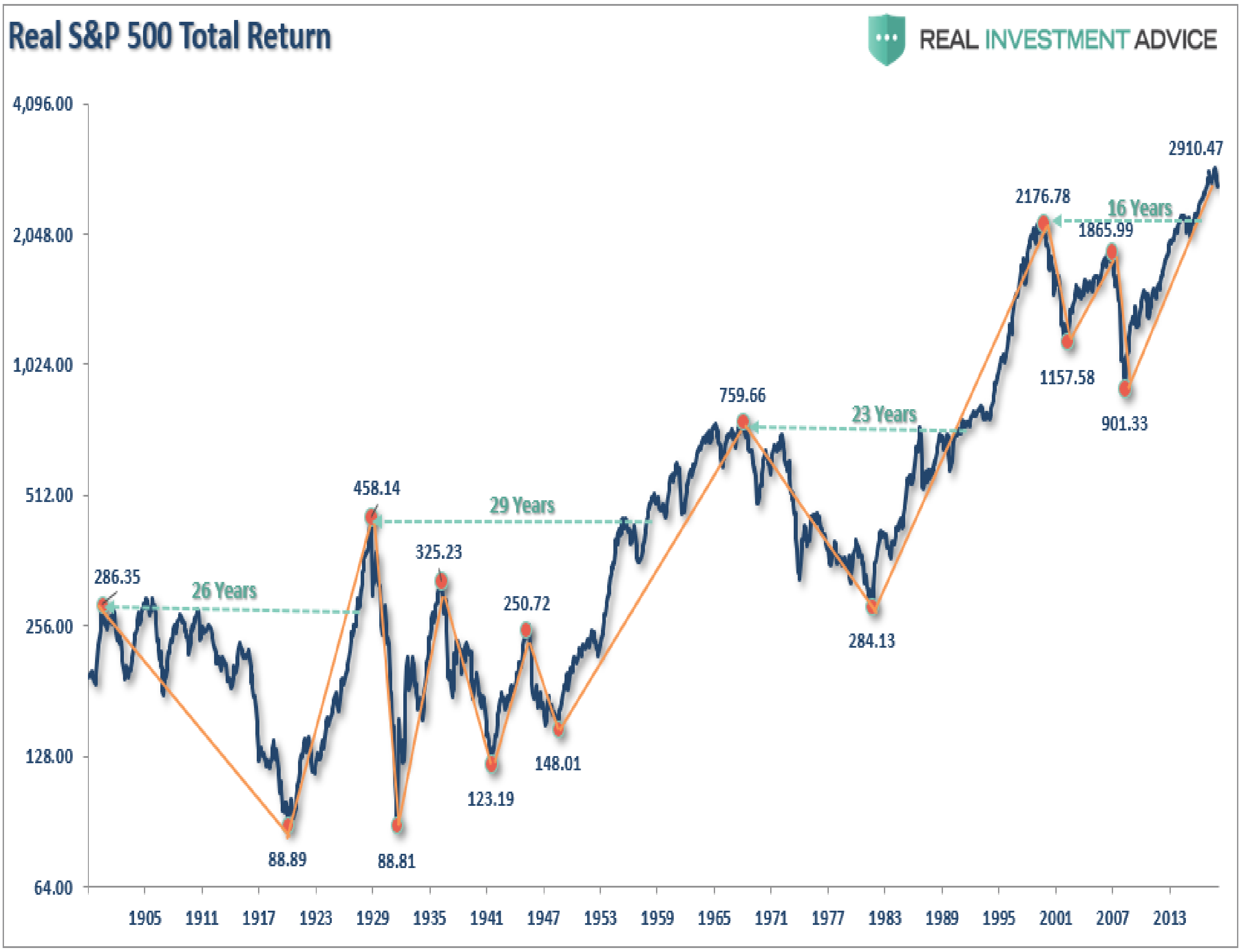
There is a sizable contingent of investors, and advisors, today who have never been through a real bear market. After a decade long bull-market cycle, which only seems to go up, you can certainly understand why mainstream analysis continues to believe the markets can only go higher.

What is concerning is the rather cavalier attitude the mainstream media takes about bear markets.

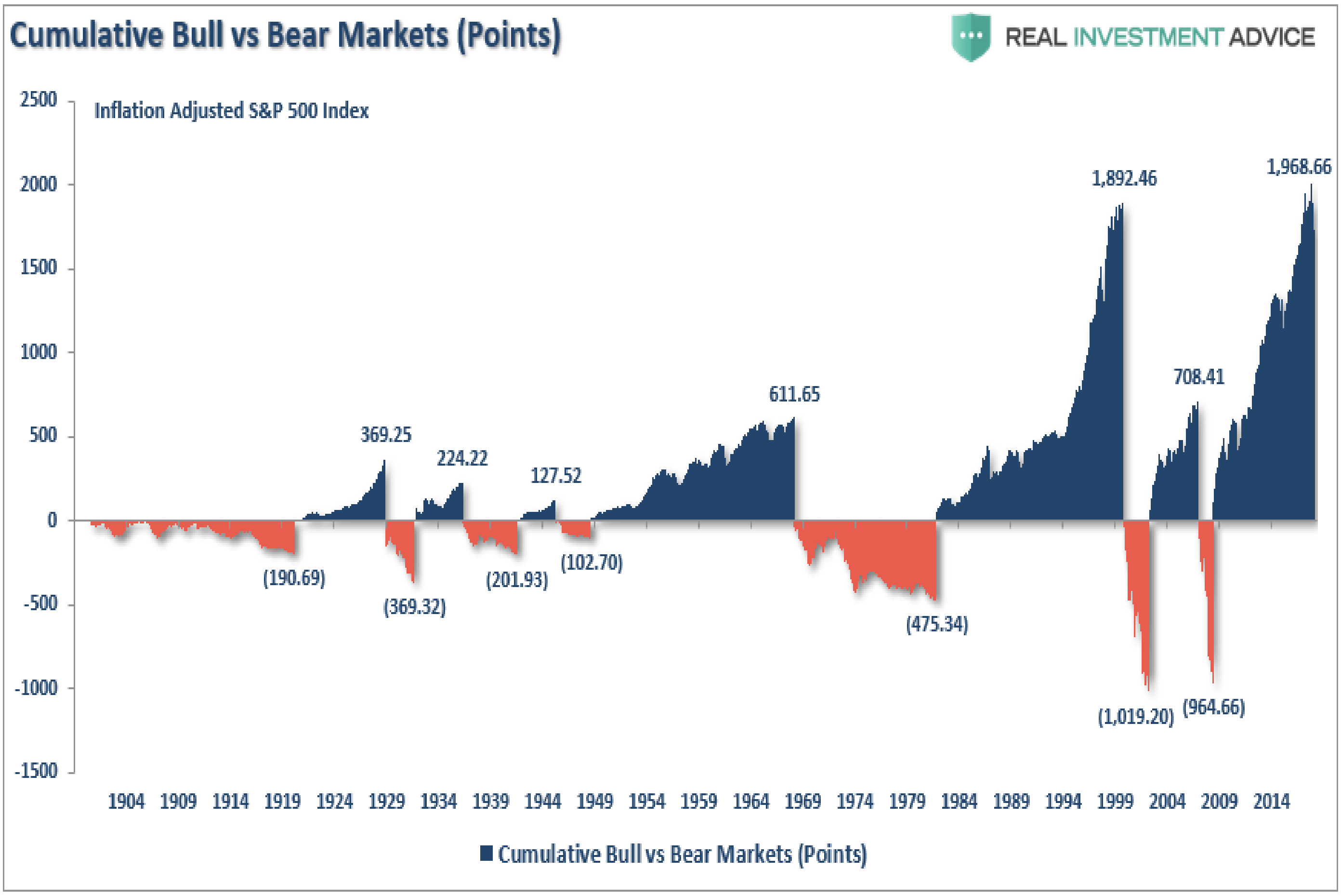
?Sure, a correction will eventually come, but that is just part of the deal.?

What gets lost during these bullish cycles, and is found in the most brutal of fashions, is the devastation caused to financial wealth during the inevitable decline.

Let?s look at the S&P 500 inflation-adjusted total return index in a different manner.&#2013266080;The first chart shows all of the measurement lines for all the previous bull and bear markets with the number of years required to get back to even.



What you should notice is that in many cases bear markets wiped out essentially a substantial portion, if not all, of the previous bull market advance. This is shown more clearly when we look at a chart of bull and bear markets in terms of points.



Whether or not the current distribution phase is complete, there are many signs suggesting the current Wyckoff cycle may be entering its final stage of completion.&#2013266080;

Let me remind you of something Ben Graham said back in 1959:

> *??**The more it changes, the more it?s the same thing.?**&#2013266080;I have always thought this motto applied to the stock market better than anywhere else. Now the really important part of the proverb is the phrase, ?the more it changes.?*
>
> ***The economic world has changed radically and will change even more. Most people think now that the essential nature of the stock market has been undergoing a corresponding change.**&#2013266080;But if my clich&#2013266528;is sound,&#2013266080; then the stock market will continue to be essentially what it always was in the past,&#2013266080;**a place where a big bull market is inevitably followed by a big bear market.***
>
> *In other words,&#2013266080;**a place where today?s free lunches are paid for doubly tomorrow.**&#2013266080;In the light of recent experience,&#2013266080;**I think the present level of the stock market is an extremely dangerous one.?***

He is right, of course, things are little different now than they were then.

> ***For every&#2013266080;?bull market?&#2013266080;there MUST be a&#2013266080;?bear market.?&#2013266080;***

The sell-off last year, which amazingly enough has already been forgotten, should have been a wake-up call to just how quickly things can change and how damaging they can be.

There is no difference between a 100% gain and a 50% loss.

> *(For the mathematically challenged: If the market rises from 1000 to 2000 it is a 100% gain. A fall from 2000 to 1000 is a 50% loss. Net return is 0%)*

Understanding that investment returns are driven by actual dollar losses, and not percentages, is important in the comprehension&#2013266080;of how devastating corrections can be on your financial outcome.&#2013266080;So, before sticking your head in the sand and ignoring market risk based on an article touting&#2013266080;*?long-term &#2013266080;investing always wins,?*&#2013266080;there is a huge difference between just making money and actually reaching your financial goals.

But experience will cure all of that.

See you next week.&#2013266080;

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

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Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	22.91%	8.63%	15.46%	79.16%
Max Drawdown	-20.47%	-20.47%	-3.35%	-83.62%
Sharpe	0.78	0.67	5.67	7.48
Sortino	0.86	0.87	7.38	7.45
Volatility	13.61	15.26	13.14	(0.14)
Daily VaR-5%	(8.54)	(12.25)	55.46	(5.53)
Mnthly VaR-5%	(8.06)	(15.37)	48.17	(4.13)

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	1.87%	1.74%	1.85%	6.19%	2.18%	1.67%	(14.77%)	11.05%
P/E Ratio	20.42	20.77	18.22	(13.97%)	21.60	16.40	(15.7%)	11.11%
P/S Ratio	3.13	3.41	3.32	(2.74%)	3.55	2.48	(6.57%)	33.83%
P/B Ratio	3.59	3.87	4.09	5.27%	4.16	2.98	(1.67%)	37.38%
ROE	15.19%	15.98%	18.72%	14.65%	18.72%	15.00%	0.00%	24.86%
ROA	2.82%	3.00%	3.52%	14.74%	3.52%	2.81%	0.00%	25.14%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,437.2	2,411.1	(1.07%)
Sales	58,782	63,635	8.26%
SPS	24.1	26.4	9.43%
Earnings	8,037	9,599	19.43%
EPS TTM	3.9	4.8	23.87%
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	(1.08%)	5.34%	1.20	16.94	156.27	12.49	(89.2%)	10.3%	3.3%	5.98%	3.31	17.59
Materials	(2.58%)	2.51%	1.30	15.55	21.86	13.82	(28.9%)	11.2%	2.1%	6.44%	4.58	15.36
Industrials	1.94%	9.52%	1.12	17.74	22.22	14.73	(20.1%)	15.6%	1.9%	5.64%	5.31	15.57
Discretionary	15.01%	10.20%	0.98	24.69	27.60	20.11	(10.6%)	28.3%	1.3%	4.06%	4.83	20.23
Staples	3.94%	7.08%	0.60	19.24	22.83	17.63	(15.7%)	26.3%	2.9%	5.21%	3.89	18.16
Health Care	12.93%	14.36%	0.93	17.39	20.62	15.93	(15.7%)	29.2%	1.7%	5.77%	6.35	15.86
Financials	(4.01%)	12.86%	1.22	12.97	18.41	11.66	(29.6%)	11.5%	2.1%	7.70%	5.75	11.55
Technology	18.64%	21.48%	1.21	20.15	21.83	14.47	(7.7%)	38.7%	1.5%	4.97%	5.16	18.32
Telecom	11.38%	10.20%	0.87	20.48	27.29	17.43	(25.0%)	18.4%	0.9%	4.87%	6.33	18.08
Utilities	17.46%	3.27%	0.33	19.51	20.31	15.58	(4.0%)	10.7%	3.3%	5.17%	3.58	17.92
Real Estate	17.10%	3.07%	0.80	20.06	24.47	17.55	(18.0%)	10.3%	3.2%	4.88%	4.25	18.57

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	288.57	8.57%	277.72	50	3.91%	275.29	20	4.82%	0.88%	(1.83%)	23.45%	Buy
Mid Cap	354.99	7.25%	344.12	9	3.16%	344.91	6	2.92%	(0.23%)	(5.11%)	24.80%	Sell
Small Cap	68.58	4.64%	67.58	3	1.49%	69.55	275	(1.40%)	(2.84%)	(12.36%)	21.81%	Sell

Performance Analysis

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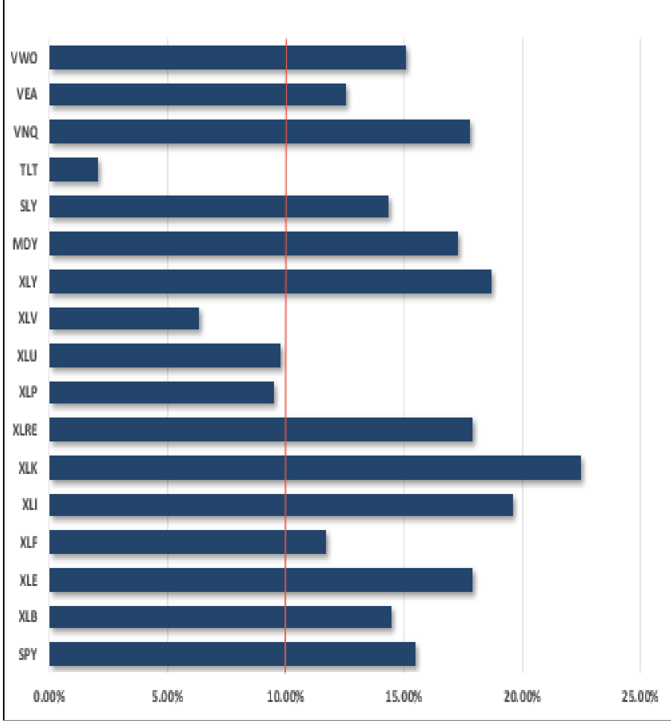
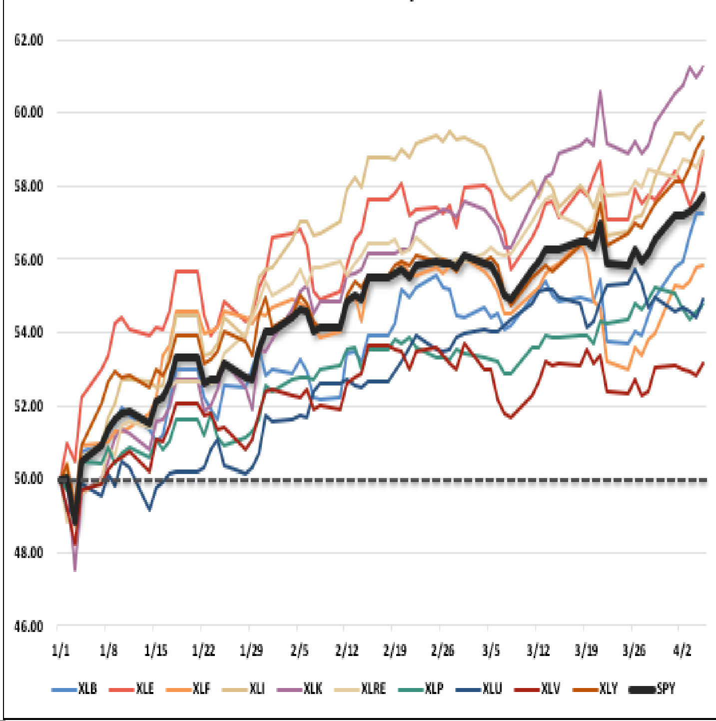
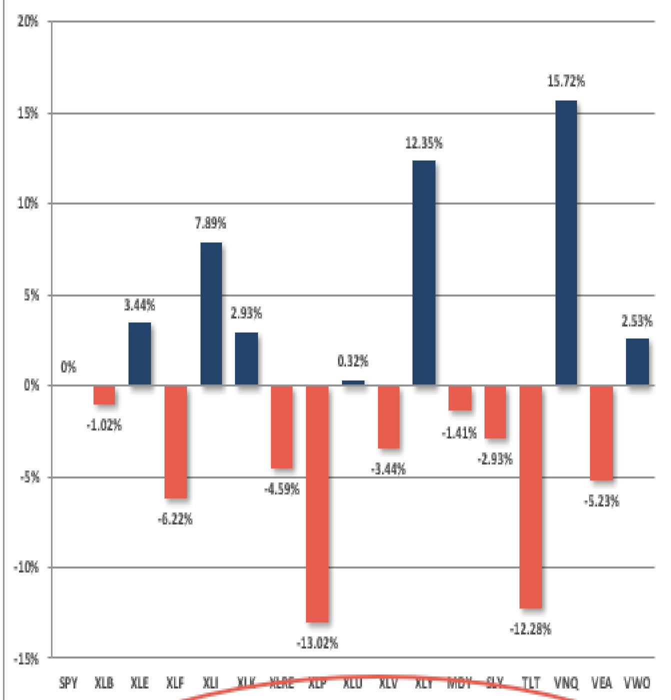
Year To Date Performance



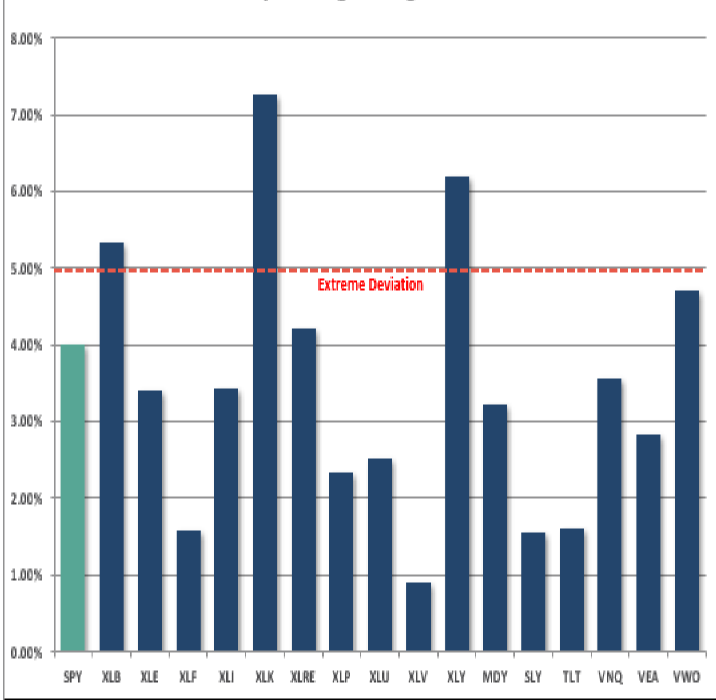
YTD Price - S&P Sectors Recalibrated To $50/share



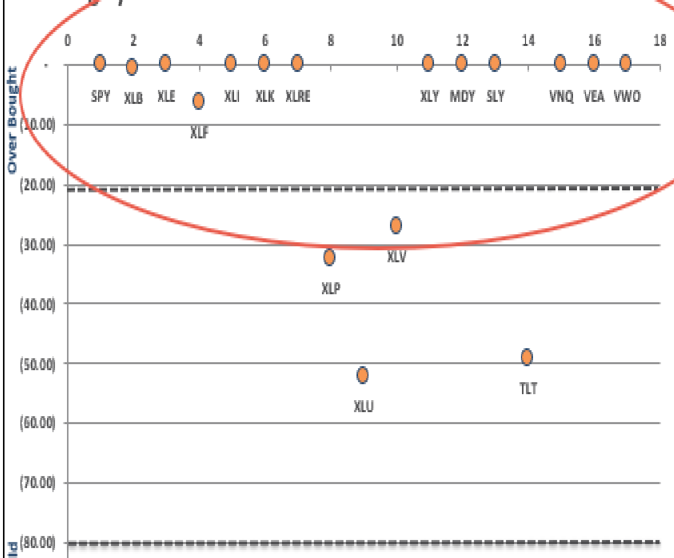
Year To Date Performance Relative To S&P 500



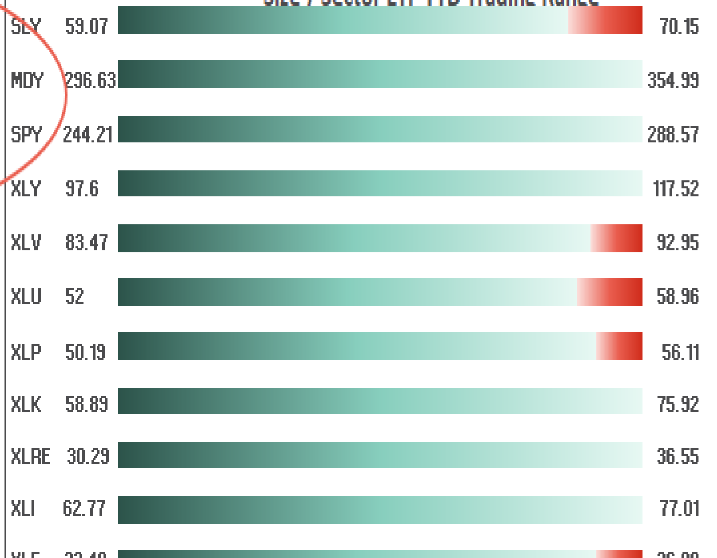
Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



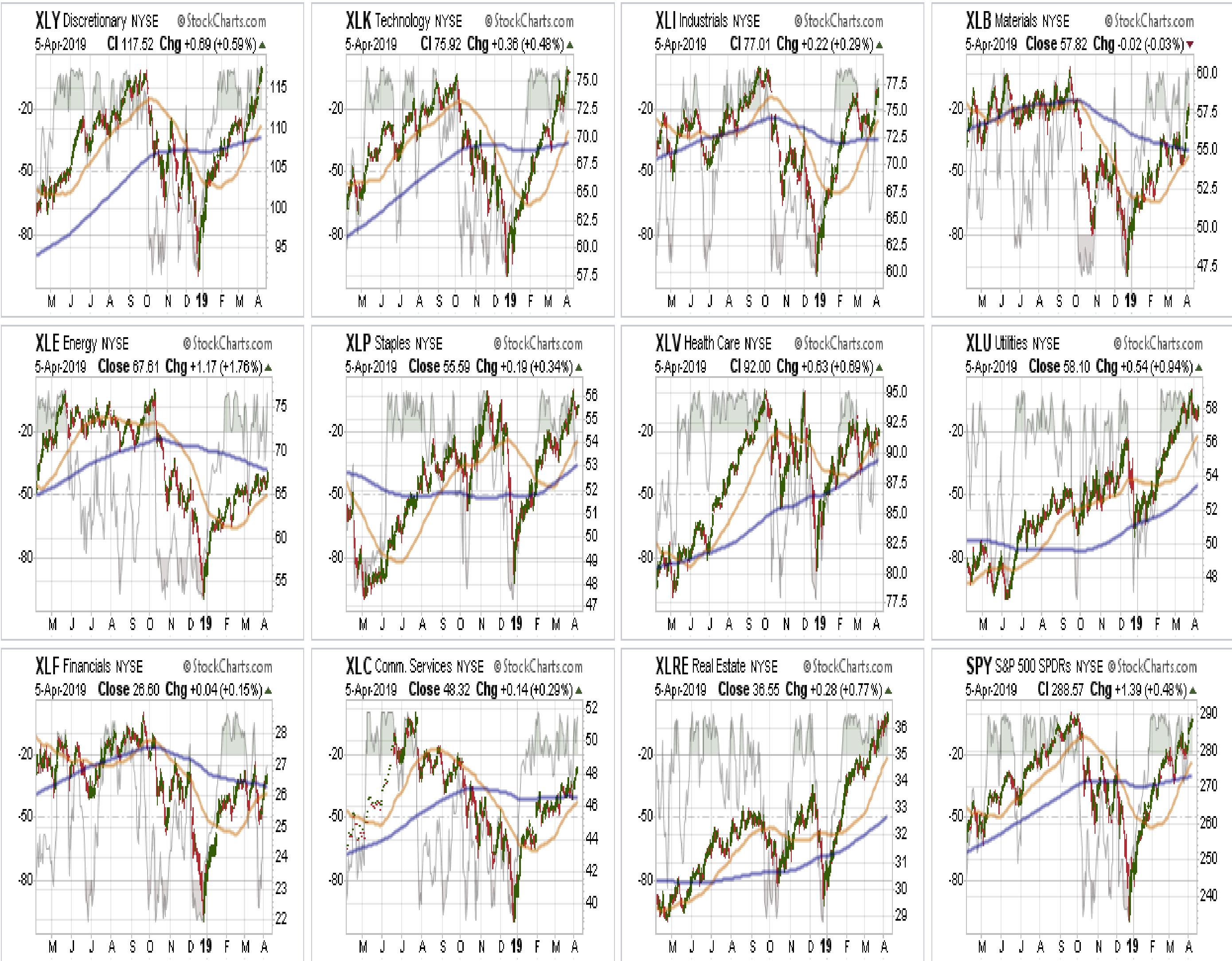
ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index: 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	290.45	2.07	5.16	11.55	4.38	11.04	275.68	276.39	5.36%	5.09%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	57.82	2.11	0.49	(0.93)	4.51	(8.72)	54.33	54.82	6.42%	5.48%	SELL
		XLE	SPDR-EGY SELS	67.61	0.18	0.65	(2.52)	(9.86)	(10.66)	64.71	67.31	4.49%	0.45%	SELL
		XLF	SPDR-FINL SELS	26.60	1.39	(2.73)	(2.98)	(4.64)	(13.14)	25.96	26.37	2.48%	0.87%	SELL
		XLI	SPDR-INDU SELS	77.01	0.57	(1.47)	1.91	0.86	(5.21)	73.10	72.89	5.35%	5.65%	BUY
		XLK	SPDR-TECH SELS	75.92	0.52	3.59	7.93	4.06	7.49	69.29	69.42	9.56%	9.36%	SELL
		XLP	SPDR-CONS STPL	55.59	(3.00)	(1.66)	(3.88)	(2.73)	(4.99)	53.77	53.97	3.38%	3.00%	SELL
		XLU	SPDR-UTIL SELS	58.10	(2.19)	(4.20)	(2.40)	2.09	4.19	55.89	54.73	3.95%	6.15%	BUY
		XLC	SPDR-COMM SV SS	48.32	1.24	(0.50)	(1.86)			45.92	45.93	5.22%	5.20%	SELL
		XLV	SPDR-HLTH CR	92.00	(1.80)	(2.25)	(6.78)	(3.84)	4.13	90.56	90.79	1.59%	1.33%	SELL
		XLY	SPDR-CONS DISCR	117.52	1.15	3.24	0.82	6.14	5.69	109.44	108.95	7.38%	7.86%	BUY
	SIZE	SLY	SALOMON LEASING	68.58	0.80	(1.91)	(4.40)	(4.14)	(7.80)	66.81	68.66	2.65%	-0.12%	SELL
		MDY	SPDR-SP MC 400	354.99	0.71	(0.51)	(0.88)	(0.21)	(5.71)	339.24	341.86	4.64%	3.84%	SELL
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	107.02	0.40	(0.13)	(0.03)	1.79	(1.99)	101.73	101.43	5.20%	5.51%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	100.97	(0.50)	(1.22)	(1.85)	2.74	0.43	96.77	95.93	4.34%	5.25%	BUY
	Real Estate	XLRE	SPDR-RE SELS	36.55	(1.16)	(0.19)	2.77	10.49	7.32	34.44	33.35	6.12%	9.60%	BUY
	International	EEM	ISHARS-EMG MKT	44.40	1.38	1.47	(2.54)	7.55	(16.73)	42.35	41.42	4.83%	7.20%	BUY
		EFA	EMG MKT FREE AS	66.25	0.07	(0.78)	(3.00)	(0.44)	(15.58)	63.42	63.67	4.47%	4.05%	SELL
		IXUS	ISHARS-CR INT S	59.43	0.27	(0.38)	(2.99)	0.98	(15.89)	56.89	56.81	4.47%	4.61%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	124.03	(3.98)	(3.14)	(8.99)	4.70	(8.62)	121.73	119.02	1.89%	4.21%	BUY
	International	BNDX	VANGD-TTL INT B	55.61	(2.36)	(4.54)	(8.97)	(2.15)	(9.34)	54.95	54.73	1.19%	1.60%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.43	(2.12)	(3.60)	(8.53)	(2.58)	(9.68)	85.17	84.68	1.48%	2.06%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.33										

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



Looking at sectors on a *"relative performance"* basis to the S&P 500 we have seen some rotations in leadership over the last week.

Improving - Energy

Energy began to improve its performance as oil prices perked back up last week. With oil back to the higher end of its trend range, this is likely a good time to harvest some profits from the sector.&#2013266080;

Current Positions: *1/2 Position in XLE*

Outperforming - Technology, Industrials, Discretionary

Discretionary and Technology broke out to new all-time highs this week as participation continues to become more concentrated in a smaller number of sectors. However, the bullish backdrop is solid with 50-dma's above 200-dma's and momentum trending positively. These sectors are all overbought, so take some profits, but remain long for now.&#2013266080;

Current Positions:&#2013266080;*XLI, XLY, XLK - Stops moved from 50- to 200-dma's.*

Weakening - Real Estate, Utilities, Communications

As we noted previously, Utilities and Real Estate have been on a parabolic advance and a correction in price was inevitable. With the correction in yields this past week, also extremely overbought, it is not surprising to see these sectors take a breather. After previously recommending to take profits be patient and look for the next entry point.&#2013266080;

Current Position:&#2013266080;*XLU*

Lagging - Healthcare, Staples, Financials & Materials.

Financials, which has been struggling as of late due to the inversion of the yield curve, perked up this past week as extremely overbought yields pulled back a bit. This pullback is likely temporary and lower yields are likely in the months ahead. However, in the meantime, performance of Financials is improving. Healthcare and Staples also weakened a bit this past week as money rotated from defense to offense in the market. After recommended taking profits, just be patient for the next opportunity to add back to exposures.

Current Positions:&#2013266080;*XLB, XLF, XLV, XLP - Stops remain at 50-dmas.*

Market By Market

Small-Cap and Mid Cap - Both of these markets remain confined within the context of a broader downtrend. As we have noted over the last several weeks, **these two sectors are more exposed to global economic weakness than their large-cap brethren so caution is advised.** However, Mid-Caps are performing better as of late and have broken out of its consolidation over the last couple of months. A pullback to the 200-dma is likely which will provide a better entry point&#2013266080; For now, take profits and reduce weightings and wait for a better opportunity to add back into these markets.

Current Position: *None*

Emerging, International & Total International Markets&#2013266080;

Emerging Markets finally broke out of its consolidation this past week and now sets up a better entry point to add to our current holding. The market is extremely overbought so look for a short-term correction back to previous support to increase weighting.&#2013266080;&#2013266080;

Major International & Total International shares DID finally break above their respective 200-dma's on hope the worst of the global economic slowdown is now behind them. This is probably misplaced optimism but nonetheless the technical backdrop has improved enough to warrant adding a position on a pullback that holds support and works off some of the extreme overbought condition.&#2013266080;

Stops should remain tight at the running 50-dma which is also previous support.&#2013266080;

Current Position: *1/2 position in EEM*

Dividends, Market, and Equal Weight - These positions are our long-term *"core"* positions for the portfolio given that over the long-term markets do rise with respect to economic growth and inflation. Currently, the short-term bullish trend is positive and our core positions are providing the *"base"* around which we overweight/underweight our allocations based on our outlook.

Core holdings are currently at target portfolio weights.

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

Gold ? Despite the reversal of the Fed, the collapse of the yield curve, and concerns about global economic growth, Gold has struggled with recent support. The base being built around $122 is getting more reinforced, but performance lately doesn't warrant adding futher exposures. Gold is oversold currently, but performance remains weak. A move above $125 will make things more interesting, but for now stops need to be moved up to $120.

Current Position: *GDX (Gold Miners), IAU (Gold)*

Bonds&#2013266080;?

As I noted last week:

> *"If you have been following our recommendations of adding bonds to portfolios over the last 13-months, this portion of the portfolio has performed well in offsetting market volatility. As noted previously, intermediate duration bonds remain on a buy signal after increasing exposure last month. However, they are now extremely overbought, so look for a pullback that holds 2.50% on the 10-year Treasury to increase exposure."*

That pullback to 2.5% occurred this past week and held nicely. Continue holding bond positions for now as the recent market rally is likely limited and a rotation back to bonds is highly likely.&#2013266080;

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

High Yield Bonds, representative of the *"risk on"* chase for the markets, have continued to rally this past week. International bonds, which are also high credit risk, which pulled back slightly this past week, also remain extremely overbought. Our recommendation continues from last week:

> *"If you are long high yield or international bonds take profits now and rebalance risk back to normal portfolio weights. The current levels are not sustainable and there will be a price decline which will offer a better entry opportunity soon."*&#2013266080;

The table below&#2013266080;**shows thoughts on specific actions related to the current market environment.&#2013266080;**

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

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

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

Portfolio/Client Update:

This past week, we rebalanced our Equity Model and brought positions back in line with portfolio allocation limits.&#2013266080;

There is currently little concern about the markets despite economic weakness popping up just about everywhere. However, the market is focused on the trade and a more dovish Fed at the moment, which, in our estimation, will turn out ill-advised in the months ahead.&#2013266080;

However, in the near term our buy signals have been triggered and we need to increase equity exposure accordingly. We are going to do this opportunistically, on pullbacks, by adding exposure to areas that have better risk/reward profiles.&#2013266080;

With earnings season fast approaching a bad series of announcements or forecasts can have an outside affect on the overall market. So, we are progressing with caution.&#2013266080;

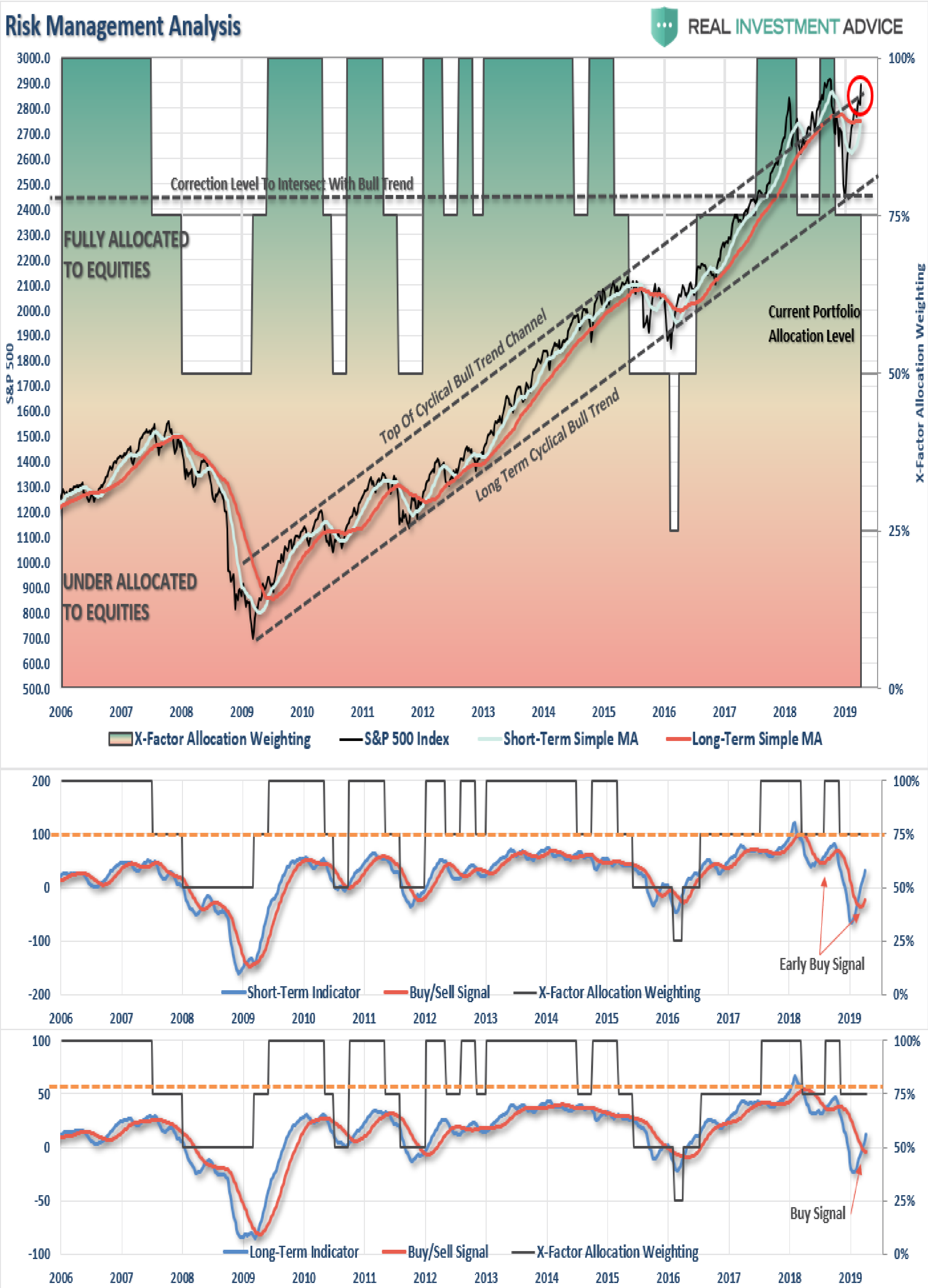
- **New clients:** *We have begun the onboarding process and are moving clients into the models accordingly.&#2013266080;*
- ***Equity Model:*** *We rebalanced all positions in the portfolio, with the exception of Boeing (BA), reducing overweight positions and adding to underweight positions.&#2013266080;*
- ***ETF Model****: No changes. - Reviewing for rebalancing as needed.*

Note for new clients:

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



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

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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Look But Don't Leap

Over the last couple of months, we have repeatedly suggested to rebalance risk, align portfolios with the target, and be patient until the market gives us an all-clear sign. That advice has worked well in reducing portfolio volatility while allowing for participation to the markets.&#2013266080;

As we have discussed so many times in the past, by the time a *"buy"* or *"sell signal"* is triggered, because we are working on longer-term indicators, the markets tend to be very overbought or oversold when that signal is registered.

Such is the case currently with our confirmed buy signals. While both "*buy"* signals are now in place, suggesting that target allocations move to 100% equity exposure, the market is also EXTREMELY overbought on a short-term basis and pushing up against longer-term trend lines. This suggests that risk outweighs reward momentarily and, since we have a decent amount of market exposure already, there is no need to go rushing into the markets at these levels.&#2013266080;

It is very likely that beginning next week, we will begin to see some corrective action/consolidation in the market which will allow us to add exposure and increase portfolio risk at more attractive levels.&#2013266080;

In the meantime, we can prepare for this opportunity by continuing our actions we have recommended over the last several weeks.&#2013266080;

- *If you are* ***overweight&#2013266080;equities*** *- take some profits and reduce portfolio risk on the equity side of the allocation. However, hold the bulk of your positions for now and let them run with the market.*
- *If you are* ***underweight equities or at target -&#2013266080;****remain where you are until the market gives us a better opportunity to increase exposure to target levels.*

If you need help after reading the alert; don?t hesitate to **contact me**.

Exciting News - the 401k Plan Manager is "Going Live"

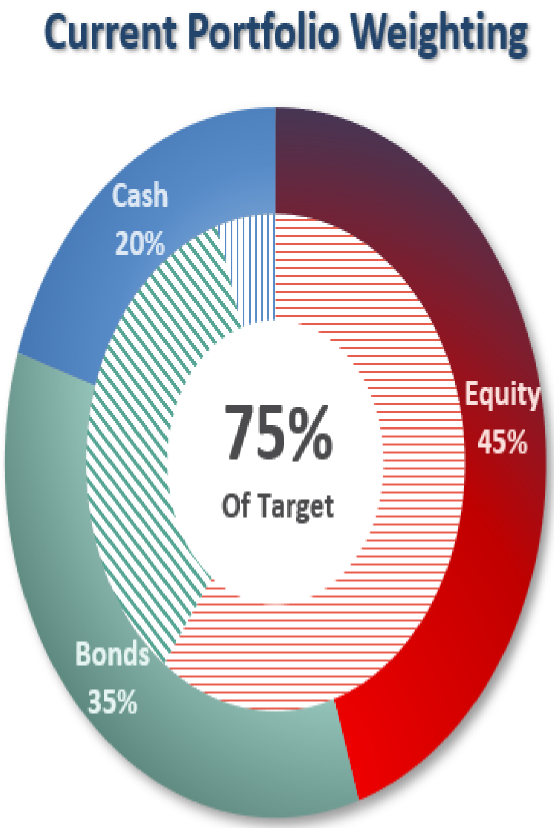
We are making a *"LIVE"* version of the 401-k allocation model which will soon be available to **RIA PRO subscribers.** You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more.&#2013266080;

This service will also be made available to companies for employees. If would like to offer our service to your employees at a deeply discounted corporate rate please contact me.

Stay tuned for more details over the next couple of weeks.

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 Image not found or type unknown

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