Selloff Overdone, Looking For A Sellable Rally



- ***Selloff Overdone, Looking For A Sellable Rally***
- ***Sector & Market Analysis***
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Selloff Overdone, Looking For A Sellable Rally

On Friday morning, we posted the following commentary for our **RIA PRO subscribers**:

> *"In a surprising move Thursday night, Donald Trump slapped Mexico with a 5 percent tariff on all goods and set in place a schedule to ratchet it up to 25% over the next four months.* ***The new tariffs are not in retaliation for trade, but a punishment designed to get Mexico to halt illegal immigration into the U.S.*** *The dollar index is relatively flat, but the Mexican peso is down 3 percent versus the dollar,* ***and bond yields have declined by 5-6 percent****.*
>
> *Mexico is the United States third largest trade partner not far behind China and Canada.* ***To put further context on the amount of trade between the U.S. and Mexico, the combined trade of Japan, Germany, and South Korea with the U.S. is less than that with Mexico.&#2013266080;***
>
> ***Corporate Profits, reported by the BEA yesterday, fell from +11.2 percent annual growth in the fourth quarter to 1.6 percent annual growth in the first quarter.*** *As we have seen with earnings being reported from individual companies, the growth benefits of the tax reform bill have largely run their course. Profits will remain higher due to lower taxes, but we will no longer see profit growth due to the bill."*

There are two incredibly important points in that commentary:

1. ***Since the beginning of this year, the markets were rallying based on a trade resolution.*** *Instead, the markets were hit by an "Orange Swan" of an accelerated trade war.*
2. ***Corporate profits are slipping back to growth rates equivalent to economic growth****. As we noted in January of 2018, tax cuts are temporary and the benefit lasts for one year until since we compare earnings growth on a year-over-year basis.*

The current correction shouldn't be a surprise though as we have been warning about it since the beginning of May.&#2013266080;

This week we are going to look at the recent sell-off&#2013266080;and the potential for a short-term *"sellable"* rally to rebalance portfolio risks into.

Three Weeks Ago

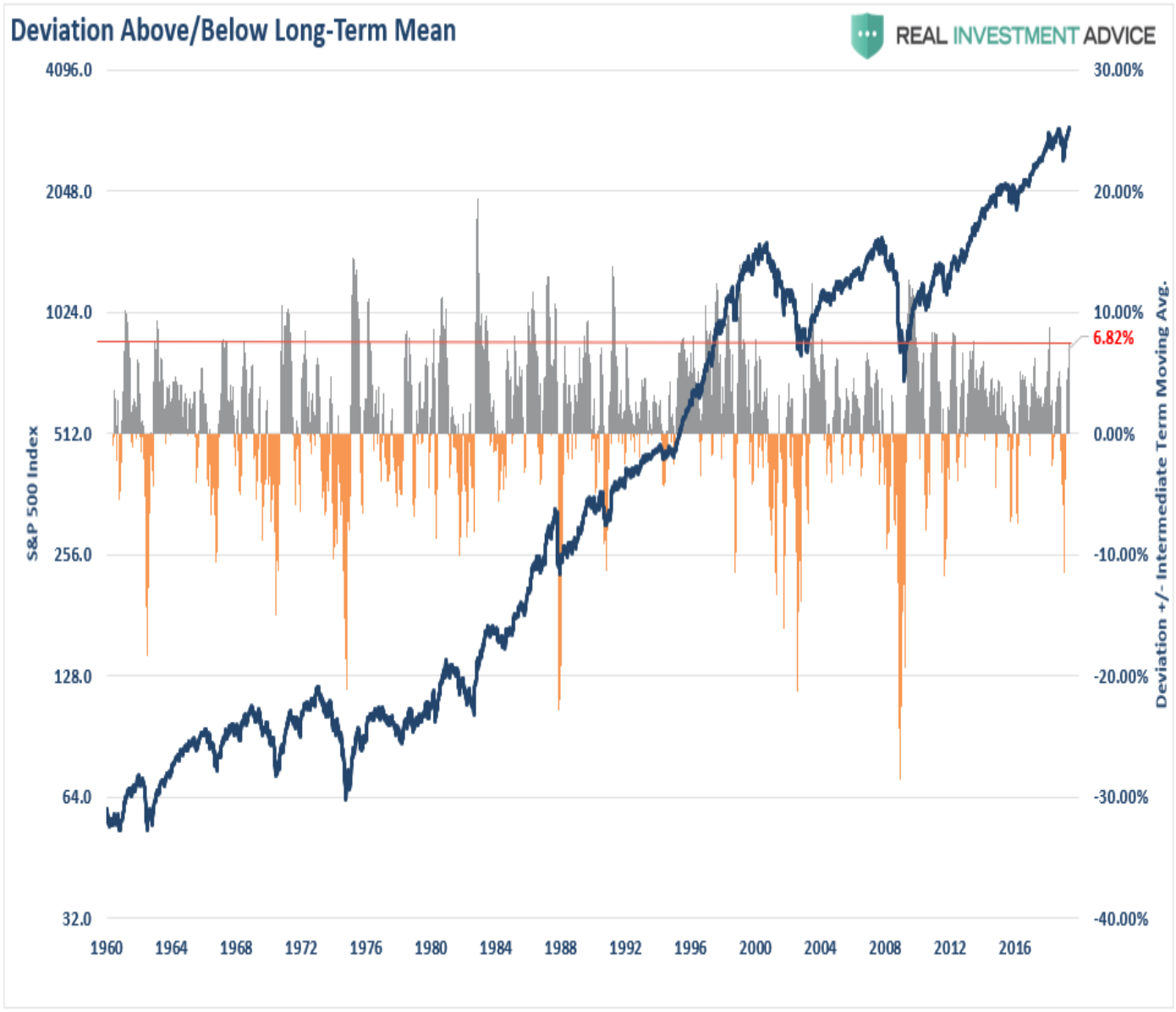
In order to understand our positioning, we have to go back to the beginning of May when we discussed taking profits and reducing risk. To wit:

> *?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.&#2013266080;****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.?***



I also noted the extreme deviation above the long-term mead which suggested a mean-reverting event was likely.

> *"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.****&#2013266080;(We aren?t recommending you do that, it is just to illustrate a point)*
>
> *In 'A Warning About Chasing This Bull Market.' I wrote* ***'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 'mean reverting' events are commonplace within the context of annual market movements.&#2013266080;

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Since ***we publish our model changes in real-time*** *for our&#2013266080;**RIA PRO subscribers**.* ***(Try NOW and get 30-days FREE) they were told of the changes we made to portfolios at that time.***

"Over the last couple of weeks, we have been discussing the incessant rise in the market and the need to trim profits and rebalance risk in some of our holdings particularly after such large gains in some of the positions since the beginning of the year. Some of the proceeds we took we then added to Health care due to the valuation

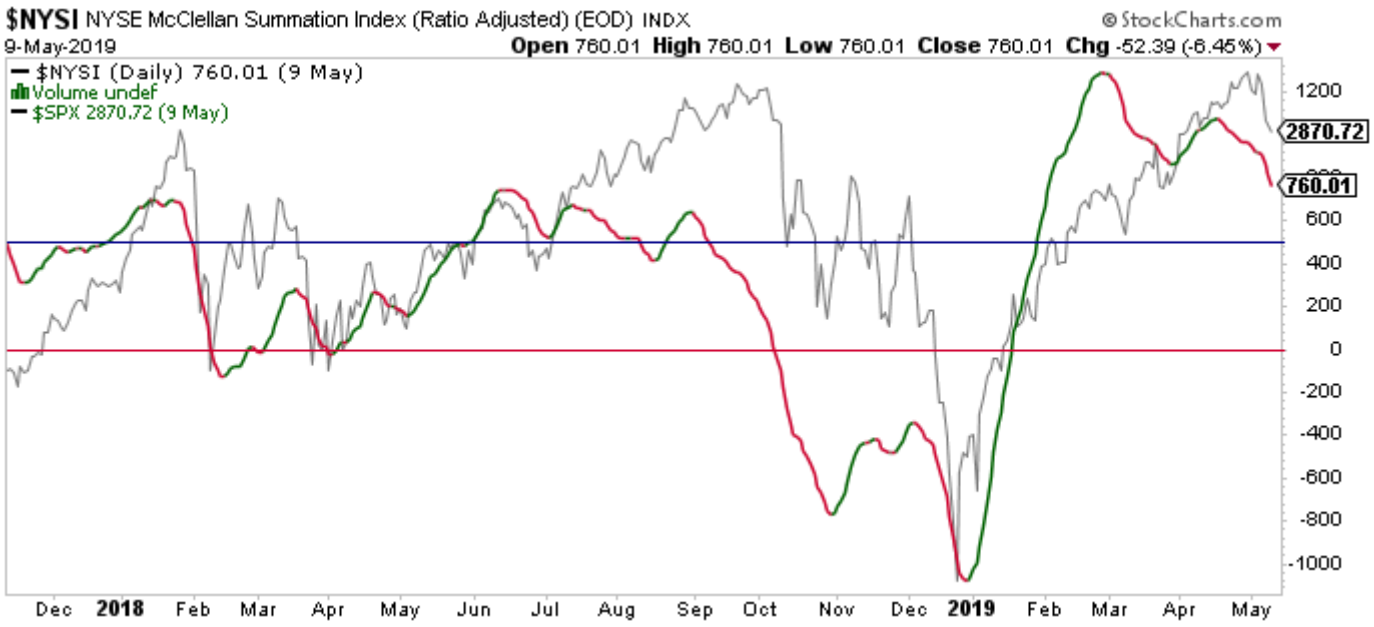
opportunity that exists currently.

- *Sold 20% of AAPL @ 200.5446*
- *Added to ABT @ 78.6536*
- *Sold 10% of CMCSA @ 43.378*
- *Sold 10% of COST @ 244.3952*
- *Sold 10% of DOV @ 97.254*
- *Sold 10% of YUM @ 103.97*
- *Added to HCA @ 128.49*
- *Sold 10% of MDLZ @ 50.545*
- *Sold 10% of PG @ 105.635*
- *Sold 10% of MSFT @ 130.205*
- *Sold 10% of NSC @ 201.4858*
- *Added to UNH @ 236.6287*
- *Sold 10% of UTX @ 141.755*
- *Sold 10% of V @ 165.4572*
- *Sold 10% of VMC @ 125.3312"*

Notice that when we suggested taking profits and reducing risks, we didn't SELL EVERYTHING and go to cash. That is not the way to properly manage a portfolio built for long-term capital appreciation. We did reduce risk by taking profits from extremely extended positions and rebalanced risks by rotating into more defensive holdings.&#2013266080;***(I published an investing resource for you previously: 10 Illustrated Truths About Investing & The Markets)***

The following week, in "*Game Of Thrones"* we pointed out the message sent by the Summation Index:

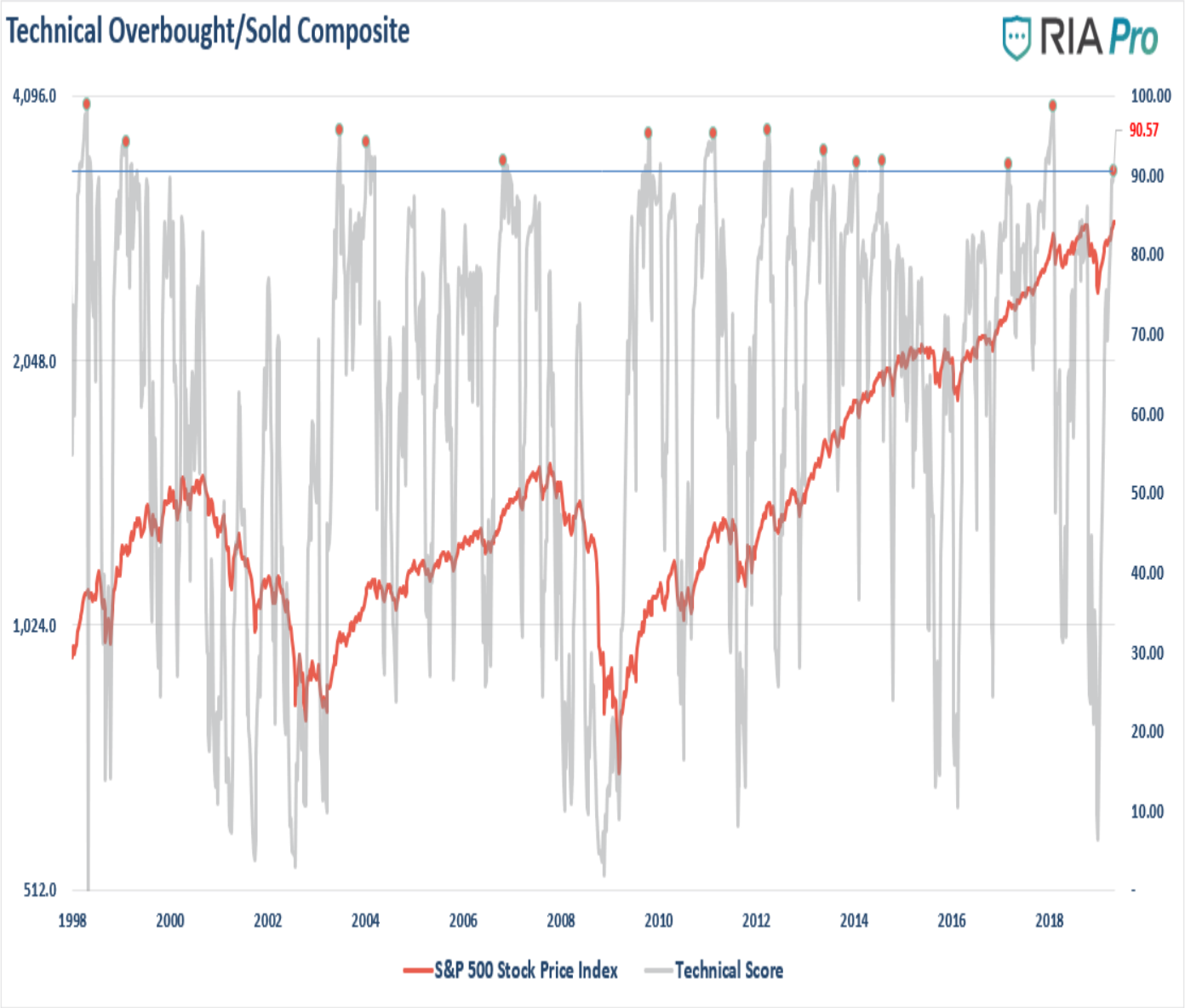
> ***"We still maintain a long-bias towards equity risk. But, that exposure is hedged with cash and bonds which remain at elevated levels.*** *As shown below, The summation index has turned lower which typically precedes correction periods in the market.&#2013266080;**This doesn?t mean the markets will 'crash,' but does suggest downward pressure on asset prices in the near term. (It also doesn?t mean stocks won?t bounce while working their way lower either.)"***



> ***?'Momentum'* driven markets are '*fickle beasts*' and will turn on you when you least expect it."&#2013266080;**

In that same missive we also pointed out the extreme technical extensions in the market as represented by our composite technical indicator.

> *"Stock market positioning was excessively bullish with record long stock exposure combined with record shorts on the volatility index and our technical composite index back near record levels&#2013266080;(shown below)."&#2013266080;*



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Two Weeks Ago

Of course, as Trump ramped up the *"trade war"* rhetoric, the repricing of risk in equities became more prevalent. By the following week, when we published ["The Bulls Are Betting On A Long Shot,"](#) the correction we had predicted was in full swing,.

> *"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.****&#2013266080;As shown in a chart we use for position management&#2013266080;(sizing, profit taking, sells)&#2013266080;the market has just issued a signal suggesting risk reduction is prudent.&#2013266080;(This doesn?t mean sell everything and go to cash.)"*

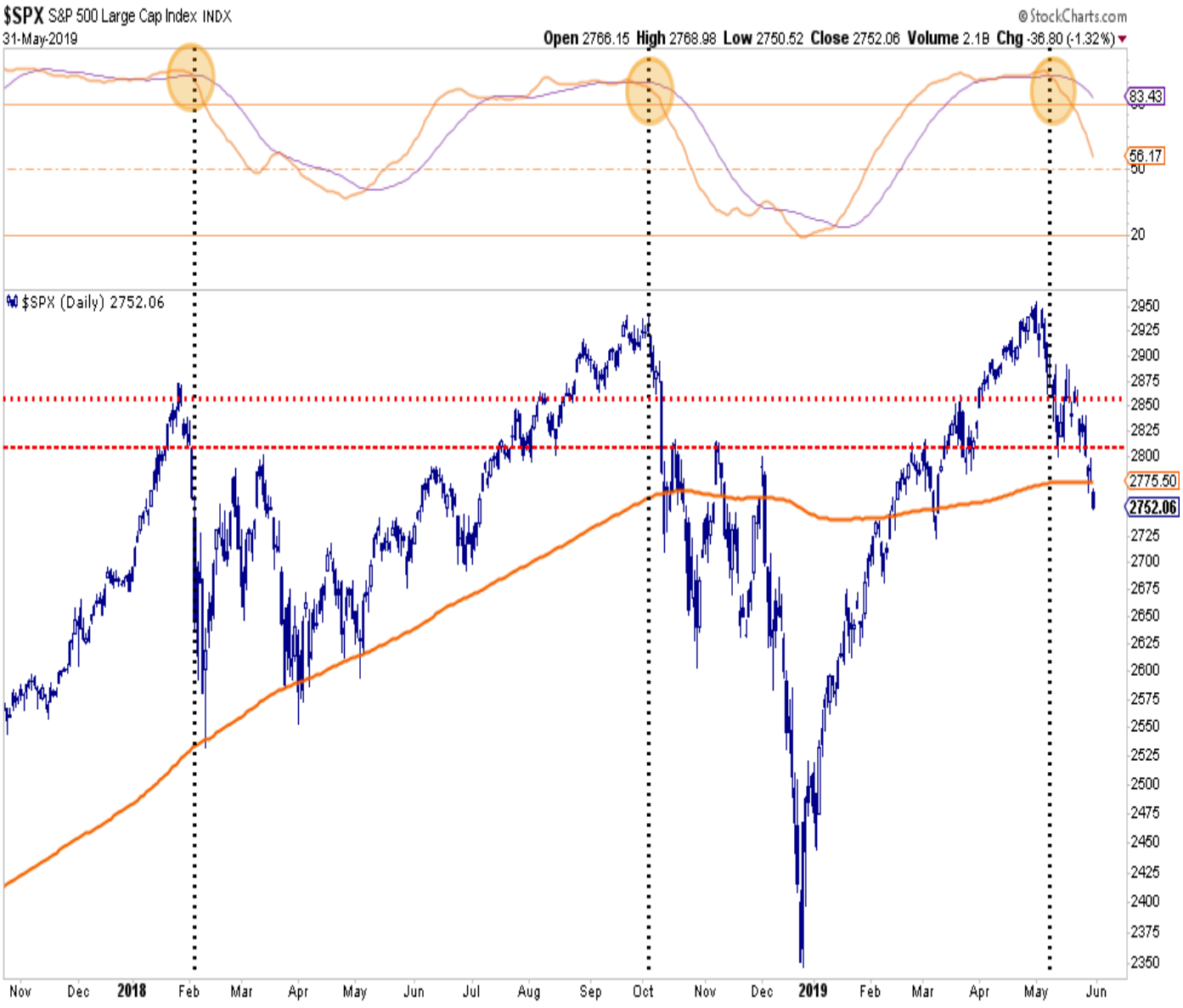


Last Week

This, of course, bring us to last weeks missive.&#2013266080;

> *"Currently, on a very short-term basis, the markets have worked off some of the overbought condition from last month and, importantly, has held support at the Oct-Nov 2018 highs. There is additional support at the 200-dma just below current support at 2775. These are key support levels for the S&P 500 as we head into the summer months and,* ***if the bulls are going to maintain their stance, must hold."***

I have updated last week's chart through Friday's close:



> *"The reason we maintain a more defensive posture is the triggering of the intermediate-term "sell signal" (yellow highlights above) suggest that prices will remain under pressure for a while longer. (Hence the rotation to defensive positioning.)"*

Let me reiterate four very crucial points **the markets have NOT factored in just yet:**

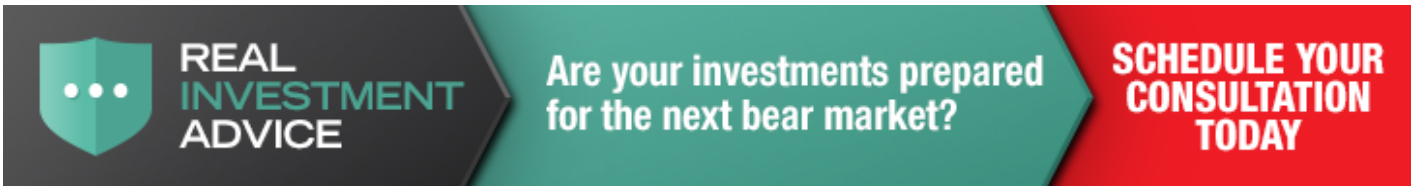
1. ***There will be NO TRADE DEAL*** *any time soon. (China is buckling down for a long fight.)* ***Read This***
2. ***Earnings estimates are still far too high*** *going into the end of 2019 and 2020.* ***Read This***
3. ***The economy will weaken further as the latest rounds of tariffs****, which take effect June 1st, begin to impact the economy headed into the last half of 2019.* ***Read This***
4. ***The Fed is unlikely to lower rates,*** *or increase their balance sheet, prior to a recessionary start or a substantially deep correction in the market. (i.e. more than 20% from current levels)* ***Read This***

However, let's look at it another way.&#2013266080;Let's take the *"bullish"* arguments for a moment:

- *Employment is the strongest in 30-years*
- *Corporate profits are strong*
- *GDP growth just came in at 3.1% for the first quarter*
- *Consumer confidence is near all-time highs.*
- *Jobless claims are the lowest in 40-years.*
- *There are more job openings than people available to fill them.*
- *The stock market is just a couple of percentage points off their all-time highs.*

This certainly isn't the backdrop in which the Fed would, or should, cut rates. The is particularly the case when their balance sheet remains near $4 Trillion and monetary policy tools will have a more muted effect in the future.

In other words, the Fed likely going to waste their *"silver bullet"* until the last possible moment. That moment will require a more pressing issue like a credit-related event, rather than just a 20% decline in asset prices.&#2013266080;



This Week

So, here we are, the market has continued 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.)*

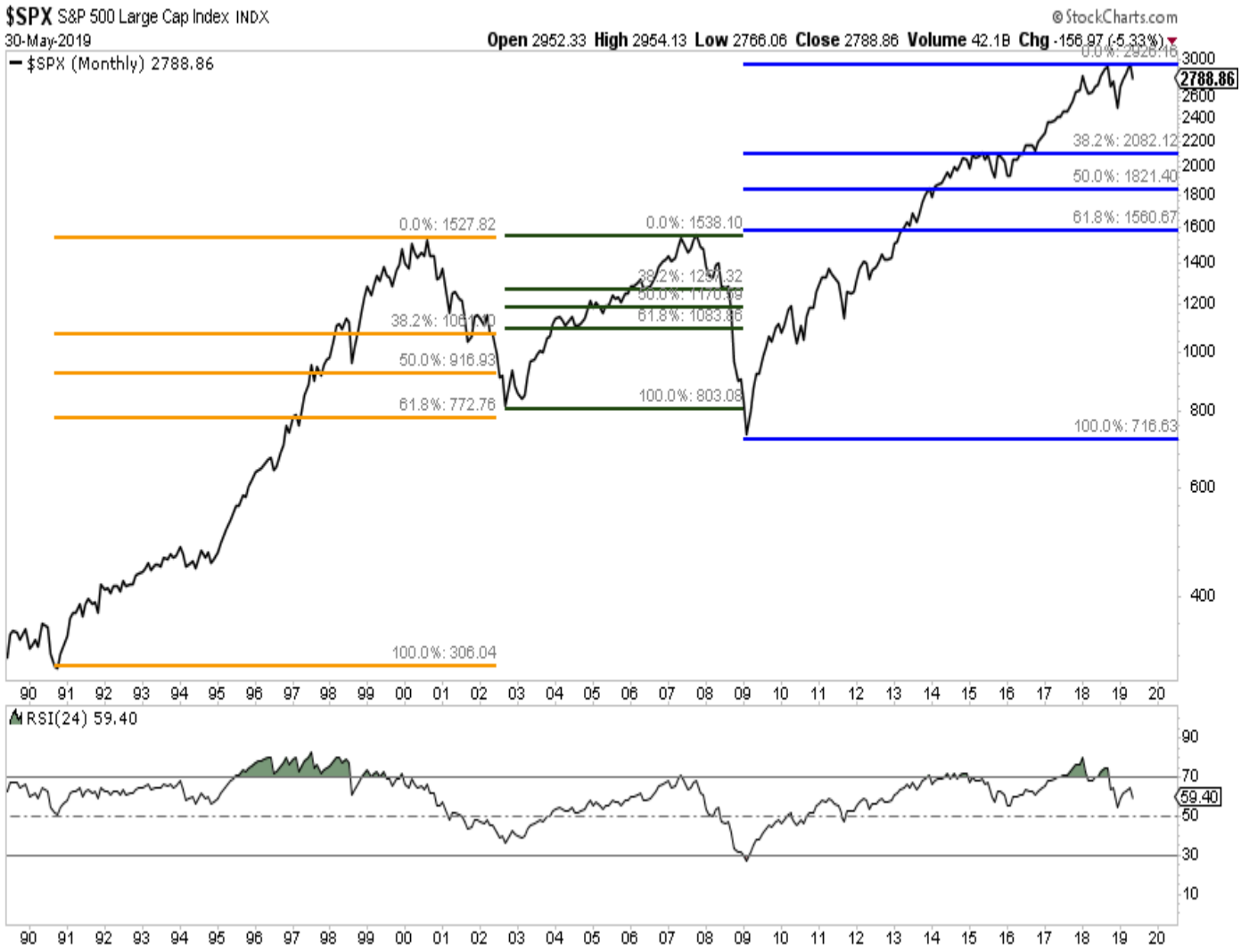
As shown below, the market did break below its 200 and 300-dma on Friday. However, the 400-dma is currently holding just below Friday's close. **Importantly, last week's sell off did trigger an important *"sell signal"* suggesting prices head lower over the few weeks.**



In the very short-term the markets are oversold on many different measures. **This is an ideal setup for a reflexive rally back to overhead resistance.**


$SPX S&P 500 Large Cap Index INDX
©StockCharts.com
31-May-2019
Open 2766.15 High 2768.98 Low 2750.52 Close 2752.06 Volume 2.1B Chg -36.80 (-1.32%)
$SPX (Daily) 2752.06
MA(200) 2775.50
$VIX 18.75
SELL
BUY
MACD(12,26,9) -27.224, -16.123, -11.101
PPO(1,50,1) -3.248, -3.248, 0.000
PPO(1,200,1) -0.922, -0.922, 0.000
14 Apr Jul Oct 15 Apr Jul Oct 16 Apr Jul Oct 17 Apr Jul Oct 18 Apr Jul Oct 19 Apr Jul

Longer-term, the fundamental, economic, and technical backdrops have collided which increase the odds of a more significant mean reverting event. The monthly chart below shows the bull market rallies from 1991 to 2000, 2003-2007, and 2009 to present. In both previous cases the long-term overbought condition *(bottom indicator)* was reversed through a correction process which retraced 61.8% to 100% of the previous advance.



A similar retracement from recent all-time highs would see the market testing the 2007 highs at 1560.&#2013266080;

That's a potential 46% decline.

Such would be a NORMAL mean reverting event which would coincide with the onset of a recession.&#2013266080;

Importantly, the current backdrop is conducive for such a reversion. As&#2013266080;Doug Kass noted on Friday.

- *We are closer to an earnings recession than in 4Q2018.*
- *At year end the domestic economy was prepping for a +3% Real GDP in 1Q2019 - now Real GDP is expected to slide to below +1.5%.*
- *The Cass Freight Index is showing profound weakness - and other high frequency economic data is weakening.*
- *Markets have already priced in multiple interest rate cuts.*

- *With rates so low now (10 year yield down nearly 100 bps), there are few tools left in the monetary shed.*
- *The prospects for any meaningful fiscal stimulation is gone (e.g., an infrastructure build) as the animus between the parties has intensified and will continue to erode as we move to a November, 2020 election.*
- *As mentioned in my opening missive, global coordination and cooperation is at an all-time low.*
- *A relatively smooth and non disruptive BREXIT is no longer likely.*
- *The trade backdrop is a mess - with disputes with Mexico and China (in particular) probably going to continue for quite a while.*
- *The geopolitical backdrop has deteriorated - particularly with Iran and North Korea.*
- *Commodities are falling (especially of a crude-kind).*
- *China's economic growth is no longer stable - it's moving lower (see last night's manufacturing data).*

- *Technicals have just begun to erode.*

This is why we focus on risk management and capital preservation.&#2013266080;

The markets only need some mildly positive news at this point to spur a "short-covering" rally. I would encourage you to use it to reduce risk, rebalance holdings, and raise cash until the *"trade war 'smoke' clears."&#2013266080;*

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

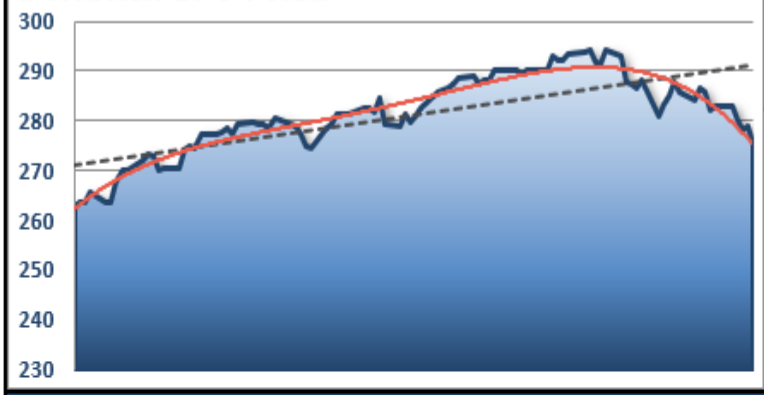
See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

3 Month SPY Price



SPY RISK INFO ZACKS REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	14.01%	1.60%	10.14%	534.69%
Max Drawdown	-20.47%	-20.47%	-6.68%	-67.36%
Sharpe	0.48	0.22	1.96	8.03
Sortino	0.55	0.15	2.51	15.68
Volatility	13.85	15.18	12.93	(0.15)
Daily VaR-5%	(12.97)	(20.92)	6.52	(1.31)
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%	1.97%	6.27%	2.18%	1.67%	(9.67%)	17.63%
P/E Ratio	20.37	20.00	17.12	(16.82%)	20.87	15.79	(18.0%)	8.40%
P/S Ratio	3.12	3.25	3.07	(6.04%)	3.55	2.49	(13.63%)	23.29%
P/B Ratio	3.55	3.77	3.81	0.92%	4.16	2.99	(8.32%)	27.55%
ROE	15.59%	16.60%	18.63%	10.92%	18.73%	15.00%	(0.52%)	24.23%
ROA	2.89%	3.13%	3.49%	10.54%	3.52%	2.81%	(0.74%)	24.24%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,433.1	2,382.0	(2.10%)
Sales	59,850	64,180	7.24%
SPS	24.6	26.9	9.54%
Earnings	8,438	9,576	13.48%
EPS TTM	4.1	4.8	17.90%
Dividend	1.5	1.6	9.06%

S&P 500 Asset Allocation

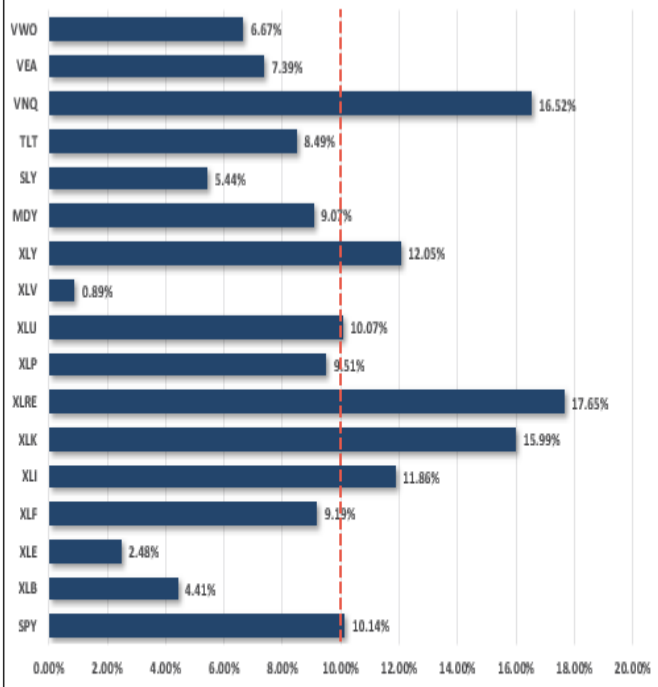
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(23.50%)	5.01%	1.17	15.39	156.27	12.49	(90.2%)	9.4%	3.9%	6.88%	3.59	16.31
Materials	(13.84%)	2.61%	1.25	14.21	21.86	13.82	(35.0%)	10.2%	2.1%	7.29%	4.06	16.39
Industrials	(3.89%)	9.32%	1.12	16.36	22.22	14.73	(26.4%)	16.2%	2.0%	6.12%	5.18	16.24
Discretionary	4.33%	10.14%	0.99	22.68	27.60	20.11	(17.8%)	28.9%	1.3%	4.48%	4.91	21.89
Staples	11.20%	7.36%	0.60	19.05	22.83	17.63	(16.6%)	27.1%	2.9%	5.25%	3.87	19.31
Health Care	5.40%	14.09%	0.90	15.91	20.62	15.93	(22.9%)	30.1%	1.8%	6.12%	6.45	15.14
Financials	(4.00%)	13.24%	1.24	12.43	18.42	11.68	(32.5%)	11.6%	2.1%	7.88%	5.79	12.17
Technology	5.70%	21.09%	1.21	19.08	21.83	14.47	(12.6%)	39.1%	1.6%	5.23%	5.23	20.12
Telecom	(1.68%)	10.48%	0.89	18.93	27.29	17.43	(30.6%)	17.7%	1.0%	5.25%	6.36	18.92
Utilities	17.46%	3.37%	0.32	19.56	20.31	15.58	(3.7%)	10.5%	3.4%	5.14%	3.60	18.49
Real Estate	15.21%	3.11%	0.78	19.74	24.47	17.10	(19.3%)	10.0%	3.3%	5.06%	4.27	19.19

Momentum Analysis

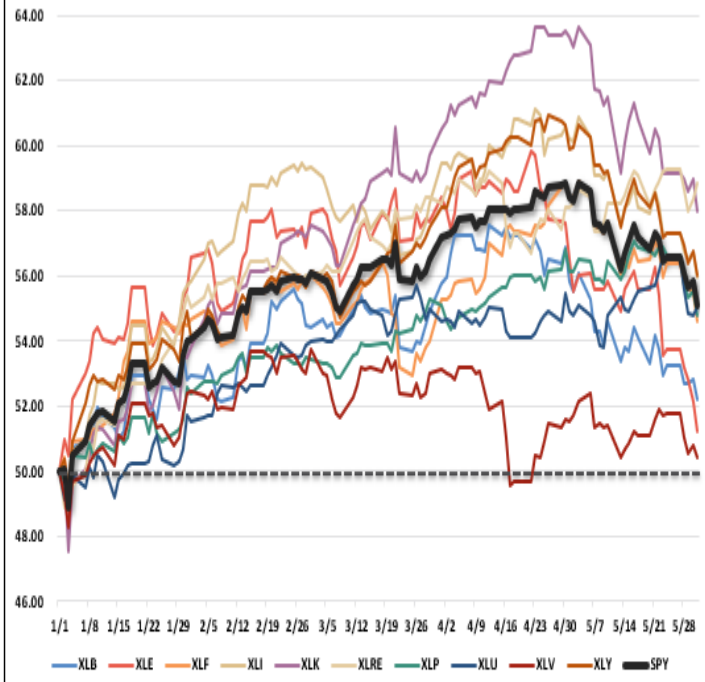
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	275.27	(1.43%)	286.75	12	(4.00%)	276.57	60	(0.47%)	3.68%	(6.67%)	17.76%	Buy
Mid Cap	330.13	(2.14%)	349.64	49	(5.58%)	342.33	9	(3.56%)	2.14%	(11.75%)	16.06%	Buy
Small Cap	63.23	(2.92%)	67.50	29	(6.33%)	68.06	21	(7.10%)	(0.82%)	(19.19%)	12.31%	Sell

Performance Analysis

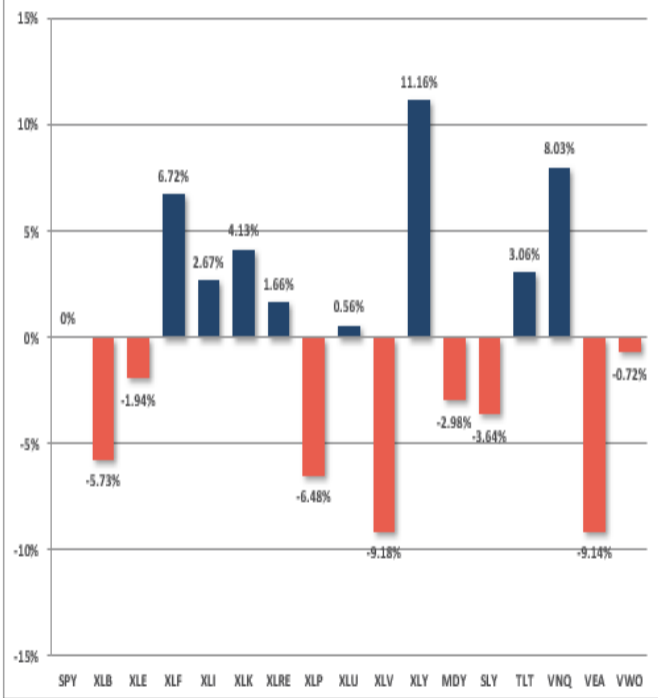
Year To Date Performance



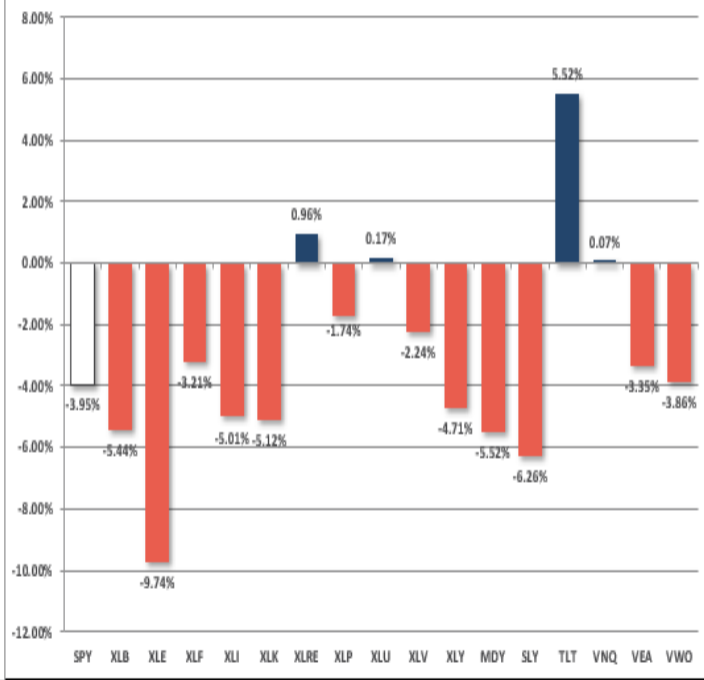
YTD Price - S&P Sectors Recalibrated To $50/share



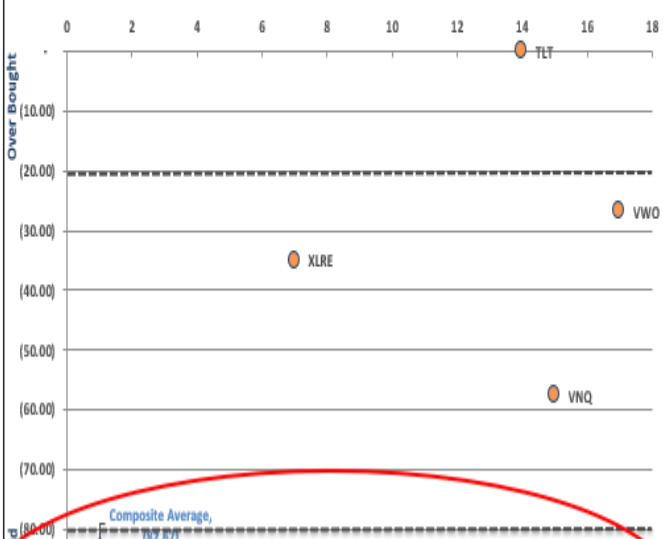
Year To Date Performance Relative To S&P 500



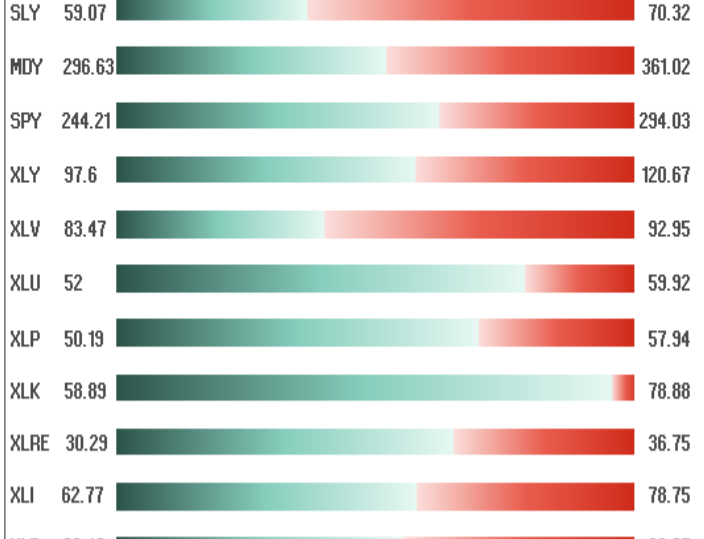
Price Deviation From 50-Day Moving Average



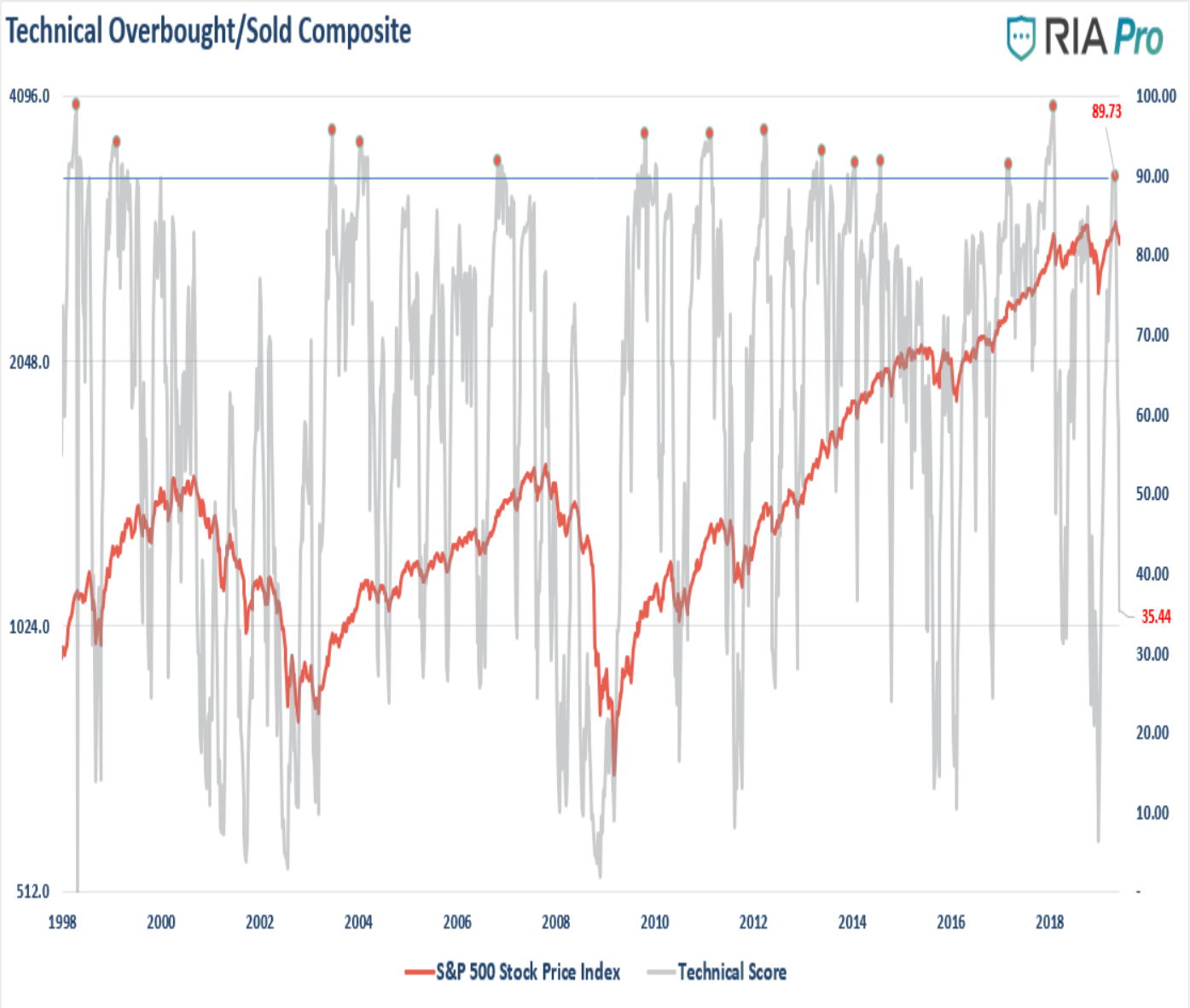
Overbought/Oversold 14-Periods



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	277.30	(2.62)	(6.32)	0.40	5.68	0.64	287.14	276.01	-3.43%	0.47%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	52.75	0.69	(0.60)	(4.02)	(2.89)	(11.34)	55.69	54.05	-5.29%	-2.40%	BUY
		XLE	SPDR-EGY SELS	58.77	(2.01)	(2.21)	(8.43)	(11.03)	(23.70)	65.27	64.98	-9.96%	-9.56%	BUY
		XLF	SPDR-FINL SELS	26.01	(0.54)	(1.02)	(0.24)	1.62	(5.99)	26.76	26.12	-2.82%	-0.40%	BUY
		XLI	SPDR-INDU SELS	72.05	0.28	(1.78)	(3.39)	1.78	(4.91)	75.60	72.47	-4.69%	-0.58%	BUY
		XLK	SPDR-TECH SELS	71.89	0.70	(2.49)	2.58	5.66	0.48	74.95	69.83	-4.09%	2.96%	BUY
		XLP	SPDR-CONS STPL	55.61	(0.70)	3.19	3.14	(3.64)	11.34	56.12	54.60	-0.92%	1.85%	BUY
		XLU	SPDR-UTIL SELS	58.25	(0.02)	6.23	0.82	(3.16)	15.37	58.06	55.82	0.32%	4.35%	BUY
		XLC	SPDR-COMM SV SS	47.09	0.76	0.33	1.59			48.24	45.99	-2.38%	2.39%	BUY
		XLV	SPDR-HLTH CR	87.28	0.07	3.13	(2.77)	(7.57)	4.06	89.73	89.81	-2.73%	-2.82%	SELL
		XLY	SPDR-CONS DISCR	110.94	0.42	(1.31)	1.94	2.74	3.49	115.22	109.30	-3.72%	1.50%	BUY
	SIZE	SLY	SPDR-SP SC 600	63.23	(0.49)	(3.76)	(5.20)	(4.67)	(13.03)	67.45	66.60	-6.26%	-5.06%	BUY
		MDY	SPDR-SP MC 400	330.13	(0.27)	(2.24)	(3.08)	(1.30)	(8.05)	348.39	337.56	-5.24%	-2.20%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	100.69	(0.11)	(0.51)	(1.59)	(0.51)	(2.08)	105.13	101.20	-4.23%	-0.51%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	95.87	(0.25)	0.44	(1.71)	(3.11)	3.17	99.42	96.29	-3.57%	-0.43%	BUY
	Real Estate	XLRE	SPDR-RE SELS	36.47	1.86	6.65	4.34	3.45	14.37	35.94	34.02	1.47%	7.19%	BUY
	International	EEM	ISHARS-EMG MKT	40.71	4.52	(1.62)	(2.63)	(3.47)	(12.77)	42.71	41.44	-4.69%	-1.77%	BUY
		EFA	ISHARS-EAFE	63.40	0.49	0.96	(0.51)	(0.82)	(10.07)	65.29	63.28	-2.89%	0.18%	BUY
		IXUS	ISHARS-CR INT S	56.40	1.64	0.60	(0.96)	(0.96)	(10.90)	58.27	56.49	-3.21%	-0.15%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	131.83	5.79	12.93	8.04	5.59	8.94	124.16	120.41	6.18%	9.48%	BUY
	International	BNDX	VANGD-TTL INT B	56.47	3.10	7.61	1.77	(3.08)	3.22	55.69	55.02	1.40%	2.64%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	84.90	1.74	4.39	(0.63)	(3.59)	(0.98)	86.10	84.72	-1.39%	0.22%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.13										

RIA Pro

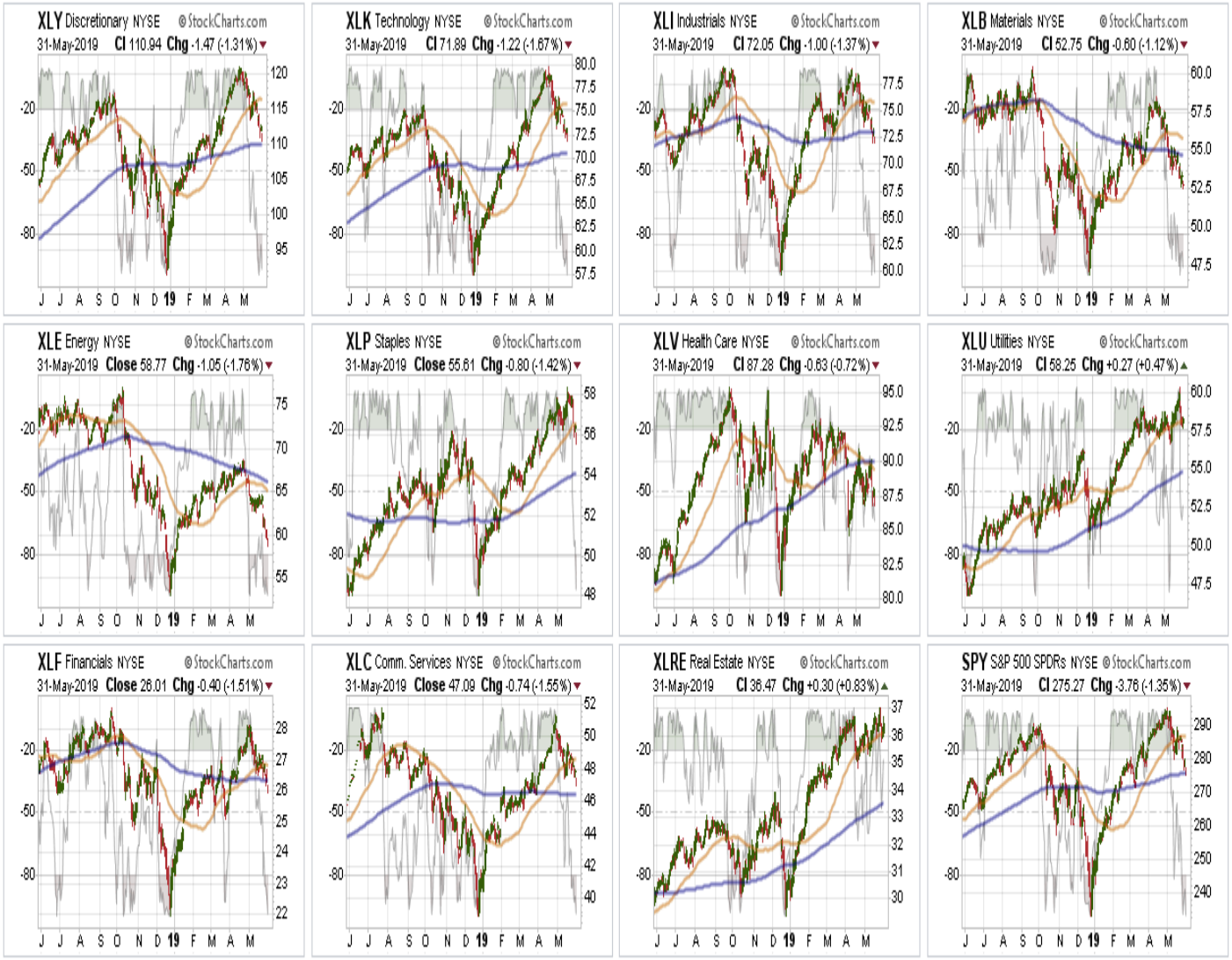
Sector & Market Analysis:

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

We said at the beginning of May that we were shifting from offensive to defensive sectors in the market to protect capital from a *"risk-off"* rotation. As Michael Lebowitz shows in the table below, that was the right decision to make with the sectors we overweighted (healthcare, staples, real estate and utilities) holding up better than the rest.

Ticker	Sector	% Change May 2019
XLRE	Real Estate	1.22%
XLU	Utilities	-0.78%
XLV	Healthcare	-2.22%
XLP	Cons. Staples	-3.64%
XLC	Communications	-5.95%
XLF	Financials	-7.17%
XLY	Cons. Discretionary	-7.60%
XLI	Industrials	-7.64%
XLB	Materials	-8.16%
XLI	Technology	-8.46%
XLE	Energy	-11.10%
SPY	S&P 500	-6.38%

Sector-by-Sector



Improving - Financials and Staples

As noted above the *"defensive"* rotation continues for now. Use weakness in the defensive areas to add exposure accordingly. Two weeks ago, we overweighted our holdings in staples as well as utilities.&#2013266080;

Current Positions: *Overweight XLP, Target weight XLF.*

Outperforming - Technology, Discretionary, Communications

As noted last week, these three sectors are driving the bulk of the market movement now, however, their outperformance is continuing to deteriorate.&#2013266080; Over the last several weeks, we have recommended taking profits and rebalancing portfolio risks accordingly. That remains the same recommendation this week, but should be done on a counter-trend rally back towards the 2800 level on the S&P index..&#2013266080;

Current Positions: *1/2 weight XLY, Reduced from overweight XLK*

Weakening - Real Estate and Industrials

As noted two weeks ago, Real Estate has continued to attract buyers particularly as interest rates have fallen. We also noted that there was a decent entry opportunity for positioning as a defensive play against a likely rotation out of Technology and Discretionary holdings. We continue to carry our current weight and are looking for an opportunity to overweight the sector opportunistically. Industrials continue to weaken with the trade war so we remain underweight the sector currently.&#2013266080;

Current Position: *XLRE, 1/2 XLI*

Lagging - Healthcare, Staples, Financials, Materials, Energy, and Utilties

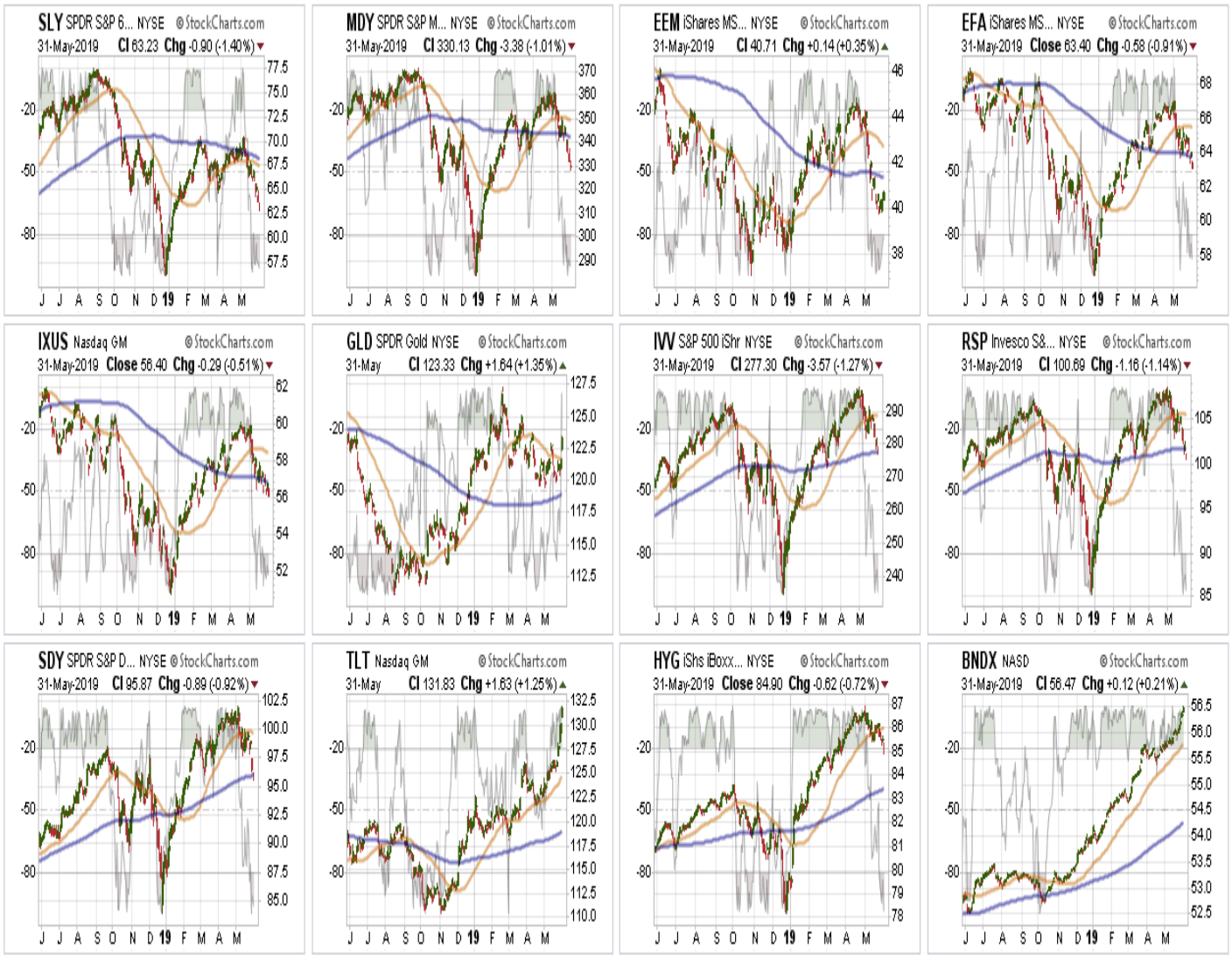
While these sectors are currently lagging the performance of the S&P 500, on a short-term basis, longer-term they have been strong winners. Importantly, Staples, Financials, Utilities, and Healthcare, while lagging in performance, have turned up relative to the S&P 500.&#2013266080;

As noted, we have slightly overweighted staples and utilities to go along with our overweight healthcare positioning currently.&#2013266080; where relative performance is improving as a *"risk off"* rotation occurs. While we are maintaining a 1/2 position in XLE, it is not performing well and we may be required to *"cut it loose"* if performance doesn't improve soon.&#2013266080;

> **All sectors are VERY OVERSOLD currently. Look for a rally in the next week to begin rebalancing risks and weightings accordingly. This could be your best, last chance, for the rest of the summer.**

Current Positions: *1/2 XLB, 1/2 XLE, XLF, Overweight XLV, Overweight XLP,&#2013266080; Overweight XLU*

Market By Market



Small-Cap and Mid Cap - Small-cap and Mid-cap both failed to hold above their respective 50- and 200-dma which keeps us from adding a position in portfolios. These sectors are mostly tied to the domestic economy and their lack of performance is concerning relative to the economic backdrop. They continued to weaken this past week and show no real signs of an opportunistic entry point at this juncture.

Current Position:&#2013266080;*No position*

Emerging, International & Total International Markets&#2013266080;

As noted last week,

> *The re-institution 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. We have no long exposure to international markets currently.&#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 two weeks ago:

> ***"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 continued for a second week, and all of our core positions are oversold. We should see a bounce in the markets next week and we will decide how to hedge our core positions.&#2013266080;

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

Gold ? With rates dropping sharply and deflationary pressures on the rise, Gold finally got a bid last week. As we stated last week:

"We are holding our current positions as a hedge against a pickup in volatility which we expect as this summer unfolds."

That happened this week and our hedge positions came into place reducing overall portfolio volatility.

(Our ETF portfolio was down 0.29% on Friday versus 1.32% for the S&P 500 Index)

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

Bonds&#2013266080;?

As the beginning of May, 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. They are now oversold but have also broken their 50-dma. Look for a rally back to the 50-dma to reduce risk at current levels. But we warned you of this at the beginning of May.

> *"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."*

> **All equity markets are VERY OVERSOLD currently. Look for a rally in the next week to begin rebalancing risks and weightings accordingly. This could be your best, last chance, for the rest of the summer.**

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.)

&#2013266080;

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OS	Positive	Positive	Hold			X			Testing 200-DMA
XLK	Technology	OS	Positive	Positive	Hold			X			Testing 200-DMA
XLI	Industrials	OS	Positive	Neutral	Hold			X			Broke 200-DMA
XLB	Materials	OS	Positive	Neutral	Hold			X			Broke 200-DMA
XLE	Energy	OS	Negative	Negative	Hold			X			Broke 200-DMA
XLP	Staples	OS	Positive	Positive	Hold			X			Testing 50-DMA
XLV	Health Care	Neutral	Negative	Neutral	Hold			X			Broke 200-DMA
XLU	Utilities	Neutral	Positive	Positive	Overweight			X			Testing 50-DMA
XLF	Financials	OS	Positive	Neutral	Hold			X			Testing 200-DMA
XLC	Telecom	OS	Positive	Neutral	No Position					X	No Position
XLRE	Real Estate	Neutral	Positive	Positive	Hold			X			Hold Position
SLY	Small Caps	OS	Negative	Negative	No Position					X	Failed At 200-DMA
MDY	Mid Caps	OS	Positive	Neutral	No Position					X	Failed At 200-DMA
EEM	Emerging Mkt	OS	Positive	Negative	No Position					X	Failed At 200-DMA
EFA	International	OS	Positive	Negative	No Position					X	Failed At 200-DMA
IXUS	Total International	OS	Positive	Negative	No Position					X	Failed At 200-DMA
GLD	Gold	OB	Positive	Neutral	Hold			X			Moved Above 50-DMA
RSP	SP500 Equal Wgt	OS	Positive	Positive	Hold			X			Testing 200-DMA
SDY	SP500 Dividend	OS	Positive	Positive	Hold			X			Testing 200-DMA
IVV	SP500 Market Wgt	OS	Positive	Positive	Hold			X			Testing 200-DMA
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Hold
HYG	Corporate High Yield	OS	Positive	Positive	No Position					X	Broke 50-DMA
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 continued to rebalance our risks and more to a more defensive positioning the short-term and are carrying additional cash in our portfolios. As shown in the chart below, the short-term bullish cycle is now complete (yellow shaded area) and suggests more caution in the near term.&#2013266080;



As noted two weeks ago, we have shifted our focus from *?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:** *Our onboarding indicators are "risk off" currently, so new accounts will remain in cash for the time being. Positions that were transferred in are on our global review list and will be monitored for an opportunity to liquidate to raise cash to transition into the specific portfolio models.*

- ***Equity Model:*** *After taking profits recently, we are looking to opportunistically add to our stronger positions with this recent pullback. JNJ, VZ, COST, CMCSA, and others have had a nice pullback recently and strong fundamentals make these good opportunities to add to existing holdings.&#2013266080;*
- ***ETF Model****: We overweighted our exposure to defensive areas by adding Real Estate and overweighting Staples and Utilities. We are now looking to increase weights in IAU, GDX, IEF, potentially add to XLK on this correction.&#2013266080;*
- ***In both the Equity and ETF Models:*** *We increased 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:

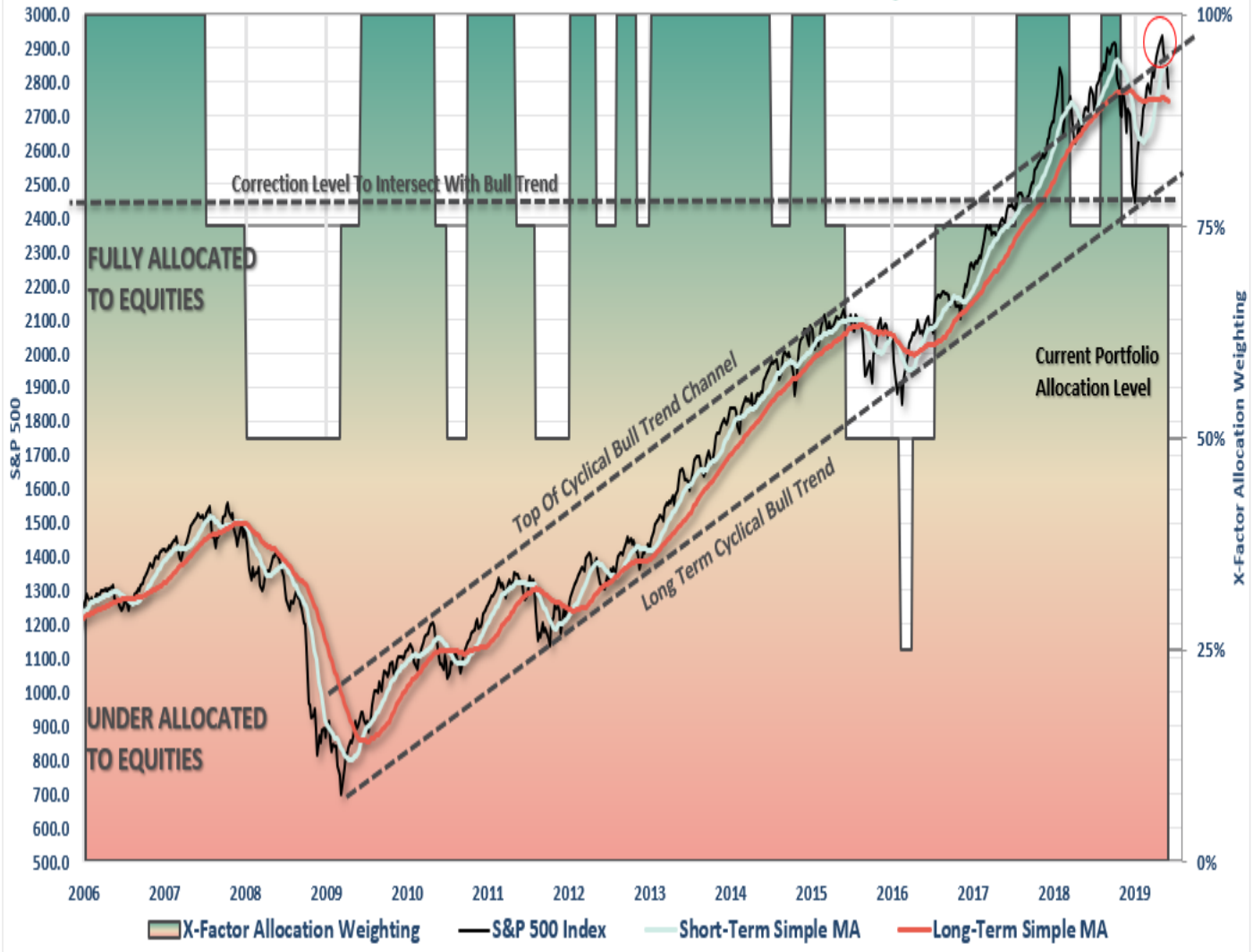
It is important to understand that when we add to our equity allocations, ALL purchases are initially&#2013266080;*?trades?*&#2013266080;that can, and will, be closed out quickly if they fail to work as anticipated.&#2013266080;This is why we&#2013266080;*?step?* &#2013266080;into positions initially. 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.**

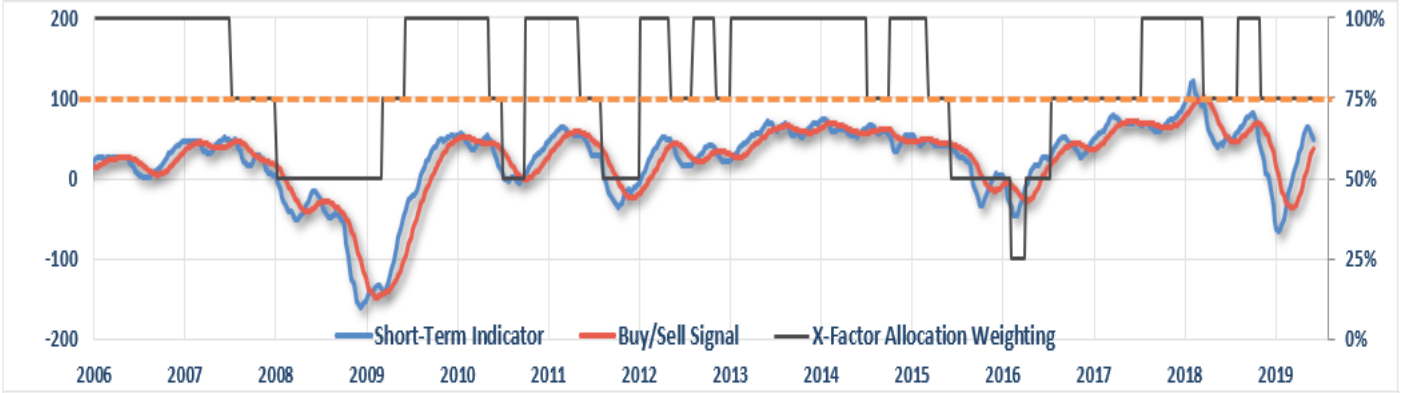
THE REAL 401k PLAN MANAGER

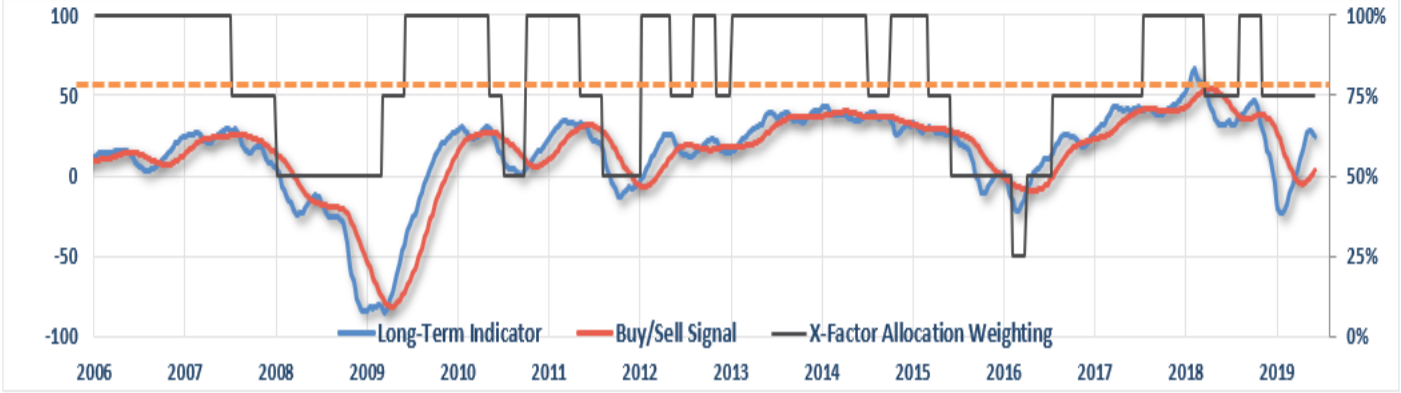
A Conservative Strategy For Long-Term Investors

Risk Management Analysis

REAL INVESTMENT ADVICE







There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. ***I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative to a positive trend.*** *Emotions keep us from taking the correct action.*

401k-PlanManager-AllocationShift

This Is Why We Remain Patient

As noted over the last couple of weeks:

> *"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."*

That rally failed to occur and we have now tested, and failed, the 200-dma. However, with the market deeply oversold short-term we are expecting a bounce which we can rebalance into and remain defensive.

I would again encourage you to read the commentary above, the bulls, along with the media, are betting on things which have a very low probability of actually occurring. The increasing "trade war" will only succeed in advancing the next recession.&#2013266080;

We have remained patient over the last several weeks. However, we should get a bounce next week. On that bounce look to take the following actions:&#2013266080;

- *If you are* ***overweight&#2013266080;equities*** *- take some profits and reduce portfolio risk on the equity side of the allocation. Raise some cash and reduce equities to target weights.&#2013266080;*
- *If you are* ***underweight equities or at target -&#2013266080;****rebalance risks, look to increase cash rather than buying bonds at the moment, and rotate out of small, mid-cap, emerging, international markets.&#2013266080;*

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

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

As we have been teasing over the last couple of weeks, we are just about ready to roll-out 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;

We are building models specific to company plans. So, if you would like to see your company plan included specifically, send me the following:

- Name of company
- Plan Sponsor
- A print out of your plan choices. *(Fund Symbol and Fund Name)*

If would like to offer our service to your employees at a deeply discounted corporate rate [please contact me.]

Current 401-k Allocation Model

The 401k plan allocation plan below follows the K.I.S.S. principle. By keeping the allocation extremely simplified it allows for better control of the allocation and a closer tracking to the benchmark objective over time.&#2013266080;***(If you want to make it more complicated you can, however, statistics show that simply adding more funds does not increase performance to any great degree.)***

