The Bulls Are Betting On A "Long Shot"

- ***Market Review & Update***
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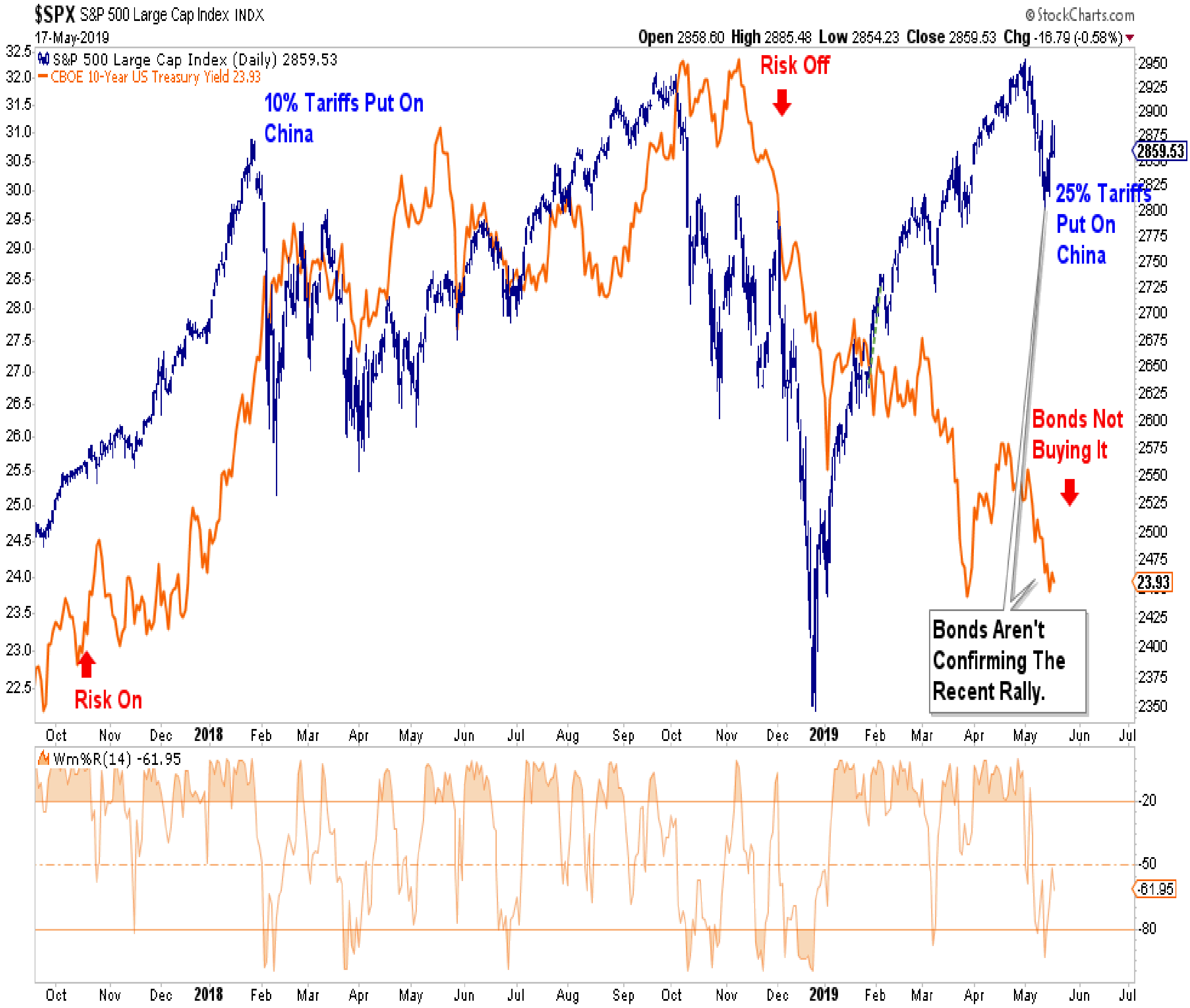
Market Review & Update

Over the last several weeks, we have been discussing the potential for a market correction simply due to divergences in the technical indicators which suggested near-term market risk outweighed the reward. Then, the White House reignited the *"trade war"* with China. [To wit:]

> *"The "Trade War" is not a good thing for markets or the economy as recently suggested by the President.&#2013266080;David Rosenberg had an interesting point on this as well on Friday:*
>
> *'Tracing through the GDP hit from a tariff war on EPS growth and P/E multiple compressions from heightened uncertainty, the downside impact on the S&P 500 would come to 10%. I chuckle when I hear economists say that the impact is small-meanwhile, global trade volumes have contracted 1.1% over the year to February...how is that bullish news exactly?'*
>
> *Remember, at the beginning of 2018, with 'tax cuts'&#2013266080;just passed, and earnings growing, the market was set back by 5% as an initial tariff of 10% was put into place.* ***Fast forward to today, you have tariffs going to 25%, with no supportive legislation in place, earnings growth and revenue weakening along with slower economic growth.&#2013266080;***
>
> *In the meantime, the bond market is screaming 'deflation,'&#2013266080;and yields have clearly not been buying the 3-point multiple expansion from the December 24th lows."*&#2013266080;



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It was due to that analysis, and the trade war, that we made the following recommendations last week to our clients and [RIA PRO subscribers](). ***(Try NOW and get 30-days FREE)***

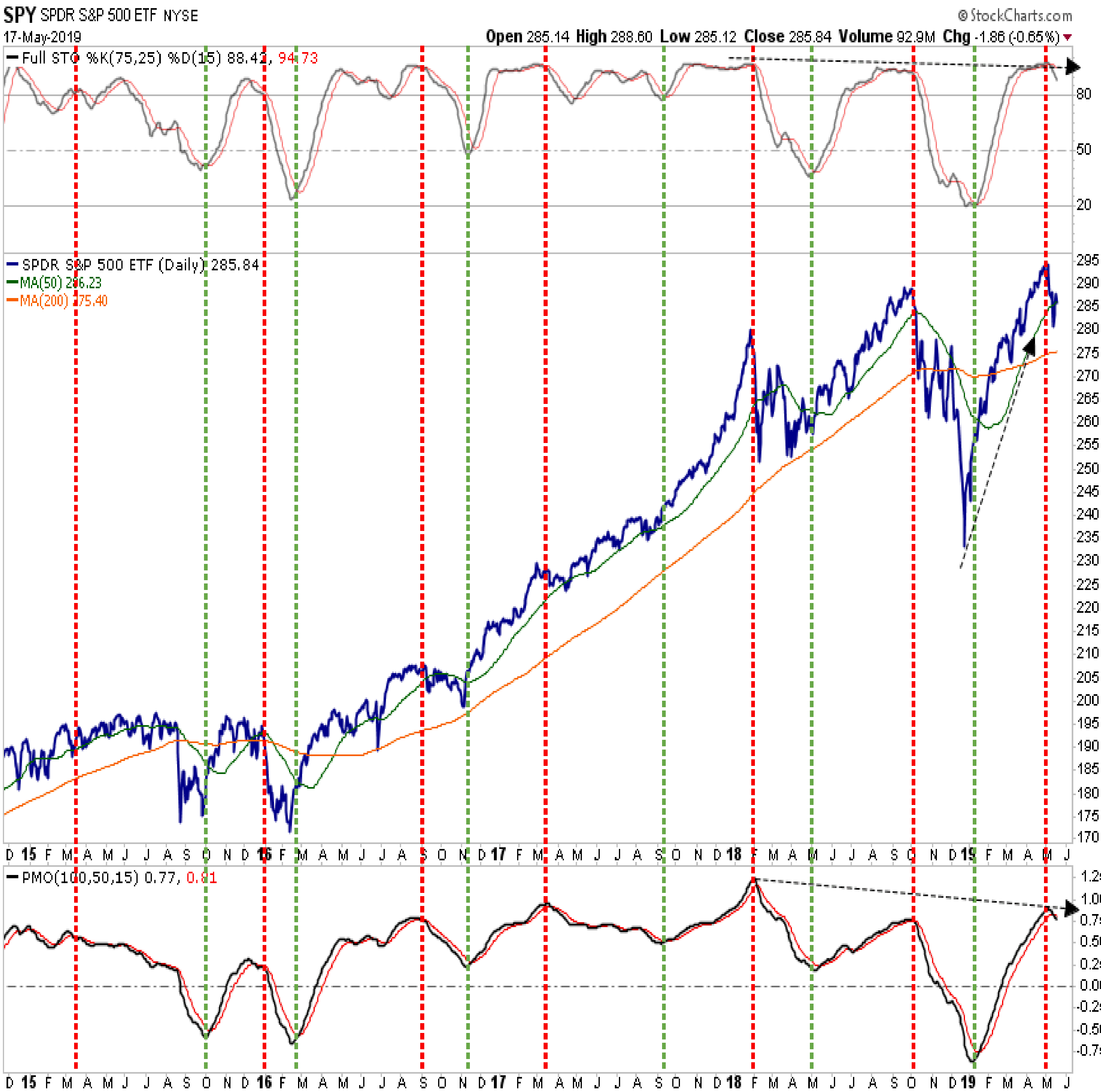
> *"Continuing from yesterday?s discussion on the impact of 'trade wars' on various sectors has us beginning to reposition out of some the areas most susceptible to tariffs.* ***Yesterday, we closed out our position in Emerging Markets, and sold 1/2 of our position in Basic Materials.***
>
> *Today, on the bounce as laid out yesterday,* ***we sold half of our position in XLI (industrials) and XLY (consumer discretionary) and added one-half position in XLRE (real estate)*** *which should be defensive with lower interest rates."*

We still maintain a long-bias towards equity risk. But, that exposure is hedged with cash and bonds which remain at elevated levels. *(If you haven't taken any actions at all recently, read my previous newsletter for&#2013266080;**[Portfolio Management Guidelines](#)**)*

While the market got very oversold previously, we noted last weekend a bounce was likely.&#2013266080;

Unfortunately, that bounce was unable to hold above the 50-dma on Friday which negates the break above it earlier in the week. Importantly, the deeply oversold condition was somewhat reversed which now sets the market up for a potential retest of the 200-dma average over the next couple of weeks. A failure at that level and we have to start having a different conversation about portfolio allocation models.&#2013266080;

For now, the market is working a corrective process which is likely not complete as of yet. **As we head into the summer months, it is likely the markets will experience a retracement of the rally during the first quarter of this year.** As shown in a chart we use for position management *(sizing, profit taking, sells)* the market has just issued a signal suggesting risk reduction is prudent. *(This doesn't mean sell everything and go to cash.)*



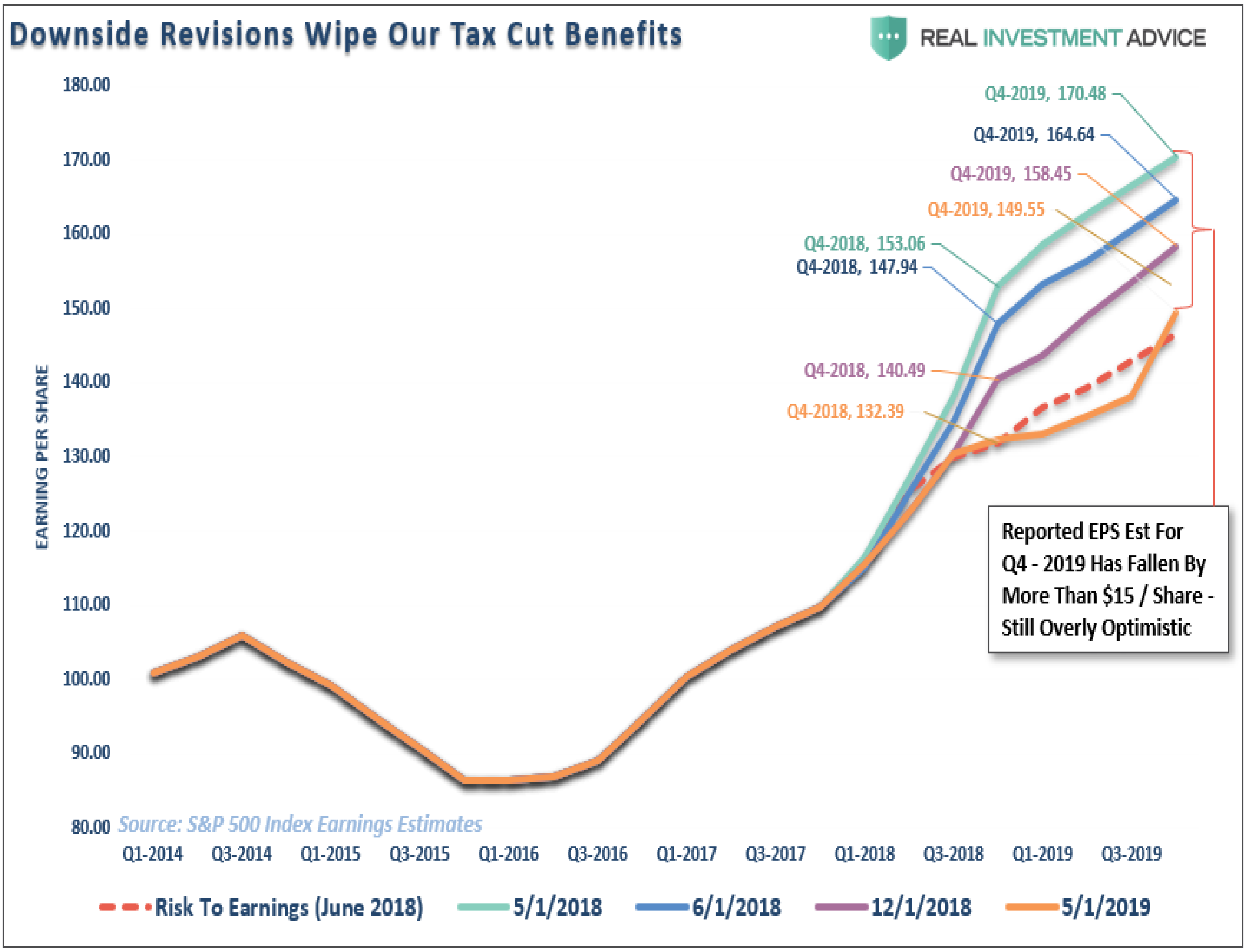
There is no *"law"* that says you have to be *"all in"* the market *"all the time."*&#2013266080;

Every good gambler knows how to *"size their bets"* relative to the *"hand they hold."* &#2013266080;This is particularly the case when it certainly appears the ***"bulls are betting on a long shot."&#2013266080;***

Betting On A Long-Shot

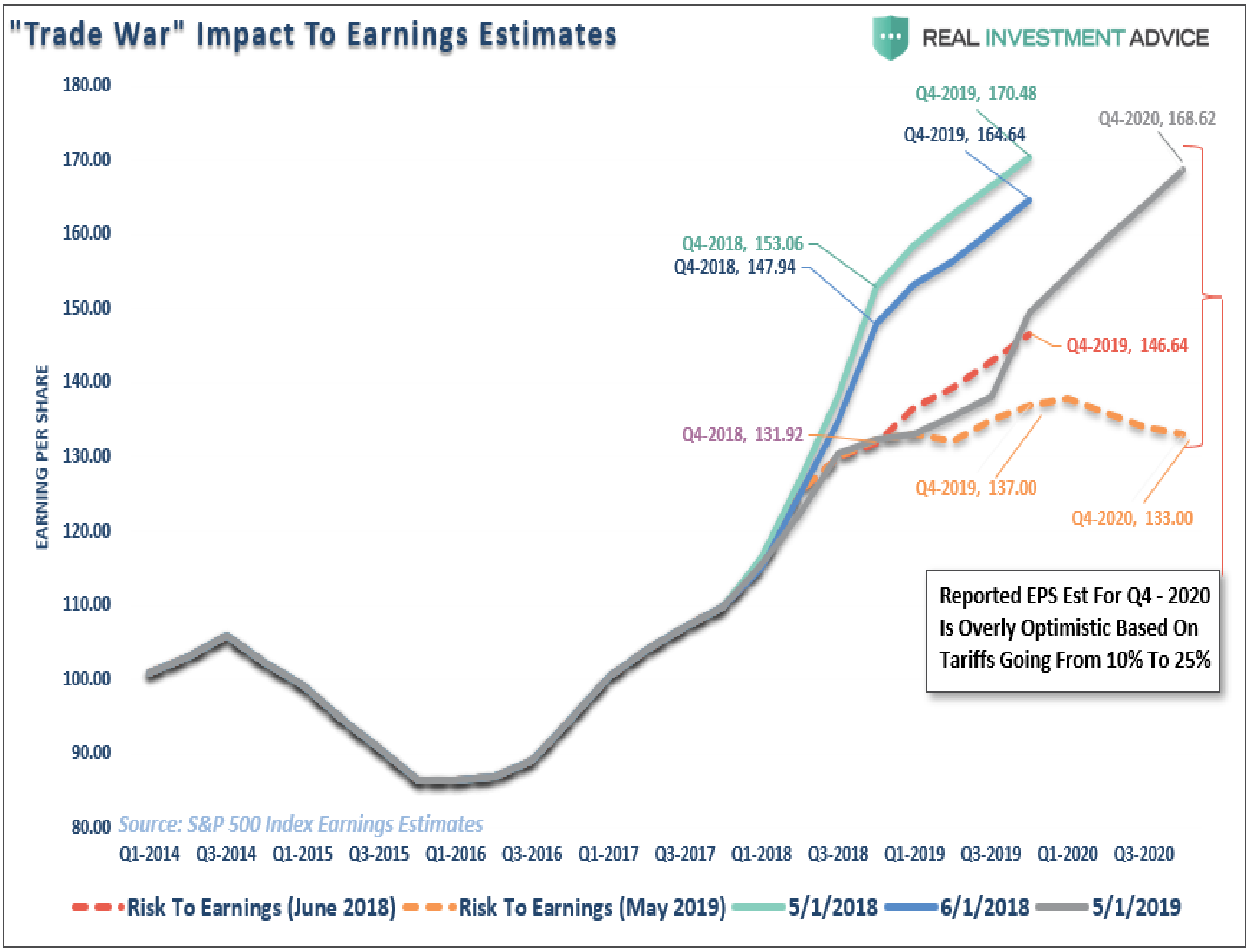
Last week, we discussed in a lot of detail the re-escalation of the "*trade war*" and the potential impact to earnings in the quarters ahead. [To wit:]

> *?As a result of escalating trade war concerns, the impact in the worst-case scenario of an all-out trade war for US companies across sectors and US trading partners will be greater than anticipated.&#2013266080;In a nutshell,&#2013266080;**an across-the-board tariff of 10% on all US imports and exports would lower 2018 EPS for S&P 500 companies by ~11%&#2013266080;**and, thus, completely offset the positive fiscal stimulus from tax reform.*
>
> *Fast forward to the end of Q1-2019 earnings and we find that we were actually a bit optimistic on where things turned out."*



> ***"The problem is the 2020 estimates are currently still extremely elevated.** As the impact of these new tariffs settle in, corporate earnings will be reduced. The chart below plots our initial expectations of earnings through 2020. Given that a 10% tariff took 11%*

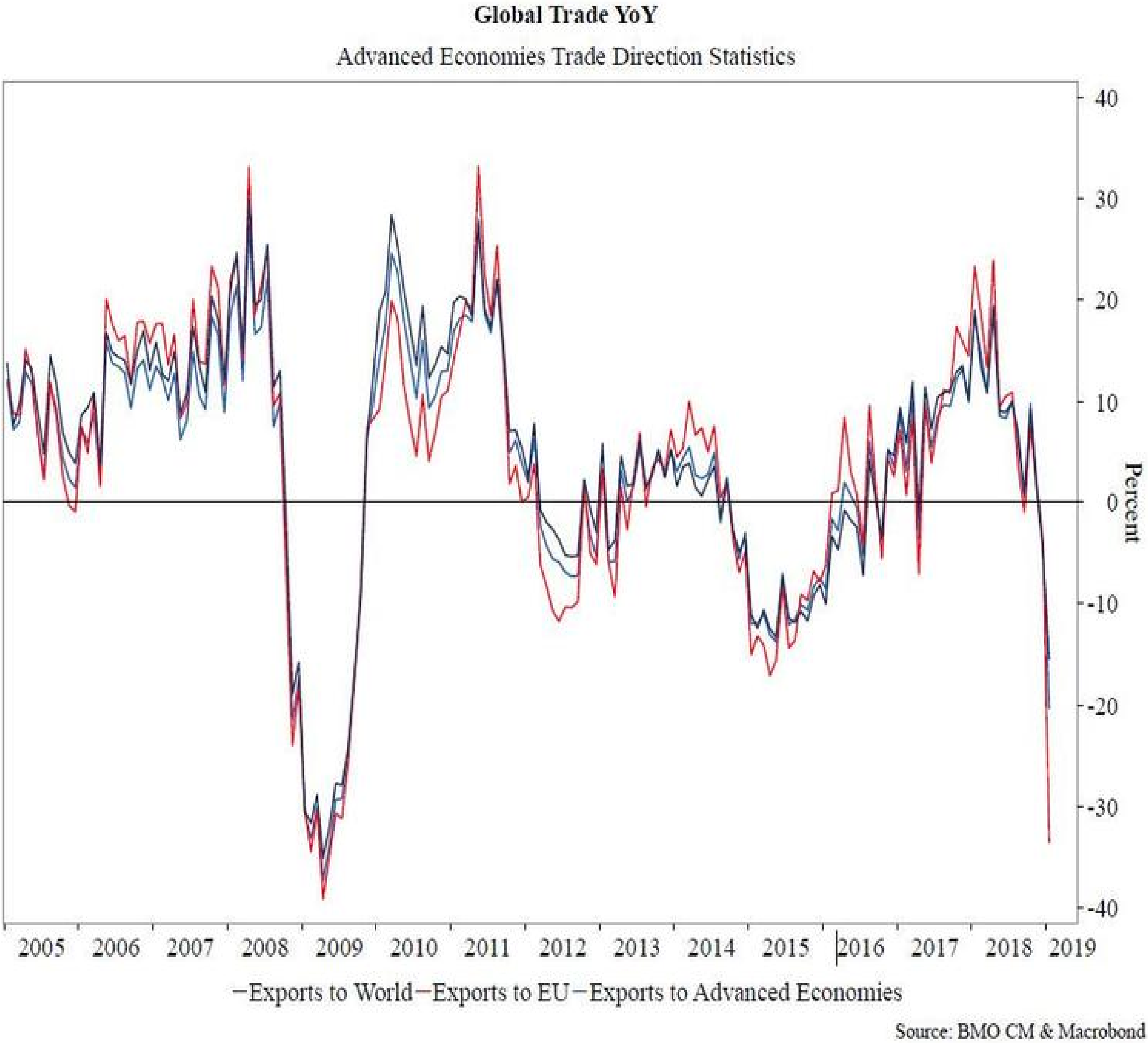
off earnings expectations, it is quite likely with a 25% tariff we are once again too optimistic on our outlook."



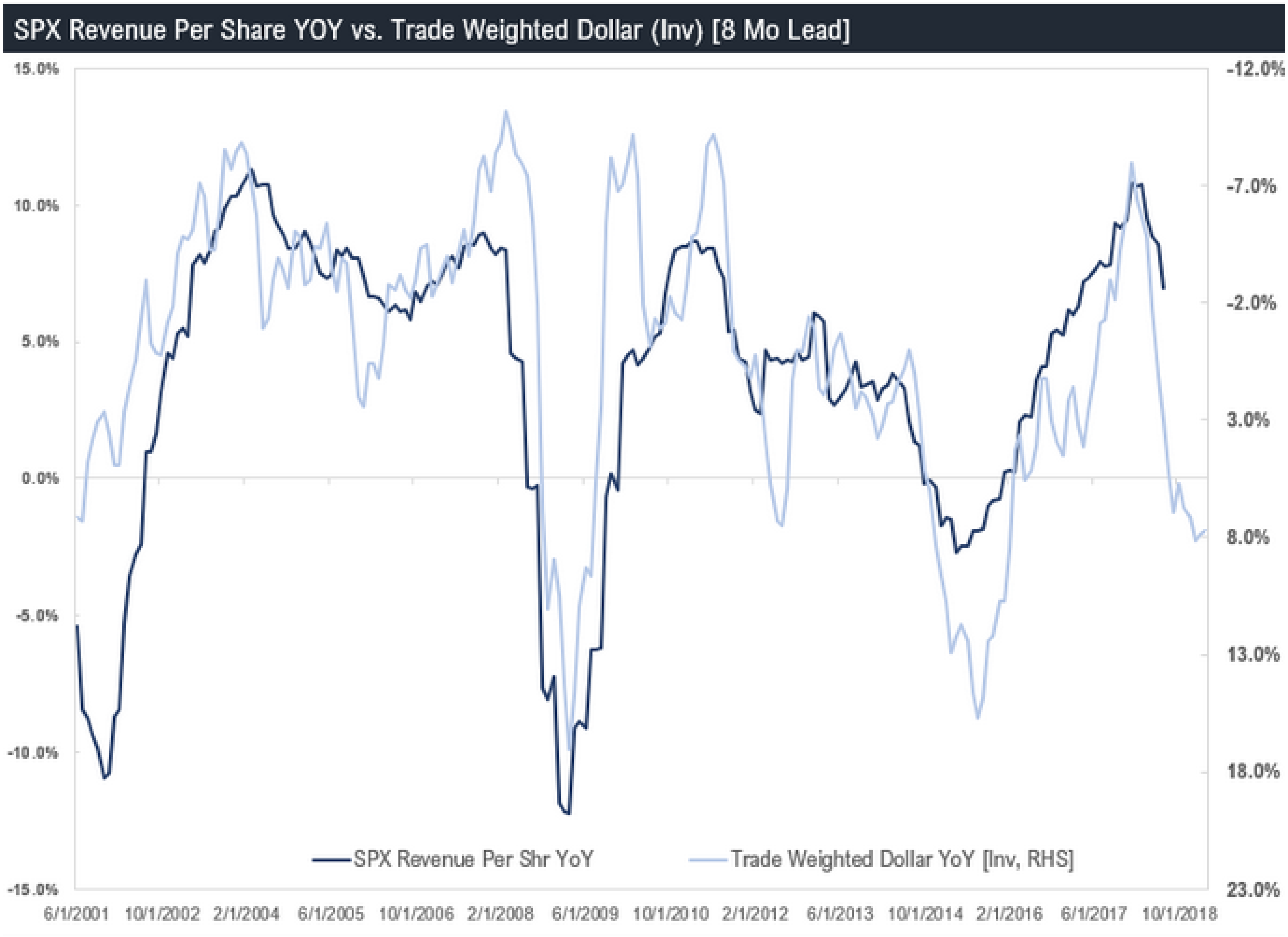
"Over the next couple of months, we will be able to refine our view further, but the important point is that since roughly 50% of corporate profits are a function of exports, Trump has just picked a fight he most likely can?t win.

Importantly, the reigniting of the trade war is coming at a time where economic data remains markedly weak, valuations are elevated, and credit risk is on the rise.&#2013266080;*The yield curve continues to signal that something has* ***'broken,'&#2013266080;but few are paying attention."***

For the bullish narrative, the earnings growth story is going to become increasingly difficult to ignore. This is particularly the case given that just this past week economic data continues to show weakness. **As shown in the following chart, global economic trade has collapsed to levels not seen since prior to the financial crisis.&#2013266080;**



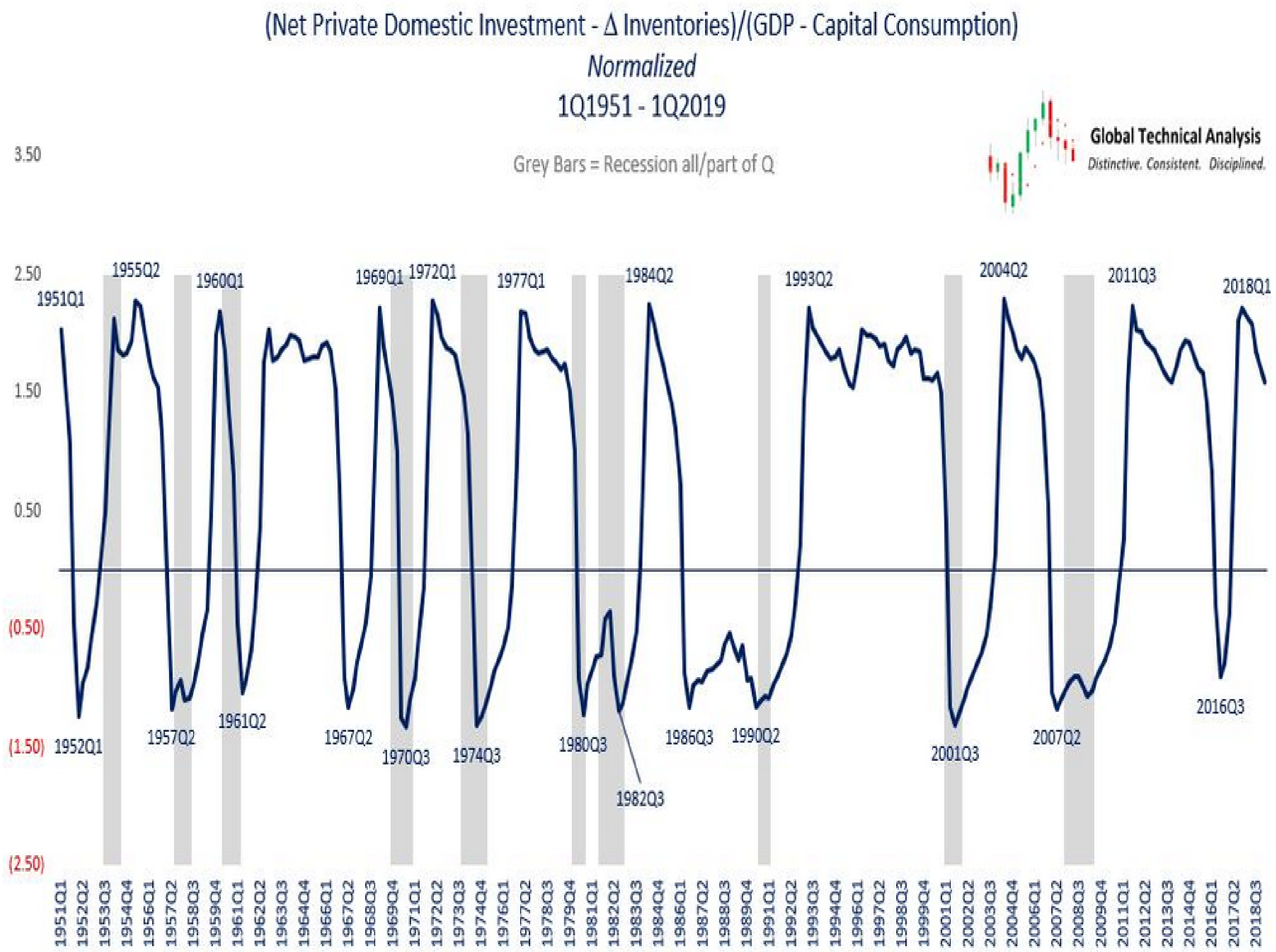
Of course, since almost 50% of corporate revenue and profits are generated from international activity, it is not surprising to see a problem emerging.&#2013266080;



Source: Pervalle Global, Bloomberg

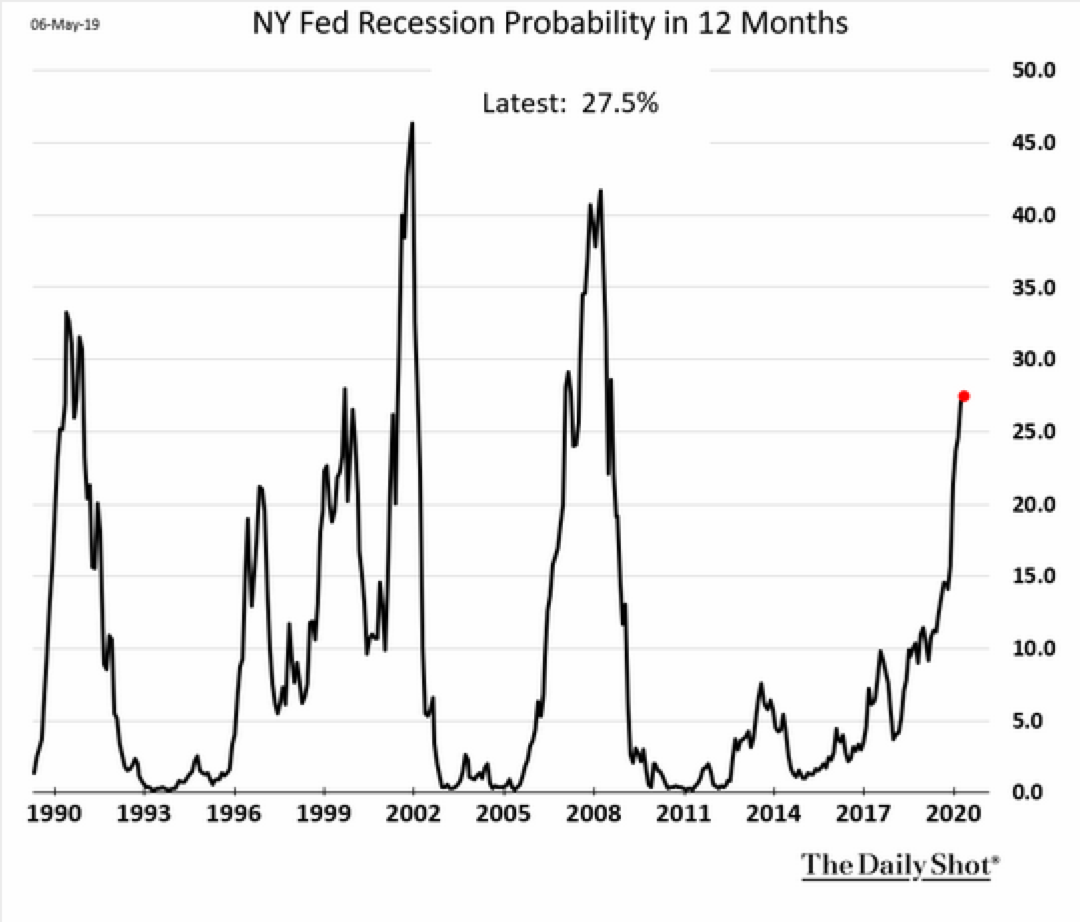
As J. Brett Freeze, CFA discussed on Friday, dissected the key drivers of economic growth: Capital Expenditures.

The graph shows that when the economy is coming out of recession and optimism is budding, capital expenditures as a percentage of the economy are high. Conversely, as optimism wanes, and the economic cycle is long in the tooth capital expenditures peak, trend sideways and then drop sharply. *(The data in the graph is normalized using six quarter moving averages and standard deviations as reflected on the Y-axis.)*



The 1960s and the current period are unique in that those periods saw a sharp decline in capital expenditures that did not lead to a recession. **We know the current episode is a result of a resurgence of corporate optimism due to the election of Donald Trump and importantly, the corporate tax cut that incentivized corporate spending.** With much of the tax cut stimulus behind us, the temporary fiscal boost appears to be fading.&#2013266080; &#2013266080;&#2013266080;

Unsurprisingly, all of this data aligns with rising recession risks.&#2013266080;



__(Important Note:__ The graph above is based on lagging economic indicators which are subject to huge negative revisions in the future. Therefore, high current risk levels should not be readily dismissed as the recession will have started before the data is revised to reveal the actual start date.)

Here is my point.

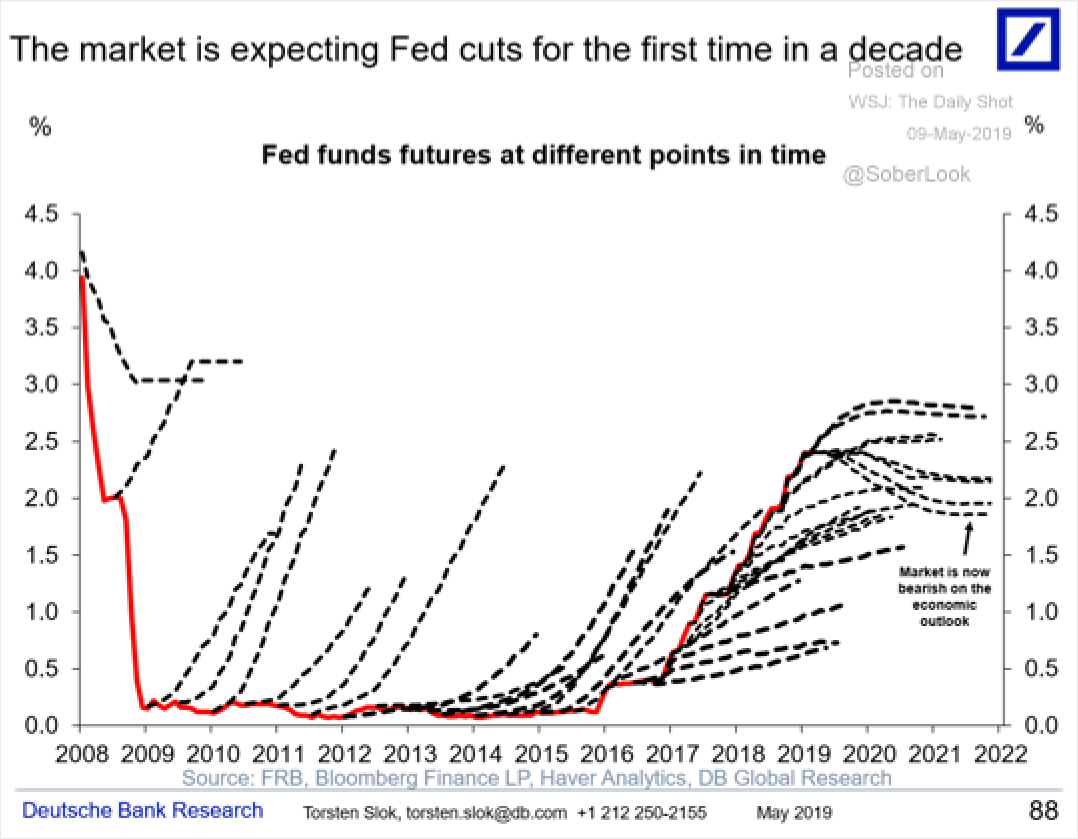
If you had been living on Mars for the last 24-months and just reviewed the data above, you would, most logically, assume the market would be down, and probably significantly so.

That certainly isn't the case, as noted above, with the markets just a couple of percentage points away from their all-time highs. **So, despite the data, the resurgence of a *"trade war"* with China, rising delinquency rates and falling demand for loans, and weak outlooks by businesses, the bulls are certainly *"betting on a long-shot"* of an outcome that is currently well outside the current data.&#2013266080;**

In that is the case, then what are the "bulls" betting on? My friend [Patrick Hill] sent me a good note on this issue.

"In watching Bloomberg, it seems the market is betting on:

1 - The Fed will lower interest rates.&#2013266080; *The Fed Funds rate forecast shows at least once this year. Interestingly, historically, when the Fed begins lowering interest rates it has been in response to a recession, not a slowdown.*



2 - The trade war will not be as bad as thought *as Trump and Xi will meet at G20 and resolve everything. But that may not be the case given China's positioning on Friday:*

> *"The US has completely abandoned commercial principles and disregarded law.* ***Its barbaric behavior against Huawei by resorting to administrative power can be viewed as a declaration of war on China in the economic and technological fields. It is time that the Chinese people throw away their illusions. Compromise will not lead to US goodwill."***

3 - Corporations can continue to churn out revenue growth *as China stimulus will help out EM countries and US companies can sell to them*

4 - ***Corporate debt at levels at record highs,*** *and leveraged loans at twice the level of subprime debt in 2008, is of no real concern.&#2013266080;*

5 - Corporate stock buybacks will continue to provide a bid to the market*. (Of course, what happens when sales continue to fall.) Ned Davis research noted their research shows the S & P is up 19 % over what it would not be without buybacks. Buybacks have also made up about 80% of the "bid" to the market.&#2013266080;*

6 - ***There is no concern that tariffs will push price inflation higher*** *despite the fact that tariffs will lift costs on both consumers and businesses.&#2013266080;*

7 - ***The Fed will respond to any weakness*** *providing a permanent bid the market.*

In other words, at the moment, data doesn't matter to the markets - **it is simply *"hope"* based momentum magnified with a *"crap ton"* of liquidity *(Yes, that is a technical term.)***

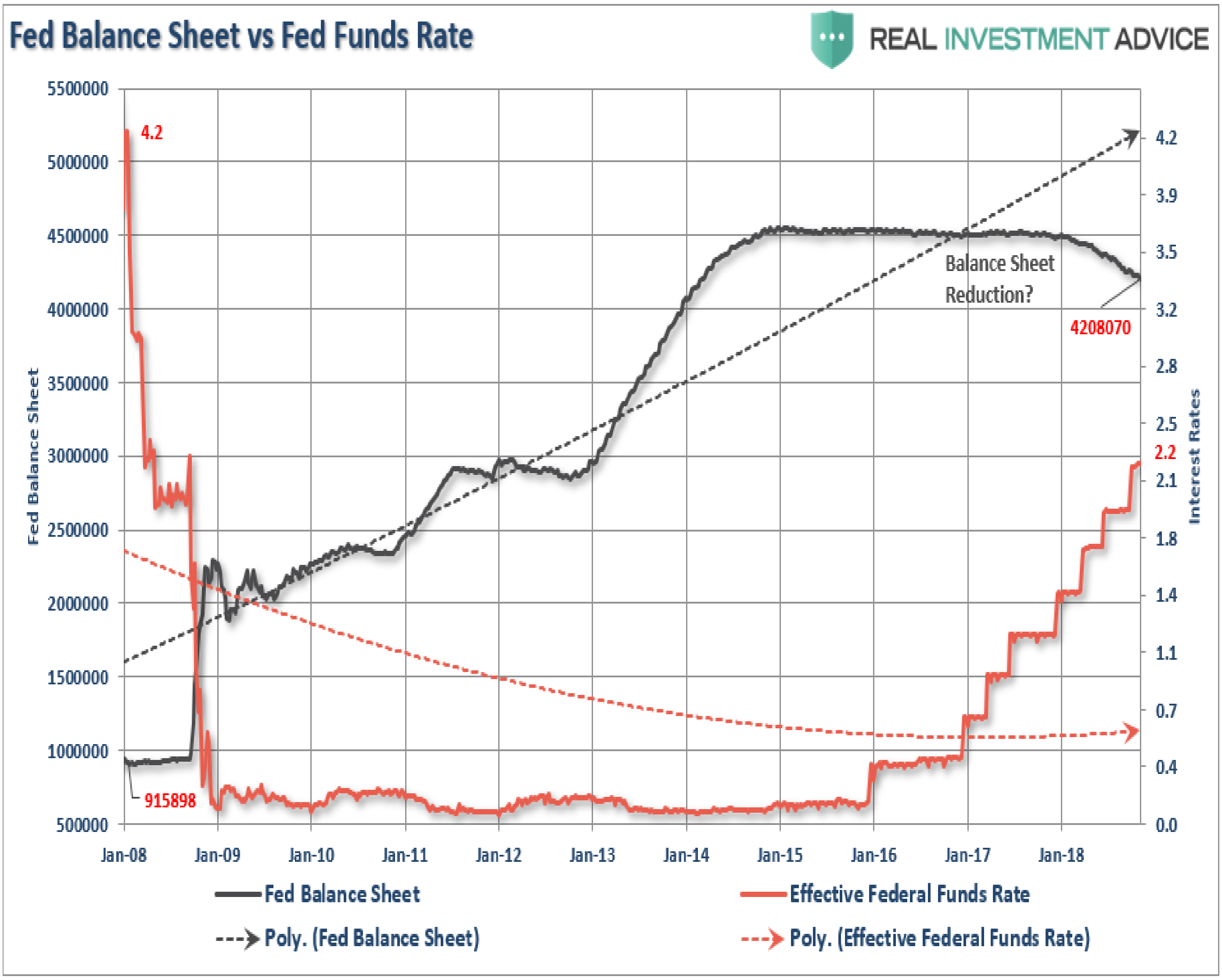
Doug Kass recently discussed the issue of the current disconnect.

> ***"'(Very) leveraged strategies involving yield enhancement, allocations based on risk assessment (risk parity) and other volatility targeting funds are contributing factors to a new and heightened regime of volatility that has recently intensified.*** *And so does the popularity and proliferation of passive ETFs and the proliferation of CTA (extreme momentum-based) strategies, exaggerate short term price moves. (Even BlackRock's Larry Fink has missed this important reason for the market's sharp advance this year).*
>
> *There is such a limited discussion of the enormous sums of money that are now being managed by Quants and Pseudo Quant hedge funds, algorithmic trading with MASSIVE leverage, all of which dominates the investing landscape.*
>
> *The aforementioned strategies (based on momentum and the assessment of asset class risk),* ***embraced by many, work until they don't and when a trend changes (from up to down) massively levered products (like risk parity) are forced to delever and buy back volatility (to offset their short vol positions) - further exacerbating the move lower.***
>
> *The problem, of course, is 'uncovered' when too many are on the same side of the boat.*
>
> ***A state of stability should not be as trusted as much today as in the past it will likely morph into more frequent episodes of instability*** *- a series of 'Minsky Moments.'"*&#2013266080;

This is an important point, stability eventually breeds instability due to the buildup of *"complacency."* The entire bullish *"bet"* currently is that despite a growing laundry list to the contrary, the markets will continue their advance simply waiting for the data to improve.&#2013266080;

Primarily, this belief is hinged on the idea the Fed will come to the rescue. The problem, as&#2013266080; noted previously:

> *"The effectiveness of QE, and zero interest rates, is based on the point at which you apply these measures. In 2008, when the Fed launched into their 'accommodative policy' emergency strategy to bail out the financial markets, the Fed?s balance sheet was only about $915 Billion. The Fed Funds rate was at 4.2%."*



If the market fell into a recession tomorrow, the Fed would be starting with roughly a&#2013266080;$4 Trillion balance sheet with interest rates 2% lower than they were in 2009. *In other words, the ability of the Fed to ?bail out? the markets today, is much more limited than it was in 2008.*

But there is more to the story than just the Fed?s balance sheet and funds rate. ***The entire backdrop is completely reversed.*** *The table below compares a variety of financial and economic factors from 2009 to present."*

	Then 1/1/2009	Now 1/1/2019	Change
Fed Funds	0.15%	2.40%	2.25%
10-Year Treasury	2.52%	2.68%	0.16%
Nominal GDP	-1.75%	5.34%	7.09%
Inflation Rate	-0.12%	1.52%	1.64%
Unemployment Rate	7.80%	4.00%	-3.80%
Jobless Claims (4-wk Avg.)	543500	229000	-314500
Shiller CAPE-10	19	28	9
Government Debt (Trillion)	$11.10	$22.00	$10.90
Private Non-Residential Fixed Inv.	-1.25%	8.61%	9.86%
Existing Home Sales	3820000	4370000	550,000
New Home Sales	336000	657000	321,000
Consumer Sentiment	61.2	91.2	30
NFIB Survey	83.9	101.2	17.3
PCE	-1.47%	3.98%	5.45%
Retail Sales	-11.48%	4.01%	15.49%
Leading Economic Indicators	76	111.3	35.3
Total Vehicle Sales (Million)	9.79	17.13	7.34
RIA Economic Composite	4.23	37.75	33.52

Feb Balance Sheet	$915 Billion	$4 Trillion	$3.85 Trillion

> ***"The critical point here is that QE and rate reductions have the MOST effect when the economy, markets, and investors have been 'blown out,' deviations from the ?norm? are negatively extended, confidence is hugely negative.&#2013266080;****In other words, there is nowhere to go but up."*

That is hardly the case currently as prices have become&#2013266080;detached from both the economic and fundamental cycles of the market. **The bulls are clinging to narratives to justify excessive valuations and deviations from the norm.**

> *"We live in an investment world in which much of the silly, fairy tale narratives have little to do with the real world - a lot is basically "made up."&#2013266080; It is that simple."* - Doug Kass, [Real Money Pro]

So, what are we doing now?

We realize that out clients have to make money when markets are rising, but that we also have to manage the risk of loss.&#2013266080;

It's an incredibly tough job and doesn't always work out the way we plan. But that is the essence of investing to begin with.&#2013266080;

With the recent market weakness, we are holding off adding to our equity *?long positions?* &#2013266080;until we see where the market finds support. We have also cut our holdings in basic materials and emerging markets as tariffs will have the greatest impact on those areas. Currently, there is a cluster of support coalescing at the 200-dma, but a failure at the level could see selling intensify as we head into summer.

The recent developments now shift our focus from&#2013266080;*?risk taking?* &#2013266080;to&#2013266080;*?risk control.? ?Capital preservation strategies?* &#2013266080;now replace&#2013266080;*?capital growth strategies,?*&#2013266080;and&#2013266080;*?cash?*&#2013266080;now becomes a favored asset class&#2013266080;for managing uncertainty.

As a portfolio manager,&#2013266080;**I must manage short-term opportunities as well as long-term outcomes.&#2013266080;**If I don?t, I suffer career risk, plain and simple.&#2013266080;**However, you don?t have to.**&#2013266080;If you are truly a long-term investor, you have to question the risk being undertaken to achieve further returns in the current market environment.

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

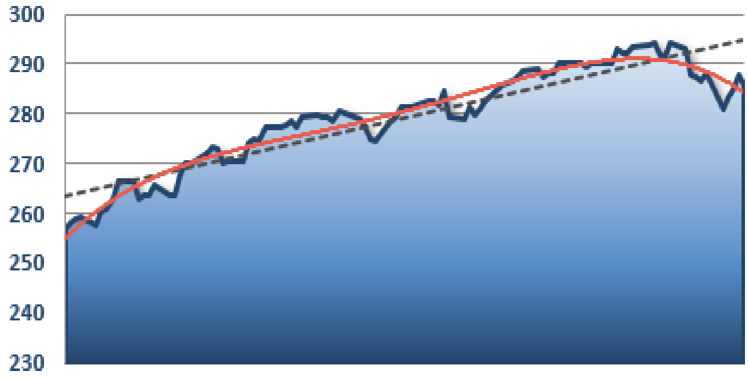
See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

3 Month SPY Price



SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	21.21%	5.08%	14.37%	182.68%
Max Drawdown	-20.47%	-20.47%	-5.09%	-75.13%
Sharpe	0.73	0.45	3.30	6.41
Sortino	0.74	0.48	4.05	7.37
Volatility	13.81	15.11	12.85	(0.15)
Daily VaR-5%	(10.48)	(16.66)	23.78	(2.43)
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	1.89%	1.84%	1.88%	2.04%	2.18%	1.67%	(13.56%)	12.56%
P/E Ratio	19.87	20.10	17.80	(12.88%)	20.87	15.79	(14.7%)	12.72%
P/S Ratio	3.10	3.25	3.20	(1.50%)	3.54	2.49	(9.72%)	28.20%
P/B Ratio	3.55	3.78	3.95	4.34%	4.16	2.99	(5.04%)	32.10%
ROE	15.59%	16.59%	18.62%	10.89%	18.73%	15.00%	(0.56%)	24.18%
ROA	2.89%	3.12%	3.49%	10.46%	3.52%	2.81%	(0.82%)	24.05%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,434.5	2,390.2	(1.82%)
Sales	60,100	64,332	7.04%
SPS	24.7	26.9	9.03%
Earnings	8,446	9,590	13.55%
EPS TTM	4.1	4.8	17.90%
Dividend	1.5	1.6	9.08%

S&P 500 Asset Allocation

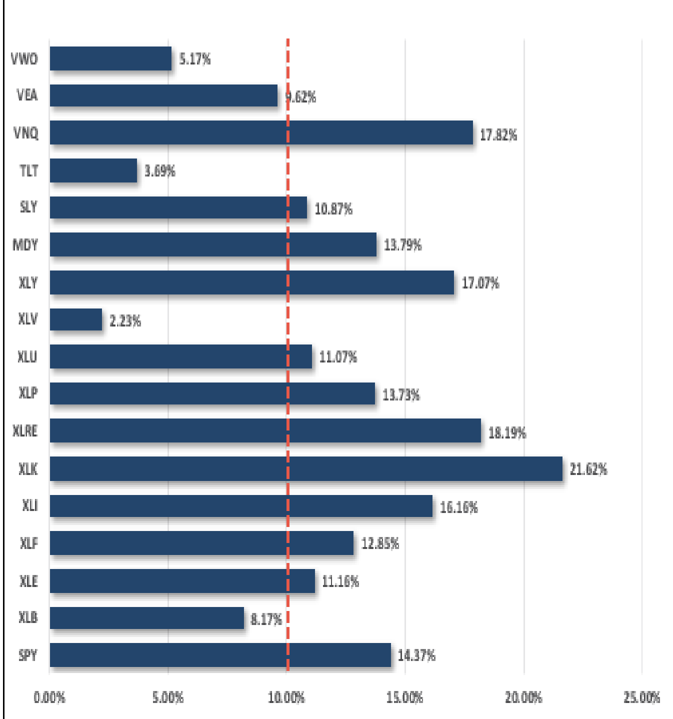
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(20.03%)	5.19%	1.17	16.67	156.27	12.49	(89.3%)	9.4%	3.6%	6.36%	3.54	16.51
Materials	(13.40%)	2.59%	1.25	14.75	21.86	13.82	(32.5%)	10.4%	1.8%	7.03%	4.04	16.45
Industrials	(0.71%)	9.39%	1.12	17.03	22.22	14.73	(23.4%)	16.1%	2.0%	5.89%	5.21	16.31
Discretionary	10.69%	10.25%	0.99	23.76	27.60	20.11	(13.9%)	28.8%	1.3%	4.28%	4.89	21.99
Staples	14.73%	7.36%	0.60	19.78	22.83	17.63	(13.3%)	27.1%	2.8%	5.10%	3.86	19.36
Health Care	6.15%	13.83%	0.90	16.14	20.62	15.93	(21.7%)	30.1%	1.8%	6.07%	6.43	15.19
Financials	(4.19%)	13.05%	1.24	12.87	18.42	11.68	(30.1%)	11.6%	2.1%	7.67%	5.78	12.21
Technology	11.61%	21.34%	1.21	20.03	21.83	14.47	(8.2%)	39.2%	1.5%	5.02%	5.21	20.20
Telecom	4.13%	10.43%	0.89	19.84	27.29	17.43	(27.3%)	17.7%	0.9%	5.03%	6.33	19.01
Utilities	23.37%	3.30%	0.32	19.76	20.31	15.58	(2.7%)	10.5%	3.4%	5.13%	3.59	18.53
Real Estate	19.89%	3.09%	0.78	19.85	24.47	17.10	(18.9%)	10.0%	3.2%	5.00%	4.26	19.23

Momentum Analysis

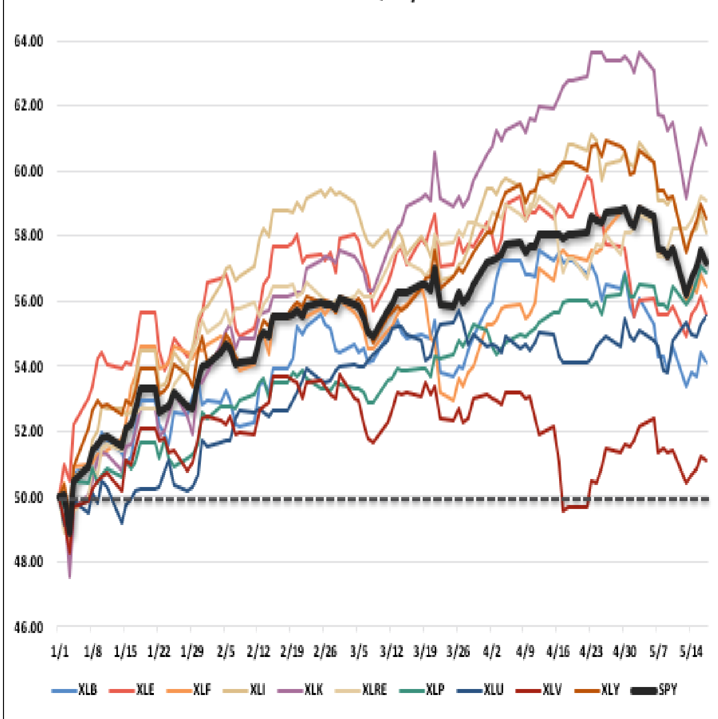
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	285.84	4.15%	286.66	2	(0.29%)	276.72	50	3.29%	3.59%	(3.09%)	22.28%	Buy
Mid Cap	344.41	1.53%	350.84	39	(1.83%)	343.74	4	0.19%	2.07%	(7.94%)	21.08%	Buy
Small Cap	66.49	0.11%	67.92	19	(2.11%)	68.63	11	(3.12%)	(1.04%)	(15.03%)	18.10%	Sell

Performance Analysis

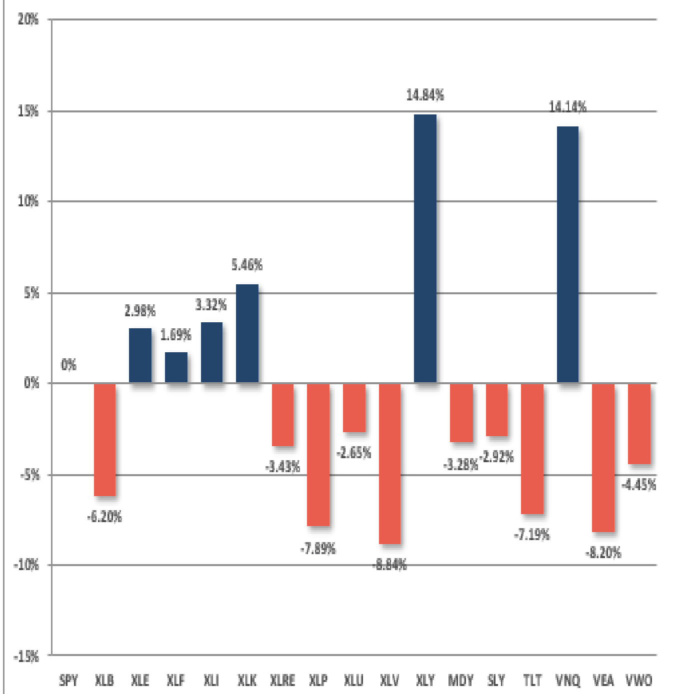
Year To Date Performance



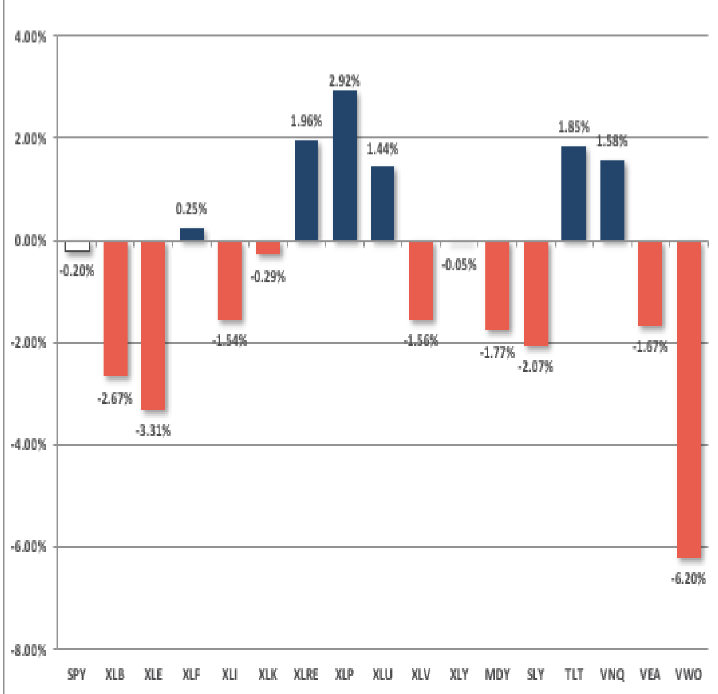
YTD Price - S&P Sectors Recalibrated To $50/share



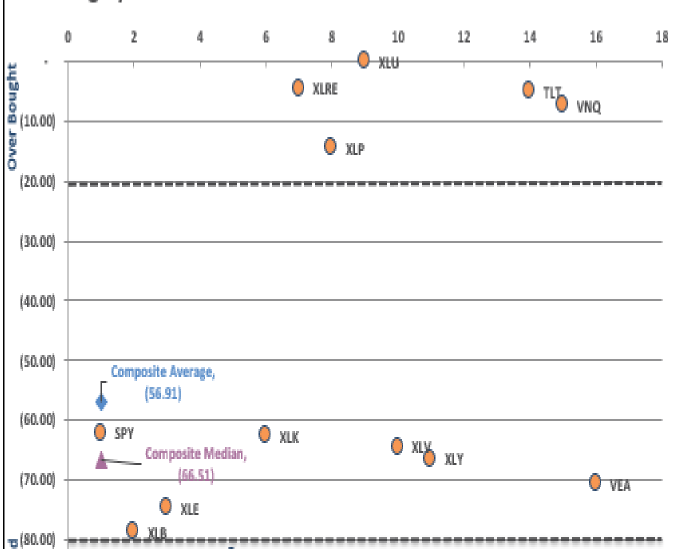
Year To Date Performance Relative To S&P 500



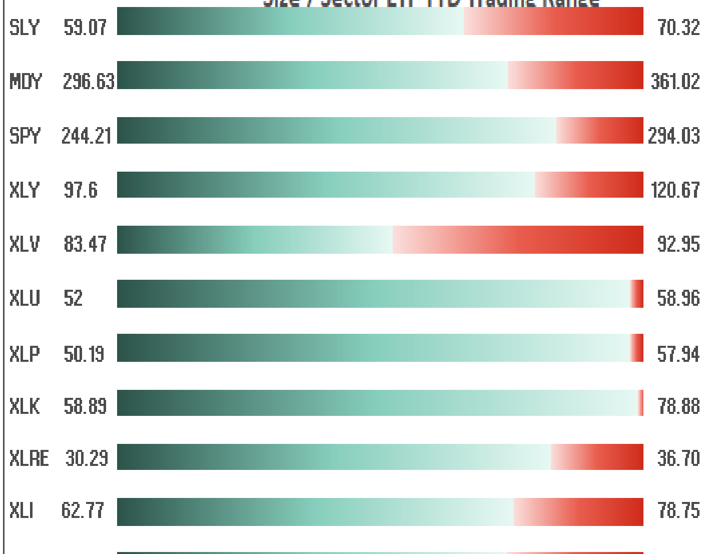
Price Deviation From 50-Day Moving Average



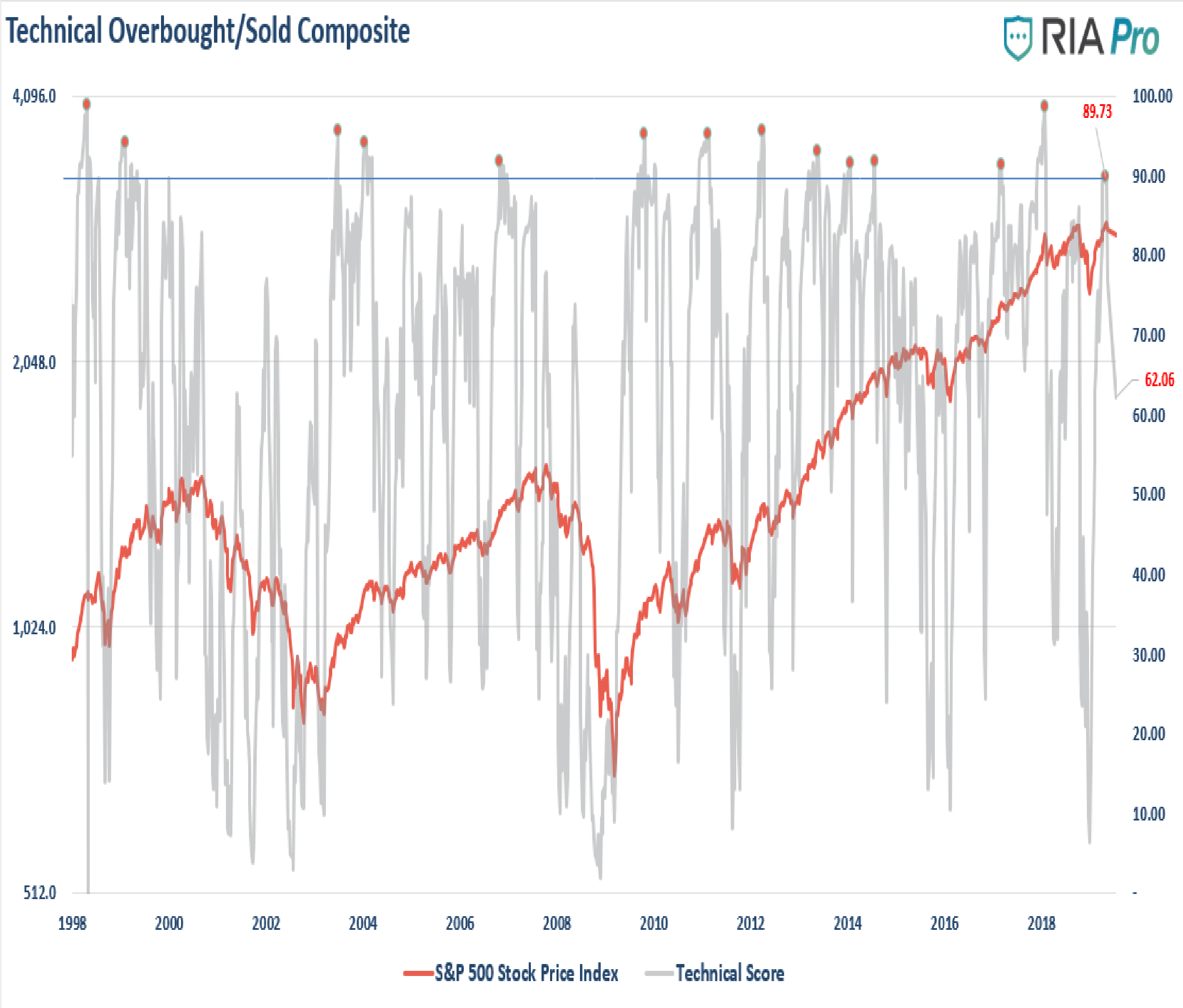
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



ETF Model Relative Performance Analysis

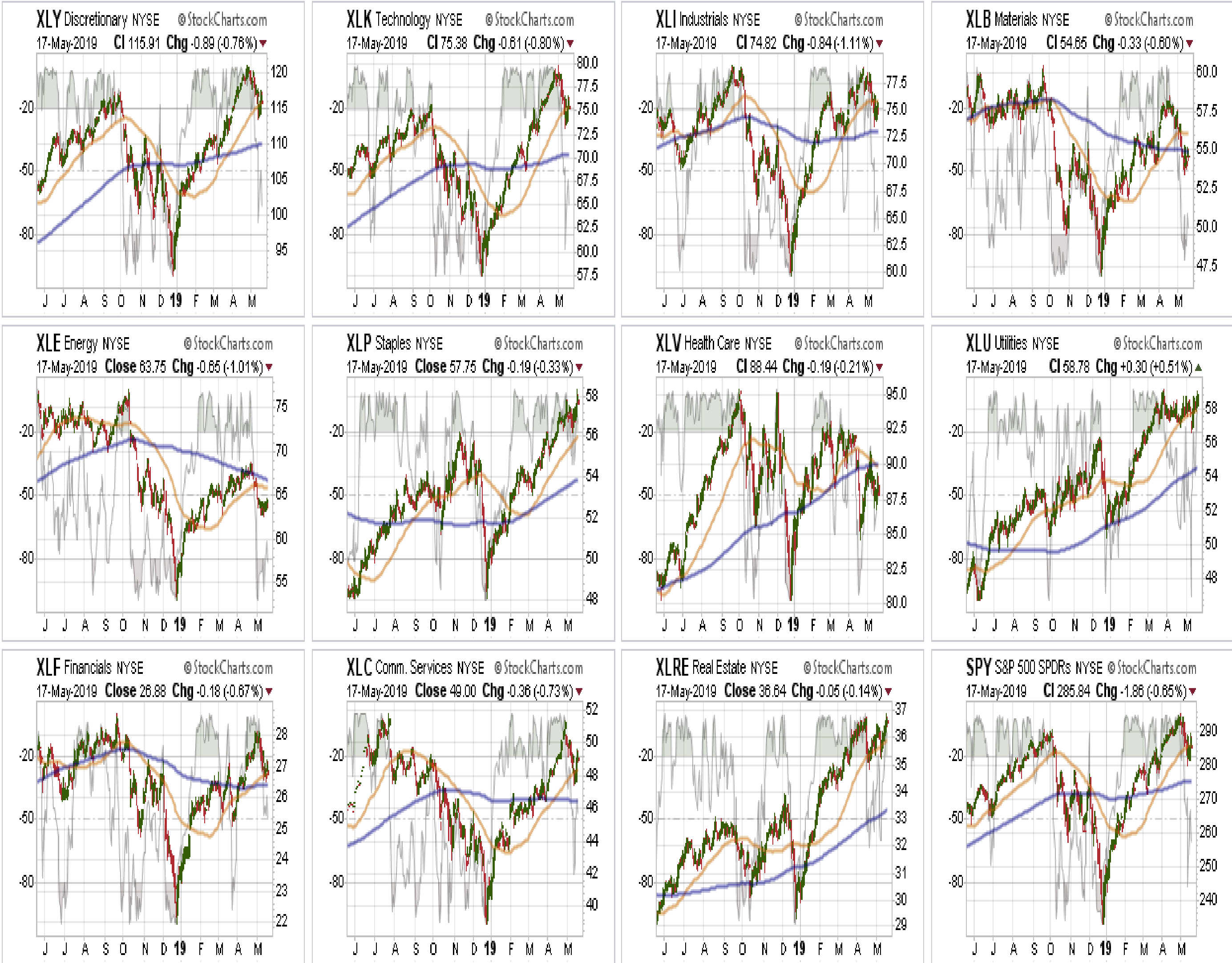
RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	287.90	(0.72)	(1.40)	2.52	3.56	5.38	286.65	276.56	0.44%	4.10%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	54.65	(0.16)	(4.08)	(4.55)	(3.49)	(14.08)	55.96	54.34	-2.35%	0.58%	BUY
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	63.75	0.26	(3.72)	(5.58)	(7.13)	(23.76)	65.93	65.86	-3.31%	-3.20%	BUY
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	26.88	(1.46)	(0.28)	(0.93)	(3.89)	(9.21)	26.74	26.19	0.53%	2.64%	BUY
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	74.82	(1.18)	(3.05)	(4.35)	(0.42)	(6.05)	75.97	72.77	-1.51%	2.82%	BUY
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	75.38	(0.33)	(1.73)	4.19	7.39	4.08	74.50	69.92	1.18%	7.81%	BUY
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	57.75	1.49	2.95	3.58	(0.91)	11.20	55.71	54.41	3.66%	6.14%	BUY
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	58.78	2.14	4.00	0.51	2.18	14.61	57.69	55.44	1.88%	6.03%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	49.00	0.50	1.10	3.84			47.93	46.03	2.23%	6.46%	BUY
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	88.44	0.20	4.34	(6.96)	(11.31)	0.92	90.29	90.17	-2.05%	-1.92%	BUY
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	115.91	(0.45)	(1.41)	1.80	3.77	5.15	114.81	109.44	0.96%	5.92%	BUY
TACTICAL	SIZE	SLY	SPDR-SP SC 600	66.49	(2.22)	(1.35)	(7.74)	(6.62)	(12.31)	68.16	67.16	-2.45%	-1.00%	BUY
TACTICAL	SIZE	MDY	SPDR-SP MC 400	344.41	(1.55)	(1.78)	(4.75)	(3.07)	(8.05)	350.19	339.12	-1.65%	1.56%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	104.71	(0.48)	(0.85)	(2.35)	(0.56)	(2.45)	105.32	101.41	-0.58%	3.26%	BUY
CORE	Dividend	SDY	SPDR-SP DIV ETF	98.96	(0.26)	(0.61)	(3.19)	(2.40)	2.12	99.59	96.27	-0.63%	2.79%	BUY
CORE	Real Estate	XLRE	SPDR-RE SELS	36.64	2.19	4.53	1.93	4.68	14.52	35.70	33.78	2.64%	8.48%	BUY
CORE	International	EEM	ISHARS-EMG MKT	40.29	(3.30)	(8.18)	(8.91)	(5.48)	(17.92)	43.10	41.57	-6.51%	-3.07%	BUY
CORE	International	EFA	ISHARS-EAFE	64.77	(0.13)	(1.45)	(1.51)	(0.37)	(14.57)	65.27	63.49	-0.76%	2.01%	BUY
CORE	International	IXUS	ISHARS-CR INT S	57.15	(0.79)	(3.00)	(3.29)	(1.40)	(15.49)	58.38	56.68	-2.11%	0.83%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	125.99	1.72	3.92	1.11	5.68	2.11	123.08	119.70	2.36%	5.25%	BUY
FI	International	BNDX	VANGD-TTL INT B	56.04	1.14	2.21	(0.69)	(1.22)	(2.25)	55.49	54.91	0.98%	2.05%	BUY
FI	High Yield	HYG	ISHARS-IBX HYCB	85.94	0.39	0.55	(2.11)	(0.76)	(4.74)	86.09	84.74	-0.17%	1.41%	BUY
FI	Cash	BSV	VANGD-SHT TRM B	79.62										

RIA Pro

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



Over the last two weeks, I have noted the concern about the internal deterioration of the market.

> *"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)"*

I had an interesting criticism last week on my comment above:

"Five technology stocks can't be driving three sectors of the market. So, clearly you are wrong."

A year or so ago, that statement but have been correct. However, S&P has recalibrated their index constituency which puts the previous technology behemoths into three categories. Of course, so same five stocks are also roughly 40% of the total capitalization weighting of both the S&P 500 and then Nasdaq.

S&P 500	Nasdaq	Russell 2000	S&P Dividend	S&P 500 Equal Wgt	S&P 400	S&P 600	Tech	Health Care	Finance	Discretionary	Tele-Com	Materials	Industrials	Staples	Utilities	Energy	Real Estate	Transports
SPY	QQQ	IWM	SDY	RSP	VO	IJR	XLK	XLV	XLF	XLY	XLC	XLB	XLI	XLP	XLU	XLE	XLRE	XTN
MSFT	MSFT	FIVE	T	COTY	EW	NGVT	MSFT	JNJ	BRK.B	AMZN	FB	DWDP	BA	PG	NEE	XOM	AMT	AAWW
AAPL	AAPL	ETSY	IBM	GE	ADSK	TREX	AAPL	UNH	JPM	HD	GOOG	LIN	UNP	KO	DUK	CVX	SPG	R
AMZN	AMZN	IDTI	XOM	HBI	FISV	FFIN	V	PFE	BAC	MCD	GOOGL	ECL	MMM	PEP	D	COP	CCI	KNX
BRK.B	FB	HUBS	PBCT	NFLX	ROP	SR	INTC	MRK	WFC	NKE	NFLX	APD	HON	WMT	SO	SLB	PLD	SAIA
FB	GOOG	CIEN	CAH	BHF	RHT	FCFS	CSCO	ABT	C	BKNG	CHTR	SHW	UTX	MDLZ	EXC	OXY	PSA	HUBG
JNJ	GOOGL	CREE	LEG	XLNX	XLNX	SIGI	MA	MDT	USB	SBUX	CMCSA	LYB	GE	COST	AEP	EOG	EQIX	SKYW
JPM	INTC	WWD	O	LRCX	APH	EGP	ORCL	ABBV	AXP	LOW	T	PPG	CAT	PM	SRE	MPC	WELL	ODFL
GOOG	CSCO	PLNT	CVX	CELG	OKE	GBCI	ADBE	AMGN	GS	TJX	DIS	IP	UPS	MO	PEG	PSX	EQR	SNDR
GOOGL	CMCSA	COUP	ABBV	BA	MCO	AMED	IBM	LLY	CME	GM	EA	NUE	LMT	WBA	XEL	VLO	AVB	JBHT
XOM	PEP	ENTG	NNN	SYF	WP	DAR	CRM	TMO	CB	TGT	VZ	BLL	CSX	CL	ED	KMI	VTR	NSC

The point is that the leadership of the market is not as strong as it seems.&#2013266080;

Improving - Energy

While Energy remains in the improving category, it only does so barely. Oil prices did tick up last week and bounced off its respective 200-dma. However, energy has failed to pick up performance to a great degree. Any weakness next week, and the sector will slip back into the *"lagging camp."* with the vast majority of other sectors. We recommended taking profits and rebalancing risk over the last two weeks. That recommendation remains as the sector broke back below its 50-dma and 200-dma.&#2013266080;

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

Outperforming - Technology, Discretionary, Communications

As noted above, these three sectors are driving the bulk of the market movement now. Last week, I suggested that with all three sectors GROSSLY overbought it was a good idea to take profits and rebalance portfolio risks accordingly. That remains the same recommendation this week.&#2013266080;

Current Positions: *Sold 1/2 XLY, XLK - Stops moved from 200 to 50-dma's.*

Weakening - Real Estate and Industrials

Despite the *"bullish"* bias to the markets, the more defensive sectors of the markets like Real Estate has continued to attract buyers. **That remained the same this week, particularly as bond yields declined following the resurgence of the trade war with China.** As noted last week, there was a decent entry opportunity for positioning as a defensive play against a likely rotation out of Technology and Discretionary holdings. We added 1/2 position.

With the "trade war" back on we reduced exposure to sectors most affected by tariffs. We reduced our Industrial exposure in our portfolios.&#2013266080;

Current Position: *Sold 1/2 XLI, added 1/2 XLRE last week.*

Lagging - Healthcare, Staples, Financials, Materials and Utilties

As noted two weeks ago, *"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."* With XLB exposed to the "trade war" we cut our position in half to protect gains.

Staples, while lagging the S&P 500, remain a sector where money is hiding. Staples remain on a buy signal but are extremely overbought and extended. Take profits and rebalance in portfolios.&#2013266080; The same goes for Utilities as well.&#2013266080;

We noted previously that Financials were underperforming but we would give the sector some room, Currently, financials are holding important support, but performance is weakening again as the yield curve inverts. If you haven't done so, take profits and rebalance risk.&#2013266080;

We are overweight healthcare currently where relative performance is improving as a "risk off" rotation occurs. We remain slightly overweight in Healthcare again this week.&#2013266080;

Current Positions: *Sold 1/2 XLB, XLF, XLV, XLP, XLU*

Market By Market

Small-Cap and Mid Cap - Small-cap failed to hold above it's 50- and 200-dma which keeps us from adding a position in portfolios. Mid-cap is holding support at the 50-dma but failed the 200-dma. We were looking to add a position last week, but the failure of support kept us on the sidelines.&#2013266080;

Current Position:&#2013266080;*No position*

Emerging, International & Total International Markets&#2013266080;

As noted last week,

> *The reinstitution of the "Trade War" kept us from adding weight to international holdings. We are keeping a tight stop on our 1/2 position of emerging markets but "tariffs" are not friendly to the international countries.&#2013266080;*

Last week, we were stopped out of our emerging market position.&#2013266080;

Current Position: *Sold 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.&#2013266080;

As we stated last week:

> *"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;

That correction has begun. We will wait to see what happens next before making any recommendations.

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

Gold ? Continues to struggle despite the risk of international escalation due to trade, Iran, etc. The reality is that currently there is "no fear" in the market to drive prices higher...for now. We are holding our current positions as a hedge against a pickup in volatility which we expect as this summer unfolds.

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

Bonds&#2013266080;?

As noted three 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 now back to overbought, take some profits and rebalance weightings but remain long for now.

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

High Yield Bonds, representative of the *"risk on"* chase for the markets, continued to correct again last week but worked off most of the overbought condition. As noted previously:

> *"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."*

That initial target was hit last week, however, it appears junk may push lower over the summer months. Last week, we recommended taking profits and rebalancing risk accordingly. International bonds, which are also high credit risk, have had been consolidating over the last couple of weeks but pushed higher last week. The sector 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	Notes
XLY	Discretionary	Declining	Positive	Positive	Reduce				X		Sold 1/2 Position
XLK	Technology	Declining	Positive	Positive	Take Profits			X			Take Profits
XLI	Industrials	Declining	Positive	Neutral	Hold				X		Sold 1/2 Position
XLB	Materials	OS	Positive	Neutral	Warning				X		Sold 1/2 Position
XLE	Energy	OS	Improving	Negative	Take Profits			X			Broke 200-DMA
XLP	Staples	OB	Positive	Positive	Take Profits			X			Take Profits
XLV	Health Care	Improving	Warning	Neutral	Hold			X			Overweight Position
XLU	Utilities	OB	Positive	Positive	Hold			X			Hold Position
XLF	Financials	Declining	Positive	Neutral	Hold			X			Hold Position
XLC	Telecom	Declining	Positive	Neutral	No Position					X	Looking To Add
XLRE	Real Estate	OB	Positive	Positive	No Position			X			Added 1/2 Position
SLY	Small Caps	OS	Improving	Negative	Hold					X	Failed At 200-DMA
MDY	Mid Caps	OS	Positive	Neutral	Look To Add					X	Add 1/2 Position
EEM	Emerging Mkt	OS	Positive	Neutral	Sold					X	Sold Position
EFA	International	Declining	Positive	Neutral	Hold					X	Broke 50-DMA
IXUS	Total International	OS	Positive	Neutral	Hold					X	Broke 50-DMA
GLD	Gold	OS	Positive	Neutral	Warning			X			Holdiing Support
RSP	SP500 Equal Wgt	Declining	Positive	Positive	Hold			X			Reduce to Target Weight
SDY	SP500 Dividend	Declining	Positive	Positive	Hold			X			Reduce to Target Weight
IVV	SP500 Market Wgt	Declining	Positive	Positive	Hold			X			Reduce to Target Weight
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Hold
HYG	Corporate High Yield	Declining	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:

As noted in the main body of this missive, **with the recent market weakness, we are holding off adding to our equity *?long positions?*&#2013266080;until we see where the market finds support**. We have also cut our holdings in basic materials and emerging markets as tariffs will have the greatest impact on those areas. Currently, there is a cluster of support coalescing at the

200-dma, but a failure at the level could see selling intensify as we head into summer.

The recent developments now shift our focus from&#2013266080;*?risk taking?* &#2013266080;to&#2013266080;*?risk control.? ?Capital preservation strategies?* &#2013266080;now replace&#2013266080;*?capital growth strategies,?*&#2013266080; and&#2013266080;*?cash?*&#2013266080;now becomes a favored asset class&#2013266080;for managing uncertainty.

There are indeed some short-term risks in the market as we head into summer, so any positions added to portfolios in the near future will carry both tight stop-loss levels and will be trading positions initially until our thesis is proved out.&#2013266080;

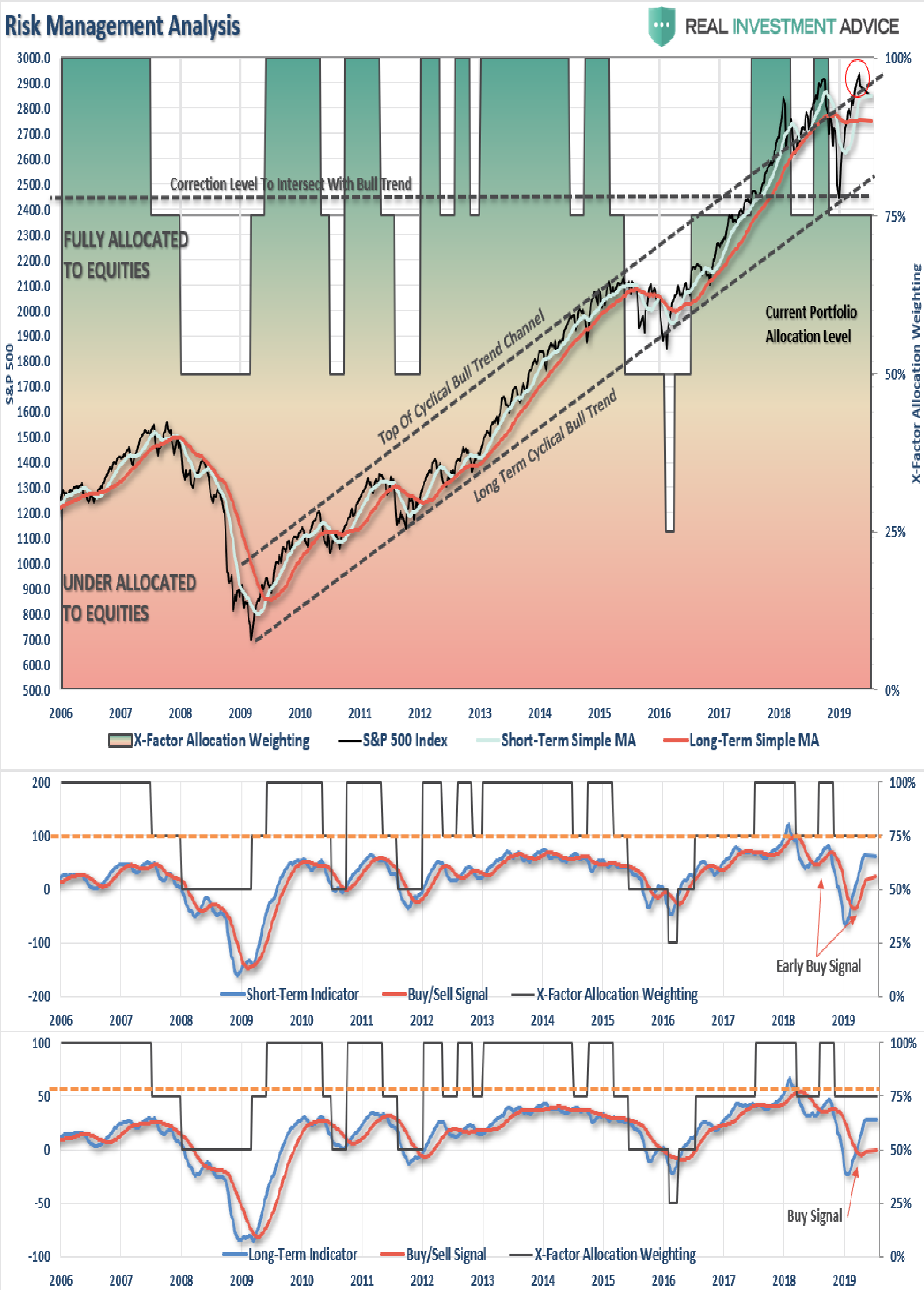
- **New clients:** *We will use the recent correction to&#2013266080;onboard clients and move into specified models accordingly.&#2013266080;*
- ***Equity Model:*** *After taking profits recently, we will look to opportunistically add to our stronger positions with this recent pullback and are looking at adding both core equity holdings as well as some additional trading positions.*
- ***ETF Model****: We sold EEM and 1/2 of XLI, XLY, and XLB to reduce exposure to "trade war" risk.*
- ***In both the Equity and ETF Models:*** *We are looking to increase the duration of bond portfolio by adding in 7-10 year duration holdings and hedge our risk with an increased weighting in IAU.&#2013266080;*

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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401k-PlanManager-AllocationShift

Being Patient

As noted above, the market tried to rally last week but failed to hold above the 50-dma which negated our plans to increase equity exposure.&#2013266080;

Next week, it is critical for the markets to muster a rally or we are going to wind up retesting the 200-dma.&#2013266080;

I encourage you to read the missive above. It is important.&#2013266080;

In the meantime, we will be patient this next week and see how things unfold.&#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;

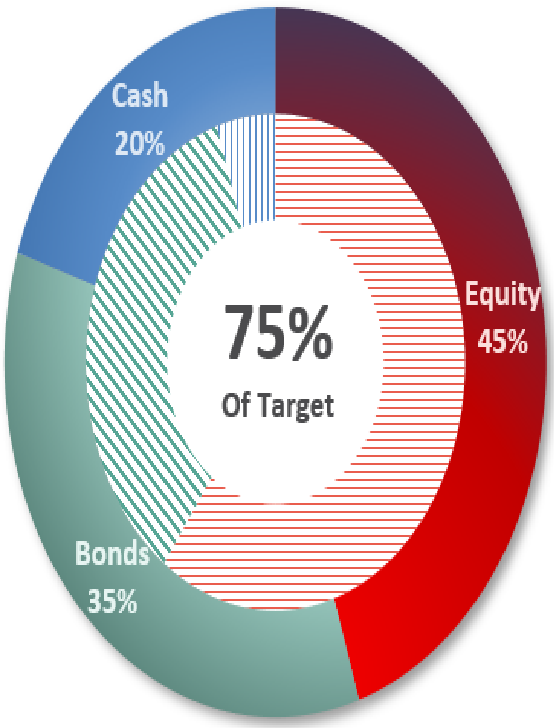
This service will also be made available to companies for employees. If would like to offer our service to your employees at a deeply discounted corporate rate please contact me.

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 Portfolio Weighting



Current 401k Allocation Model

20.00% **Cash +** All Future Contributions

Primary concern is the protection of investment capital

Examples: Stable Value, Money Market, Retirement Reserves

35.00% **Fixed Income (Bonds)**

Bond Funds reflect the direction of interest rates

Examples: Short Duration, Total Return and Real Return Funds

45.00% **Equity (Stocks)**

The vast majority of funds track an index.
Therefore, select on ONE fund from each category.
Keep it Simple.

10% Equity Income, Balanced or Conservative Allocation
35% Large Cap Growth (S&P 500 Index)
0% International Large Cap Dividend
0% Mid Cap Growth

401k Choice Matching List

The list below shows sample 401k plan funds for each major category. In reality, the majority of funds all track their indices fairly closely. Therefore, if you don't see your exact fund listed, look for a fund that is similar in nature.

401k Selection List
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