Never Hurts To Ring The Cash Register

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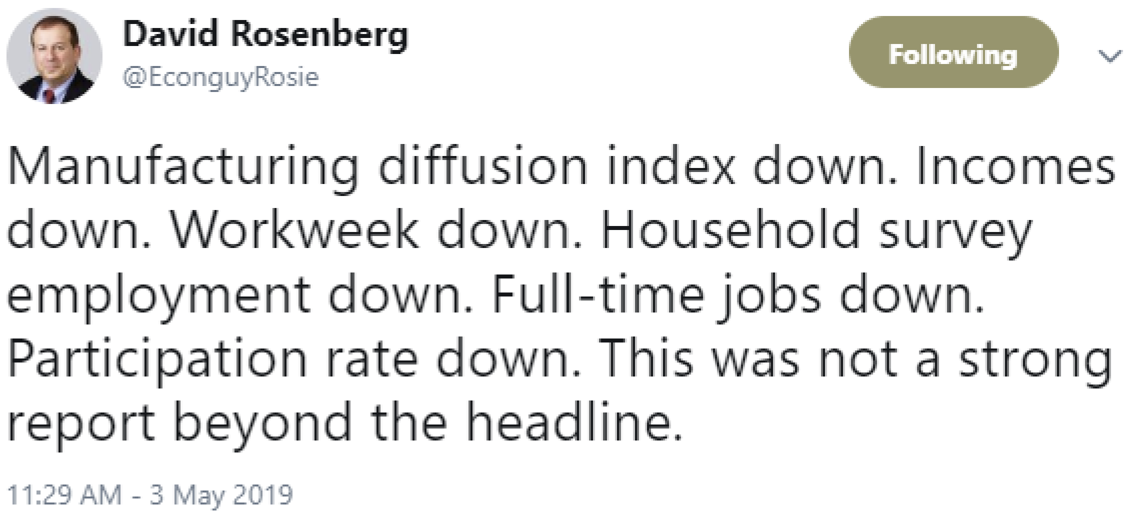
Market Update & Review

Fortunately, the market rallied on Friday as traders scrambled to hold important support levels following confirmation from Richard Clarida that the Fed has no intention of moving interest rates anytime soon. Via Bloomberg:

- *CLARIDA: INFLATION PRESSURES MUTED, EXPECTED INFLATION STABLE*
- *CLARIDA: **WE'LL WEIGH `WHAT, IF ANY, FURTHER ADJUSTMENTS' NEEDED***
- *CLARIDA: FED FUNDS RATE NOW IN RANGE OF NEUTRAL ESTIMATES*
- *CLARIDA SAYS FED CAN AFFORD TO BE DATA DEPENDENT*
- *FED'S CLARIDA **SAYS U.S. ECONOMY IS IN A `VERY GOOD PLACE'***

Despite headlines to the contrary, **the employment report on Friday was NOT good and we will likely see a good bit of payback next month**. David Rosenberg summed it up well:



Nonetheless, the market did rally keeping us in the same place as last week.

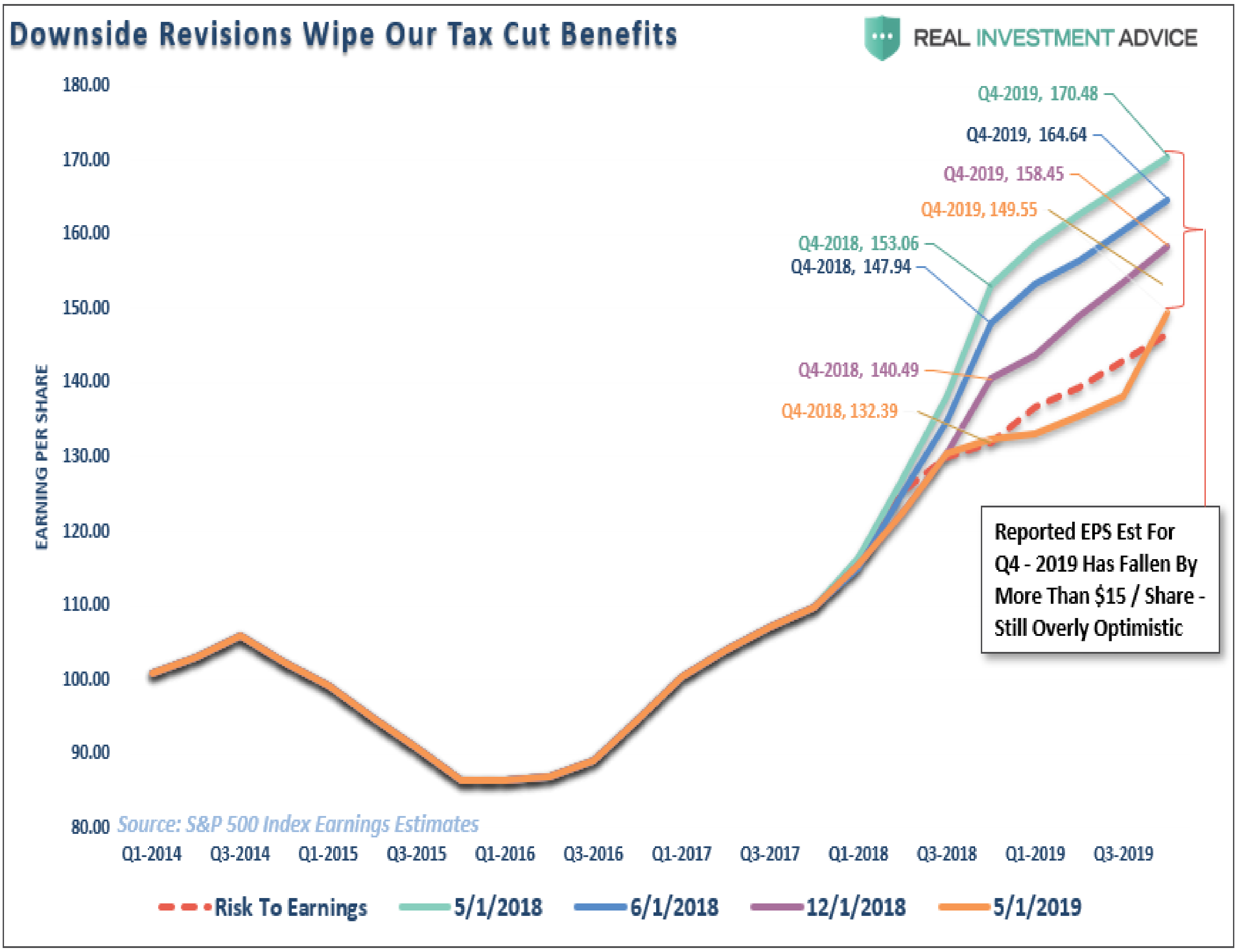
> *"While that break to the upside was indeed bullish, the market remains very confined to a rising consolidation pattern and failed to close above the intraday all-time highs from last September. **With the markets trading on VERY light volume on Friday, combined short-term 'sell signals' forming, and pushing more extreme overbought conditions, it is too early to completely remove all risk management controls in portfolios."***

The chart below is updated from last week.

While the market did hold inside of its consolidation pattern, we are still lower than the previous peak suggesting we wait until next week for clarity. However, a bit of caution to overly aggressive equity exposure is certainly warranted. I say this for a couple of reasons.

1. *The market has had a stellar run since the beginning of the year and while earnings season is giving a "bid" to stocks currently, **both current and forecast earnings continue to weaken**.*
2. *We are at the end of the **seasonally strong period for stocks** and given the outsized run since the beginning of the year a decent mid-year correction is not only normal, but should be anticipated.*

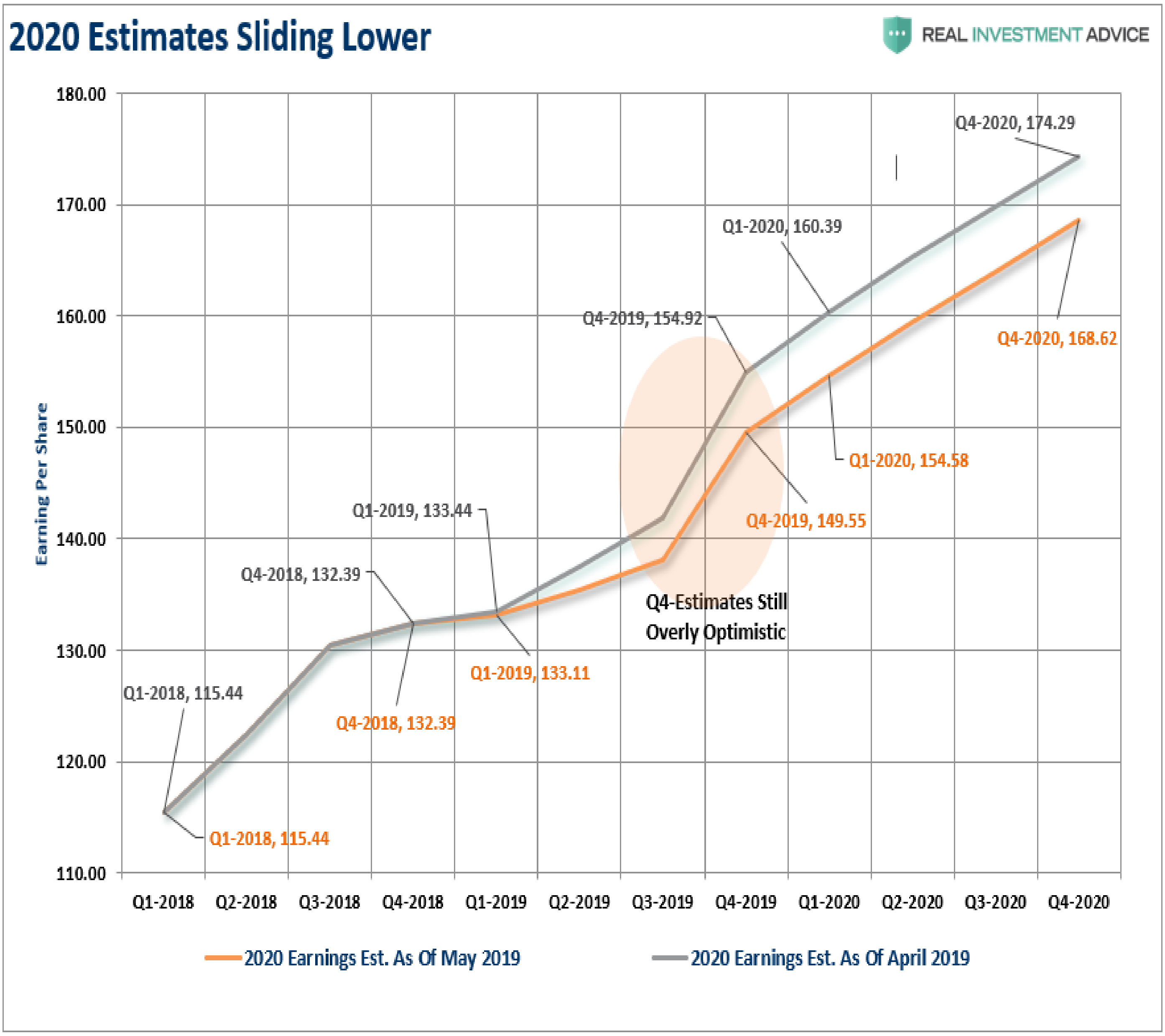
With respect to earnings, and as we have stated many times previously, estimates continue to be revised lower, and have now exceed our original revision target *(red dashed line)* set out in early 2018.



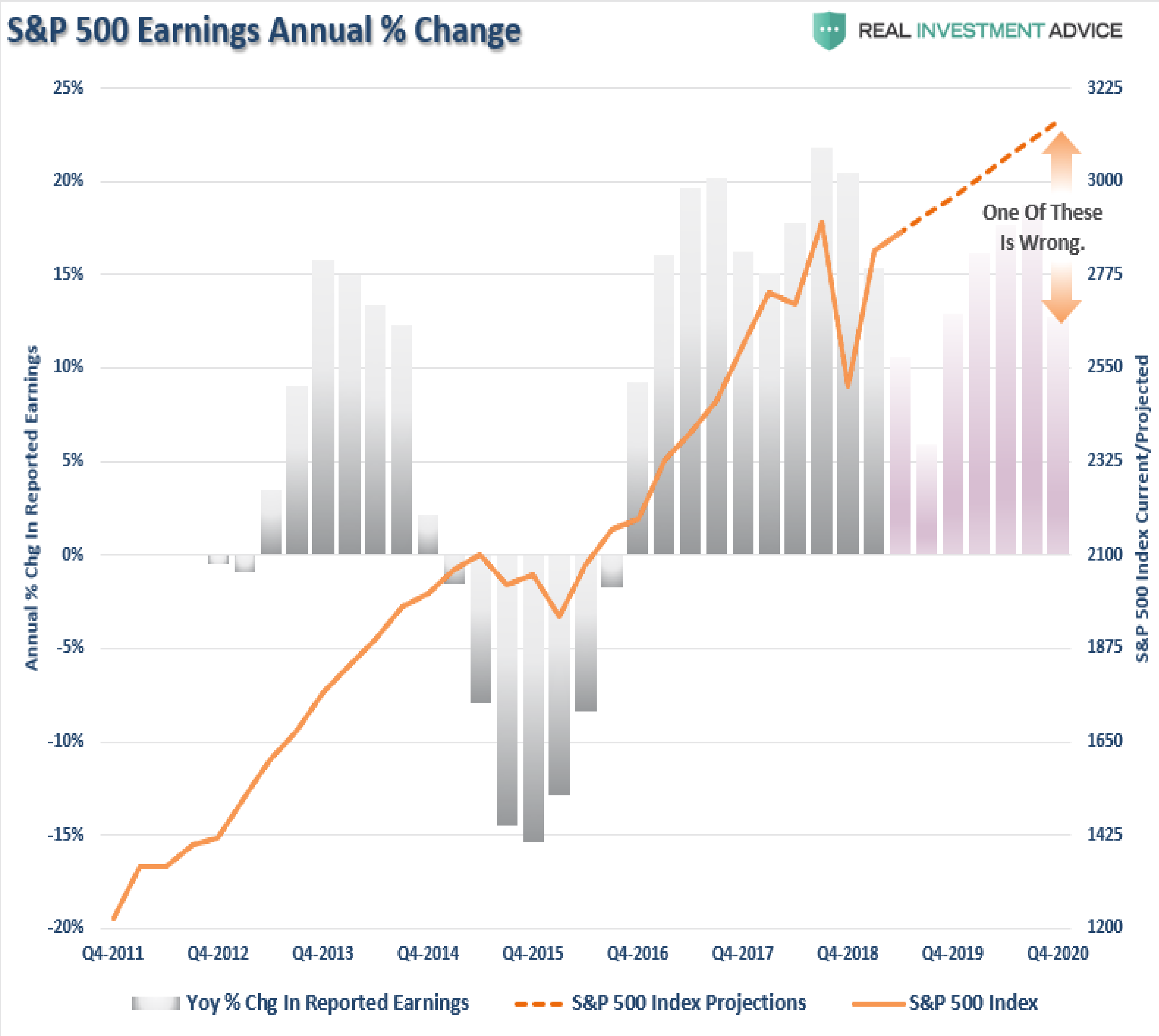
Note: The Q4-2019 hockey-stick earnings jump WILL BE revised down markedly over the next few months.&#2013266080;

Why do I say that?&#2013266080;

Because 2020 estimates are already being revised down rather sharply as well.&#2013266080;



This is important as markets push all-time highs at a time when forward earnings estimates for the next 18-months are all lower than previously estimated. Despite the rise in expected earnings in 2020, the peaks of those expectations *(which are predictably about 33% too high currently)* are all lower than the 2018 earnings peaks.



In other words, further increases in the markets over the next two years will be a function of multiple expansion rather than increased *"value."&#2013266080;*

Such an environment tells us a few things about the market.

1. *In the short-term prices will be driven by momentum and optimism. (1-3 months)*
2. *Over the intermediate-term prices will become more subject to higher volatility due to potential disappointments as "bad news" is treated as "bad news" (4-9 months)*
3. *Longer-term the market is simply a weighing machine and current expectations of 8% annual growth rates in asset prices will be realigned with weaker earnings prospects (10-24 months)*

As noted above, the market's stellar run is set for a breather over the next couple of months. Specifically, as we approach the end of the seasonally strong period, the odds of a *"reset"* rise markedly. As noted on Thursday by StockTraders Almanac the seasonal "sell" signal has also been triggered. To wit:

> *"Yesterday after the market closed, we sent out our Tactical Seasonal Switching Strategy Sell Alert for DJIA and S&P 500...**we are shifting the ETF Portfolio to a***

market-neutral position by adding some exposure to short and longer duration bonds."

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Never Hurts To Ring The Cash Register

This brings me to what we did with our equity portfolios last Tuesday and subsequently reported to our RIA PRO subscribers on Wednesday morning. ***(Try NOW and get 30-days FREE)***

> ***"A common theme through today?s report is 'Profit Taking.'*** *Over the last couple of weeks, we have continued to discuss taking profits and rebalancing risks. Yesterday we sold 10% of our many of holdings prior to earnings to capture some profits. We also added to some of our Healthcare holdings which have been under undue pressure and represent value in a market that has little value currently."*

This was also a point Jim Cramer reiterated on CNBC on Thursday:

> *?Any time you have a remarkable run, it never hurts to take something off the table. Nobody ever got hurt ringing the register,? - Jim Cramer, CNBC*

As the old Wall Street saying goes:

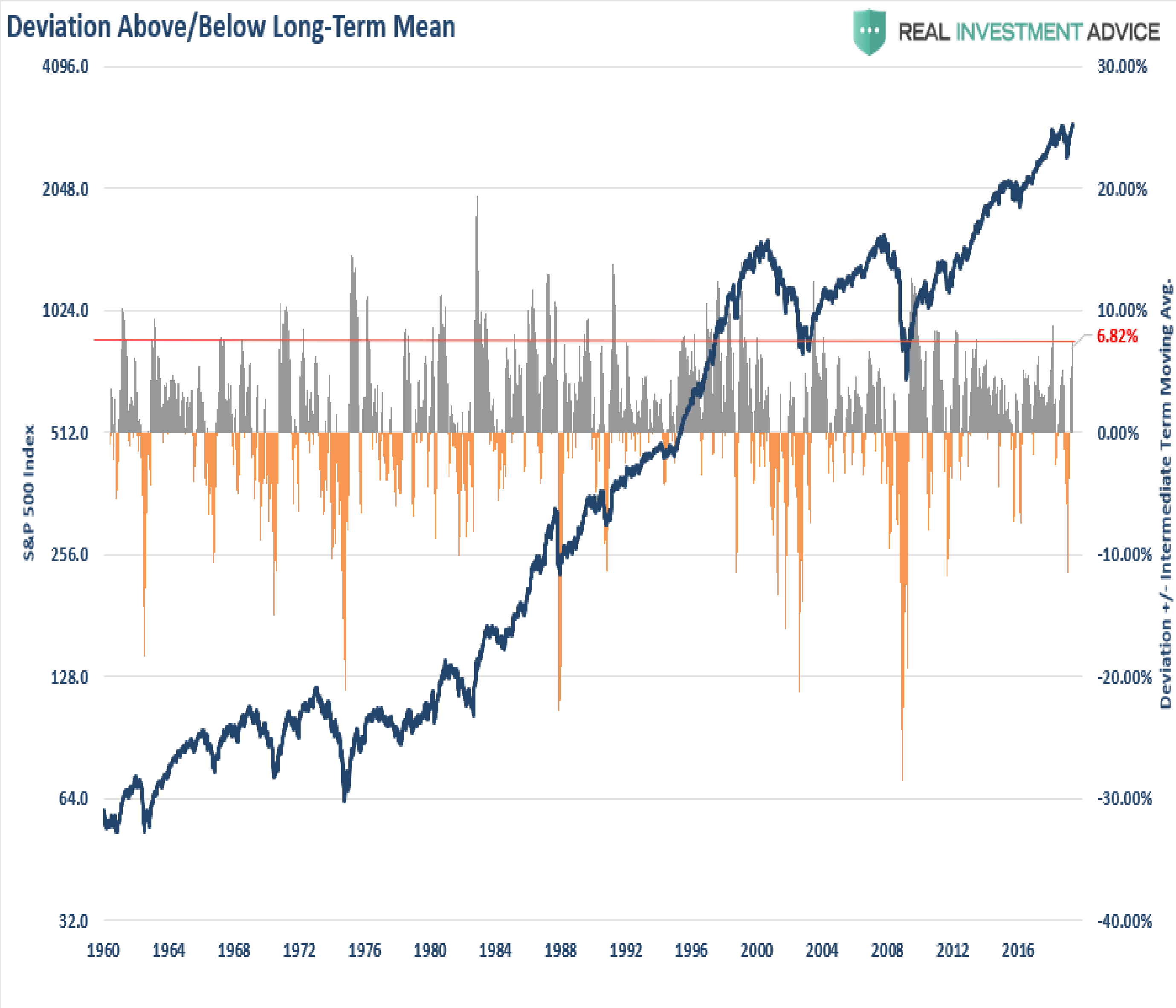
> ***"Bulls make money. Bears make money. Hogs get slaughtered."***

Yes, markets are hovering near all-time highs and everything certainly seems to be firing on all cylinders. However, such is ALWAYS the case before a correction begins. Such is the nature of markets.&#2013266080;

Currently, the markets have had a stellar run since the beginning of the year, and as we wrote previously if you sold everything today, and went to cash, it is unlikely you will miss much between now and the end of the year. *(We aren't recommending you do that, it is just to illustrate a point)*

The reason is because of a chart we posted earlier this week in "A Warning About Chasing This Bull Market."&#2013266080;

> ***"At almost 7% above the long-term weekly moving average, the market is currently pushing the upper end of historical deviations."***



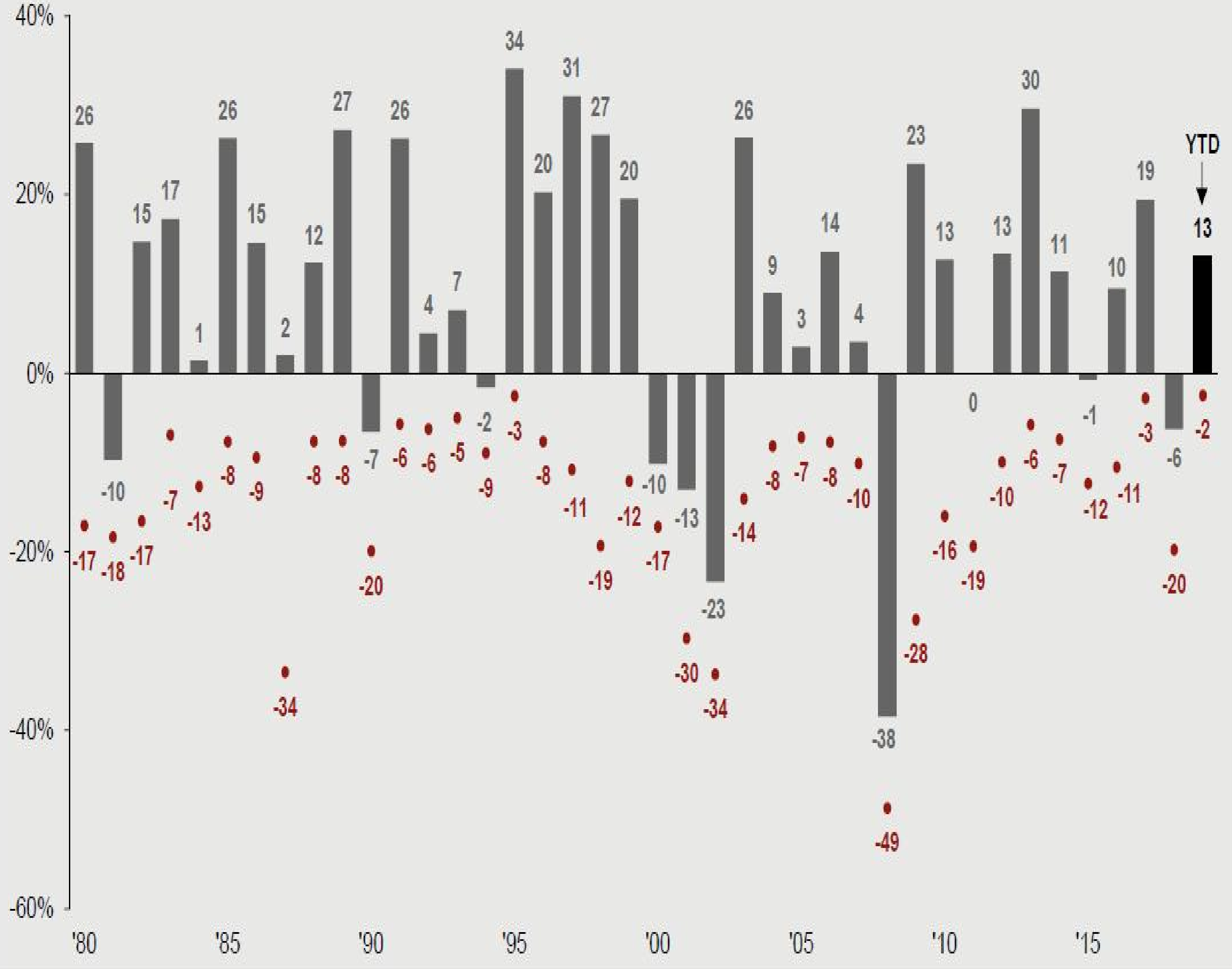
The important point to take away from this data is that&#2013266080;?mean reverting?&#2013266080;events are commonplace within the context of annual market movements.&#2013266080;

Currently, investors have become extremely complacent with the rally from the beginning of the year and are quick extrapolating current gains through the end of 2019.

As shown in the chart below this is a dangerous bet. ***In every given year there are drawdowns which have historically wiped out some, most, or all of the previous gains.*** *While the market has ended the year, more often than not, the declines have often shaken out many an investor along the way.*

S&P 500 intra-year declines vs. calendar year returns

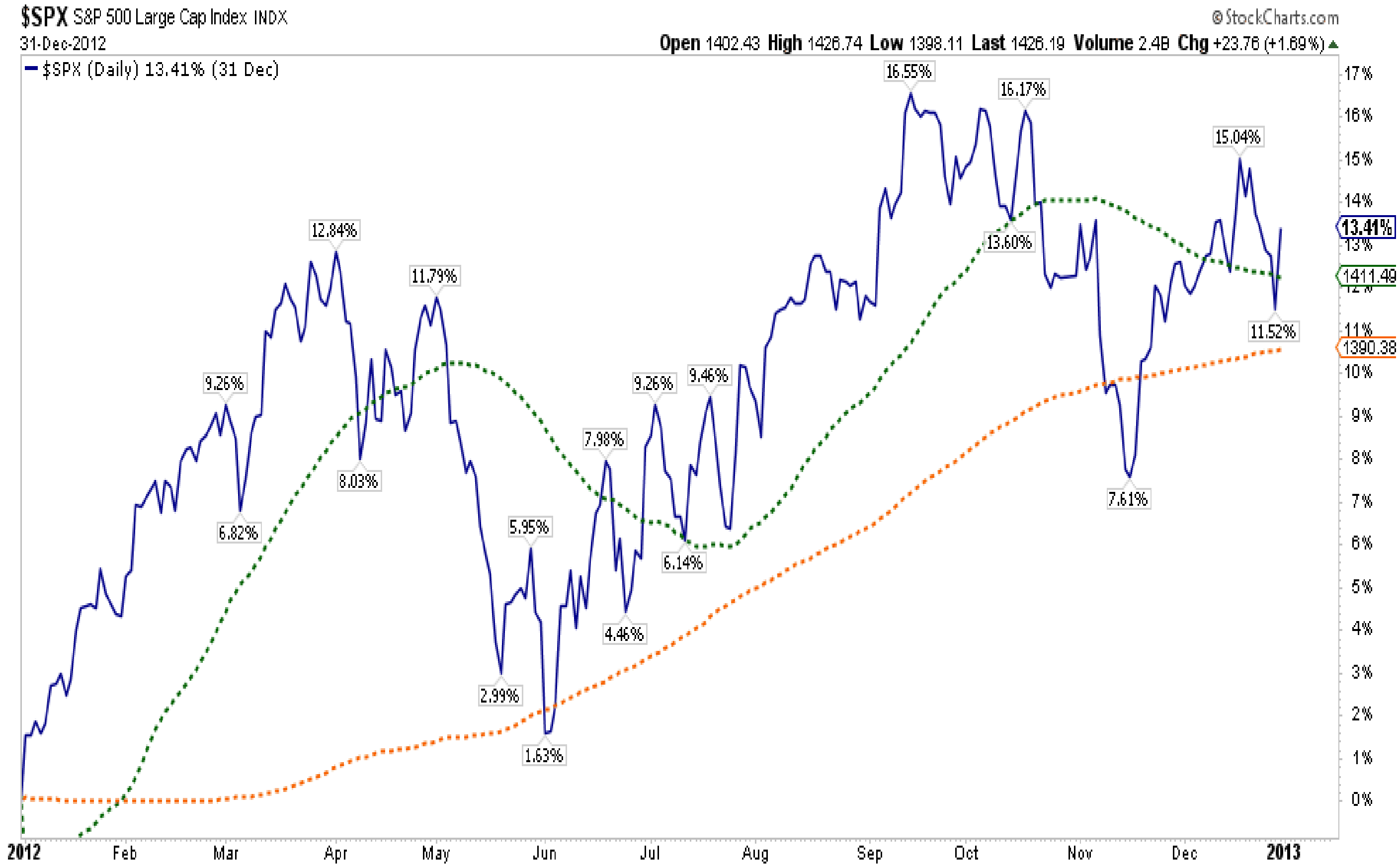
Despite average intra-year drops of 13.9%, annual returns positive in 29 of 39 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2018, over which time period the average annual return was 8.4%.
Guide to the Markets – U.S. Data are as of March 31, 2019.

J.P.Morgan
Asset Management

Let?s take a look at what happened the last time the market started out the year up 13% in 2012.



So far, it looks a whole lot like this year.

> ***"From a portfolio management standpoint, the reality is that markets are very extended currently and a decline over the next couple of months is highly likely.*** *While it is quite likely the year will end on a positive, particularly after last year?s loss, taking some profits now, rebalancing risks, and using the coming correction to add exposure as needed will yield a better result than chasing markets now."*

Given that every given year has some sort of corrective action in it, betting this year will be different is a low probability event.

So, what could cause such a correction?&#2013266080;

[Doug Kass laid out a decent laundry list] of non-trivial risks that not only currently exists but in many cases are expanding.

- ***Slowing Domestic Economic Growth:*** *I see going forward nominal GDP in the U.S. at nearly recessionary growth levels. There was less than meets the eye in the first-quarter headline Real GDP growth rate of 3.2%. The accumulation of inventories, large doses of government spending and a sharp improvement in exports will likely subtract from the second-quarter growth rate. Moreover, consumer spending is clearly slowing (first-quarter consumer durable spending was down 5%), along with housing and non-residential*

construction now. Commodities are down in each of the last five days and are now at a seven-week low. Finally, credit card charge-off rates are rising sequentially, as are delinquency rates.
- ***Slowing Non-U.S. Economic Growth:*** *Economic confidence in the European Union has hit a 10-month low. Hong Kong exports to China are falling post haste (down 10% in March). Finally, last night's disappointing Chinese data questions the foundation of growth in that region.*
- ***The Earnings Recession:*** *A strengthening currency, sub-4% nominal U.S. GDP growth and rising wage and salary costs pose threats to corporate profitability this year. While estimates have improved from year-end, first-quarter profits still look to be down by more than 2%. According to Rosie (David Rosenberg), fully 84% of those companies issuing guidance have been negative. Second-quarter profits look negative, again. As I have chronicled, profit margins peaked several quarters ago (3Q 2018). Going forward, it seems to me that commodities and interest expenses are likely troughing and that wage growth may accelerate from here, pressing margins. Finally, don't fall for the fact that 77% of the reporting companies have beat "estimates." This is what I refer to as the "Twit Olympics" where estimates are taken down and guided to levels that almost certainly will be beat.*
- ***The Last Two Times the Fed Ended Its Rate Hike Cycle, a Recession and Bear Market Followed***
- ***The Strengthening U.S. Dollar:*** *More than 40% of the S&P component's sales are non U.S.-based. A strong U.S. currency will be a profits headwind over the remainder of 2019.*
- ***Message of the Bond Market:*** *Stated simply, the 10-year U.S. note is sending the message of slowing global economic growth.*
- ***Untenable Debt Levels:*** *I have already spent quite a lot of time making the case that debt is a governor to growth. The greatest subset threat is sovereign debt, which for now is being ignored.*
- ***Credit Is Already Weakening:*** *With GDP up by more than 3% in real terms in the first quarter, one should be asking, "Why are bank credit and leveraged loans weakening?" The proliferation of "covenant lite" financing and the existence of increasingly excessive leverage are worrisome. Bankwide loans are weakening (are inventories bloated?); it's the most sluggish trend seen since 2016. The ratio of debt upgrades to downgrades this year is also at the worst level in three years. As well, the leveraged loan market is seeing outflows and distressed debt is beginning to see an acceleration in write-offs. Finally, the search for yield, coupled with low interest rates, causes mischief and the misallocation of resources -- for example, the silly issuance of 100-year Argentina bonds that now sell for about 66 cents on the dollar (they were issued at par).*
- ***Valuation:*** *Many claim that the "Powell Pivot" and its likely ramifications of lower rates for longer provides a cover for equities. But stocks, currently valued at 17x forward earnings, are now more than two price-to-earnings (P/E) multiple points above the average level of the last decade -- a period of time in which rates were mostly at or near generational lows.*
- ***Positioning Is to the Bullish Extreme:*** *As noted last week by my pal Peter Boockvar, chief investment officer at Bleakley Advisory Group, the net speculative position in short VIX futures is at an all-time high. And all-time is a long time.*
- ***Rising Bullish Sentiment (and The Bull Market in Complacency):*** *The CNN Fear & Greed Index is extended toward Greed now. Barron's Big Money Poll lists only about one-sixth of the respondents as bearish.*
- ***Non-Conformation of Transports:*** *The Dow Theory is shining an amber light in 2019's sea of market green. I am surprised so few technicians have mentioned this warning flag.*

It's a lot.&#2013266080;

However, where that laundry list of worries is long, none of them are going to be the *"one"* which gets the market. **It is the combination of these issues which provide the "*fuel*" to amplify the impact of an unexpected, exogenous event which ignites selling in the markets.&#2013266080;**

Since it is ALWAYS and unexpected event which causes sharp declines in asset prices, this is why advisors typically tell their clients ***"since you can't predict it, all you can do is just ride it out."&#2013266080;***

This is not only lazy, but ultimately leads to the unnecessary destruction of capital and the investors time horizon.

Portfolio Management Guidelines

> *"Great. Now that you told me all this, what can, or should, I do about it."*

Advice without a solution is not really all that beneficial, so&#2013266080;I thought I would share with you the portfolio rules that drive own own investment discipline at ***RIA Advisors***. **&#2013266080;**

While the fundamental, economic and price analysis forms the backdrop of overall risk exposure and asset allocation, it is the following set of rules which define the *?control boundaries?* &#2013266080;for all specific actions.

1. **Cut losers short and let winner?s run**.&#2013266080;*(Be a scale-up buyer into strength.)*
2. **Set goals and be actionable.**&#2013266080;*(Without specific goals, trades become arbitrary and increase overall portfolio risk.)*
3. **Emotionally driven decisions void the investment process.** &#2013266080;&#2013266080;*(Buy high/sell low)*
4. **Follow the trend.**&#2013266080;*(80% of portfolio performance is determined by the long-term, monthly, trend. While a ?rising tide lifts all boats,? the opposite is also true.)*
5. **Never let a&#2013266080;*?trading opportunity?*&#2013266080;turn into a long-term investment.**&#2013266080;*(Refer to rule #1. All initial purchases are ?trades,? until your investment thesis is proved correct.)*
6. **An investment discipline does not work if it is not followed.**
7. ***?Losing money?*&#2013266080;is part of the investment process.**&#2013266080;*(If you are not prepared to take losses when they occur, you should not be investing.)*
8. **The odds of success improve greatly when the fundamental analysis is confirmed by the technical price action.&#2013266080;***(This applies to both bull and bear markets)*
9. **Never, under any circumstances, add to a losing position.**&#2013266080;*(As Paul Tudor Jones once quipped: ?Only losers add to losers.?)*
10. **Market are either&#2013266080;*?bullish?*&#2013266080;or&#2013266080;*?bearish.?* &#2013266080;During a&#2013266080;*?bull market?*&#2013266080;be only long or neutral. During a&#2013266080;*?bear market?*be only neutral or short.**&#2013266080; *(Bull and Bear markets are determined by their long-term trend as shown in the chart below.)*
11. **When markets are trading at, or near, extremes do the opposite of the&#2013266080; *?herd.?***
12. **Do more of what works and less of what doesn?t.**&#2013266080;*(Traditional rebalancing takes money from winners and adds it to losers. Rebalance by reducing losers&#2013266080;and adding to winners.)*

13. ***?Buy?*&#2013266080;and&#2013266080;*?Sell?*&#2013266080;signals are only useful if they are implemented.**&#2013266080;*(Managing a portfolio without a ?buy/sell? discipline is designed to fail.)*
14. **Strive to be a .700&#2013266080;*?at bat?*&#2013266080;player.**&#2013266080;*(No strategy works 100% of the time. However, being consistent, controlling errors, and capitalizing on opportunity is what wins games.)*
15. **Manage risk and volatility.**&#2013266080;*(Controlling the variables that lead to investment mistakes is what generates returns as a byproduct.)*

These are the rules that we TRY and follow. We are human like everyone else and make mistakes along the way. But those deviations are nearly always quickly punished, lessons are relearned, and course corrections are made.&#2013266080;

How you choose to manage your portfolios are up to you. I just hope you find some value in the lessons we have learned the *"hard way"* over the last 25+ years.

If you need help or have questions we are always glad to help. Just email me.

See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

SPY RISK INFO — ZACKS — REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	23.29%	11.96%	17.65%	47.57%
Max Drawdown	-20.47%	-20.47%	-3.35%	-83.62%
Sharpe	0.81	0.80	5.16	5.48
Sortino	0.90	1.06	6.83	5.43
Volatility	13.60	14.83	12.00	(0.19)
Daily VaR-5%	(8.25)	(9.33)	44.67	(5.79)
Mnthly VaR-5%	(6.65)	(11.91)	50.28	(5.22)

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	1.91%	1.85%	1.82%	(1.63%)	2.18%	1.67%	(16.52%)	8.74%
P/E Ratio	20.81	20.52	18.34	(11.88%)	21.61	16.40	(15.1%)	11.85%
P/S Ratio	3.09	3.25	3.36	3.48%	3.55	2.49	(5.22%)	35.09%
P/B Ratio	3.51	3.76	4.12	8.72%	4.16	2.99	(0.82%)	37.97%
ROE	15.59%	16.59%	18.73%	11.42%	18.73%	15.00%	0.00%	24.88%
ROA	2.89%	3.13%	3.52%	11.21%	3.52%	2.81%	0.00%	25.18%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,438.1	2,411.1	(1.11%)
Sales	58,879	63,625	8.06%
SPS	24.1	26.4	9.27%
Earnings	8,039	9,601	19.44%
EPS TTM	3.9	4.8	23.86%
Dividend	1.5	1.6	9.40%

S&P 500 Asset Allocation

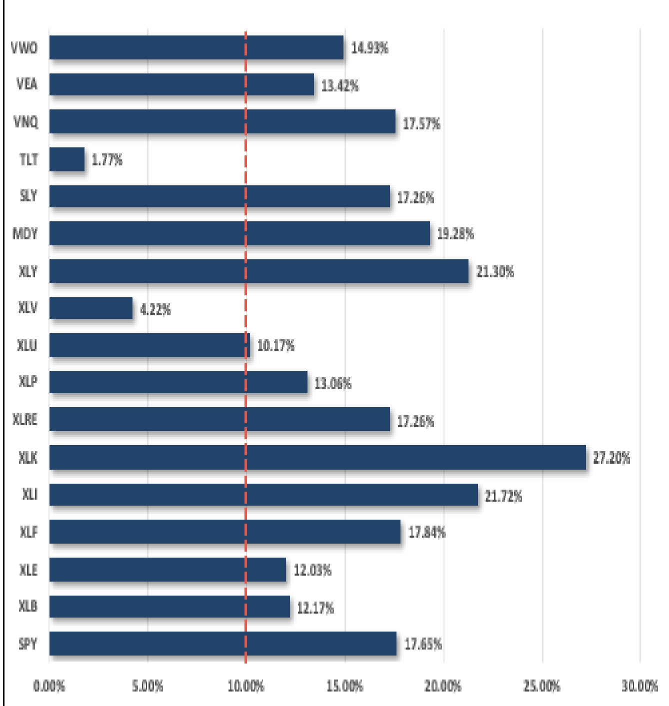
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(13.61%)	5.15%	1.17	16.85	156.27	12.49	(89.2%)	10.3%	3.5%	6.32%	3.31	17.69
Materials	(3.90%)	2.64%	1.29	15.66	21.86	13.82	(28.4%)	11.2%	1.7%	6.70%	4.60	15.37
Industrials	8.79%	9.48%	1.12	17.85	22.22	14.73	(19.7%)	15.6%	1.9%	5.58%	5.27	15.50
Discretionary	17.10%	10.27%	0.99	24.77	27.60	20.11	(10.3%)	28.3%	1.2%	3.95%	4.87	20.88
Staples	15.93%	7.15%	0.60	19.59	22.83	17.63	(14.2%)	27.4%	2.8%	5.06%	3.89	18.73
Health Care	11.91%	13.70%	0.90	16.55	20.62	15.93	(19.7%)	29.2%	1.8%	5.93%	6.38	15.77
Financials	4.95%	13.25%	1.24	13.61	18.42	11.68	(26.1%)	11.9%	2.0%	7.32%	5.78	11.22
Technology	21.48%	21.79%	1.21	20.94	21.83	14.47	(4.1%)	38.7%	1.4%	4.81%	5.19	19.09
Telecom	10.95%	10.33%	0.89	20.28	27.29	17.43	(25.7%)	18.4%	0.9%	4.96%	6.22	18.41
Utilities	16.94%	3.23%	0.32	19.55	20.31	15.58	(3.7%)	10.7%	3.4%	5.13%	3.59	18.40
Real Estate	17.03%	2.98%	0.78	19.69	24.47	17.10	(19.6%)	10.3%	3.3%	5.03%	4.27	19.28

Momentum Analysis

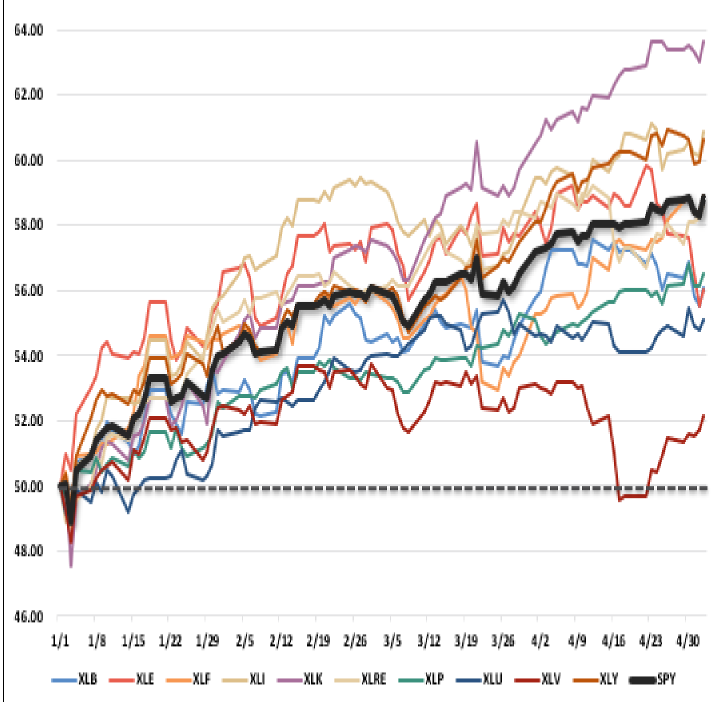
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	294.03	5.33%	284.99	50	3.17%	276.56	40	6.32%	3.05%	(0.31%)	25.78%	Buy
Mid Cap	361.02	2.49%	350.31	29	3.06%	344.42	26	4.82%	1.71%	(3.50%)	26.92%	Buy
Small Cap	70.32	0.24%	68.03	9	3.36%	68.99	1	1.93%	(1.39%)	(10.13%)	24.90%	Sell

Performance Analysis

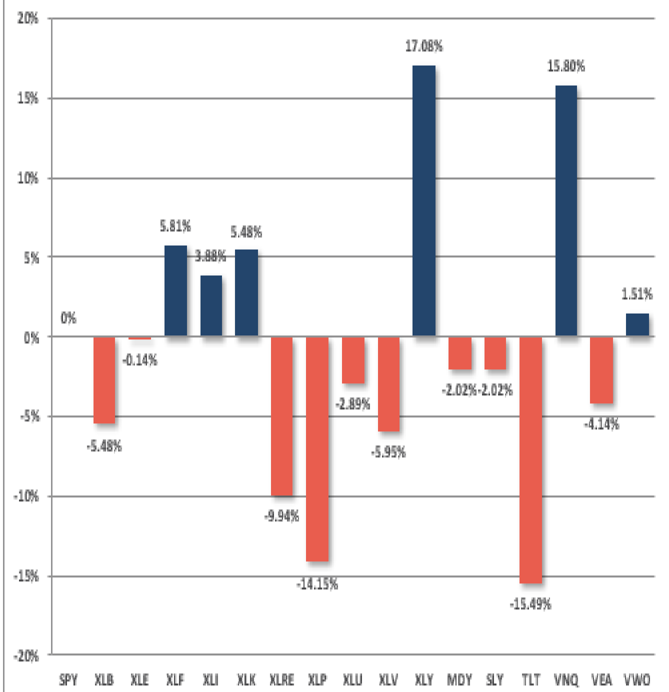
Year To Date Performance



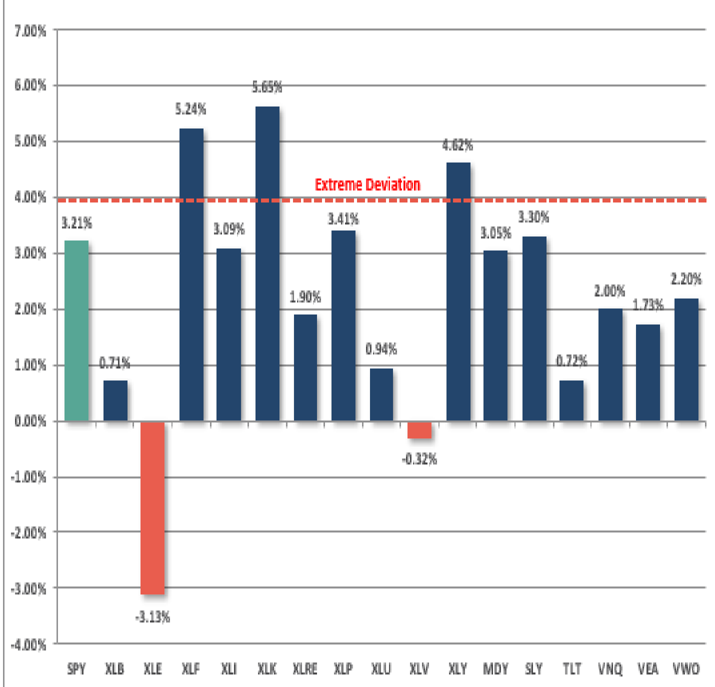
YTD Price - S&P Sectors Recalibrated To $50/share



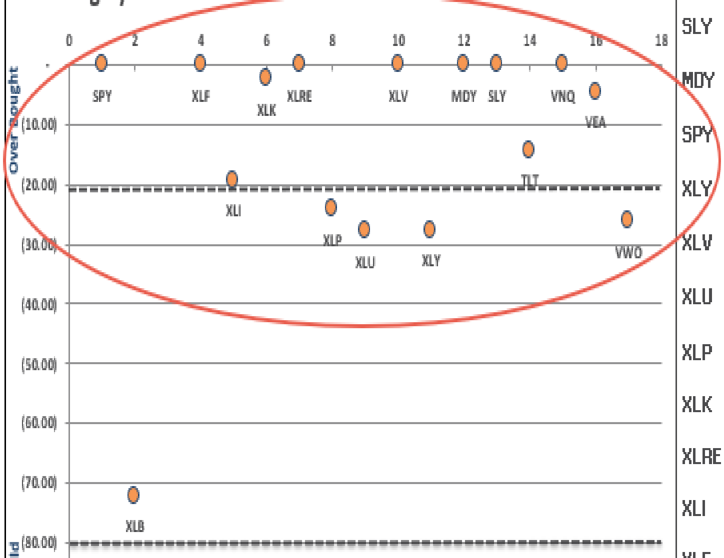
Year To Date Performance Relative To S&P 500



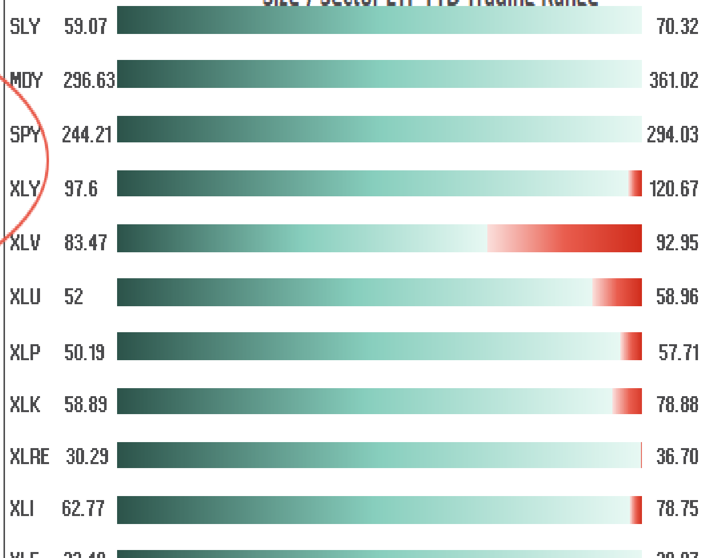
Price Deviation From 50-Day Moving Average



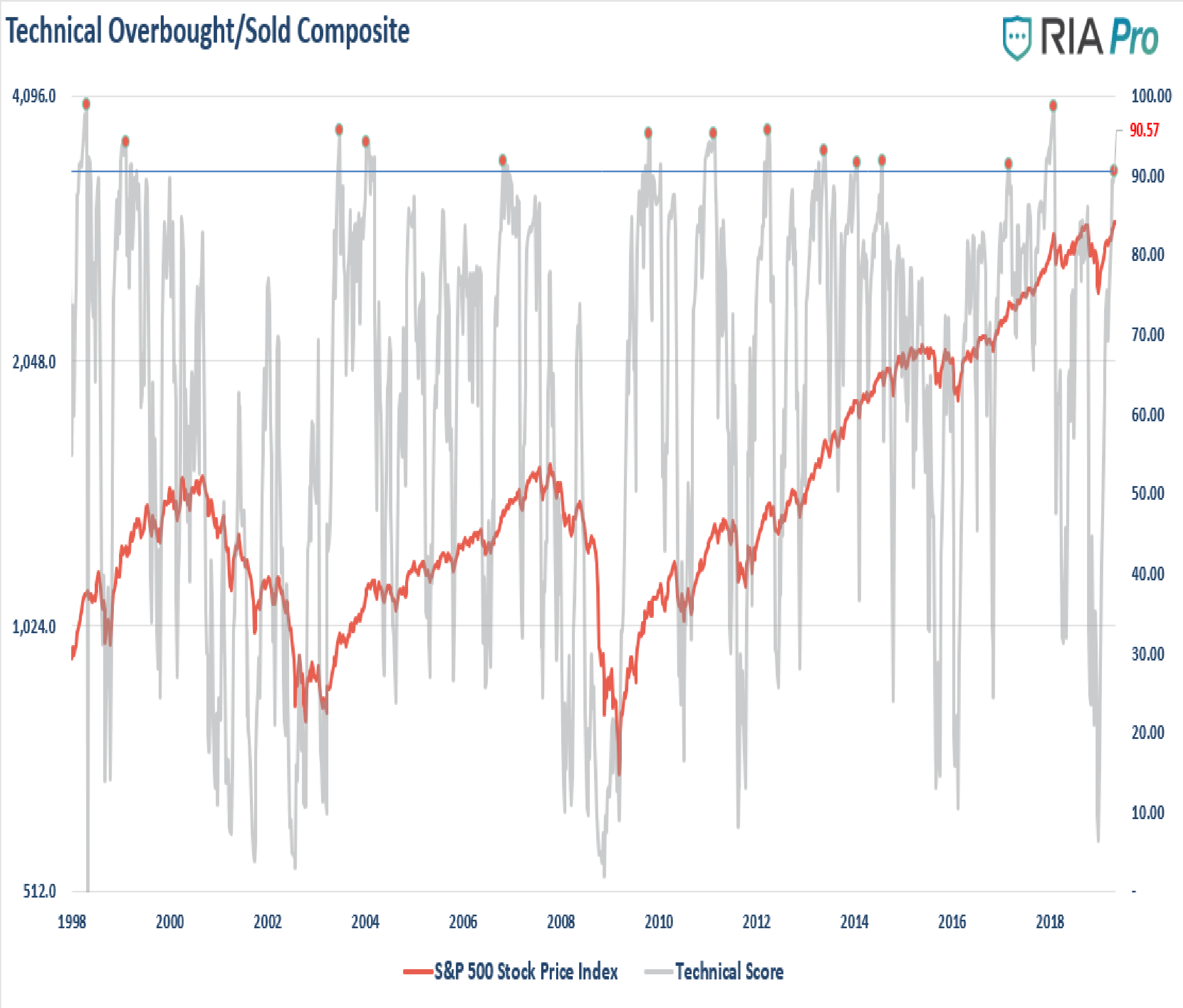
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



NEW: Technical Composite



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	296.01	0.18	1.91	8.78	7.35	10.53	284.52	276.81	4.04%	6.94%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	56.67	(0.88)	(3.90)	(1.24)	(4.76)	(12.48)	55.78	54.63	1.60%	3.73%	BUY
		XLE	SPDR-EGY SELS	64.25	(3.16)	(6.88)	(6.69)	(11.71)	(23.52)	66.02	66.47	-2.69%	-3.34%	SELL
		XLF	SPDR-FINL SELS	28.07	1.15	3.61	0.57	(2.57)	(7.59)	26.56	26.26	5.68%	6.89%	BUY
		XLI	SPDR-INDU SELS	78.40	0.95	(0.11)	(1.48)	1.55	(2.03)	75.71	72.97	3.56%	7.44%	BUY
		XLK	SPDR-TECH SELS	78.84	0.17	1.93	7.18	8.23	6.07	73.37	69.84	7.45%	12.88%	BUY
		XLP	SPDR-CONS STPL	57.41	0.57	1.36	(2.05)	(4.94)	5.01	55.21	54.27	3.99%	5.78%	BUY
		XLU	SPDR-UTIL SELS	58.30	0.16	(1.57)	(4.07)	(1.12)	2.66	57.29	55.21	1.76%	5.60%	BUY
		XLC	SPDR-COMM SV SS	50.09	(1.50)	1.75	0.76			47.47	45.99	5.51%	8.92%	BUY
		XLV	SPDR-HLTH CR	90.16	1.11	(3.91)	(8.53)	(9.39)	0.78	90.63	90.45	-0.51%	-0.32%	BUY
		XLY	SPDR-CONS DISCR	120.10	(0.66)	0.28	3.33	5.56	4.93	113.57	109.45	5.75%	9.73%	BUY
	SIZE	SLY	SALOMON LEASING	70.32	1.63	0.62	(2.89)	(4.48)	(7.27)	68.08	67.68	3.29%	3.91%	BUY
		MDY	SPDR-SP MC 400	361.02	0.27	(0.22)	(1.78)	(1.10)	(5.94)	348.91	340.40	3.47%	6.06%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	108.07	0.03	(0.93)	(1.70)	(0.46)	(2.27)	104.79	101.55	3.13%	6.42%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	101.86	0.56	(1.03)	(2.65)	(2.49)	1.52	99.18	96.27	2.70%	5.80%	BUY
	Real Estate	XLRE	SPDR-RE SELS	36.35	0.82	(2.46)	(3.63)	1.29	5.57	35.46	33.62	2.51%	8.11%	BUY
	International	EEM	ISHARS-EMG MKT	44.22	0.59	(2.32)	(3.89)	0.77	(15.29)	43.22	41.59	2.31%	6.32%	BUY
		EFA	EMG MKT FREE AS	66.99	0.63	(0.80)	(0.76)	(0.95)	(16.08)	64.92	63.62	3.18%	5.30%	BUY
		IXUS	ISHARS-CR INT S	59.82	0.51	(1.26)	(1.78)	(0.63)	(16.10)	58.19	56.79	2.80%	5.33%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	123.66	(0.30)	(2.21)	(7.70)	0.46	(6.60)	122.51	119.29	0.94%	3.66%	BUY
	International	BNDX	VANGD-TTL INT B	55.75	(0.24)	(1.66)	(7.21)	(5.11)	(8.44)	55.33	54.84	0.75%	1.66%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.57	(0.64)	(1.75)	(6.68)	(3.39)	(9.18)	85.94	84.75	0.73%	2.15%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.30										

Sector & Market Analysis:

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

Sector Rotation Graph

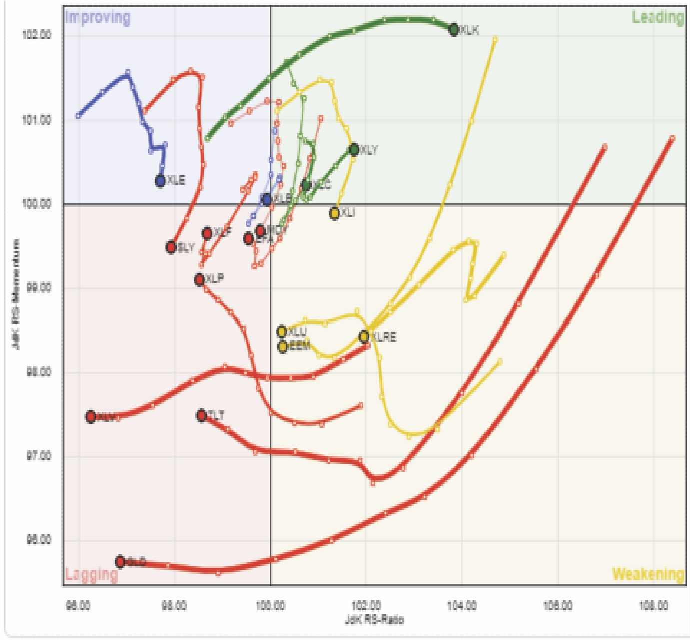
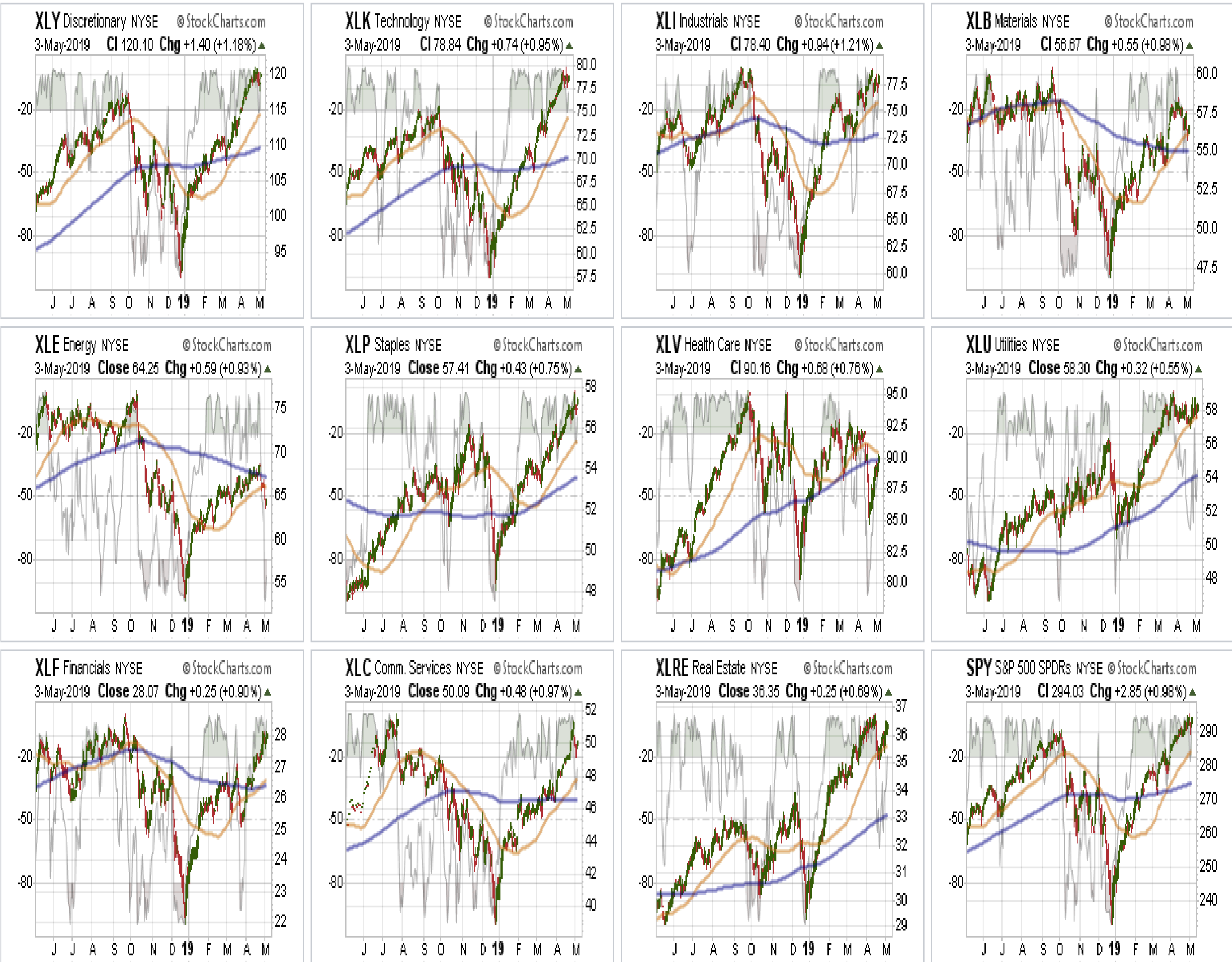


chart	visible	tail	symbol	name	sector	industry	price	%chg
	✓		XLK	Technology Select Sector SPDR Fund			78.84	12.0
	✓		XLY	Consumer Discretionary Select Sector SPDR Fund			120.10	8.5
	✓		XLC	Communication Services Select Sector SPDR Fund			50.09	8.9
	✓		XLE	Energy Select Sector SPDR Fund			64.25	-1.5
	✓		XLB	Materials Select Sector SPDR Fund			56.67	2.0
	✓		XLRE	Real Estate Select Sector SPDR Fund			36.35	4.2
	✓		EEM	iShares MSCI Emerging Markets ETF			44.22	2.7
	✓		XLU	Utilities Select Sector SPDR Fund			58.30	2.9
	✓		XLI	Industrial Select Sector SPDR Fund			78.40	3.5
	✓		GLD	SPDR Gold Shares			120.65	-3.9
	✓		XLV	Health Care Select Sector SPDR Fund			90.16	-2.2
	✓		TLT	iShares 20+ Year Treasury Bond ETF			123.66	2.4
	✓		SLY	SPDR S&P 600 Small Cap ETF			70.32	0.5
	✓		XLP	Consumer Staples Select Sector SPDR Fund			57.41	6.1
	✓		XLF	Financial Select Sector SPDR Fund			28.07	6.6
	✓		EFA	iShares MSCI EAFE ETF			66.99	4.5
	✓		MDY	SPDR S&P MIDCAP 400 ETF			361.02	2.7
			$SPX	S&P 500 Large Cap Index			2945.64	5.5

Sector-by-Sector



Notice in the Sector Rotation Graph above that leadership is becoming much more narrow in the market (Technology, Discretionary, and Communications) all of which are being driven by just 5-stocks currently - MSFT, AAPL, GOOG, AMZN and FB.

The crowding of the majority of sectors into the LAGGING quadrant suggests we are likely close to experiencing a fairly significant rotation among sectors. Such would suggest a *"risk off"* rotation over the next couple of months which would likely coincide with a bid to more defensive sectors of the market. *(Healthcare, Utilities, Real Estate, Bonds, Value vs. Growth)*

Improving - Energy, Materials

While Energy remains in the improving category, that pickup in performance from higher oil prices is fading. We recommended taking profits and rebalancing risk last week. That recommendation remains as the sector broke back below its 50-dma.&#2013266080;

Materials is also on the verge of slipping back into underperforming the S&P 500 and also suggests, as recommended last week, to take some profits.&#2013266080;

Current Positions: *1/2 Position in XLE, XLB*

Outperforming - Technology, Discretionary, Communications

Communications joined the *"outperforming group"* last week, however, with the exception of Technology, the outperformance of these sectors is marginal. As noted above, the outperformance of ALL THREE sectors is being driven by just 5-stocks. This isn't really a sign of a strong market. Therefore, with all **THREE of these sectors GROSSLY overbought so it is a good idea to take profits and rebalance portfolio risks accordingly.**

Two weeks ago, we trimmed Technology and increased our weight in Healthcare.

Current Positions: *XLY, XLK - Stops moved from 200 to 50-dma's.*

Weakening - Real Estate, Utilities, Industrials

Despite the *"bullish"* bias to the markets, the more defensive sectors of the markets, namely Utilities and Real Estate, have continued to attract buyers. **That remained the same this week, particularly as bond yields declined following the Employment number which showed a weakening economic environment despite a strong headline print.**

As I noted over the last two weeks, these sectors were *"very extended and overbought"* and a correction was likely. Both of these sectors have now corrected back to their 50-dma and are now oversold on a short-term basis. This provides a decent entry opportunity for positioning as a defensive play against a likely rotation out of Technology and Discretionary holdings.&#2013266080;

Industrials performance lead over the S&P 500 is weakening but the sector is still performing well with Materials on the hopes of a trade resolution. Take some profits, rebalance portfolios, raise stops but remain long for now

Current Position: XLI, *XLU, will add XLRE opportunistically*

Lagging - Healthcare, Staples, Financials

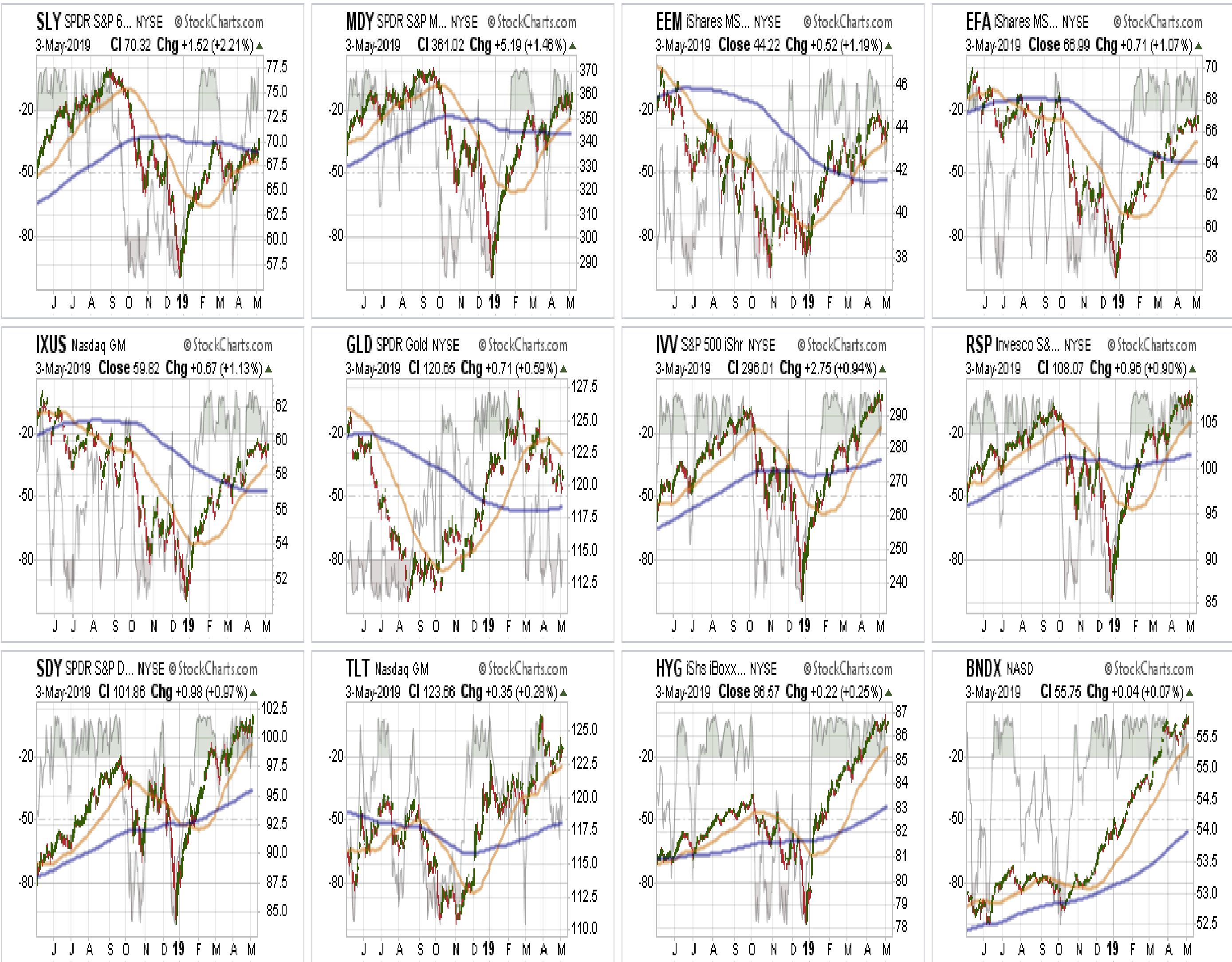
Staples have pushed out to all-time highs as money continues to chase the sector. However, its performance, while positive, is lagging the S&P 500 overall. Staples remain on a buy signal but are extremely overbought and extended. Take profits and rebalance in portfolios.

Financials as noted last week are performing okay, so we are giving the sector some room and will re-evaluate holdings again next week.

As noted last week, we are still looking for a defensive rotation over the next couple of months. We remain overweight in Healthcare again this week.&#2013266080;

Current Positions: *XLF, XLV, XLP&#2013266080;*

Market By Market



Small-Cap and Mid Cap - Small Cap stocks finally showed some signs of life by breaking above resistance. Small caps have remained the holdout of the bullish bias of the market and the rotation to small-cap holdings is very late stage behavior. Mid-Cap retested their 50-dma last week and perked back up on Friday providing a reasonable entry point for a trade.&#2013266080;

Current Position: *Adding 1/2 Position SLY, MDY*

Emerging, International & Total International Markets&#2013266080;

As noted last week,

> *"Emerging Markets continue to perform better as of late but are extremely overbought in the short-term. We are looking for a pullback which holds support to increase our holdings in that market."*&#2013266080;

EEM did pull back to the 50-dma last week, and held support, so positions can be added with a very tight stop at the 50-dma currently. The rising dollar is a risk to emerging markets, so a break below the 50-dma will suggest a reduction in weightings.&#2013266080;

Major International & Total International shares also are performing much better despite global economic weakness and a stronger dollar. This is probably misplaced optimism but nonetheless,&#2013266080; the technical backdrop has improved enough to warrant adding a position on this recent pullback which held 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, Add 1/2 position in EEM, EFA*

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.&#2013266080;

Core holdings remain currently at target portfolio weights but all three of our core positions are grossly overbought. A correction is coming, it is now just a function of time.&#2013266080;

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

Gold ? Gold continues to perform poorly despite concerns over the Fed, policy, and monetary policy. However, gold remains above critical support and if we are right about the pending "summer cool-off" correction, then gold should provide a bit of hedge to portfolios. Hold positions for now.

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

Bonds&#2013266080;?

As noted two weeks ago, we said bonds were setting up for a nice entry point to add additional bond exposure. Bonds bounced off the 50-dma holding important support last week. Bonds are not oversold yet, so keep a close watch on holdings. We laid out an initial target for yields at 2.6% which was pinned last week. While there is a potential for rates to climb as high as 2.85%, this is an unlikely probability in the current economic environment.

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

High Yield Bonds, representative of the *"risk on"* chase for the markets, corrected last week but remain extremely overbought. If the S&P 500 corrects over the next couple of months, it will pull high-yield (junk) bonds back towards initial support at the 50-dma. Last week, we recommended taking profits and rebalancing risk accordingly. International bonds, which are also high credit risk, have been consolidating over the last couple of weeks, but remains very overbought currently which doesn't offer a decent reward/risk entry point.&#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	Take Profits			X			Take Profits
XLK	Technology	OB	Positive	Positive	Take Profits			X			Take Profits
XLI	Industrials	OB	Positive	Neutral	Hold			X			Hold Position
XLB	Materials	Declining	Positive	Neutral	Hold			X			Hold Position
XLE	Energy	OS	Improving	Negative	Take Profits			X			Broke 50-DMA
XLP	Staples	OB	Positive	Positive	Take Profits			X			Take Profits
XLV	Health Care	Improving	Neutral	Neutral	Hold			X			Overweight Position
XLU	Utilities	Neutral	Positive	Positive	Hold			X			Hold Position
XLF	Financials	OB	Positive	Neutral	Hold			X			Hold Position
XLC	Telecom	OB	Positive	Neutral	No Position					X	No Position Currently
XLRE	Real Estate	Neutral	Positive	Positive	No Position					X	No Position Currently
SLY	Small Caps	OB	Improving	Negative	Look To Add		X				Broke Above 50-DMA
MDY	Mid Caps	OB	Positive	Neutral	Look To Add		X				Add 1/2 Position
EEM	Emerging Mkt	OB	Positive	Improving	Hold			X			Hold
EFA	International	OB	Positive	Improving	Trade Oppty		X				Add 1/2 Position
IXUS	Total International	OB	Positive	Improving	Trade Oppty		X				Add 1/2 Position
GLD	Gold	OS	Positive	Neutral	Warning			X			Holdiing Support
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Reduce to Target Weight
TLT	20+ Yr. Bond	Neutral	Positive	Positive	Hold			X			Hold
HYG	Corporate High Yield	OB	Positive	Positive	No Position			X			Look To Add On Pullback
BNDX	Int'l Bond Aggregrate	OB	Positive	Positive	No Position			X			Look To Add On Pullback

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

Portfolio/Client Update:

With our near term buy signals in place, we continue to let our equity holdings ride the wave of the market and are looking to opportunistically take on exposures as they present themselves. With earnings season now underway there will be bid under stocks as companies *"beat"* drastically lowered *"expectations."*

Over the last couple of weeks in particular we have been discussing taking profits, rebalancing risks, and looking for opportunities where they may exist. As noted last week, we added to our healthcare sector in the ETF model and took some profits in technology. We did the same this week with our equity model as noted below.

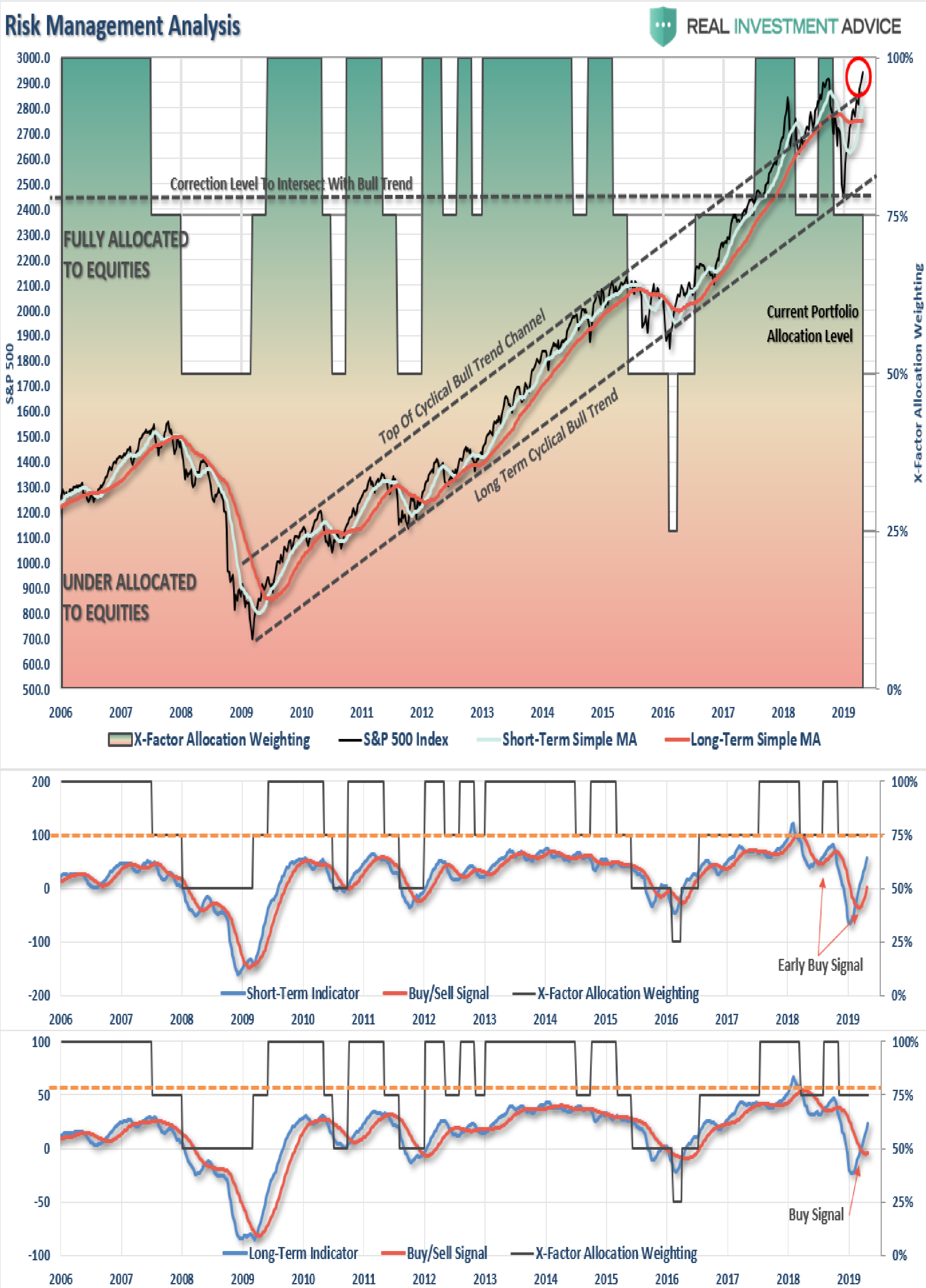
- **New clients:** *We continue to onboard clients and move into specified models accordingly.&#2013266080;*
- ***Equity Model:*** *We took profits in a number of equity holdings last week which had large gains, and added to our healthcare holdings as noted above. (We took 20% profit in AAPL, and 10% in VMC, COST, CMCSA, MSFT, V, DOV, YUM, MDLZ, PG, NSC, and UTX. We added to our holdings of ABT, HCA, UNH.) This week we are looking to increase our hedges in portfolios by adding to IAU and GDX.*
- ***ETF Model****: No changes. - Last week, we trimmed Technology (XLK) back to target portfolio weights in accounts (no action was taken if position was already at target) and overweighted Healthcare (XLV). This week will increase our stake in IAU as a volatility/risk hedge heading into summer.*

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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Sell In May

The market finished just about where it started last week. The good news is that the break of the consolidation pattern was narrowly reversed on Friday keeping offense on the field for now. However, a "seasonal sell" signal was triggered which also keeps us a bit more cautious as we head into the "dog days of summer."

As stated above, given the run higher this year, a retracement this summer is highly likely which will provide the best opportunity to tactically take portfolios to 100% of target. As stated last week:

> "As is always the case, by the time these more '*bullish"* actions occur, the risk/reward opportunity in the short-term is not generally favorable. In this case, in particular, the angle of ascent of the markets from the December lows has been more abnormal than not."&#2013266080;

That opportunity is coming soon, and is why *"patience"* is required when investing.

Again, with both "*buy"* signals now in place we **WILL move target allocations move to 100% equity exposure on any corrective actions which reduces the extreme overbought short-term condition without violating important support.&#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"

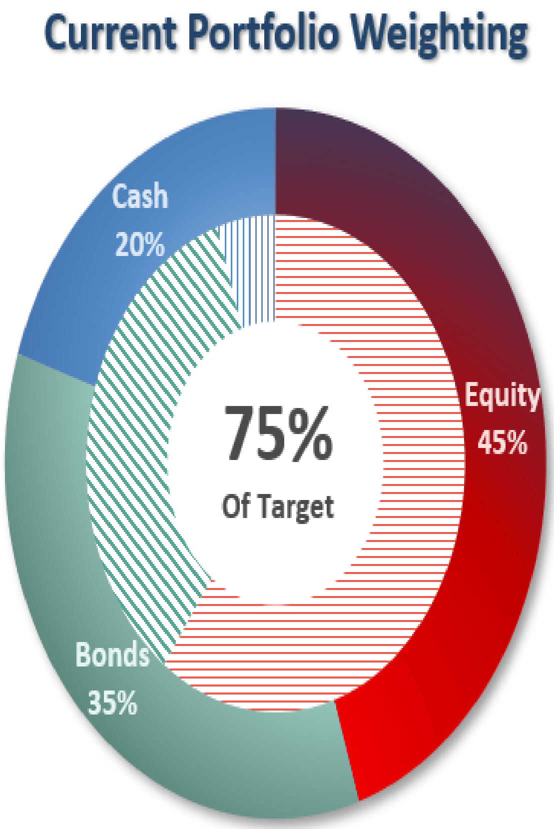
We are making a *"LIVE"* version of the 401-k allocation model which will soon be available to **RIA PRO subscribers.** You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more.&#2013266080;

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

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