What The Fed Said, Didn't Say, & What Happens Next

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Review & Update

Every week, we are fortunate enough to gain numerous subscribers to our weekly newsletter. So, first, I certainly want to welcome you to our missive, but I also need to brief our newest readers where we have been positioned over the last couple of months.&#2013266080;

On **May 4th,** we penned: *"It Never Hurts To Ring The Cash Register:"* we suggested taking profits and reducing risk in portfolios after a stellar run from the beginning of the year. We made specific recommendations to our ***RIA PRO Subscribers*** ***(Try Free For 30-Days)*** at the time:

> ***?A common theme through today?s report is ?Profit Taking.?&#2013266080;****Over the last couple of weeks, we have continued to discuss taking profits and rebalancing risks.&#2013266080;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.?*

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We also said:

> ***"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 corrective action in it, betting this year will be different is a low probability event.****?*

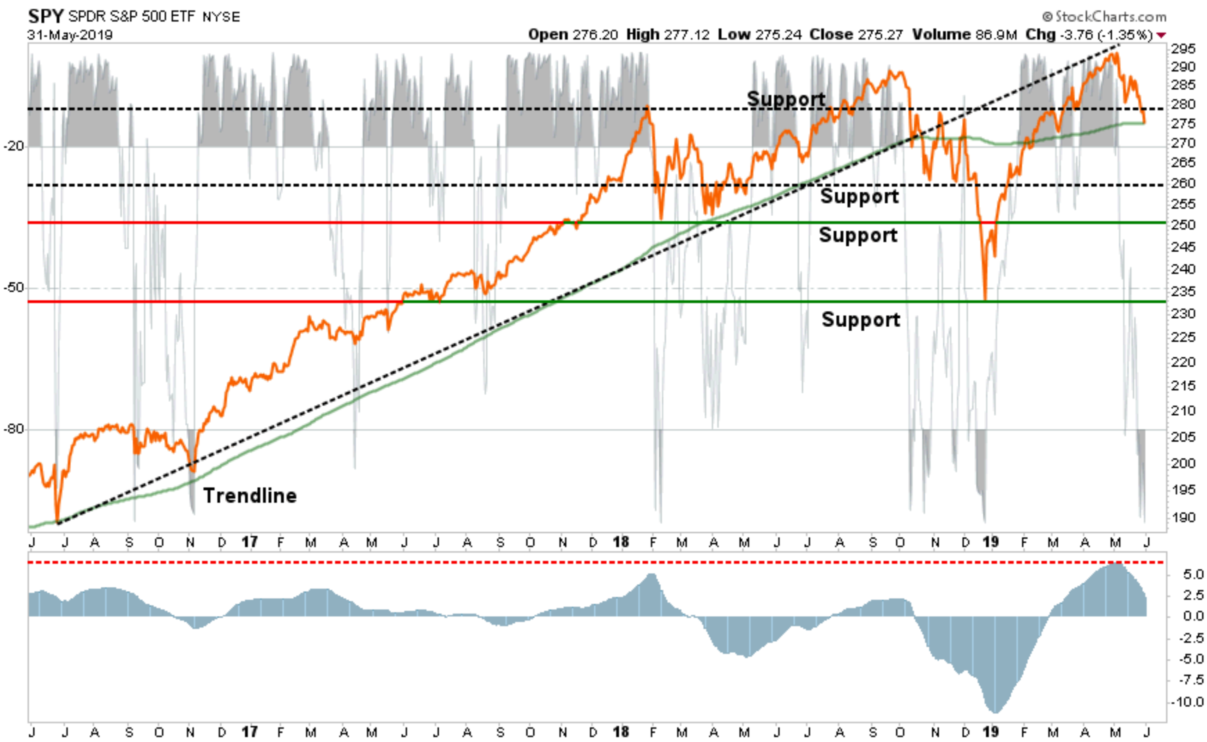
What we didn't know at the time is that the May sell off would start the next week.&#2013266080;

Then, **June 1st,** we wrote *"Selloff Overdone, Looking For A Sellable Rally:"* To wit:

> *"In the very short-term the markets are oversold on many different measures.&#2013266080;****This is an ideal setup for a reflexive rally back to overhead resistance."***

Again, for our ***RIA PRO subcribers,*** we recommended taking on index positions to participate.

[(Click here for the unlocked report.)]



- *The ?buy? signal in the lower panel was massively extended, as noted several weeks ago, which as we stated, suggested the reversal we have seen was coming.*
- *The correction last week has set up a tradeable opportunity into June.*
- *Short-Term Positioning: Bullish*
  - *Last Week: Add 1/2 position with a target of $290.*
  - *This Week: Hold position (full weighting)*
  - *Stop-loss remains at $275*

The rally we have been discussing since the beginning of June has been a good trade and increased the value of our portfolios.&#2013266080;

However, for most investors, it has simply been a recovery back to the same level almost 2-months ago.&#2013266080;

This is why managing risk is important.&#2013266080;

Okay, now that you are up to date, let's talk about what the Fed said, didn't say, and what it means from here.&#2013266080;

What The Fed Said, & Didn't Say

On Wednesday, the Federal Reserve completed their two-day FOMC meeting *(Federal Open Market Committee)* and provided their prepared statement afterward.&#2013266080;

It is worth noting it is the SAME statement following each meeting with only slight wording changes each time. The text below shows those red lined changes in the release from the last two meetings. I am only excerpting the more important points for today's discussion.

> *"Information received since the Federal Open Market Committee met in* ***Ma~~rch~~y indicates that the labor market remains strong and that economic activity&#2013266080;~~rose at a solid&#2013266080;~~is rising at a moderate &#2013266080;rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low****.&#2013266080;~~G~~Although growth of household spending~~ and business fixed investment slowed in the first quarter ~~appears to have picked up from earlier in the year, indicators of business fixed investment have been soft.*
>
> *The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes~~. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes~~,* ***but uncertainties about this outlook have increased. In light of these uncertainties and muted inflation pressures,*** *the Committee will closely monitor the implications of incoming information for the economic outlook and* ***will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.***

Wall Street voraciously searches for these changes to try a derive the Fed's intention about future policy actions. It is akin to reading the *"tea leave"* in the bottom of a cup.

It was the last sentence above which got the bulls excited as it was interpreted to mean rate cuts.

However, what the *"bulls"* missed is the Fed DID NOT say the *"would"* cut rates, only that they would monitor incoming data and act appropriately.&#2013266080;

> *"The Federal Reserve on Wednesday* ***said it does not expect any rate cuts this year****, but did* ***forecast one*** *for 2020." -* [CNBC]

This is a far cry short of reducing rates 3-times this year, and more next year, pushing rates back towards the zero bound.

This leaves a lot of room for the markets to be disappointed.&#2013266080;

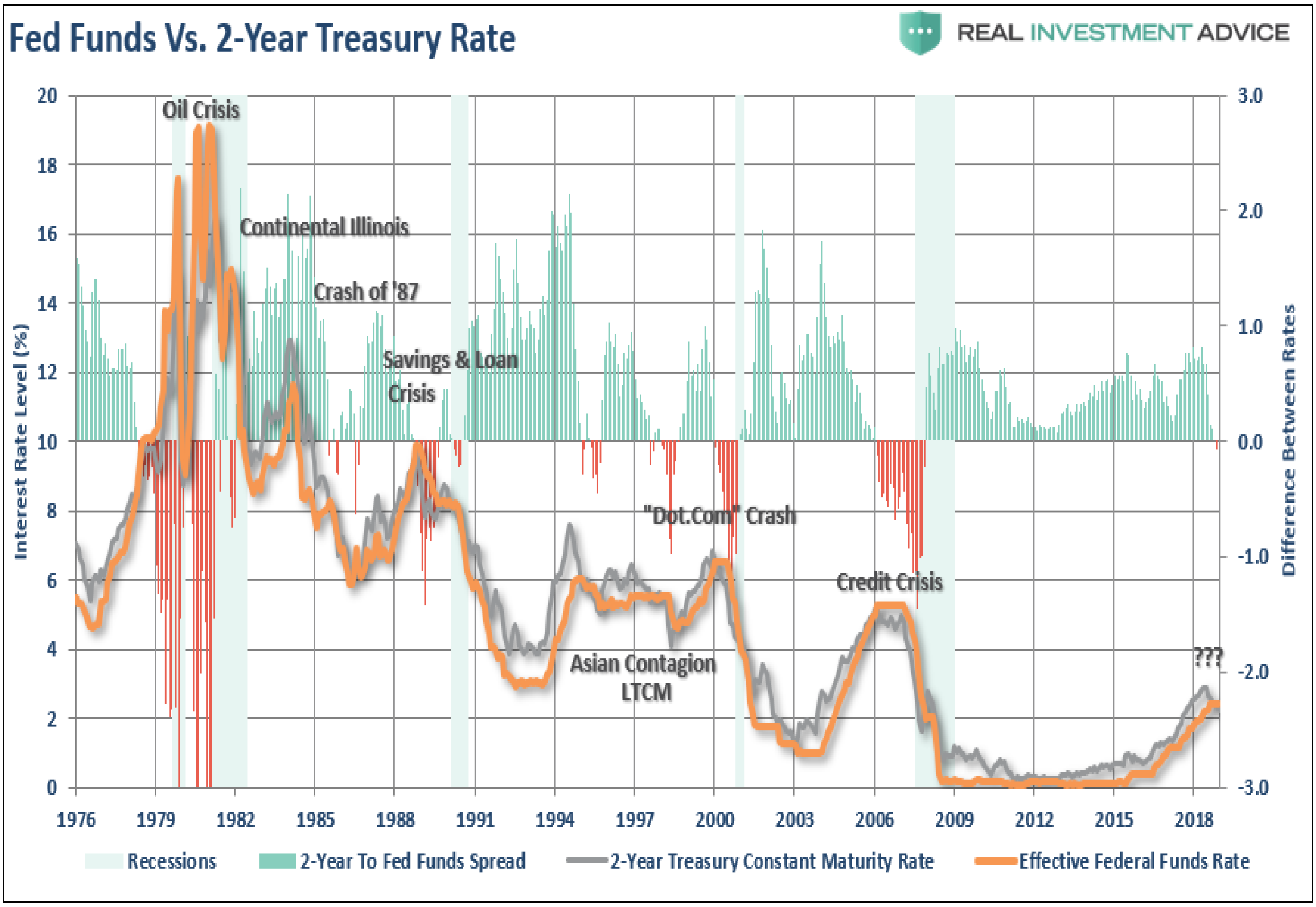
However, there is sufficient reason to expect the Fed will indeed cut rates, it is only a question of timing and by how much.&#2013266080;

As David Rosenberg penned last week:

"What does it mean when the real yield on the 5-year T-note is down to around 30-basis points and for the 10-year maturity, a mere 40-basis points? It's the bond market's way of foreshadowing the weak economy that lies ahead.

There can be little doubt that Powell took his cue from [the ECB's Mario} Draghi and the ECB's concern over the weakening growth backdrop and even deeper inflation undershoot in the Euro-area. ***I am talking about the recession. You know - the one that nobody 'sees.'"***

Given that the Fed has a very limited *"toolbox"* currently, I would expect them to use rate cuts VERY sparingly. Considering rates fall on average between 3-4% during a recession, the Fed is starting at just 2.4%. From a historical perspective, when the Fed does engage in rate reduction programs, it has not been an ideal point to be heavily invested in the financial markets.

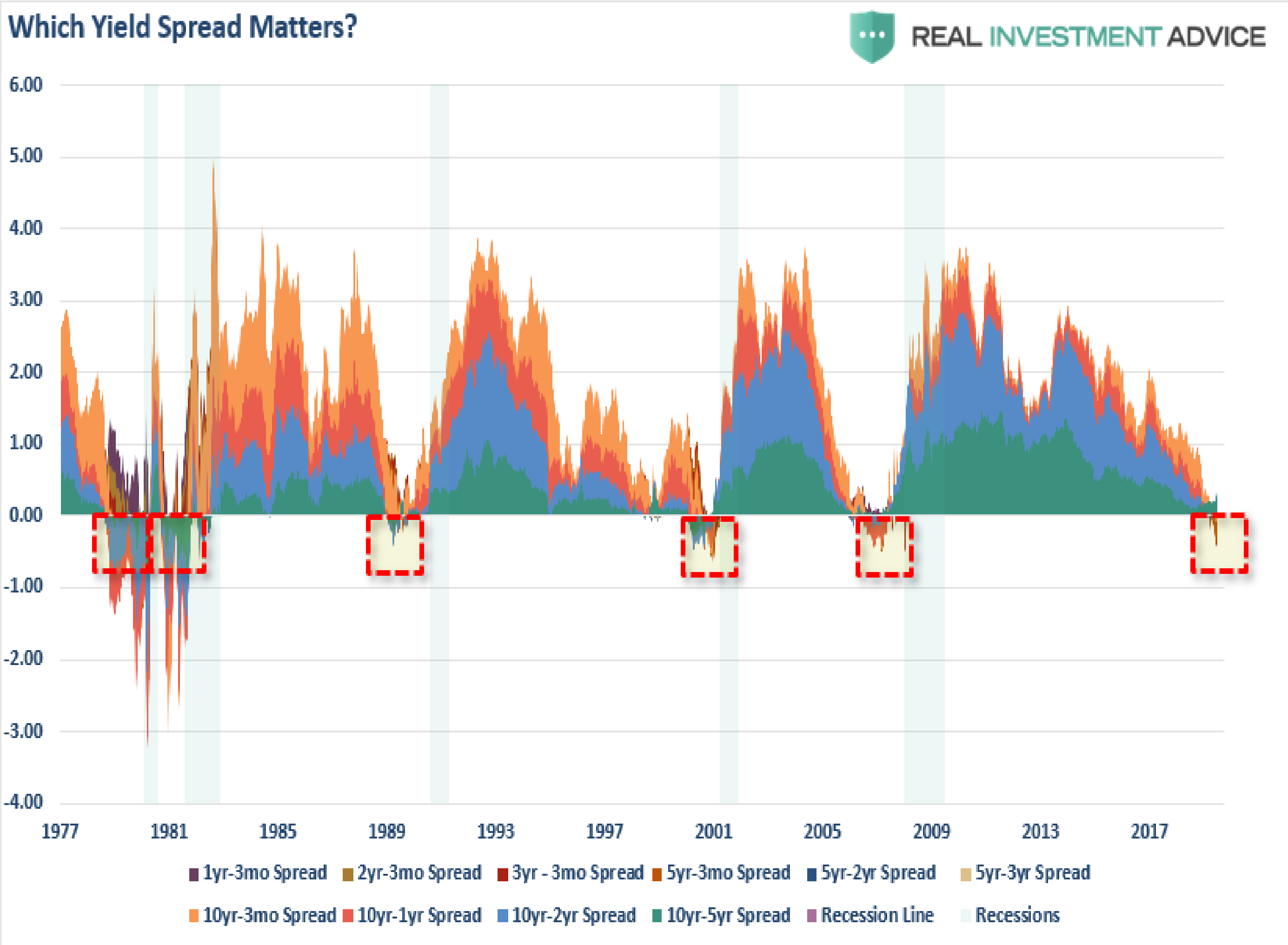


As noted by PNC this week:

?That would absolutely be a policy misstep. With industrial production data coming in ahead of expectations, retail sales ex-autos and gas beating up expectations, earnings season for Q1 beating and Q2 revisions moving in a positive direction, it just seems to me as if the backdrop doesn?t warrant that swift of a policy reversal and that cuts really shouldn?t be on the table.? - Amanda Agati

Also, the 10-year yield is hovering at just 2% and seems the equity market is under appreciating the probability of a bad scenario which is being embedded into bond prices. Given the bond market is a reflection of the *"flight to safety"* by investors, it suggests the *"bulls"* could be wading into a trap.&#2013266080;

(Note: it is NOT the inversion of yield curves which signal a recession, it is when those inversions reverse.)



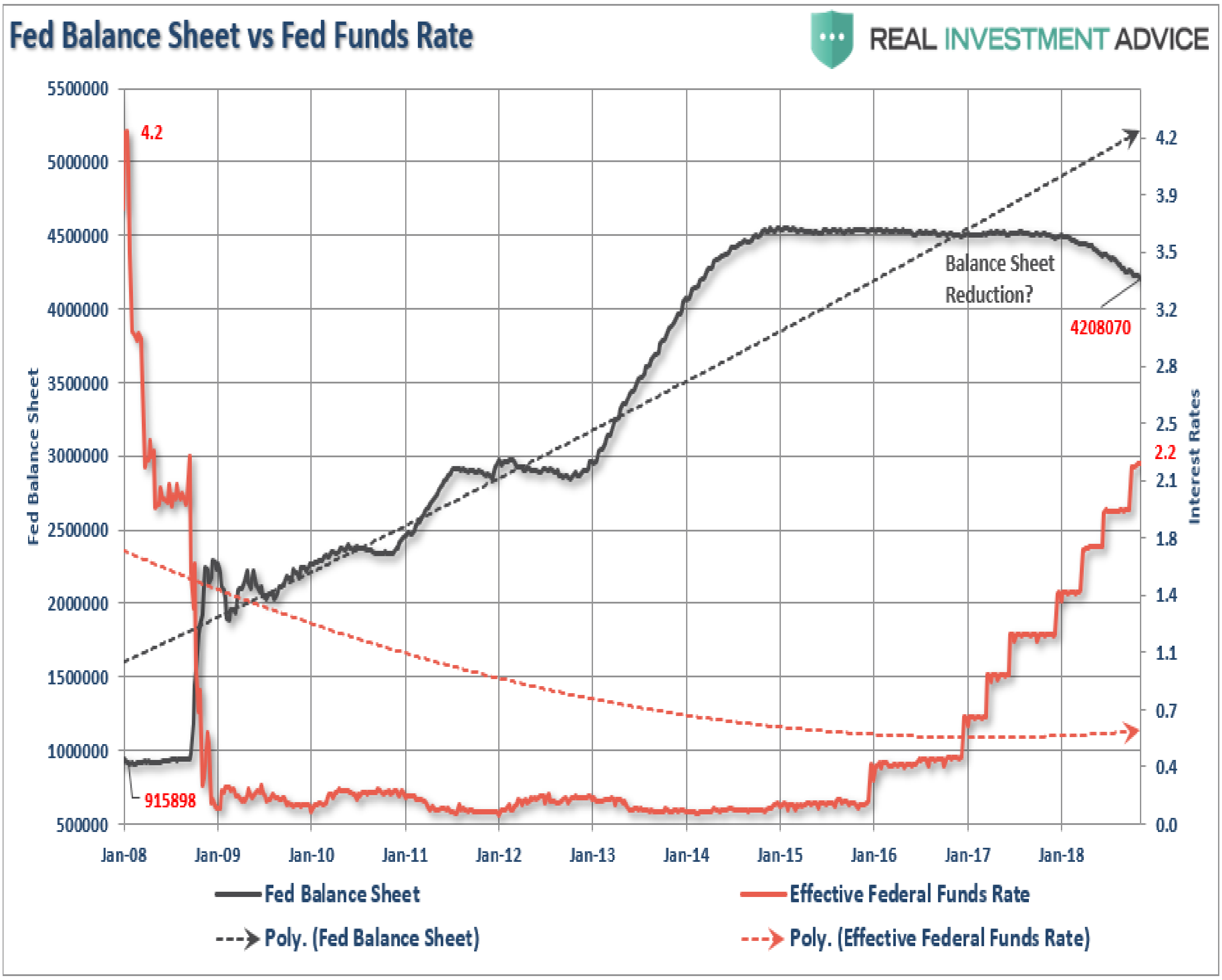
Lastly, the markets are already pricing in two events which haven't even occurred yet:

1. *Rate cuts*
2. *Trade deal with China*

There is a decent probability that neither happens soon, and could be a *"sell the news"* event when they do.

Let me reiterate something I [wrote previously](#) which I believe to be most important at this juncture:

> *?In 2008, when the Fed launched into their&#2013266080;?accommodative policy?&#2013266080;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.*

	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.***
>
> *In other words, there is nowhere to go but up. Today, it is entirely reversed.*
>
> ***The extremely negative environment that existed in 2009, particularly in the asset markets, provided a fertile starting point for monetary interventions****. Today, as shown in the table above, the economic and fundamental backdrop could not be more different."*

Lowering interest rates and quantitative easing are *"incentives."* **Incentives work when there is pent-up demand for a product, but are much less effective when everyone always has what you're offering. &#2013266080;**

Bill Bonner had the best explanation:

> *"Investors? animal spirits were titillated brought last week by the Fed, which ? in the wake of a deteriorating economy ? seems ready to shift to Mistake No. 3 even before it has completed Mistake No. 2.&#2013266080;*
>
> *You?ll recall that Mistake No. 2 is raising interest rates to try to mitigate the damage done by Mistake No. 1 (leaving rates too low for too long). Mistake No. 3 is dropping them too sharply to try to undo the damage caused by Mistake No. 2."*

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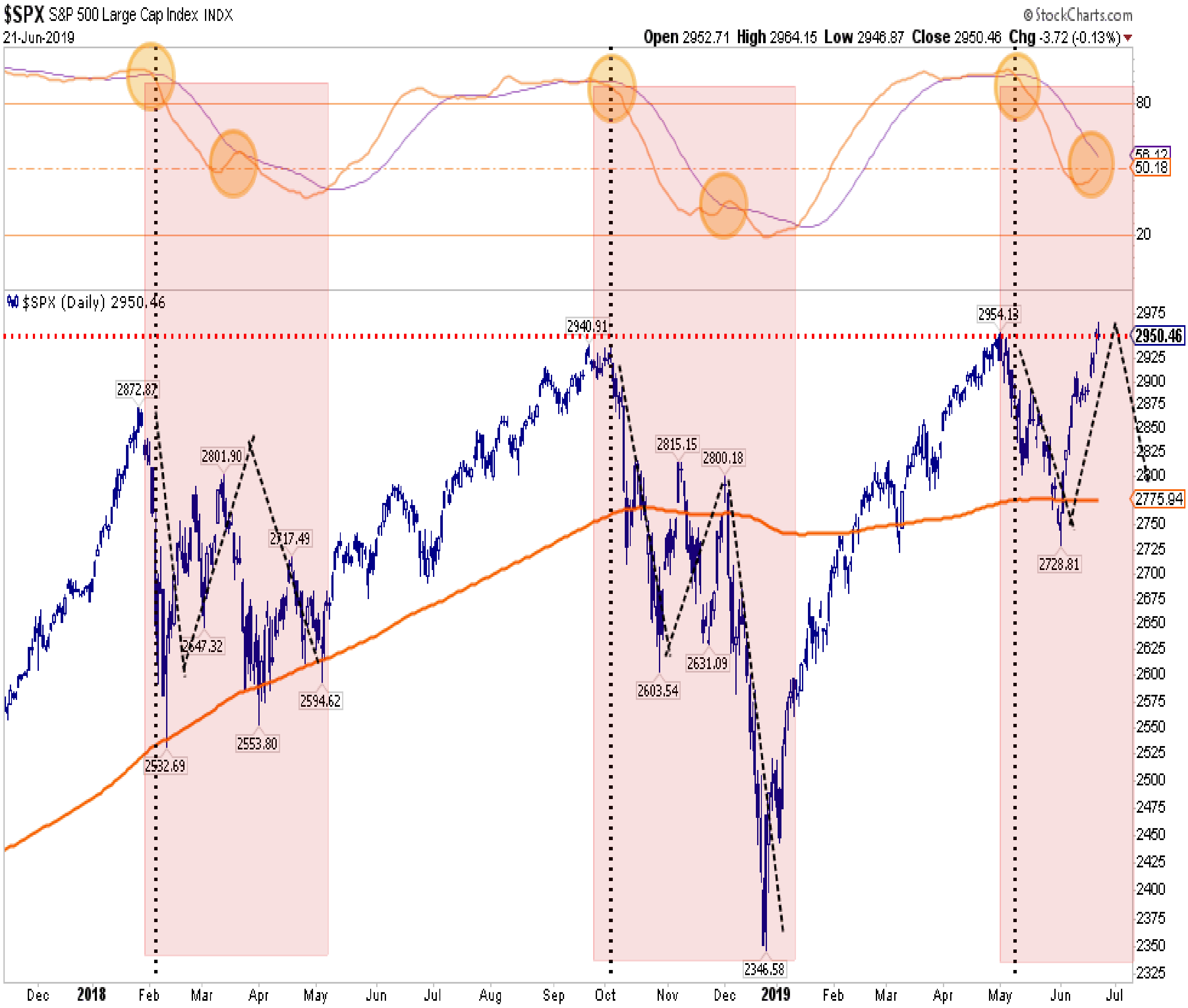
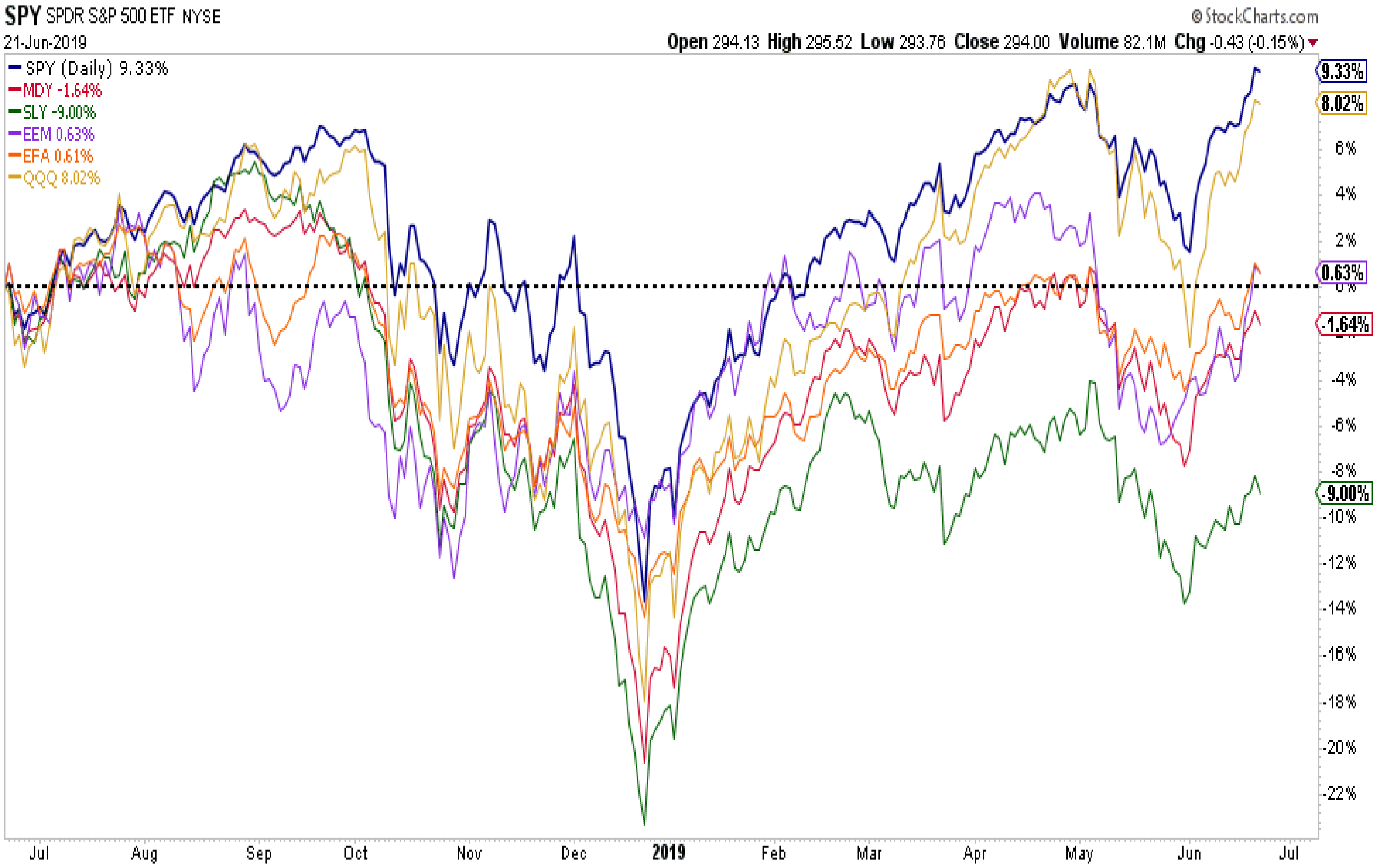
What Happens Next

We recently suggested this *"sellable rally"* had room to go into the end of this month. That still seems to be the most likely case. However, July through September are going to become much more difficult from both an earnings and economic perspective.&#2013266080;

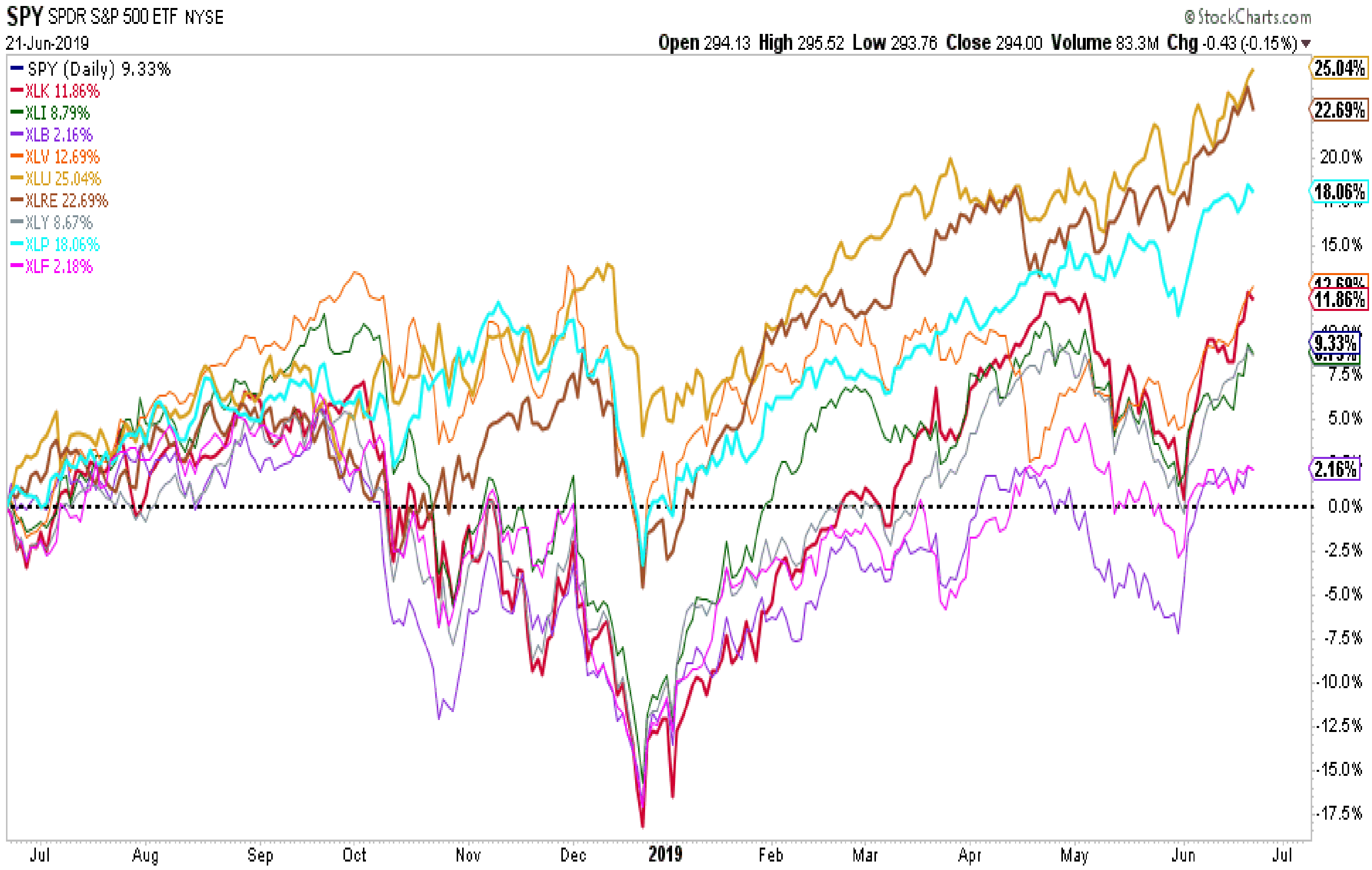


The red shaded bars denote the last two times that markets hit *"all-time"* highs coincident with an ongoing *"sell signal"&#2013266080;*as denoted by the yellow circles. In both previous cases, the subsequent rally, while failing to hit new highs, almost reversed the sell signal before the markets turned lower again. While I am not suggesting that current market action will play out in the same fashion, it is worth considering before getting aggressively long-biased at this juncture.

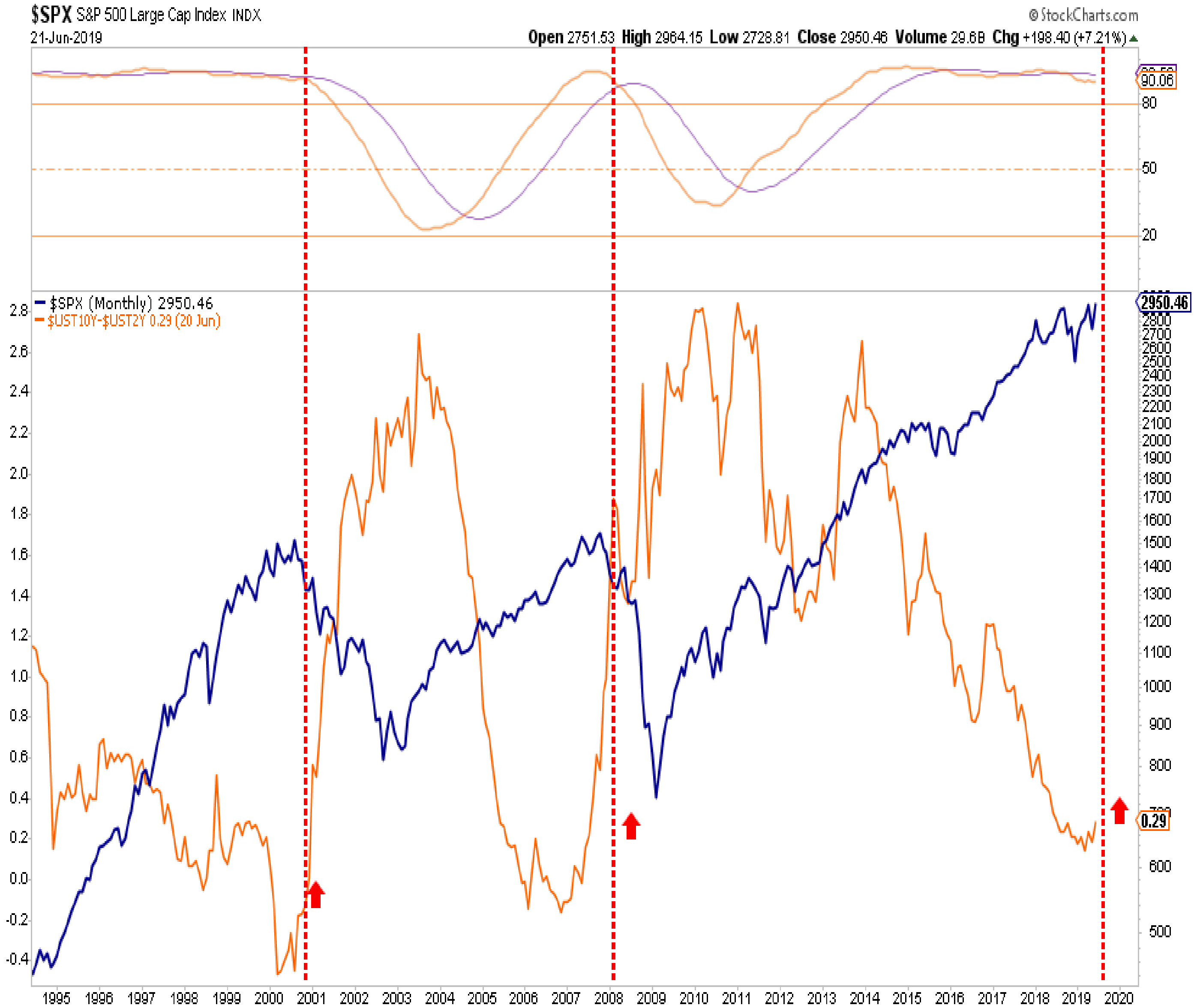
More importantly, just about every other major index is **NOT CONFIRMING** the S&P 500's new highs. Small, Mid, International, and Emerging Markets are all suggesting that something isn't quite right, and even the *"tech heavy"* Nasdaq has failed to set new highs so far.



So, what is pushing the S&P 500 index to new heights. It has primarily been the rotation into "*defensive positioning,"* which also suggests a "*risk off*" mood by investors. *(This rotation is something [we recommended to our clients in Mid-may]().)*



The risk is that the current breakout is another failed attempt in this 18-month long consolidation process. The chart below shows a more concerning backdrop. As noted above, it is when the 10-year less the 2-year yield spread starts to increase, combined with a monthly "sell signal," which as denoted major turning points in the market.&#2013266080;



Therefore, we don't recommend buying the breakout just yet.

Why aren't we getting more bearish in our positioning?&#2013266080;

Simply because the market has done nothing wrong as of yet.

If the market can breakout, and confirm new highs, then a push towards 3100 is likely.

However, such a move would only likely be temporary and would only serve to further inflate current overvaluation and extensions of the market. Such will exacerbate the expected decline in late summer and early fall.

We suggest maintaining a long-equity base in portfolios, but continue to carry both higher levels of cash and hedges against a pickup in volatility. *(We added Gold and Goldminers a couple of months ago for this very reason.)*

Stay long for now, but I would not get too comfortable.

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

&#2013266080; &#2013266080;

SPY RISK INFO ZACKS REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	21.01%	7.21%	17.64%	144.78%
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.75	0.51	3.26	5.41
Sortino	0.85	0.62	4.26	5.93
Volatility	13.97	15.39	12.79	(0.17)
Daily VaR-5%	(9.82)	(15.45)	23.12	(2.50)
Mnthly VaR-5%	(12.72)	(24.09)	(1.14)	(0.95)

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	1.86%	1.80%	1.85%	2.74%	2.18%	1.67%	(14.88%)	10.79%
P/E Ratio	20.55	20.36	18.29	(11.31%)	20.88	15.79	(12.4%)	15.80%
P/S Ratio	3.18	3.35	3.31	(1.17%)	3.57	2.55	(7.35%)	29.80%
P/B Ratio	3.61	3.90	4.08	4.52%	4.17	3.01	(2.21%)	35.60%
ROE	15.59%	16.67%	18.64%	10.54%	18.78%	14.99%	(0.78%)	24.29%
ROA	2.89%	3.12%	3.47%	10.05%	3.50%	2.81%	(0.87%)	23.59%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,429.9	2,385.4	(1.83%)
Sales	59,766	63,998	7.08%
SPS	24.6	26.8	9.08%
Earnings	8,446	9,551	13.07%
EPS TTM	4.1	4.9	17.87%
Dividend	1.5	1.6	9.32%

S&P 500 Asset Allocation

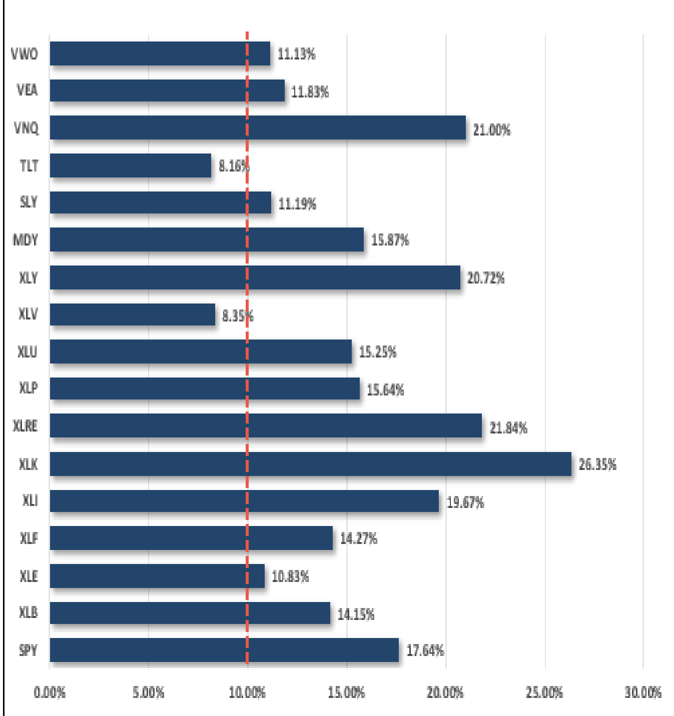
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(14.36%)	4.90%	1.20	16.77	156.27	12.49	(89.3%)	9.4%	3.6%	5.99%	3.65	14.15
Materials	(9.47%)	2.75%	1.24	14.88	22.97	13.86	(35.2%)	11.3%	2.0%	6.70%	4.53	15.18
Industrials	5.70%	9.31%	1.12	17.57	22.21	14.76	(20.9%)	16.2%	1.9%	5.66%	5.22	14.86
Discretionary	8.51%	10.29%	1.01	24.39	27.38	20.08	(10.9%)	28.9%	1.3%	4.09%	4.91	20.42
Staples	14.12%	7.30%	0.60	20.24	22.83	17.62	(11.3%)	27.1%	2.8%	4.93%	3.88	18.48
Health Care	11.14%	14.30%	0.87	17.21	20.62	15.93	(16.5%)	30.2%	1.7%	5.84%	6.53	14.67
Financials	0.52%	12.96%	1.25	13.06	18.42	11.68	(29.1%)	11.6%	2.1%	7.64%	5.83	11.18
Technology	14.70%	21.52%	1.24	21.01	21.83	14.47	(3.7%)	39.0%	1.5%	4.75%	5.26	18.32
Telecom	(6.18%)	10.17%	0.86	19.26	27.29	17.44	(29.4%)	17.6%	1.0%	5.23%	6.30	17.39
Utilities	24.13%	3.35%	0.33	20.60	20.31	15.58	1.4%	10.5%	3.2%	4.88%	3.61	18.18
Real Estate	17.48%	3.14%	0.74	20.54	24.47	17.10	(16.1%)	10.0%	3.1%	4.82%	4.29	19.28

Momentum Analysis

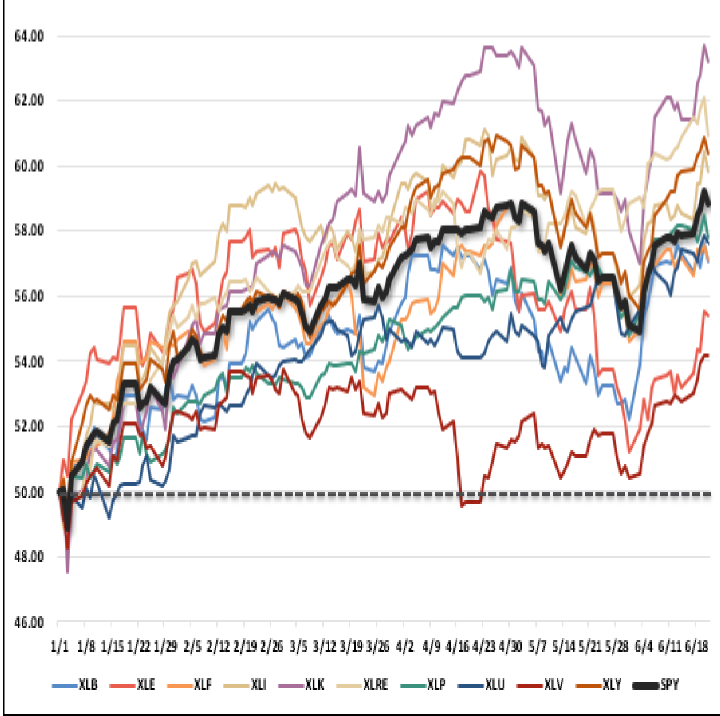
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	294.00	1.32%	287.56	11	2.24%	276.44	14	6.35%	4.02%	(0.78%)	25.77%	Buy
Mid Cap	350.71	(2.02%)	348.78	4	0.55%	340.44	13	3.02%	2.45%	(6.25%)	23.29%	Buy
Small Cap	66.68	(3.18%)	67.00	2	(0.48%)	67.19	2	(0.75%)	(0.28%)	(14.79%)	18.44%	Sell

Performance Analysis

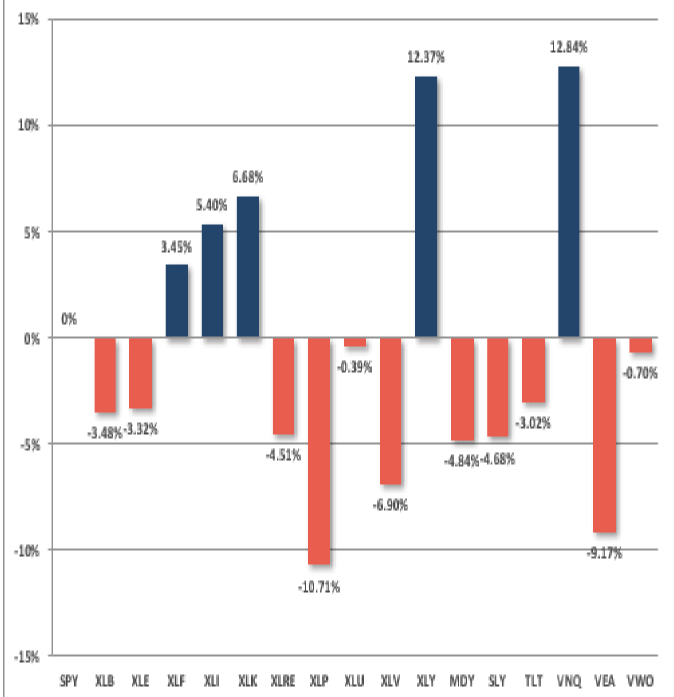
Year To Date Performance



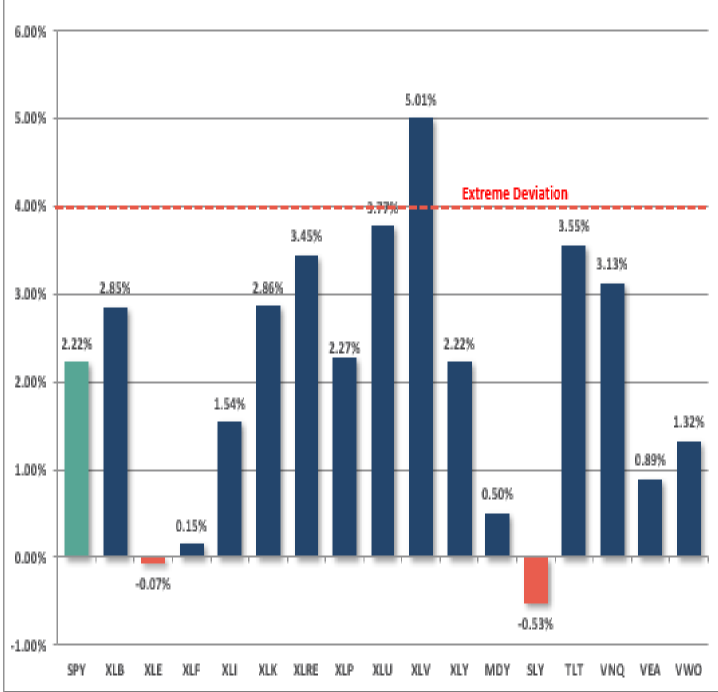
YTD Price - S&P Sectors Recalibrated To $50/share



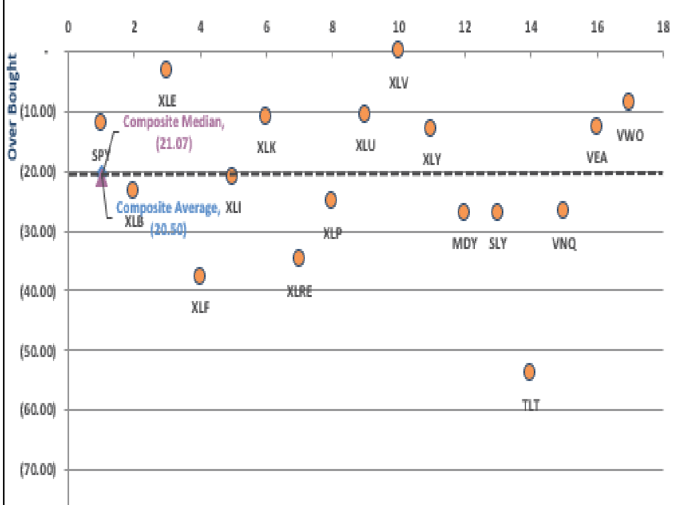
Year To Date Performance Relative To S&P 500

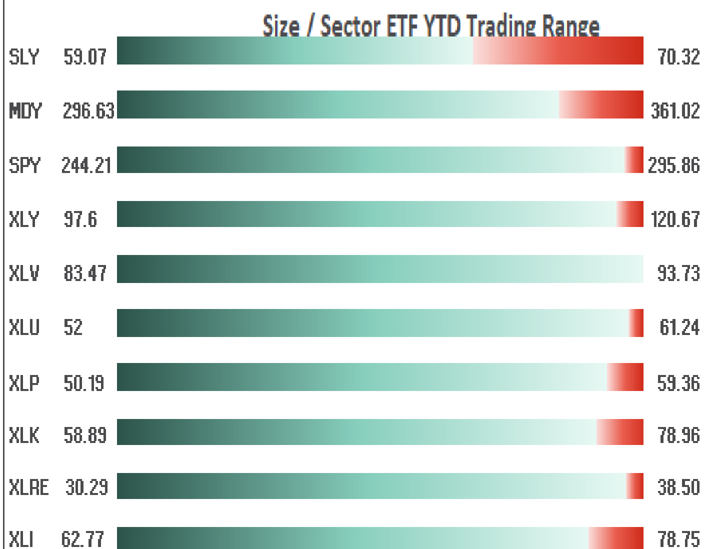


Price Deviation From 50-Day Moving Average

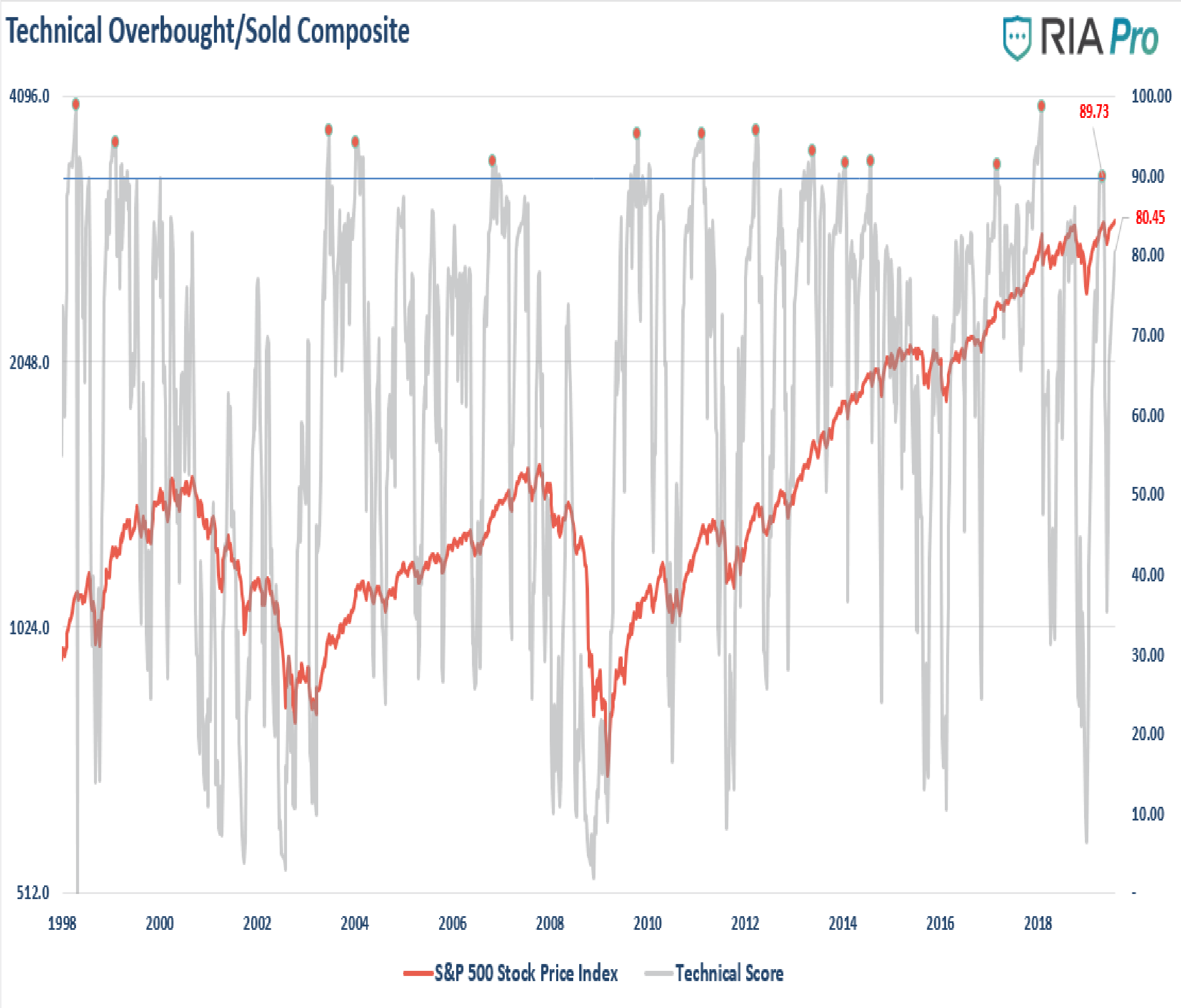


Overbought/Oversold 14-Periods





Technical Composite



ETF Model Relative Performance Analysis

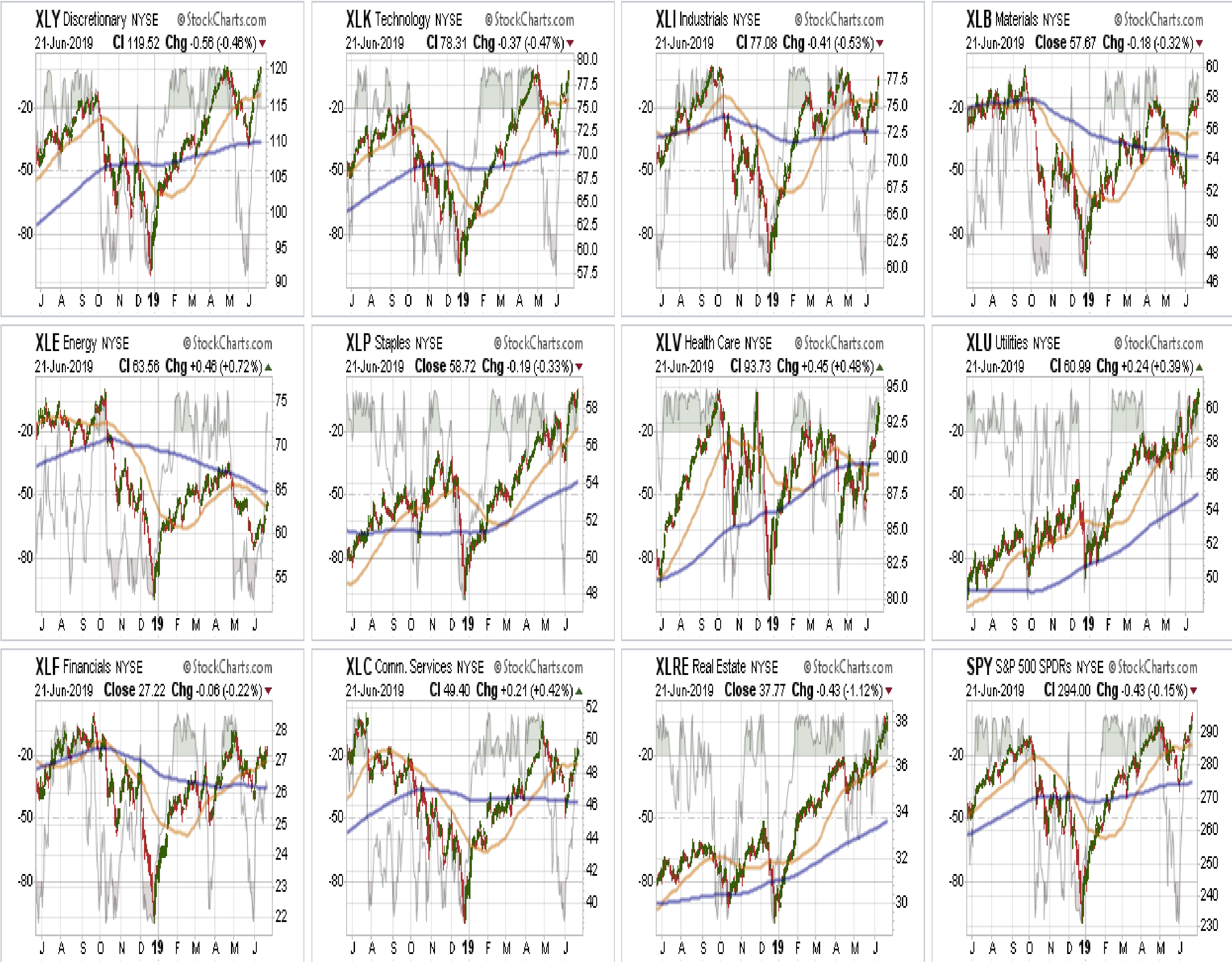
RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	295.57	1.48	3.80	3.87	16.34	6.36	288.90	277.03	2.31%	6.69%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	57.67	(1.83)	3.42	0.04	(3.88)	(7.81)	56.14	54.39	2.72%	6.04%	BUY
		XLE	SPDR-EGY SELS	63.56	2.70	(0.65)	(7.74)	(10.18)	(21.78)	64.26	64.07	-1.10%	-0.79%	BUY
		XLF	SPDR-FINL SELS	27.22	(1.56)	(2.46)	2.00	(4.14)	(5.81)	26.95	26.17	0.99%	4.02%	BUY
		XLI	SPDR-INDU SELS	77.08	0.73	0.68	(1.14)	1.97	(0.21)	75.82	72.65	1.66%	6.10%	BUY
		XLK	SPDR-TECH SELS	78.31	1.42	3.04	1.96	10.99	4.25	75.87	70.34	3.21%	11.33%	BUY
		XLP	SPDR-CONS STPL	58.72	(2.11)	(1.71)	0.78	(1.79)	7.37	57.04	55.01	2.95%	6.74%	BUY
		XLU	SPDR-UTIL SELS	60.99	(1.19)	(1.86)	0.98	(0.76)	13.82	58.61	56.38	4.06%	8.18%	BUY
		XLC	SPDR-COMM SV SS	49.40	1.18	(0.84)	1.75			48.46	46.12	1.93%	7.12%	BUY
		XLV	SPDR-HLTH CR	93.73	1.23	0.86	(1.71)	(7.30)	4.00	89.71	89.82	4.48%	4.35%	SELL
		XLY	SPDR-CONS DISCR	119.52	(0.61)	1.57	1.11	2.20	1.00	116.59	110.09	2.52%	8.56%	BUY
	SIZE	SLY	SPDR-SP SC 600	66.68	(0.08)	(1.62)	(3.85)	(7.33)	(16.56)	67.11	66.32	-0.63%	0.54%	BUY
		MDY	SPDR-SP MC 400	350.71	(0.38)	(0.63)	(2.33)	(1.86)	(9.40)	348.91	338.02	0.52%	3.76%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	107.93	0.36	0.46	(0.53)	0.14	(1.82)	105.61	101.63	2.20%	6.19%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	101.10	(1.16)	(1.36)	(2.17)	(3.81)	2.34	99.85	96.83	1.25%	4.41%	BUY
	Real Estate	XLRE	SPDR-RE SELS	37.77	(1.35)	(1.02)	0.41	6.53	10.54	36.46	34.55	3.60%	9.33%	BUY
	International	EEM	ISHARS-EMG MKT	42.77	2.58	3.26	(4.22)	(8.58)	(8.98)	42.44	41.60	0.79%	2.80%	BUY
		EFA	ISHARS-EAFE	65.37	(1.16)	(2.89)	(3.08)	(7.22)	(9.95)	65.40	63.41	-0.04%	3.09%	BUY
		IXUS	ISHARS-CR INT S	58.41	(0.08)	(1.25)	(3.28)	(7.20)	(10.23)	58.25	56.61	0.28%	3.18%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	131.43	(1.51)	(0.94)	0.08	(8.71)	2.68	126.43	121.94	3.96%	7.79%	BUY
	International	BNDX	VANGD-TTL INT B	57.18	(1.03)	(2.05)	(1.34)	(10.98)	(1.90)	56.05	55.24	2.01%	3.51%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	87.33	(0.28)	(1.83)	(2.87)	(10.34)	(4.71)	86.25	84.84	1.26%	2.94%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.49										

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



Improving - Healthcare

After having lagged for the last couple of months, our overweight bet on "healthcare" has begun to pay off as the anticipated rotation OUT of the previous leaders of Technology and Discretionary led to buying of underperforming assets like Healthcare. Stay long for now.&#2013266080;

Current Positions:&#2013266080;*Overweight XLV*

Outperforming -&#2013266080;Staples, Communications, Financials, & Utilities

As noted last week,

> *"Technology, Discretionary and Communications are on the verge of turning from outperformance to underperformance of the S&P 500 on a relative basis. While the rally in the market, as we discussed last week, continued for a second week in a row, it has been defensive positioning continuing the outperformance."*&#2013266080;

That rotation occurred this past week as our overweighted positions in Staples and Utilities continued to lead as money chased defensive sectors. We are maintaining our target portfolio weight in Financials for now. Take profits and rebalance across sectors accordingly.&#2013266080;

Current Positions:&#2013266080;*Overweight XLP, XLU, Target weight XLF*

Weakening - Technology, Discretionary, Real Estate, Industrials

Real Estate has continued to attract buyers particularly as interest continue to weaken. Performance improved again this past and Real Estate will likely move back into outperformance next week. We continue to carry our current weight in Real Estate, we also added to agency REIT's to out equity portfolio last week. We continue to looking for opportunities to overweight the sector. Industrials bounced this past week, but their relative performance continues to drag. We remain underweight industrials currently.&#2013266080;

As noted above the previous *"leaders"* are now lagging in terms of relative performance. Pay attention as this does not suggest the current breakout to new highs in the S&P 500 is sustainable.&#2013266080;

Current Position: *1/2 weight XLY, Reduced from overweight XLK, Target weight XLRE, 1/2 weight XLI*

Lagging - Energy, Materials

This economically sensitive sectors have held up okay this past week but continue to lag on a relative performance basis. For now, we are maintaining our "underweight" holdings in both energy and materials until the "trade war" with China passes.

Current Position: *1/2 weight XLE, XLB*

> ***IMPORTANT: The oversold condition that existed at the beginning of June has been fully reversed back to an extreme "overbought." Take some action to rebalance portfolio risk if you have not done so previously.***

We may have some follow through rally this week, but use any further rise to take action accordingly.&#2013266080;

Market By Market

Small-Cap and Mid Cap - While Mid-cap did break above it's 50-dma this past week, it is still confined to an overall downtrend and not confirming the recent highs in the S&P 500. Small-cap continues to perform even worse, which is logical, given its sensitivity to weaker economic environments. We will need to patient to see if there is any follow through. As noted, these sectors are mostly tied to the domestic economy and their lack of performance is concerning relative to the economic backdrop.&#2013266080;

Current Position:&#2013266080;*No position*

Emerging, International & Total International Markets

Both emerging and industrialized markets popped last week on rumors of more QE and lower interest-rates from the ECB. We were previously stopped out of our positions but will look to add some weight back to portfolios if the recent move back above the 50- and 200-dma can hold.&#2013266080;

Current Position: *No Position*

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.

The rally over the last three weeks has fully reversed the previous oversold condition. Make sure and rebalance weightings in portfolios if you have not done so already.

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

Gold ? With rates dropping sharply and deflationary pressures on the rise, Gold finally got a bid over the last couple of weeks. Last week, the Fed's comments on potentially cutting rates sent both Bonds and Gold soaring higher. Gold has provided a good hedge in our portfolios against the recent decline and a breakout above current levels would suggest substantially higher prices.&#2013266080;

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

Bonds&#2013266080;?

As noted above, Bonds soared higher last week on comments from the Fed which suggest the economic backdrop is much weaker than many believe. Bonds are EXTREMELY overbought, take some profits and rebalance weightings but remain long for now.

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

High Yield Bonds, representative of the *"risk on"* chase for the markets rallied sharply with the market this week as *"shorts*" were forced out of their holdings. Not surprisingly, the *"junk"* rally has taken the market from oversold back to extremely overbought. **Given the deteriorating economic conditions, this would be a good opportunity to reduce *"junk rated"* risk and improve credit quality in portfolios.&#2013266080;**

> **IMPORTANT: The oversold condition has been fully reversed. Take action if you have not done so.**

Sector / Market Recommendations

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	OB	Positive	Positive	Hold			X			Testing Highs
XLK	Technology	OB	Positive	Positive	Hold			X			Testing Highs
XLI	Industrials	OB	Positive	Neutral	Hold			X			Broke Above 50-DMA
XLB	Materials	OB	Positive	Neutral	Hold			X			Extreme Overbought
XLE	Energy	OB	Negative	Negative	Hold			X			Testing Resistance
XLP	Staples	OB	Positive	Positive	Hold			X			Extreme Overbought
XLV	Health Care	OB	Negative	Neutral	Hold			X			Testing Highs
XLU	Utilities	OB	Positive	Positive	Hold			X			Extreme Overbought
XLF	Financials	OB	Positive	Neutral	Hold			X			Testing April Resistance
XLC	Telecom	OB	Positive	Neutral	No Position					X	Broke Above 50-DMA
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Extreme Overbought
SLY	Small Caps	Neutral	Negative	Negative	No Position					X	Testing 200-DMA
MDY	Mid Caps	Neutral	Positive	Neutral	No Position					X	Broke Above 50-DMA
EEM	Emerging Mkt	Neutral	Positive	Negative	No Position					X	Broke Above 50-DMA
EFA	International	Neutral	Positive	Negative	No Position					X	Broke Above 50-DMA
IXUS	Total International	Neutral	Positive	Negative	No Position					X	Broke Above 50-DMA
GLD	Gold	OB	Positive	Neutral	Hold			X			Broke Out To Higher Levels
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Testing Highs
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Testing Highs
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Testing Highs
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Extreme Overbought
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Extreme Overbought
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position					X	Extreme Overbought

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

Portfolio/Client Update:

No change this past week. Despite the market testing highs, as noted in the main body of this missive, **it is NOT confirmed by other major markets**. Also, with the yield spread widening in conjunction with a monthly *"sell"* signal, historical outcomes for excessive risk exposure have not been kind.&#2013266080;

HOWEVER, with that said, we do realize markets are rising and that we need to take in participation when we can. Therefore, we will opportunistically look for areas we can add money too to participate without taking on excessive risk. As noted at the beginning of May. 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 for managing uncertainty. Such remains the case again this week.&#2013266080;

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;

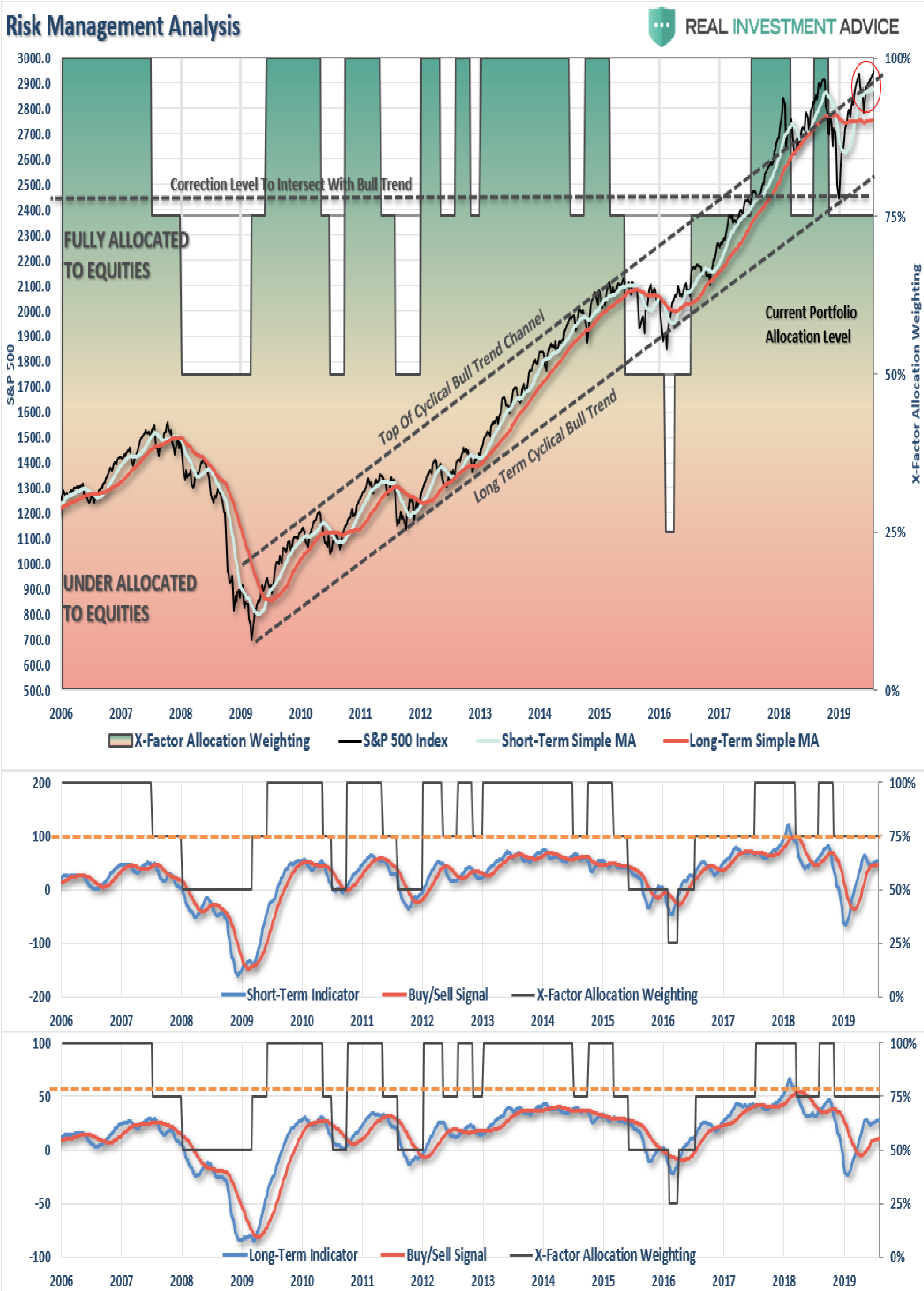
- **New clients:** *Our onboarding indicators have reversed back to "risk on"* ***so new accounts will be onboarded selectively into their models where risk can be controlled.*** *Positions that were transferred in are on our global review list and being monitored. We will use this rally to liquidate those positions to raise cash to transition into the specific portfolio models.*
- ***Equity Model:*** *No changes this past week.&#2013266080;*
- ***ETF Model****: We overweighted our exposure to defensive areas by adding Real Estate and overweighting Staples and Utilities. We are looking at adding an agency REIT ETF (REM) to our portfolios in the coming week as we did with the equity portfolio.&#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



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

Will New Highs Stick

I encourage you to read the main body of this week's missive.&#2013266080;

However, in a nutshell, while the S&P 500 hit new highs this past week, all of the other major markets didn't, including the technology heavy Nasdaq which has led the market all year. Leadership is important.&#2013266080;

While the breakout to new highs on Thursday was positive, we will need to see them hold through next week before considering taking on additional risk exposure.&#2013266080;

July and August tend to be challenging months for the market, so we want to be careful, particularly with the economic backdrop weakening and bond yields dropping so sharply.&#2013266080;

Take the following actions on Monday.

- *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. Have a plan in place in case new highs fail to hold.*
- *If you are* ***underweight equities or at target -&#2013266080;****rebalance risks, look to increase cash rather than buying bonds at the moment, and use the current rally to rotate out of small, mid-cap, emerging, international markets.&#2013266080;*

Lastly, the markets are back to extremely overbought conditions, this is a good time to take some action and clean up areas of your portfolio which have not been performing well.&#2013266080;

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

401k Plan Manager Beta Launch Coming

Thank you for all the emails of plans. We have been imputing them into the 401k plan manager *(we are going to roll out the beta shortly with a few samples for testing purposes.)&#2013266080;* We are currently covering more than 10,000 mutual funds initially, and are adding ETFs and Stocks hopefully in time for the beta test.

Our "live" 401k plan manager which will soon be available to **RIA PRO subscribers** **for the beta test.**

Once we have the bugs located, we will roll it out to new users. If you want to be part of the beta, you can **subscribe to RIA PRO and get your first 30-days free.** 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:

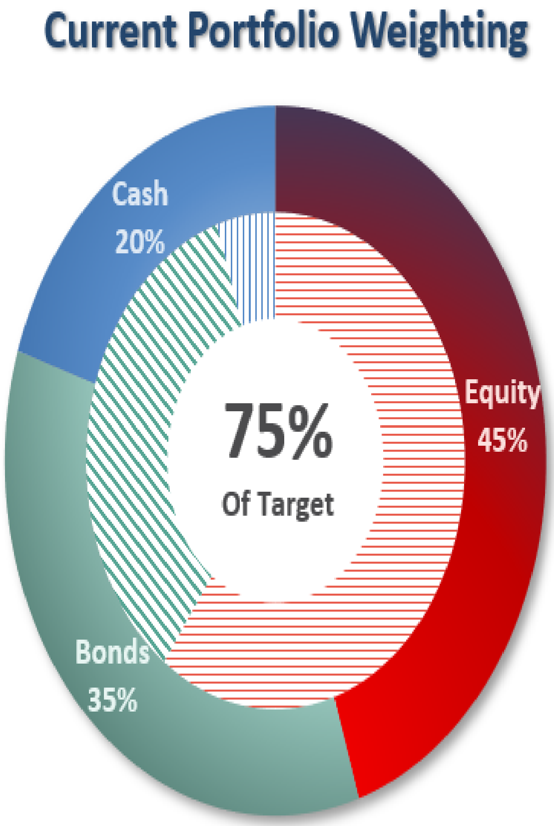
- Name of company
- Plan Sponsor
- A print out of your plan choices. *(Fund Symbol and Fund Name)*

I have gotten quite a few plans, so keep sending them and I will include as many as we can.&#2013266080;

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.)***



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