

## RIA PRO: S&P 3300 - The Bull Vs. Bear Case

# S&P 3300



Real Investment Report

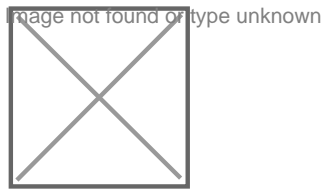
# The Bull Vs. Bear Case



- 
- *Review & Market Update*
  - *The Case For 3300*
  - *Sector & Market Analysis*
  - *401k Plan Manager*

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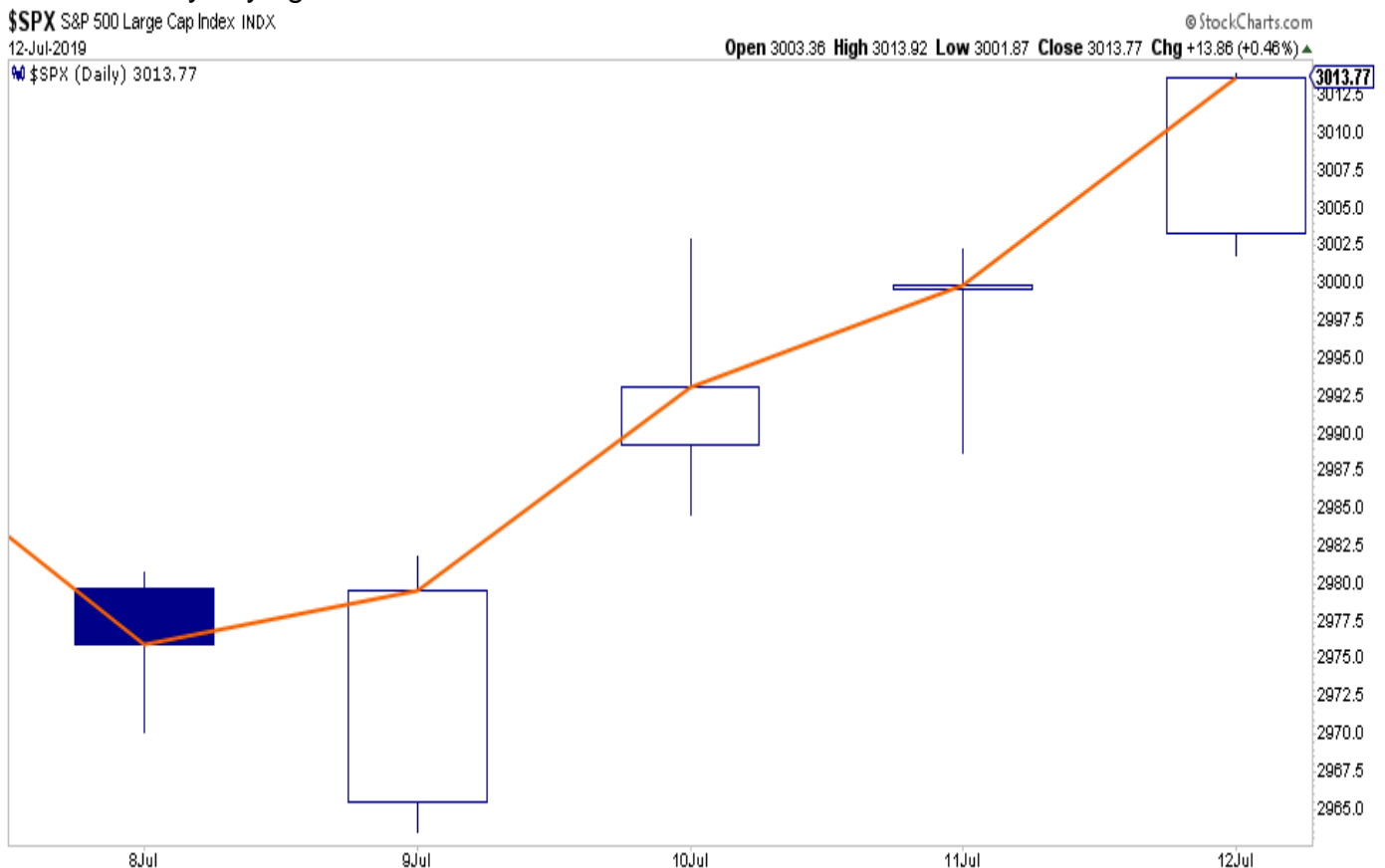


## Market Review & Update

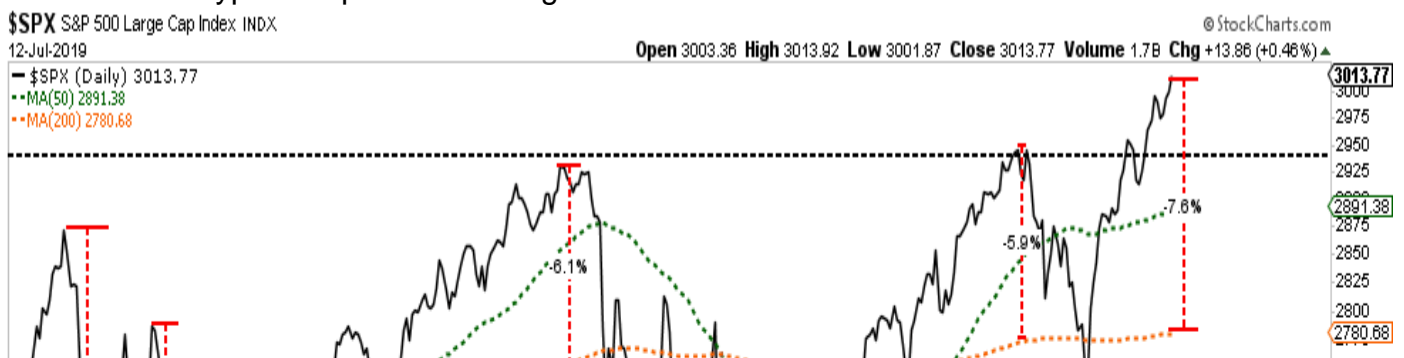
We had suggested [last week](#) that:

*"With a majority of short-term technical indicators extremely overbought, look for a correction next week. What will be important is that any correction does not fall below the early May highs."*

Monday and Tuesday were indeed a bit sloppy, as shown below, but "fireworks" started on Wednesday as Jerome Powell said everything possible to ensure Wall Street a "rate cut" in July without actually saying so.



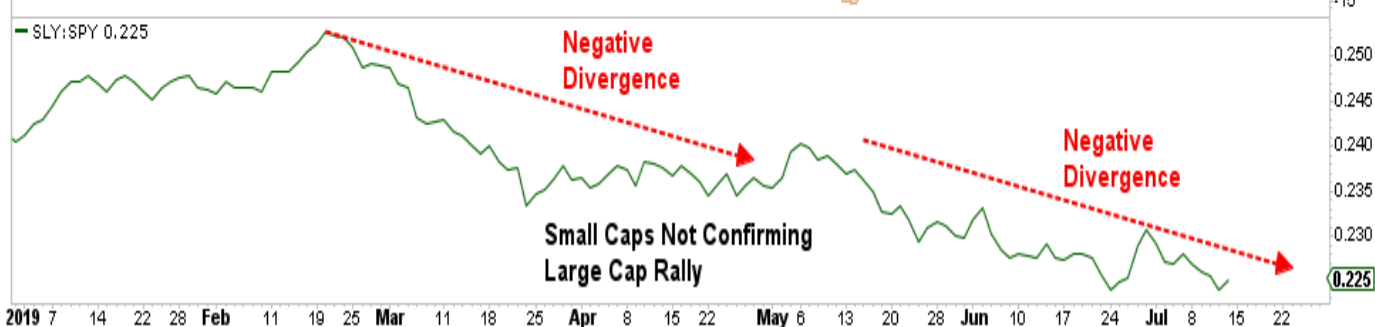
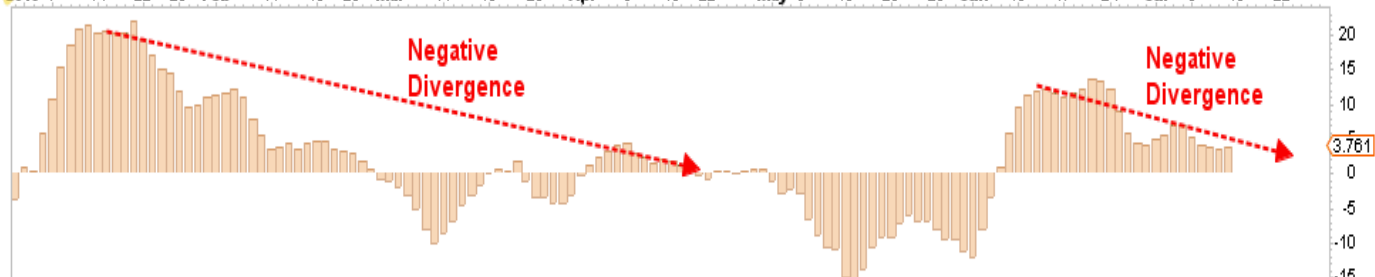
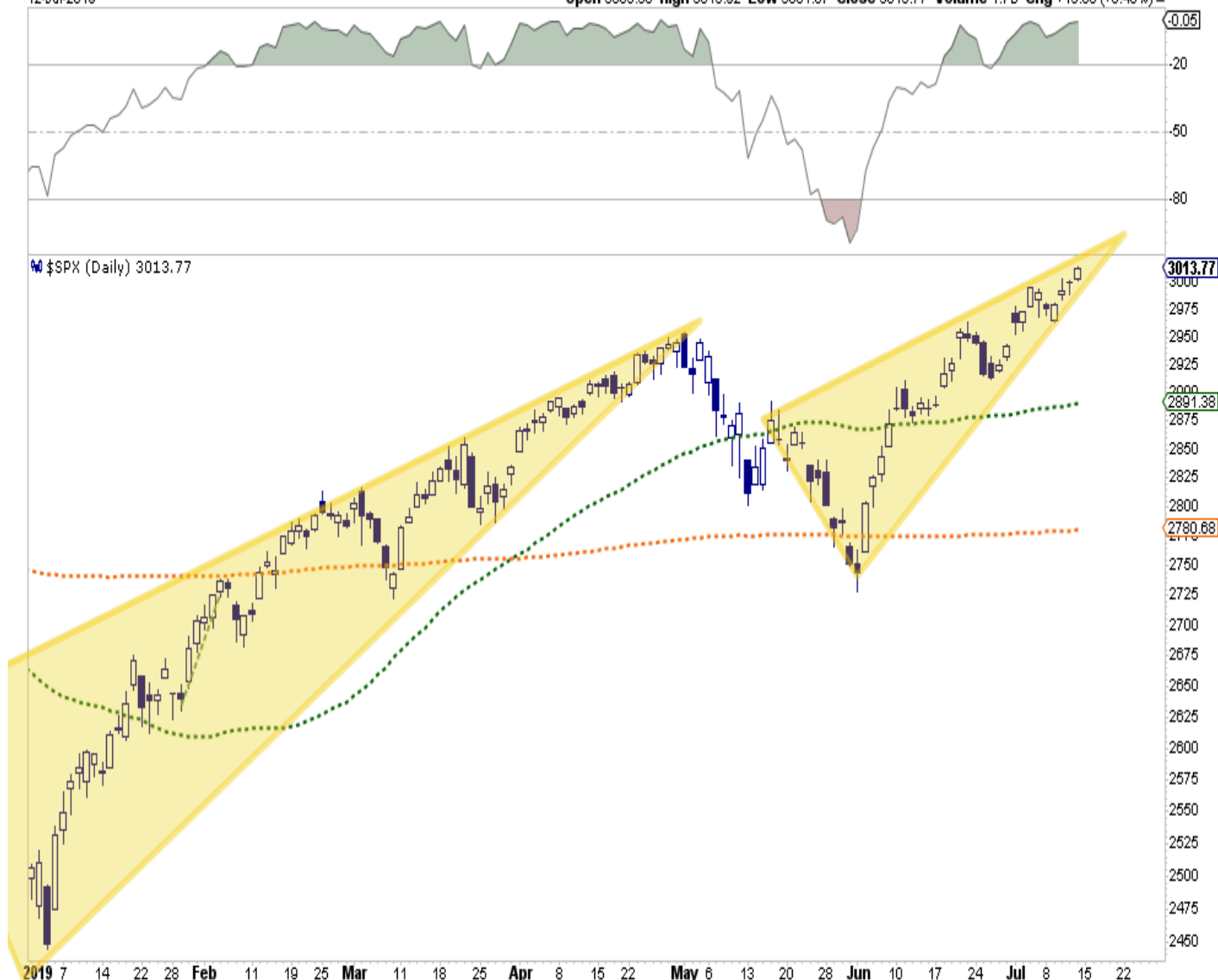
As we will discuss in a moment, almost 18-months after I originally discussed it, the market finally cleared the psychological level of 3000. That is the good news. The "not-so-good" news is the market continues to rally into a more extreme overbought condition with a rather extreme deviation above the 200-dma. Also, the negative-divergences in indicators which suggest further upside to the current rally may be limited. In particular, the divergence between small-cap and large-cap performance is typical of periods leading to corrections.



\$SPX S&P 500 Large Cap Index INDX  
12-Jul-2019

© StockCharts.com

Open 3003.36 High 3013.92 Low 3001.87 Close 3013.77 Volume 1.7B Chg +13.86 (+0.46%) ▲



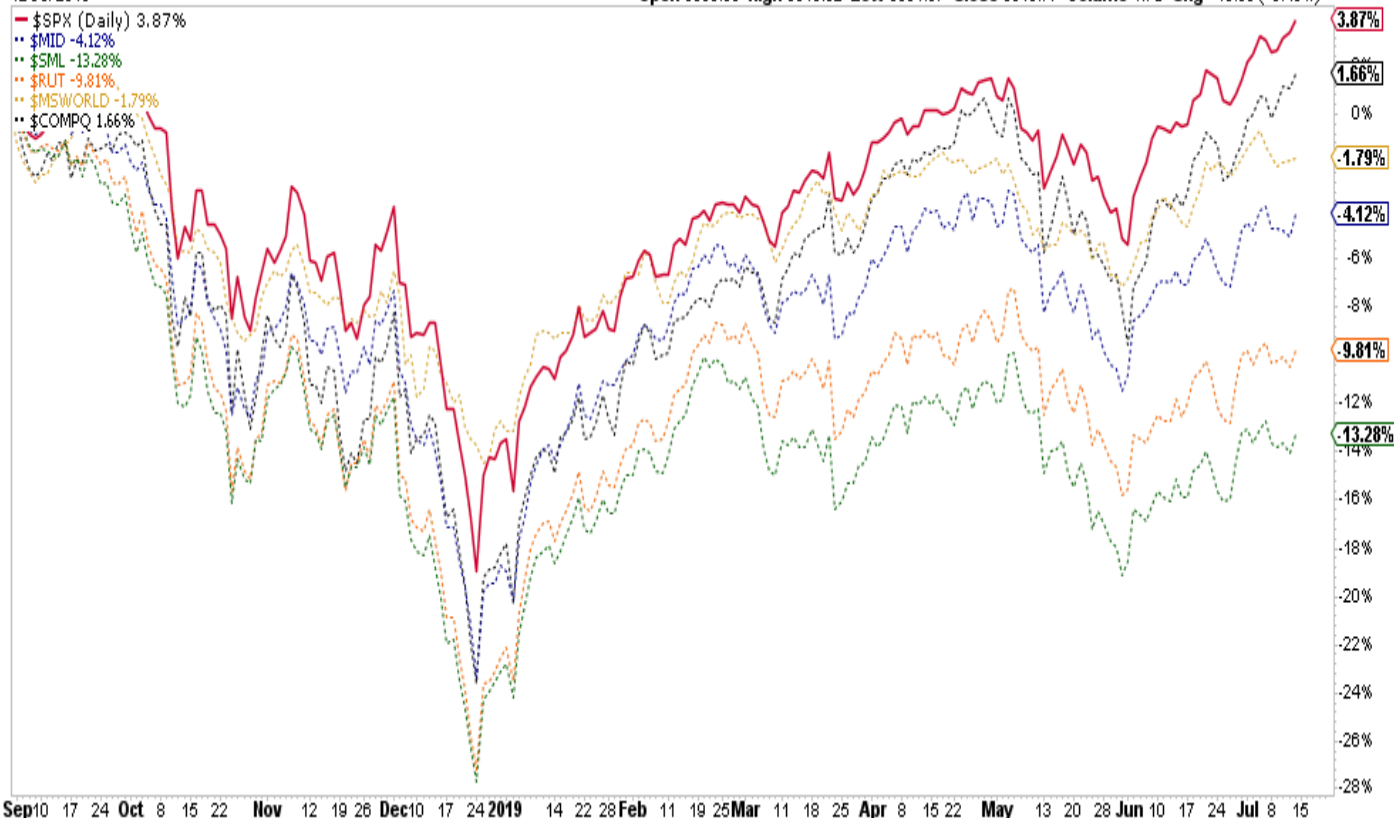
Also, since the September peak in the market, every other major index is lagging the performance of the S&P 500 index which suggests a narrower rally.

\$SPX S&P 500 Large Cap Index INDX

12-Jul-2019

Open 3003.36 High 3013.92 Low 3001.87 Close 3013.77 Volume 1.7B Chg +13.86 (+0.46%)

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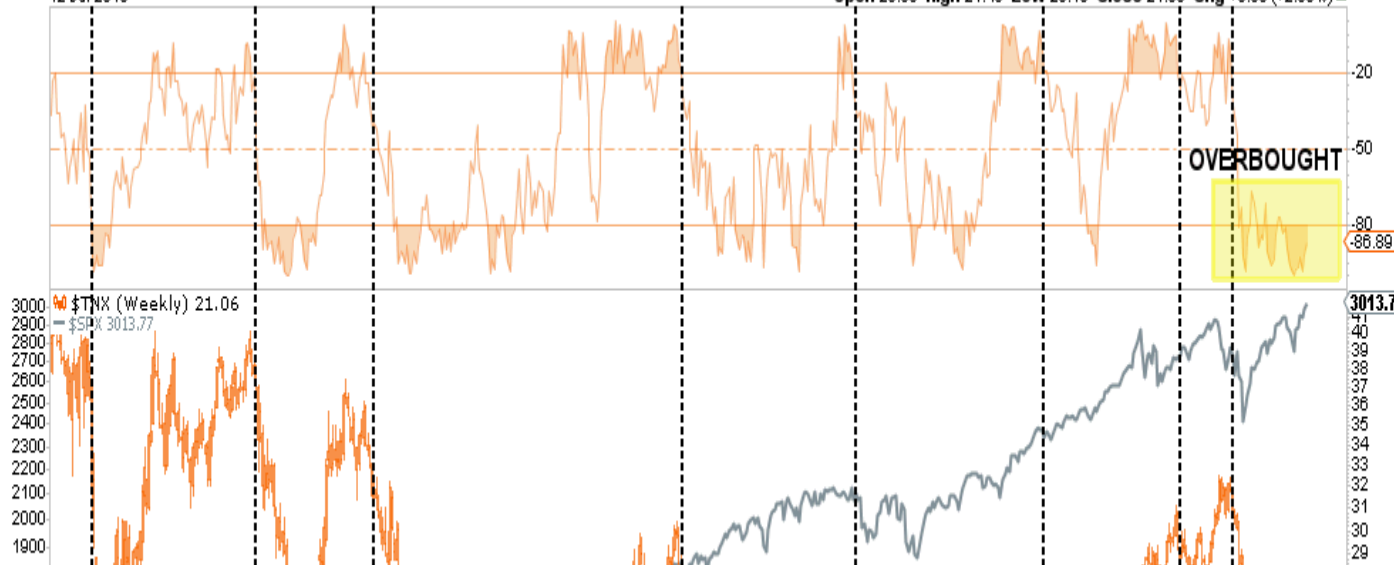
With that said, the markets are on a *"buy signal,"* which suggests further upside is likely in the near-term. This is why we continue to maintain our long-equity bias for now. However, once we get past the end of the month, and assuming the Fed does indeed cut rates and no *"trade deal"* with China, the markets will return their focus to economics and earnings. As we said last week, such continues to suggest the August/September time frame for a larger corrective cycle is still in play. **Bonds Retreat** My colleague Patrick Hill asked me to address the retreat in bond prices over the last week or so. While many are assigning a variety of reasons for the recent reversal in rates including a resurgence on inflationary pressures, Central Bank demands, to a lack of buying by foreigners, I think the reason is much more simplistic. Ever since rates spiked up to 3.25% at the beginning of 2018, [we have repeatedly been discussing](#) why rates would fall, and economic weakness and deflation would be the driver. Such has indeed been the case, and our long-bets on bonds have paid off nicely. However, bonds are also a *"safety"* trade in times of uncertainty. The rotation from *"risk" to "safety"* has been THE trade since September of last year and rates, as I have discussed over the last several weeks, had become *"egregiously"* overbought. **A correction was inevitable as money began chasing equities on hopes of a Fed rate cut.** However, as shown below, we need to keep the recent reversal in the context of the broader move. It is kind of hard to spot.

\$TNX CBOE 10-Year US Treasury Yield INDX

12-Jul-2019

Open 20.30 High 21.48 Low 20.13 Close 21.06 Chg +0.58 (+2.83%)

© StockCharts.com



**This sell-off in bonds WILL provide another terrific buying opportunity most likely by the end of July.** Look for rates to retrace back to previous resistance between 2.4% to 2.6%. Also, it is advisable to increase the duration of bond holdings for the yield curve steepening, which will occur as the economy slips closer to the recession. That is how we are playing it. So, let's talk about S&P 3300!



**REAL  
INVESTMENT  
ADVICE**

**Are your investments prepared  
for the next bear market?**

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CONSULTATION  
TODAY**

## The Case For 3300

It only took eighteen-months longer than expected, but the markets finally reached 3000 on the S&P 500 index this past week.

***"What do you mean 'expected?' You are always bearish."***

I am just going to save our ***"reading impaired"*** individuals some time by reminding them of what I wrote in [January of 2018](#):

*"While the record-breaking pace is certainly breathtaking, it should not be surprising as we discussed in the [June 9th, 2017](#) edition of the weekly newsletter. ?  
**Let me state this VERY clearly. The bullish bias is alive and well, and a move to 2500 to 3000 on the S&P 500 is viable. All that will be needed is some piece of legislative agenda from the current administration, which provides a positive surprise.**  
However, without a sharp improvement in the underlying fundamental and economic backdrop soon, the risk of something going wrong is rising markedly. **The chart below shows the Fibonacci run to 3000 if 'everything goes right.'?***



*Of course, that piece of legislative agenda was 'tax reform.' With investors now betting on a [sharp rise in earnings to reduce the current levels of overvaluation](#), the seems to be little in the way of the next major milestones for 30,000 for the Dow and 3000 for the S&P 500."*

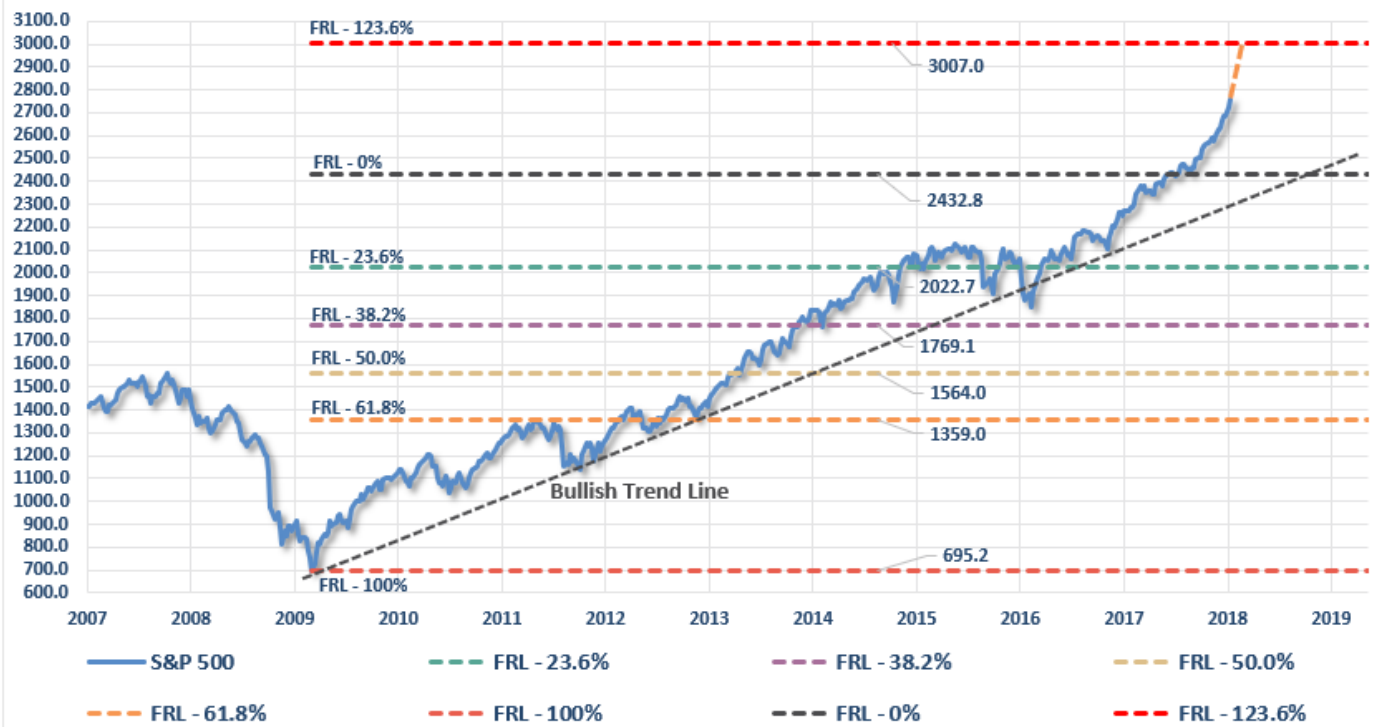
In March, we followed up that post stating:

*"Since that time, tax cuts/reform have been passed, earnings estimates have exploded higher, and corporate stock buybacks have surged to record levels while wage growth has remained non-existent for the bottom 80% of workers. Not surprisingly, with those tailwinds, the market has pushed sharply higher towards our original target of 3000."*

As we know now, the market wound up following our [mid-2017](#) accelerated projection trend.



## Projecting The Bull & Bear Market



So, here we are 18-months later, and the market finally hit 3000. What is interesting, however, is the advance to 3000 incorporated both the original bull and bear projections. The 20% slide from the September highs came on concerns the Fed was tightening too aggressively as Trump's "trade war" took a bite out of economic growth and profitability. The subsequent rally back, which brutally reminded investors what "volatility" is, was based on "hope" that Trump would find a resolution with China and the Fed would cut rates. Neither has happened yet, but the markets remain hopeful.

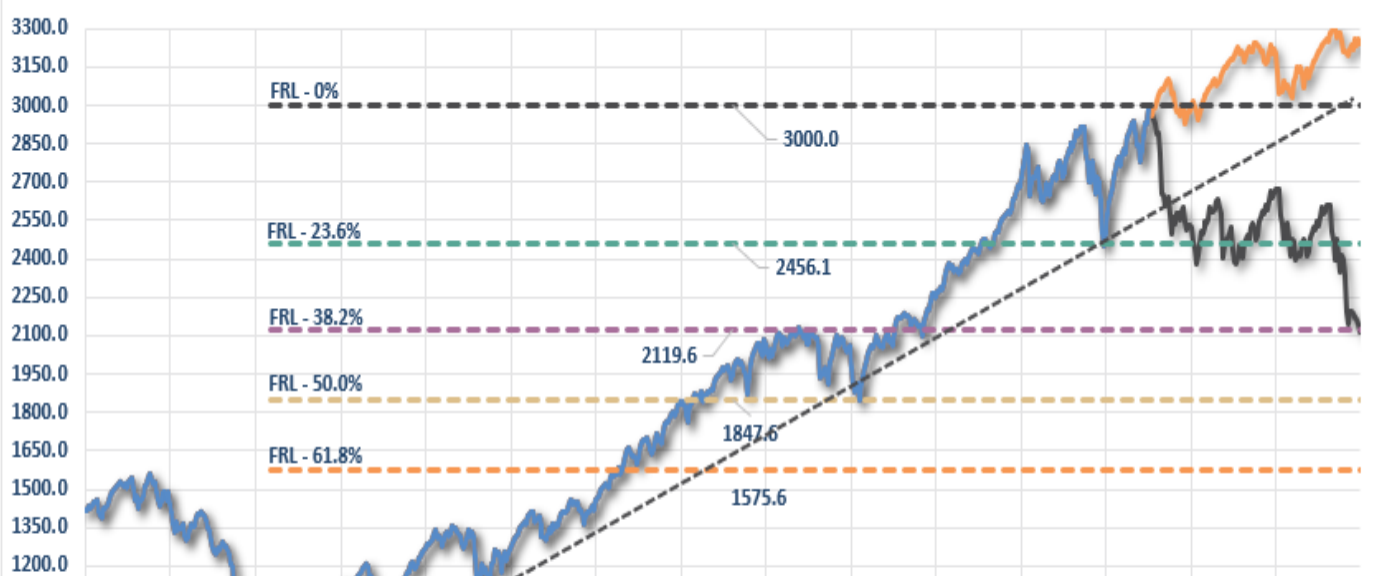
***"But you missed out on the whole rally because you have been all in cash."***

Again, for those that cannot read more than 280-characters at a time:

***"Portfolios have remained allocated toward equities, although we did shift to more defensive holdings earlier this year. We had also been aggressive buyers of bonds at 3% and higher on the 10-year bond which has added to portfolio performance this year. "***

**The Bull & Bear Case** As we face down the last half of 2019, we can once again run some projections on the bull and bear case going into 2021, as shown in the chart below:

## Projecting The Bull & Bear Market



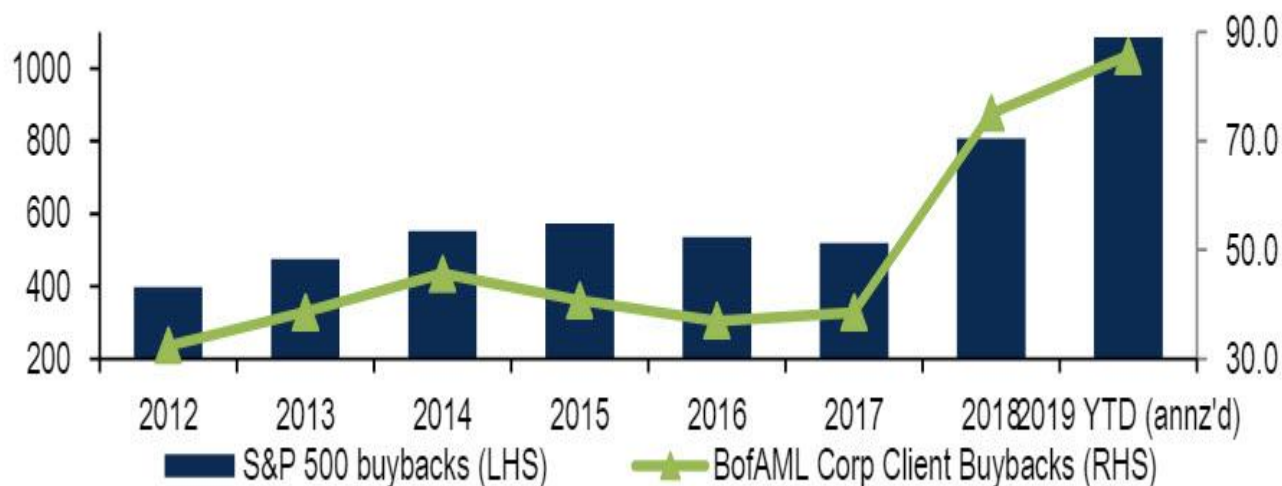
Let us break down both potential pathways into the "bull" and "bear" case. **The Bull Case For 3300**

- *Momentum*
- *Stock Buybacks*
- *Fed Rate Cuts*
- *Stoppage of QT*
- *Trade Deal*

Price momentum has been in control of the markets over the last several months. Given that "*an object in motion, tends to stay in motion,*" momentum is a hard thing to stop without a bigger event triggering a reversal in investor attitudes. While Fed rate cuts, and stopping QT, will be seen as "*accommodative*" to asset prices, the "*efficacy*" of monetary policy has likely reached its limits. We have a decent understanding this is likely the case given that nearly 100% of all "*net new equity purchases*" have come from share buybacks in recent years. As I [wrote last week](#)

*"So, how is it that stocks remain near record highs? The primary culprit, [as discussed previously](#), remains corporate buybacks which remain the primary source of market support in 2019. This is especially the case after US banks announced \$129 bn in buybacks over the next 4-quarters. Buybacks, according to BofA, are on pace for a record at \$43B so far this year versus just \$75B for the entirety of 2018. **This suggests a record of over \$1 trillion in S&P 500 buybacks for 2019.**"*

Chart 1: BofAML corporate client buybacks (through 1H19, annualized) vs. S&P 500 gross buybacks (2012-2018, and 2019 projection based on BofAML corp. client buybacks)



Source: Bank of America Merrill Lynch, BofAML US Equity & Quant Strategy, Haver Analytics

A "*Trade Deal*" will also be helpful as it will take the pressure off of bottom-line corporate earnings. As J.P. Morgan's chief equity strategist Dubravko Lakos-Bujas recently [told MarketWatch](#):

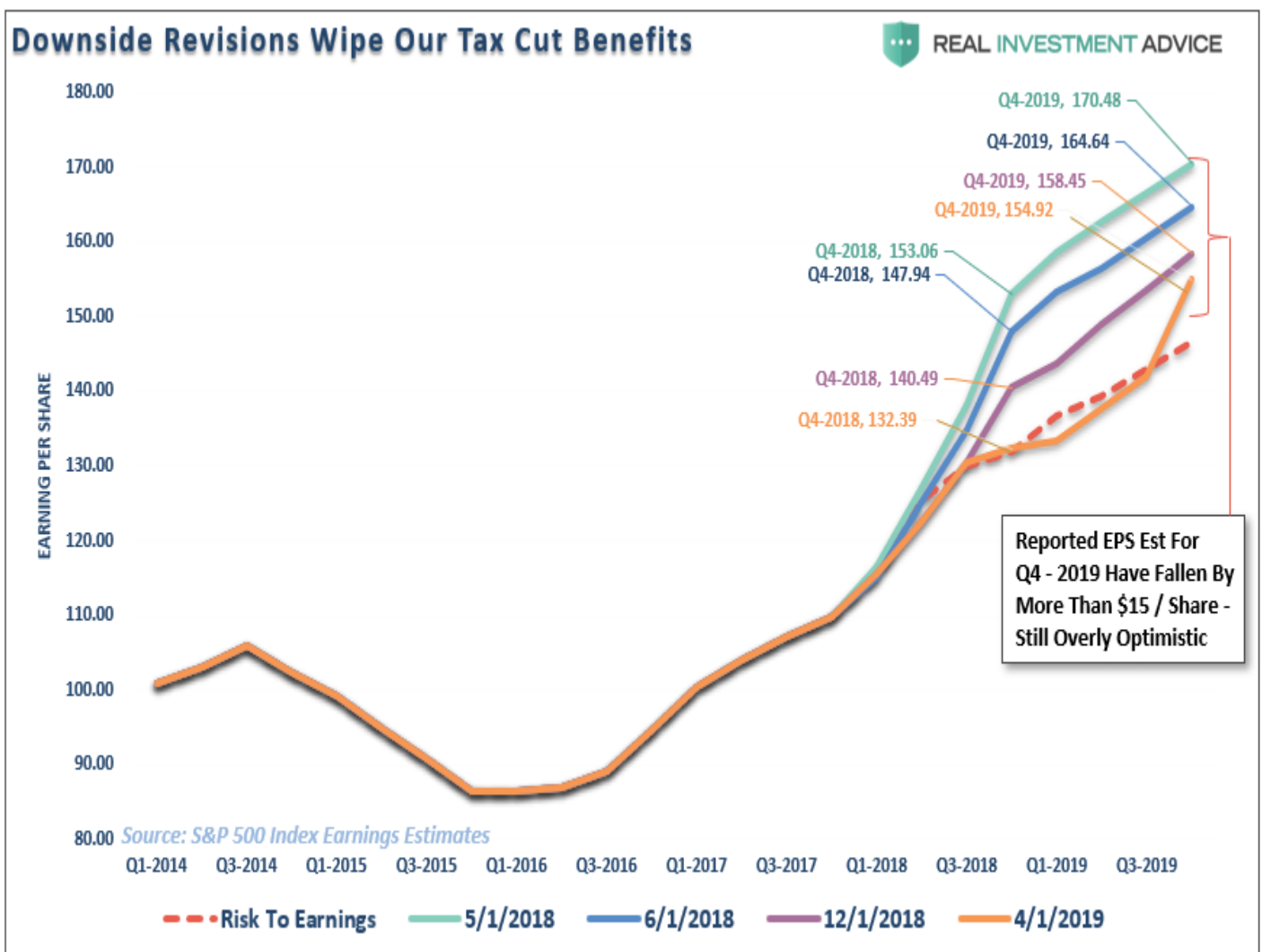
*"If you have a trade deal, and if the trade deal coincides with one or two rate cuts from the Fed, we see an upside scenario of 3,200-3,300."*

Yep, the same number we came up with. **However, as investors, we must also analyze what could go wrong and derail our investment strategy.** Unfortunately, the "*bearish*" case has "*sharper teeth*" to it. (Yes, *pun intended.*) **The Bear Case Against 3300**

- Earnings Deterioration
- Recession
- No Trade Deal/Higher Tariffs
- Credit Related Event (Junk Bonds)
- Mean Reversion
- Volatility / Loss Of Confidence

Earnings have already deteriorated markedly since 2018, as [I discussed previously](#).

**"However, the red dashed line denotes an 11% reduction to those estimates due to a 'trade war' where an across-the-board tariff of 10% on all US imports and exports would lower 2018 EPS for S&P 500 companies; and, thus, completely offset the positive fiscal stimulus from tax reform. Surprise! As of the end of the Q4-2018 reporting period, guess where we are? Exactly 11% lower than where we started which, as stated then, has effectively wiped out all the benefit from the tax cuts."**



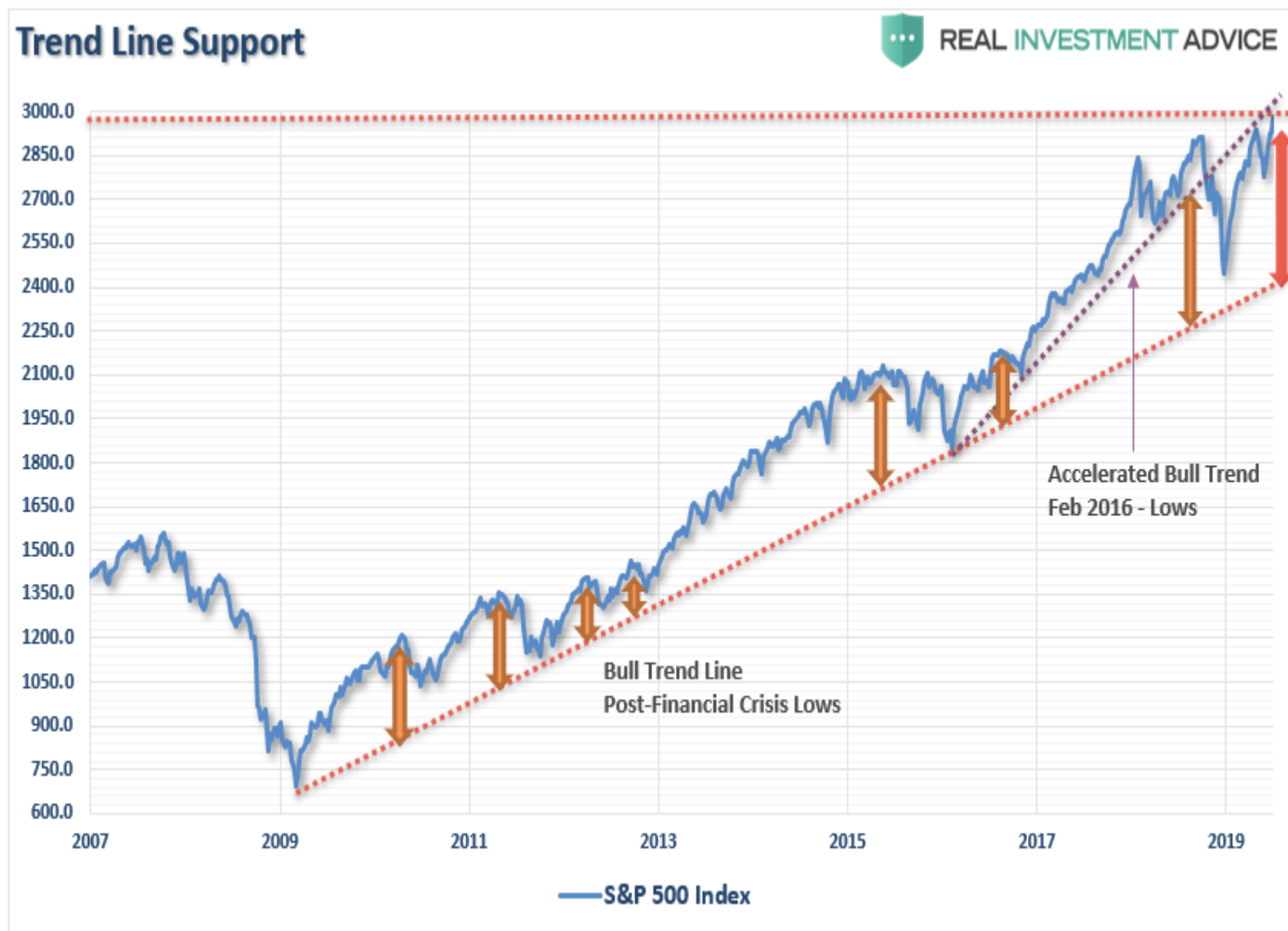
Since then, 2019 earnings have been downgraded substantially. As [Ian Harnett](#), chief investment strategist at Absolute Strategy Research recently noted:

*"We do not think insurance cuts will be enough, we think earnings growth is not going to be 7% this year, it is going to be -5%, and maybe even -10. We are looking at these recession risk models rising, credit impulse numbers in the states are weak, that tends to bring unemployment up and tends to bring equity markets down."*

Given there has been no "trade deal" as of yet, the increase in tariffs in June to 25% have



yet to show up in reports just yet, and global growth slowing, there is an elevated risk of an **"earnings recession" currently**. There is also just the simple issue that markets are very extended above their long-term trends, as shown in the chart below. A geopolitical event, a shift in expectations, or an acceleration in economic weakness in the U.S. could spark a mean-reverting event which would be quite the norm of what we have seen in recent years.



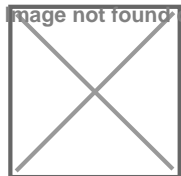
Then there are the tail-risks of a credit-related event caused by a dollar funding shortage, a banking crisis (Deutsche Bank), or a geopolitical event, or a surge in defaults on "leveraged loans" which are twice the size of the "sub-prime" bonds linked to the "financial crisis." ( [Read more here](#)) **Just remember, bull-runs are a one-way trip.** Most likely, this is the final run-up before the next bear market sets in. However, where the "top" is eventually found is the big unknown question. We can only make calculated guesses. Currently, the "math" suggests there are just 200 points of upside to our next target, but there is roughly 800-points of downside. Be careful how you bet; these are odds that Vegas would love to give you. I know. I know. It is easy to get wrapped up in the bullish advance. However, **it is worth remembering that making up a loss of capital is not only hard to do, but the time lost cannot.** The point is while the media, and bulk of the commentary continue, to *urge you to ride the bull,* they are not going to tell you when to get off. **Moreover, when the ride does come to an end, the media will ask first why no one saw it coming?? Then they will ask why YOU did not see it coming when it so obvious.** In the end, being right, or wrong, does not affect the media as they are not managing your money. Nor are they held responsible for consistently poor advice. **However, being right, or wrong, has a very big effect on you. Let me repeat for all of those who continue to insist I am bearish and somehow am missing out on the bull market advance:**

*?While our portfolios remain long currently, we do so with hedges and stops in place, a thorough methodology of analysis, and a strict investment discipline we follow to mitigate the risk of long-biased exposure. In other words, whenever the market does turn, we will sell and move to cash.?*

**If you are going to ride this bull, make sure you do it with a strategy in place for when, not if, you get thrown.**

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## Tending The Garden

Here are some guidelines to follow. **It is worth remembering that portfolios, like a garden, must be carefully tended to otherwise the bounty will be reclaimed by nature itself.**

- *If fruits are not harvested (profit taking), they rot on the vine.*
- *If weeds are not pulled (sell losers), they will choke out the garden.*
- *If the soil is not fertilized (savings), then the garden will fail to produce as successfully as it could.*

So, as a reminder, and considering where the markets are currently, here are the rules for managing your garden:

1) **HARVEST: Reduce winners back to original portfolio weights.** This does NOT mean sell the whole position. You pluck the tomatoes off the vine, not yank the whole plant from the ground. 2) **WEED: Sell losers and laggards and remove them from the garden.** If you do not sell losers and laggards, they reduce the performance of the portfolio over time by absorbing nutrients that could be used for more productive plants. The first rule of thumb in investing *sell losers short.* 3) **FERTILIZE AND WATER: Add savings on a regular basis.** A garden cannot grow if the soil is depleted of nutrients or lost to erosion. Likewise, a portfolio cannot grow if capital is not contributed regularly to replace capital lost due to erosion and loss. If you think you will **NEVER LOSE money** investing in the markets then STOP investing immediately. 4) **WATCH THE WEATHER: Pay attention to markets.** A garden can quickly be destroyed by a winter freeze or drought. Not paying attention to the major market trends can have devastating effects on your portfolio if you fail to see the turn for the worse. As with a garden, **it has never been harmful to put protections in place for expected bad weather that did not occur.** Likewise, a portfolio protected against *risk* in the short-term, never harmed investors in the long-term.

With the overall market trend still bullish, there is little reason to become overly defensive in the very short-term. However, I have this nagging feeling that the *spring*

&#2013266080;is now wound so tightly, that when it does break loose, it will likely surprise most everyone. Just something to think about. If you need help or have questions, we are always glad to help. [Just email me.](#) See you next week.

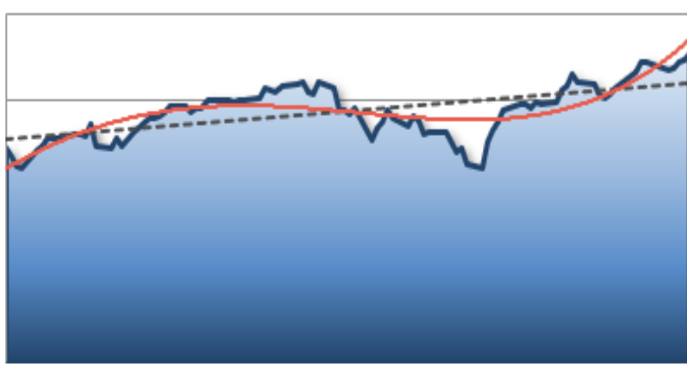
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# Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

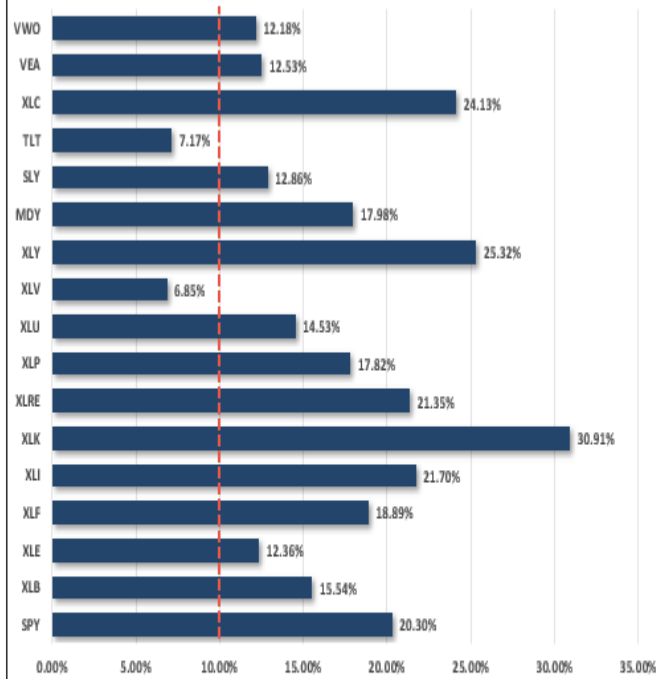
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## S&P 500 Tear Sheet

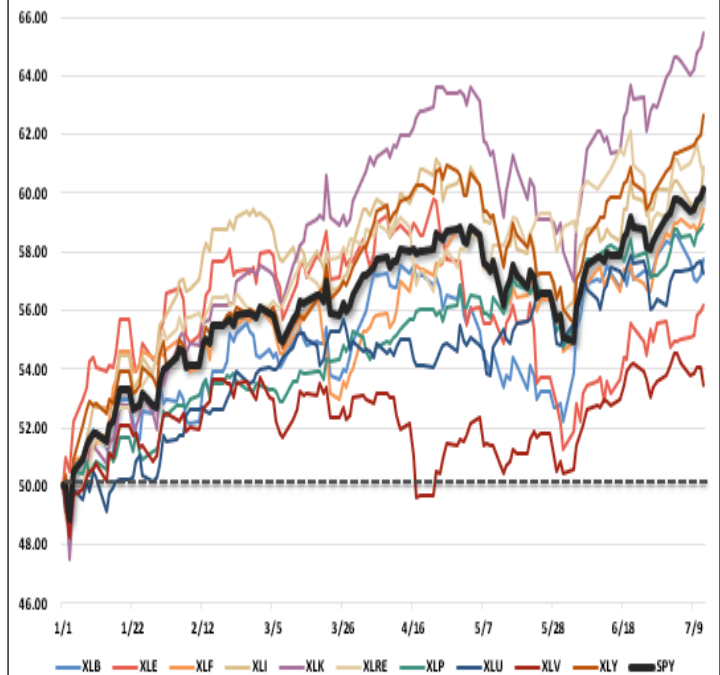
3 Month SPY Price									SPY RISK INFO		ZACKS		REAL INVESTMENT ADVICE	
									Item		T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
									Price Return		23.21%	7.62%	20.30%	166.48%
									Max Drawdown		-20.47%	-20.47%	-7.41%	-63.80%
									Sharpe		0.85	0.61	3.42	4.64
									Sortino		1.00	0.78	4.44	4.68
									Volatility		13.97	15.30	12.34	(0.19)
									Daily VaR-5%		(8.34)	(13.19)	24.25	(2.84)
									Mnthly VaR-5%		(10.34)	(19.16)	12.52	(1.65)
S&P 500 Fundamental Analysis									S&P 500 Market Cap Analysis					
Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low	Item	12-M Ago	Current	% Chg		
Dividend Yield	1.90%	1.85%	1.81%	(2.30%)	2.17%	1.67%	(16.76%)	8.33%	Shares	2,430.2	2,384.0	(1.90%)		
P/E Ratio	20.61	20.70	18.62	(11.12%)	21.65	16.38	(14.0%)	13.71%	Sales	59,780	64,055	7.15%		
P/S Ratio	3.16	3.27	3.36	2.73%	3.57	2.62	(5.76%)	28.28%	SPS	24.6	26.9	9.23%		
P/B Ratio	3.54	3.85	4.03	4.53%	4.16	3.01	(3.12%)	33.98%	Earnings	8,447	9,550	13.05%		
ROE	15.83%	17.27%	18.62%	7.28%	18.77%	14.99%	(0.79%)	24.21%	EPS TTM	4.1	4.9	17.92%		
ROA	2.94%	3.25%	3.47%	6.51%	3.50%	2.81%	(0.86%)	23.53%	Dividend	1.5	1.6	6.85%		
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	(16.10%)	4.99%	1.21	16.98	156.27	12.49	(89.1%)	9.4%	3.5%	5.90%	3.64	15.49		
Materials	(21.79%)	2.69%	1.22	13.05	22.97	13.86	(43.2%)	11.3%	1.9%	7.72%	4.08	15.78		
Industrials	6.19%	9.10%	1.14	17.82	22.20	14.76	(19.7%)	16.2%	1.9%	5.69%	5.21	15.93		
Discretionary	11.93%	10.30%	1.02	25.32	27.38	20.08	(7.5%)	28.9%	1.2%	3.98%	4.92	21.88		
Staples	13.84%	7.28%	0.61	20.64	22.83	17.62	(9.6%)	27.1%	2.7%	4.85%	3.89	19.39		
Health Care	6.45%	14.07%	0.87	16.98	20.62	15.93	(17.7%)	30.2%	1.8%	5.85%	6.57	15.55		
Financials	5.84%	13.03%	1.23	13.70	18.45	11.71	(25.7%)	11.6%	2.0%	7.33%	5.85	12.00		
Technology	16.72%	21.51%	1.24	21.69	21.83	14.47	(0.6%)	39.1%	1.4%	4.63%	5.26	19.99		
Telecom	(5.16%)	10.35%	0.87	19.86	27.29	17.44	(27.2%)	17.6%	1.0%	5.07%	6.33	17.83		
Utilities	18.66%	3.32%	0.33	20.47	20.31	15.58	0.8%	10.5%	3.2%	4.85%	3.63	18.68		
Real Estate	13.37%	3.12%	0.72	20.43	24.47	17.10	(16.5%)	10.0%	3.2%	4.87%	4.30	19.45		
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	300.65	2.25%	288.86	26	4.08%	276.83	29	8.60%	4.34%	(0.03%)	28.61%	Buy		
Mid Cap	357.08	(1.09%)	347.55	12	2.74%	339.41	28	5.20%	2.40%	(4.55%)	25.53%	Buy		
Small Cap	67.68	(3.75%)	66.47	11	1.82%	66.58	11	1.66%	(0.16%)	(13.50%)	20.22%	Sell		

## Performance Analysis

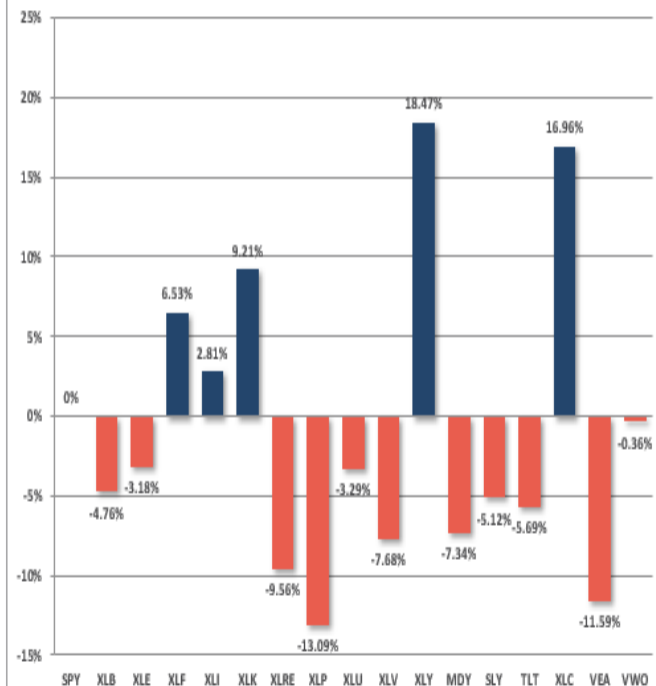
### Year To Date Performance



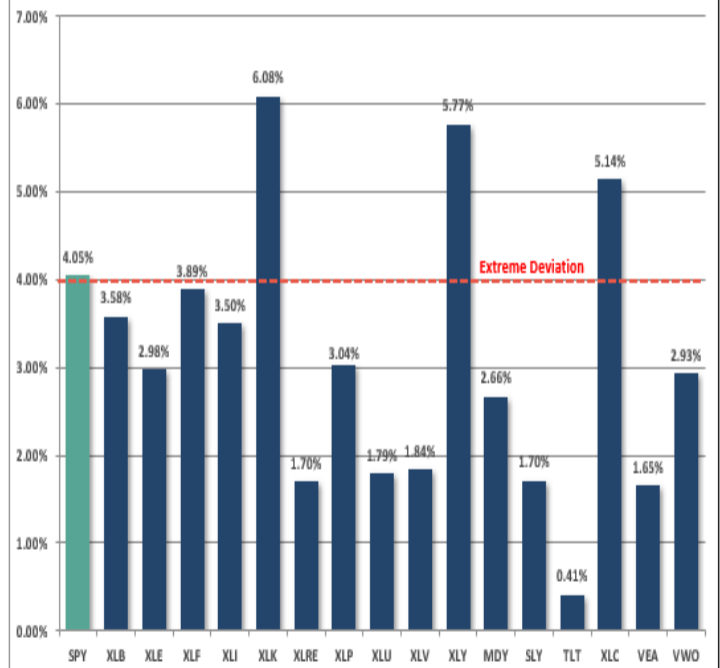
### YTD Price - S&P Sectors Recalibrated To \$50/share



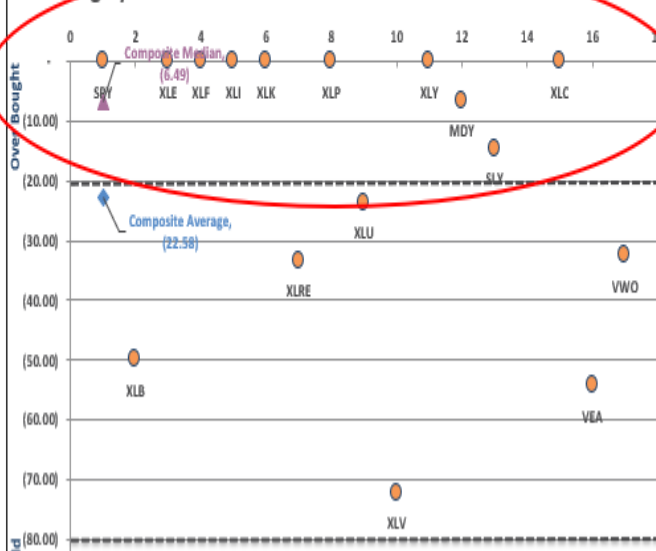
### Year To Date Performance Relative To S&P 500



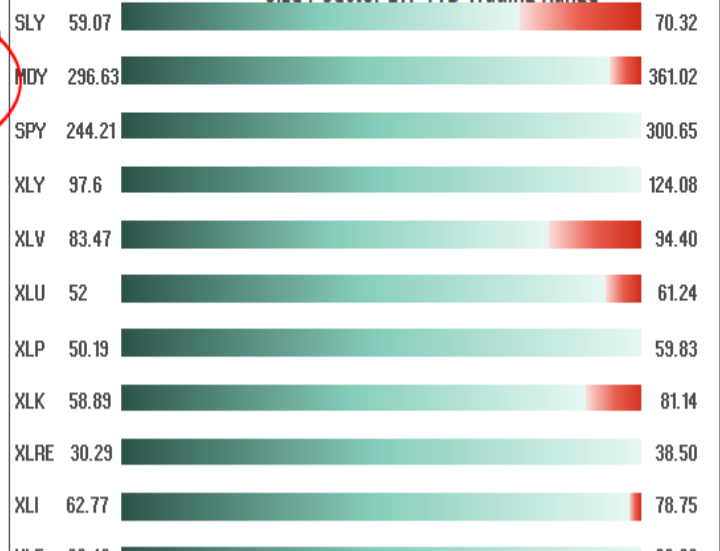
### Price Deviation From 50-Day Moving Average



### Overbought/Oversold 14-Periods

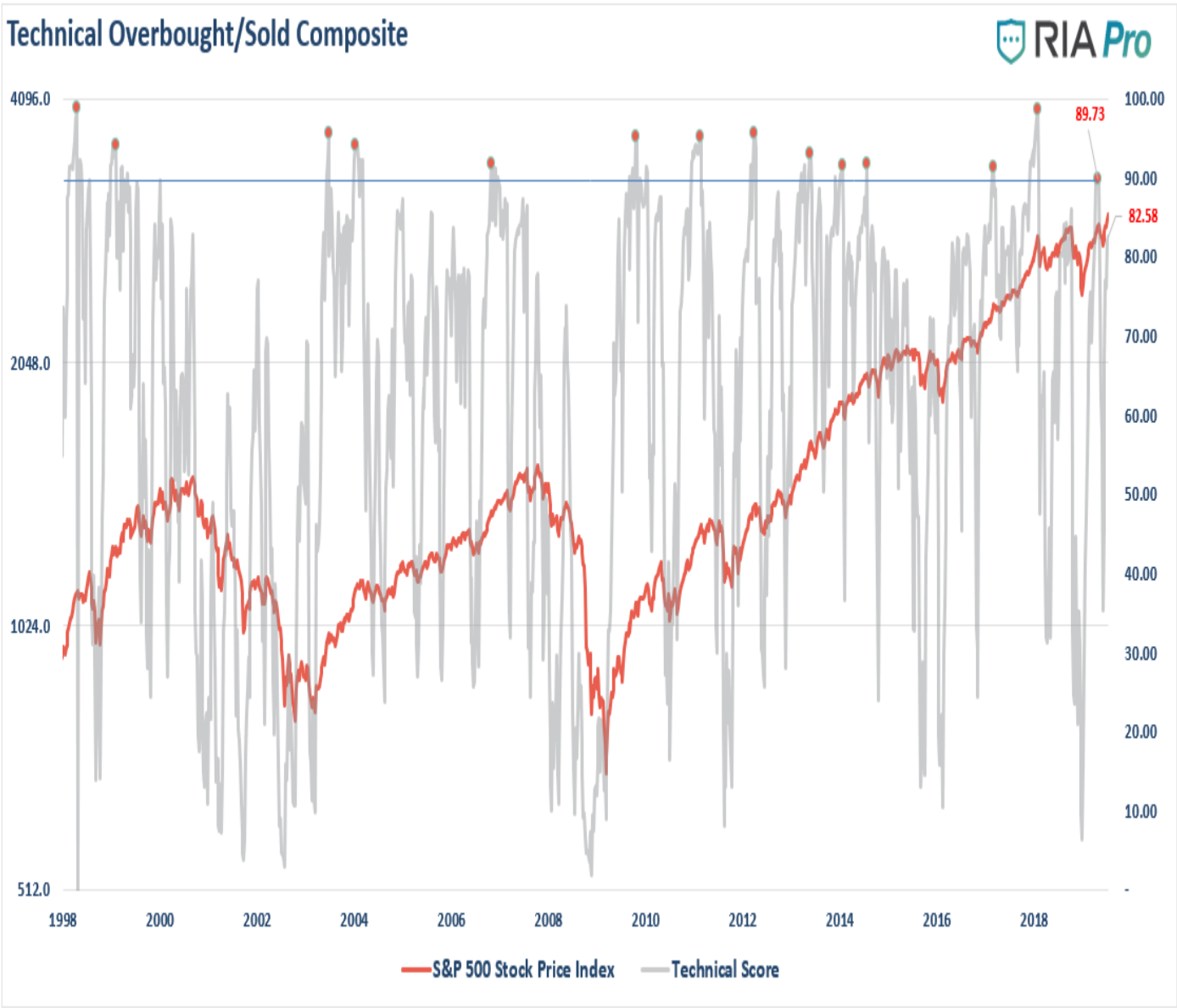


### Size / Sector ETF YTD Trading Range





# Technical Composite



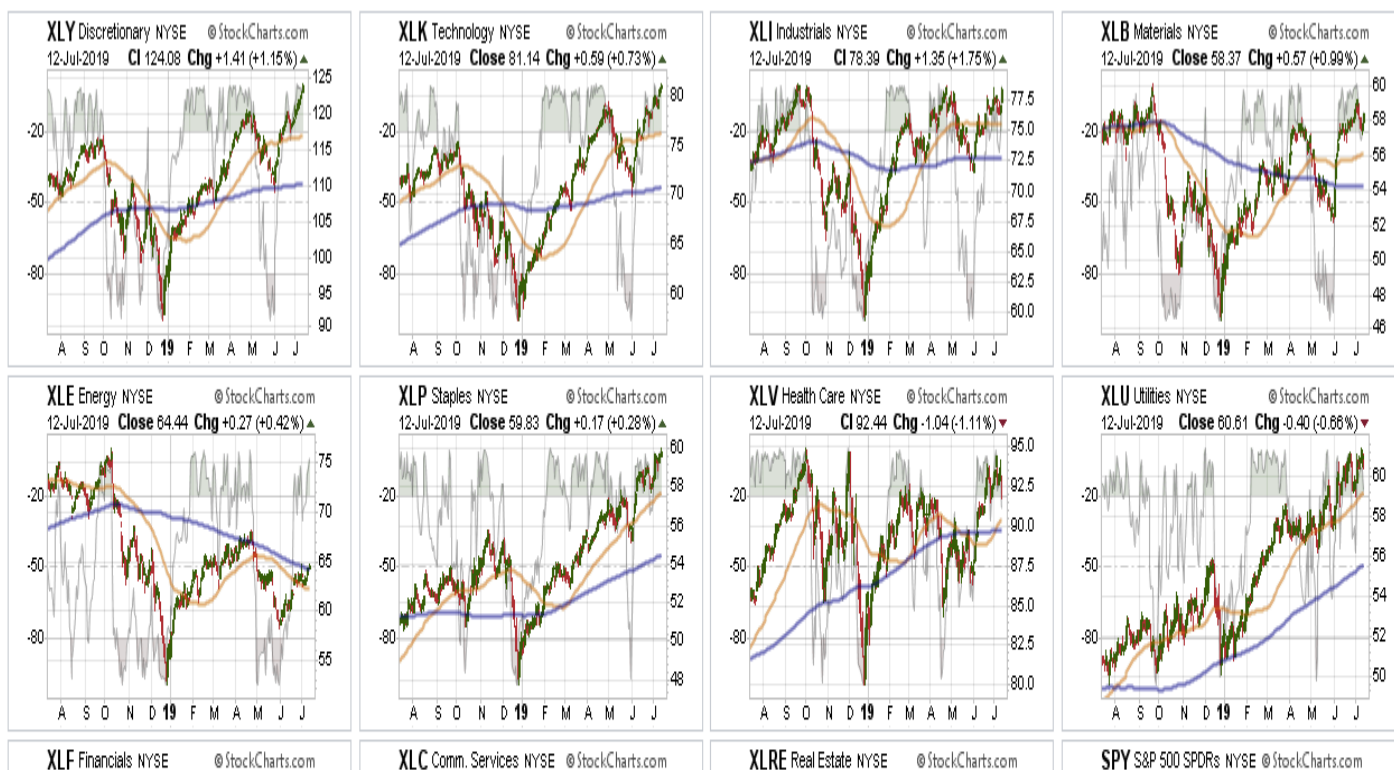
# ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
BENCHMARK		IVV	ISHAR-SP500	302.49	0.80	3.86	3.59	13.08	7.48	291.31	279.02	3.84%	8.41%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	58.37	(1.73)	(3.00)	(2.64)	(3.20)	(7.84)	56.56	54.76	3.20%	6.59%	BUY
		XLE	SPDR-EGY SELS	64.44	1.34	1.76	(7.69)	(10.68)	(22.98)	63.48	63.71	1.50%	1.14%	SELL
		XLF	SPDR-FINL SELS	28.32	(0.23)	0.11	(0.01)	(4.16)	(2.52)	27.32	26.27	3.68%	7.80%	BUY
		XLI	SPDR-INDU SELS	78.39	0.34	0.09	(3.49)	(1.21)	(1.19)	76.18	73.17	2.90%	7.14%	BUY
		XLK	SPDR-TECH SELS	81.14	0.69	2.76	0.67	9.99	4.37	76.85	71.27	5.59%	13.84%	BUY
		XLP	SPDR-CONS STPL	59.83	(0.07)	(2.61)	1.61	2.58	5.96	57.81	55.29	3.49%	8.21%	BUY
		XLU	SPDR-UTIL SELS	60.61	(0.91)	(4.19)	2.20	0.59	7.88	59.16	56.91	2.45%	6.50%	BUY
		XLC	SPDR-COMM SV SS	51.24	0.85	2.62	0.66	1.81	(8.35)	48.95	46.51	4.67%	10.16%	BUY
		XLV	SPDR-HLTH CR	92.44	(2.19)	(2.56)	4.00	(9.12)	(1.72)	90.15	90.04	2.54%	2.66%	BUY
		XLY	SPDR-CONS DISCR	124.08	1.16	0.86	0.44	2.85	2.72	117.79	111.26	5.34%	11.52%	BUY
	SIZE	SLY	SPDR-SP SC 600	67.68	(1.36)	(0.93)	(4.60)	(9.81)	(16.39)	67.02	66.20	0.98%	2.25%	BUY
		MDY	SPDR-SP MC 400	357.08	(1.02)	(0.92)	(3.22)	(5.20)	(9.14)	349.83	339.33	2.07%	5.23%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	109.74	(0.39)	(0.31)	(1.16)	(2.10)	(2.23)	106.24	102.31	3.30%	7.26%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	102.25	(0.79)	(2.39)	(2.34)	(4.06)	0.67	100.19	97.34	2.06%	5.04%	BUY
	Real Estate	XLRE	SPDR-RE SELS	37.62	(1.04)	(4.12)	2.29	0.47	6.52	36.72	34.96	2.45%	7.60%	BUY
	International	EEM	ISHARS-EMG MKT	42.85	(0.98)	0.40	(7.43)	(11.54)	(9.76)	42.28	41.85	1.36%	2.39%	BUY
		EFA	ISHARS-EAFE	65.80	(1.36)	(2.88)	(4.90)	(7.24)	(10.42)	65.45	63.66	0.54%	3.36%	BUY
		IXUS	ISHARS-CR INT S	58.80	(1.24)	(1.78)	(5.23)	(8.04)	(10.60)	58.25	56.86	0.95%	3.41%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	130.22	(2.47)	(4.80)	2.36	(5.04)	(1.37)	128.26	123.61	1.53%	5.35%	BUY
	International	BNDX	VANGD-TTL INT B	57.22	(1.39)	(3.33)	(0.66)	(8.34)	(3.28)	56.45	55.49	1.37%	3.11%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.93	(0.87)	(3.12)	(3.30)	(10.10)	(5.94)	86.41	85.09	0.61%	2.16%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.30										

## Sector & Market Analysis:

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

## Sector-by-Sector



## Improving - Healthcare, Materials

**Improving - Healthcare, Materials** We have maintained an overweight position in Health Care as part of our defensive positioning. However, Materials have now begun to improve its performance relative to the S&P 500. We are currently carrying 1/2 weight in Materials due to the "trade war" and without a resolution at hand, just hope, there remains a risk to the sector. However, the technical picture is improving, and we will likely increase our exposure accordingly. **Current Positions:** Overweight XLV, 1/2 XLB **Outperforming - Staples, Real Estate, Financials, Utilities** As noted last week, the rotation in defensive positioning has continued, and these sectors are currently leading overall market performance. We are maintaining our target portfolio weight in Financials for now. Take profits and rebalance across sectors accordingly. **Current Positions:** Overweight XLP, XLU, Target weight XLF, XLRE **Weakening - Technology, Discretionary, Communications** As noted previously, the previous "leaders" have been lagging in terms of relative performance. That started to improve this past week, and with Discretionary, Communications, and Technology breaking out to new highs, we will need to increase our exposure on short-term weakness. The sectors are grossly overbought so look for weakness to add to current holdings. **Current Position:** 1/2 weight XLY, Reduced from overweight XLK, Target weight. **Lagging - Energy, Materials, Industrials** Energy began to improve this past week with the pick up in oil prices. Industrials have been relatively weak in terms of relative performance, so no rush to increase exposure currently. For now, we are maintaining our "underweight" holdings in these two sectors until more evidence of improvement is available. **Current Position:** 1/2 weight XLE & XLI

## OVERALL RECOMMENDATION

**The entire market is back to an extreme "overbought." Take some action to rebalance portfolio risk if you have not done so previously.** As noted last week:

*"We may have some follow-through rally this week, but use any further rise to take action accordingly."*

That remains good advice heading into next week.

## Market By Market



**Small-Cap and Mid Cap** - While small-cap did finally break above its 50- and 200-dma is to join Mid-caps in a late-stage catchup rally, the move was quite unimpressive on a relative strength basis. With small and mid-caps back to extremely overbought conditions, this is likely a great opportunity to rebalance portfolio risk and reducing weighting to an underperforming asset class for now until things improve. **Current Position:** *No position* **Emerging, International & Total International Markets** We are still watching these positions for a potential add to portfolios, but the extreme overbought condition keeps us sidelined for the movement. A pullback that reduces the overbought condition but does not violate support will provide the right entry point. **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 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:** *RSP, VYM, IVV* **Gold** ? Gold has continued to consolidate at elevated levels despite the market rally and hopes for a Fed rate cut. This is a good sign for "gold bulls." Hold positions for now and look for a better entry point on a pullback. **Current Position:** *GDX (Gold Miners), IAU (Gold)* **Bonds**? Bonds took a hit last week as money rotated out of bonds and back into equities. The retracement back to the 50-dma, combined with the reduction in the overbought condition, is going to provide a good opportunity to add to existing holdings. As we noted last week: *"Bonds are EXTREMELY overbought, take some profits and rebalance weightings but remain long for now."* Stay long current positions for now and look for an opportunity to add to holdings. **Current Positions:** *DBLTX, SHY, TFLO, GSY, IEF* High Yield Bonds, representative of the "risk on" chase for the markets have been consolidating despite the rally in equities. This is not the time to add to holdings just yet, but a good time to like take profits and reduce risk short-term. **Given the deteriorating economic conditions, this would be a good opportunity to reduce "junk-rated" risk and improve credit quality in portfolios.**

## OVERALL RECOMMENDATION

***The entire market is back to an extreme "overbought." Take some action to rebalance portfolio risk if you have not done so previously.*** As noted last week:

*"We may have some follow-through rally this week, but use any further rise to take action accordingly."*

That remains good advice heading into next week.

## Sector / Market Recommendations

The table below shows thoughts on specific actions related to the current market environment. (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.)



						RIA Pro					Notes
		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	
XLV	Discretionary	OB	Positive	Positive	Hold			X			Extreme Overbought
XLK	Technology	OB	Positive	Positive	Hold			X			Extreme Overbought
XLI	Industrials	OB	Positive	Neutral	Hold			X			Extreme Overbought
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 Highs
XLC	Telecom	OB	Positive	Neutral	No Position					X	Testing Highs
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Testing Highs
SLY	Small Caps	OB	Negative	Negative	No Position					X	Very Overbought
MDY	Mid Caps	OB	Positive	Neutral	No Position					X	Extreme Overbought
EEM	Emerging Mkt	OB	Positive	Negative	No Position					X	Very Overbought
EFA	International	OB	Positive	Negative	No Position					X	Extreme Overbought
IXUS	Total International	OB	Positive	Negative	No Position					X	Testing Highs
GLD	Gold	OB	Positive	Neutral	Hold			X			Extreme Overbought
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Extreme Overbought
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Extreme Overbought
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Extreme Overbought
TLT	20+ Yr. Bond	Reversing	Positive	Positive	Hold			X			Correcting 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. With the market setting new highs, and breaking above previous resistance, we need to add some exposure short-term to portfolios. However, given the market is extremely overbought, we need to be patient wait for a correction to take action. While our focus continues to remain on *risk control* and *capital preservation strategies* over *capital growth and risk-taking strategies*, we do recognize the need to participate when markets are rallying. We will be looking to either add a larger trading position to the portfolio, add to existing holdings, or a combination of both. However, we need to evaluate the markets early next week to see if the "Fed Hope" rally can persist. There are indeed some short-term risks while we await the Fed to "actually" cut rates at the end of the month. Furthermore, there is a very high chance that Trump is going to lash out at China and hike tariffs again since they are not complying by buying more product from the U.S. as promised at the G-20. Lastly, we are going to be in the "gale force winds" of earnings season over the next few weeks, so there will be much news-driven movement in the market which could provide us the opportunity we need to add positions. In the meantime, we continue to carry tight stop-loss levels, and any new positions will be "trading positions" initially until our thesis is proved out.

- **New clients:** Our onboarding indicators have reverted 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



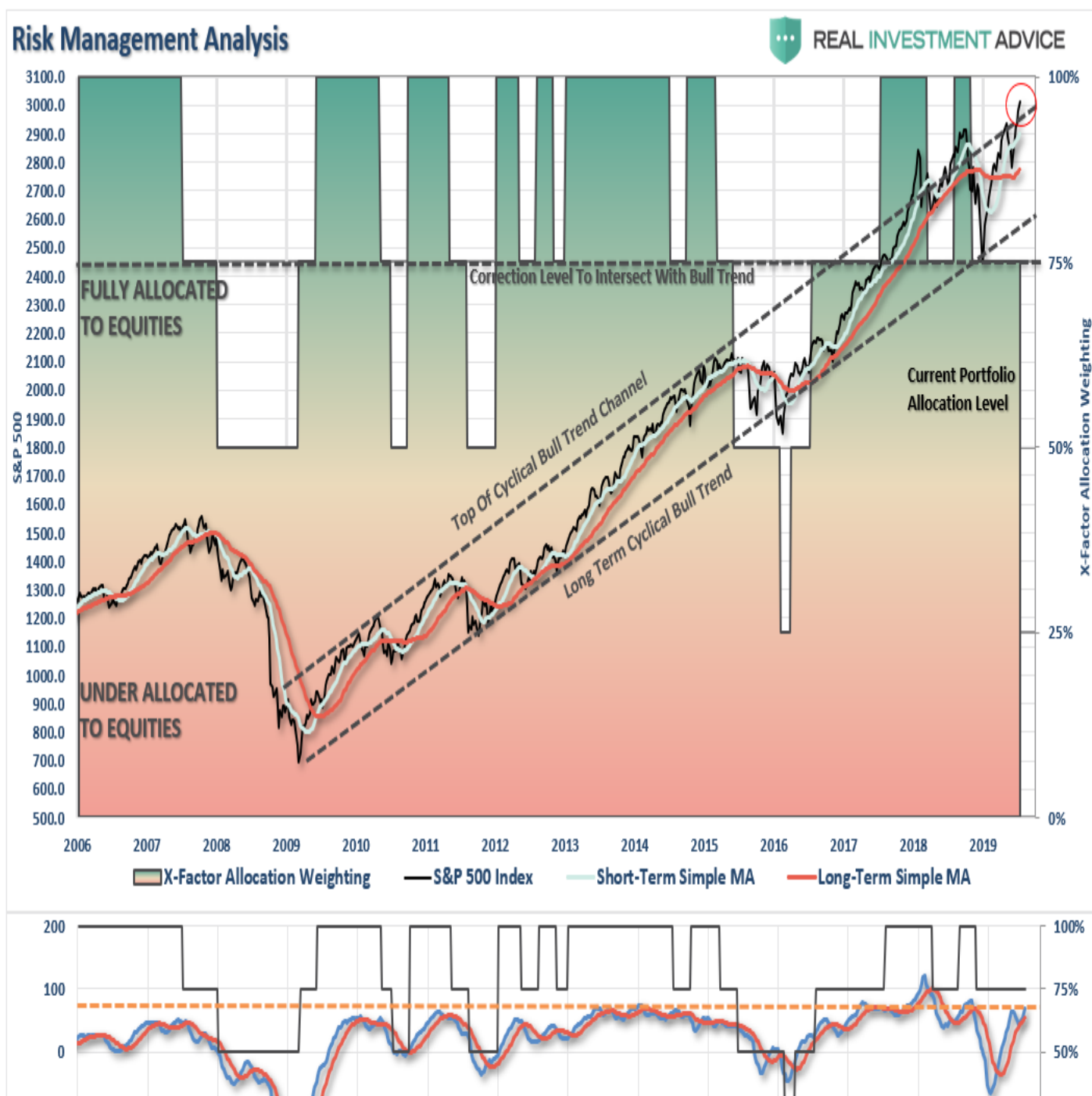
liquidate those positions to raise cash to transition into the specific portfolio models.

- **Equity Model:** No changes this past week. We are looking to potentially sell JNJ and PPL. We are actively looking for replacements if we do take action.
- **ETF Model:** No change. Looking to add either a trading position in SPY, or increase weight in sectors and core holdings.

**Note for new clients:** It is important to understand that when we add to our equity allocations, ALL purchases are initially *trades*; that can, and will, be closed out quickly if they fail to work as anticipated. This is why we *step* into positions initially. Once a *trade* begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment. **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 Plan Manager Allocation Shift](#)

## Fed All But Promises To Cut Rates

Despite stronger than expected inflation and employment numbers, an uptick in economic activity indices, and markets at record highs, Jerome Powell all but promised to cut rates at the end of this month. Our suspicion is the Fed is either aware of the potential exogenous risk to markets, like Deutsche Bank, and has been called on by the ECB to provide liquidity to the financial markets, or Powell has just completely given up independence to the White House wishes. Our best guess is the former. If that is indeed the case, there is likely not much the Fed can do to stem the next decline. However, in the meantime, markets are rising, and we need to continue to participate. With the breakout to new highs and the reaffirmation of our buy signal, we can look to increase exposure to portfolios on any market action that reduces the current extreme overbought condition. With Q2 reporting season going into full swing next week, as noted above, there is a potential short-term risk to share prices which could provide a better entry point to add to equity exposure. Be patient for that confirmation. As stated previously, July and August tend to be challenging months for the market, so we want to be careful, particularly with the economic backdrop weakening. Take the following actions on Monday.

- If you are **overweight equities** - Hold current positions but remain aware of the risk. Take some profits and rebalance risk to some degree if you have not already.
- If you are **underweight equities or at target** - rebalance risks, look to increase holdings in domestic equities opportunistically.

With the markets back to extremely overbought conditions, patience will likely be rewarded. If you need help after reading the alert; do not hesitate to [contact me](#).

## 401k Plan Manager Beta Is Live

We have rolled out a very early beta launch to our [RIA PRO subscribers](#) Be part of our "**Break It Early Testing Associate**" group by using **CODE: 401** The code will give you access to the entire site during the BETA testing process, so not only will you get to help us work out the bugs on the 401k plan manager, you can submit your comments about the rest of the site as well. We have several things currently in development we will be adding to the manager, but we need to start finding the "bugs" in the plan so far. **We are currently covering more than 10,000 mutual funds and have now added all of our Equity and ETF coverage as well.** You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more. **We are building models specific to company plans. So, if you would like to see your company plan included specifically, [send me the following](#):**

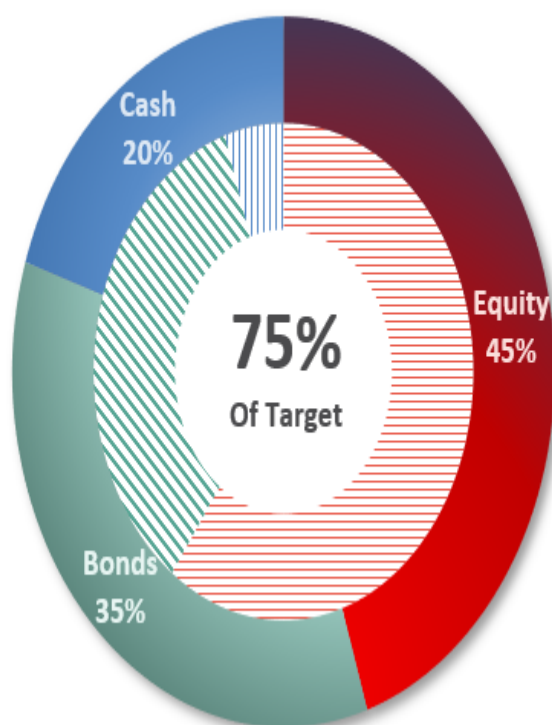
- *Name of the company*
- *Plan Sponsor*
- *A print out of your plan choices. (Fund Symbol and Fund Name)*

I have gotten quite a few plans, so keep sending them and I will include as many as we can. **If you 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 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

Model performance is based on a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. This is strictly for informational and educational purposes only and should not be relied upon for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.&#2013266080;

