RIA PRO: Risk Happens Fast. Is The Selling Over?

- ***Risk Happens Fast***
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- ***Risk Happens Slowly, Too.***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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Risk Happens Fast

Over the last few weeks, we've been discussing the potential for a correction due to the extreme extension of the market above the 200-dma. To wit:

> *"In the very short-term, the market is grossly extended and in need of some correction action to return the market to a more normal state. As shown below, while the market is on a near-term 'buy signal' (lower panel) the overbought condition, and near 9% extension above the 200-dma, suggests a pullback is in order."*

Chart Updated Through Friday

The correction was inevitable; it just needed a catalyst, like President Trump ramping up trade wars, to trip up traders. However, the rebound in the markets through the end of the week was also expected. As we told our **RIAPRO subscribers on Monday (30-Day Free Trial).**

> ***After 5-days of selling, look for a short-term bounce next week, but we suspect the correction is not complete yet.***

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We followed that analysis on Tuesday morning before the market opened in *"Look for a 'Sellable Bounce:"*

"On a very short-term basis, the market has reversed the previously overbought condition to oversold. ***This could very well provide a short-term 'sellable bounce' in the market back to the 50-dma.*** ***As shown in the chart below, any rally should be used to reduce portfolio risk in the short-term as the test of the 200-dma is highly probable.***

(We are not ruling out the possibility the market could decline directly to the 200-dma. ***However, the spike in volatility and surge in negative sentiment suggests a bounce is likely first.)***

By the end of the week, the market did indeed retrace back to the 50-dma, but failed to climb above it. With the market only halfway back to *"overbought,"* there is some *"fuel"* still

available for a further rally next week.&#2013266080;

However, even if the market does rally a bit more next week, it is **STILL a *"sellable rally."***

Therefore, let me restate what actions should be taken in the short-term:

> *1)&#2013266080;**Trim Winning Positions**&#2013266080;back to their original portfolio weightings. (ie. Take profits)*
>
> *2)&#2013266080;**Sell Those Positions That Aren?t Working.&#2013266080;**If they don?t rally with the market during a bounce, they are going to decline more when the market sells off again.*
>
> *3)&#2013266080;**Move Trailing Stop Losses Up**&#2013266080;to new levels.*
>
> *4)&#2013266080;**Review Your Portfolio Allocation Relative To Your Risk Tolerance.**&#2013266080;If you are aggressively weighted in equities at this point of the market cycle, you may want to try and recall how you felt during 2008. Raise cash levels and increase fixed income accordingly to reduce relative market exposure.*

This is just the *"risk management"* process.&#2013266080;

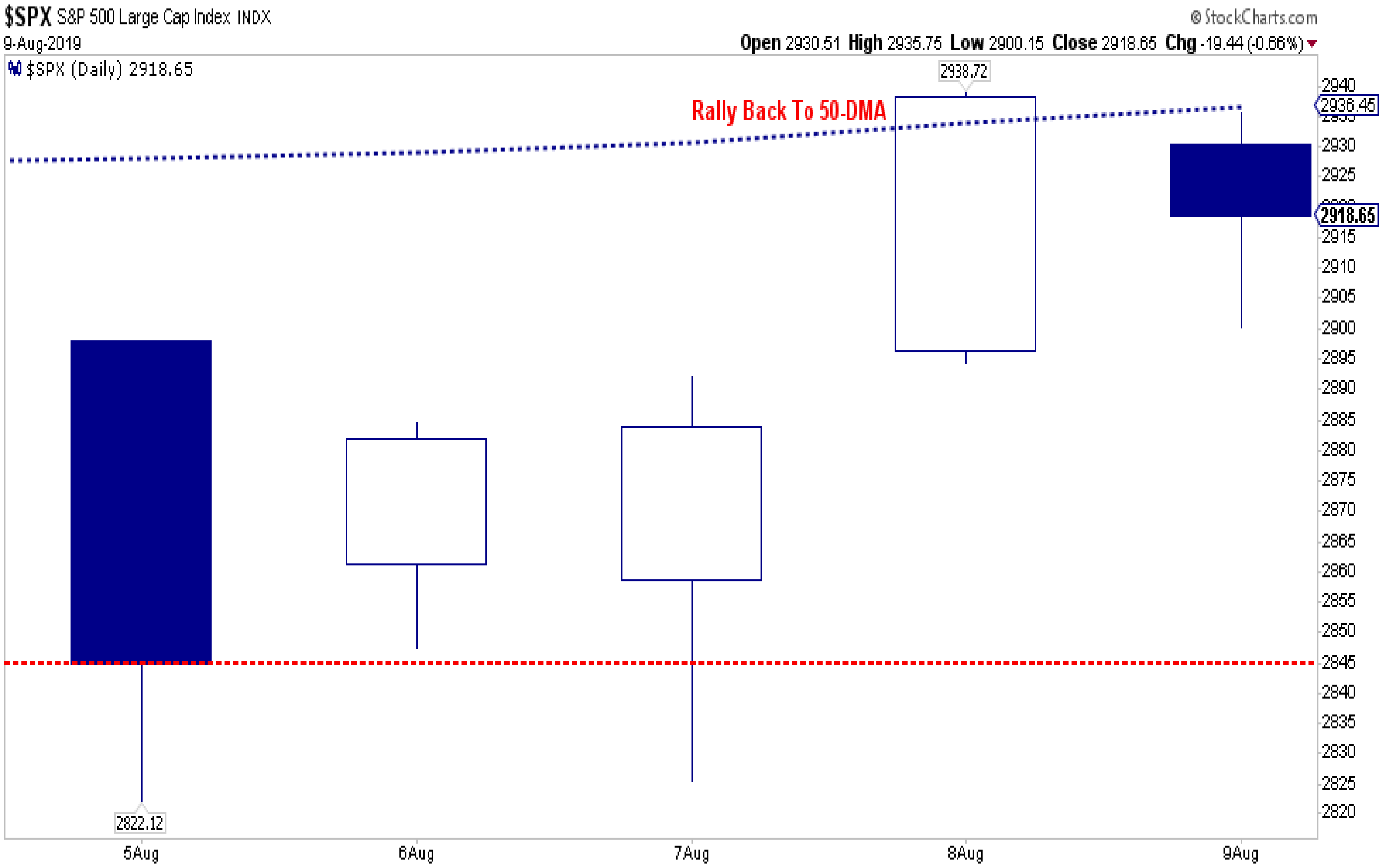
Last week, I quoted my friend Victor Adair at Polar Futures Group:

> ***"Risk happens fast."***&#2013266080;

In the past, I have spilled much digital ink discussing risk and reward, and possibilities versus probabilities.&#2013266080;

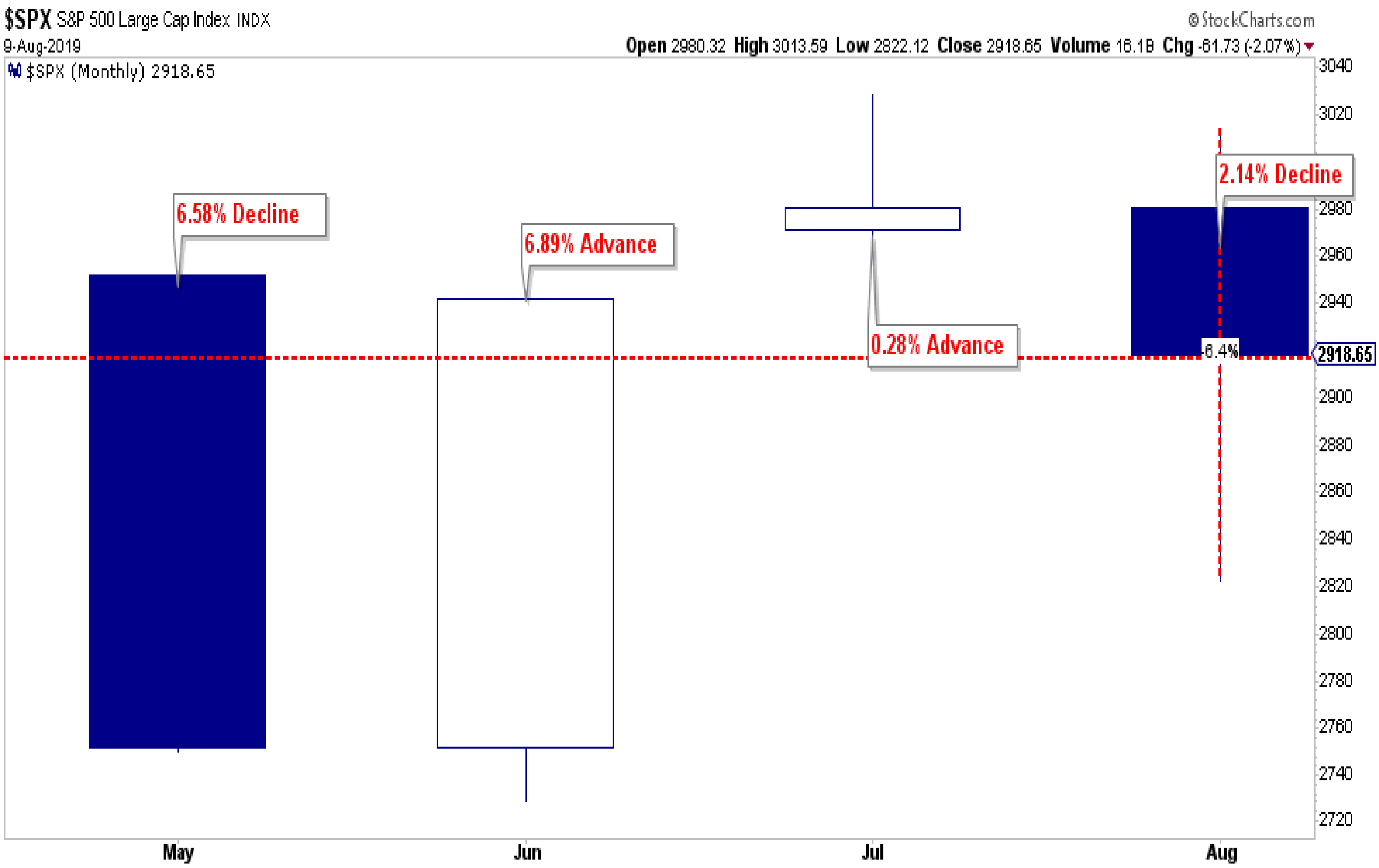
Investing is simply about the understanding of risk. **However, when risk is compounded by high-speed, automated trading, the effect of *"risk"* is compressed into a concise time frame. As such, reversions are becoming faster, deeper, and more concentrated than we have seen in the past.&#2013266080;**

Take a look at the chart below, which shows the daily trading range of the S&P 500.



That's what is known as *"volatility."*&#2013266080;

However, volatility has not been just this past week, but for the past four months. While investors may not realize it, the markets are currently no higher than they were at the beginning of May.



This kind of volatility makes it incredibly tough for investors to sit on their hands and do nothing.&#2013266080;But, sometimes, the best course of action is simply *"doing nothing."*

However, that depends on what you think will happen next.

Is The Selling Over?

The market, now driven primarily by *"headline watching"* algorithms, ran up and down this past week on the back of a *"tweet."*

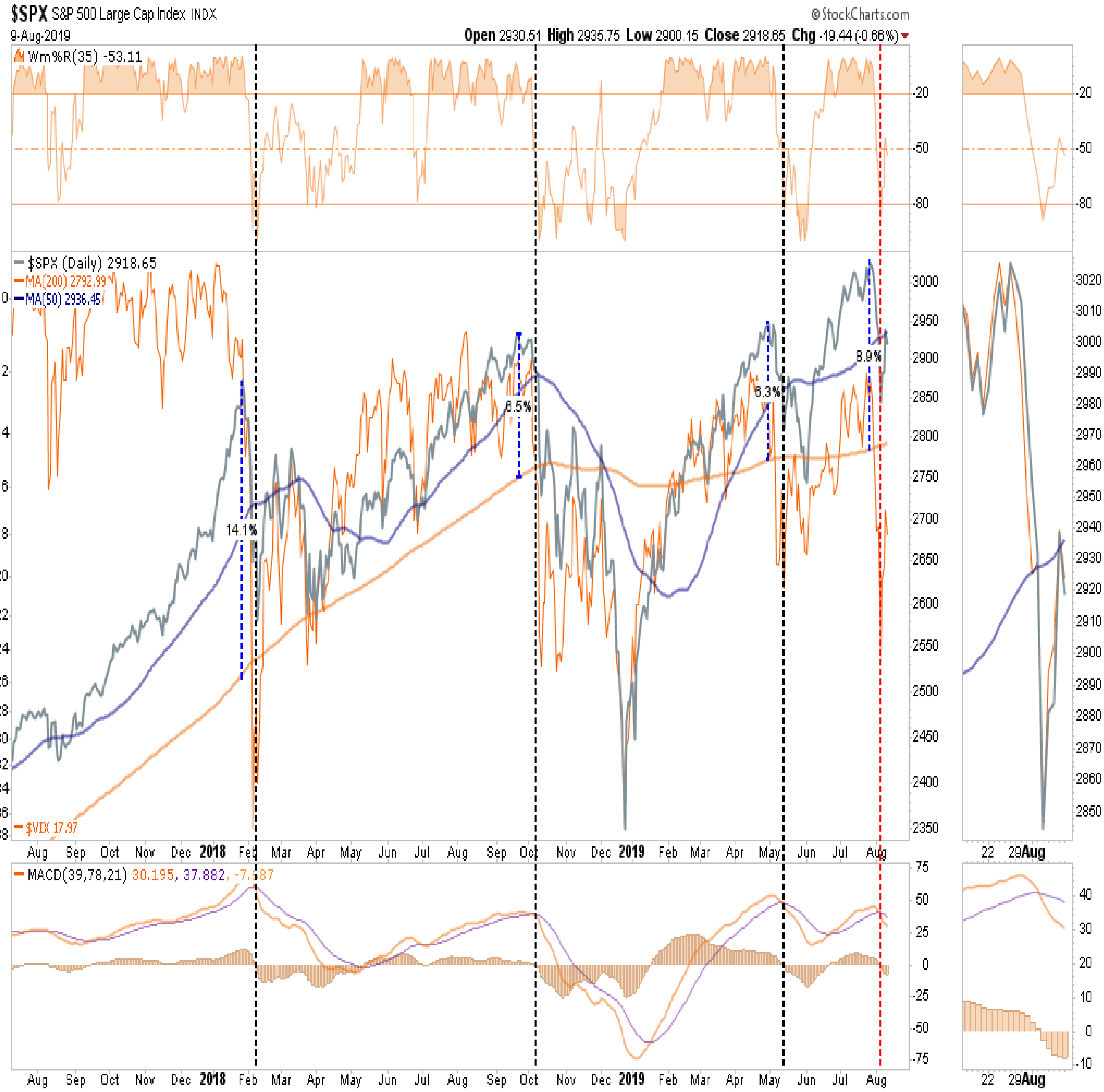
Stocks plunged on a tweet that more tariffs would hit China. Then surged on a tweet of a September *"trade deal,."* The market then plunged again on a tweet that restrictions would return on Huawei, just to surge again on news the ban would only apply to Federal agencies.

I'm exhausted just typing that.

As I said above, it is difficult to trade kind of volatility.

The good news is the market did rally this past week, as hopes the Fed will continue to cut rates to support asset prices. ***(I am writing an article for next week on the "Pavlovian effect.")&#2013266080;***

The bad news, is the current set up, technically speaking, is much like we saw last September/October as markets. The chart below is the S&P 500 as compared to the *"Volatility"* index which is inverted for clarity.



As we saw last year, the market plunged from very overbought conditions, rallied sharply back, and failed again before crashing to lows. The strong contra-rallies pulled investors into the markets before crushing them into the end of the year.&#2013266080;

Currently, while it may not be the Fed causing problems for the market, it is the White House that is raising red flags. If the White House follows through on its threats to increase tariffs on China, and assuming that China doesn't retaliate in return, there is not an inconsequential risk to asset prices as markets begin to reprice earnings. *(More on this in a moment)*

Importantly, the market has triggered a *"sell signal"* much like was seen in both May of this year, and in February and October of 2018.

Given that we took profits in May and July from portfolios, raised cash, and are carrying hedges, we will *"sit on our hands"* for the moment and wait for the market to "tell us" what it wants to do next.&#2013266080;

However, our signals suggest the risk, at the moment, is to the downside.

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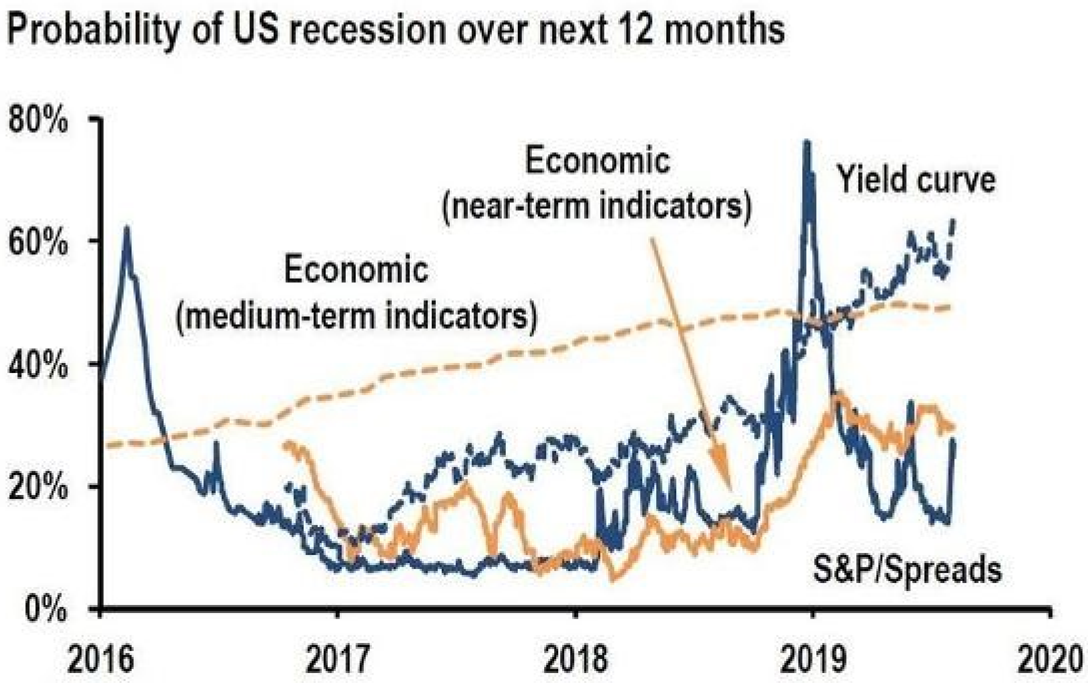
Risk Happens Slowly Too

While *"risk happens fast"* in the financial markets, it builds up slowly as well. As Doug Kass noted this past week:

> *"The odds of a U.S. [recession](#) according to JP Morgan is 40% - a cycle high. The rate of growth is slowing measurably. The manufacturing recession is now seeping into the consumer sector."*

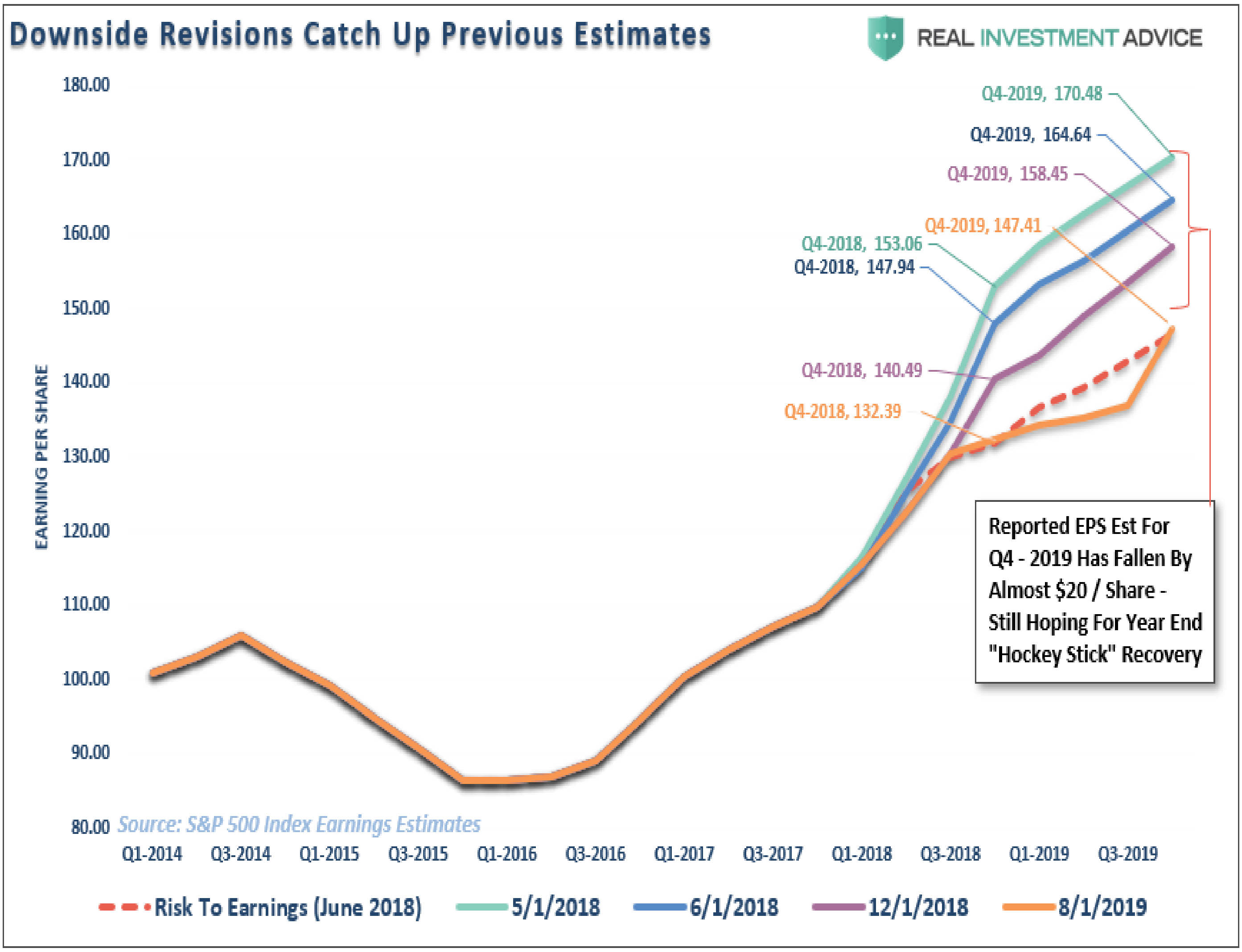


Source: J.P. Morgan

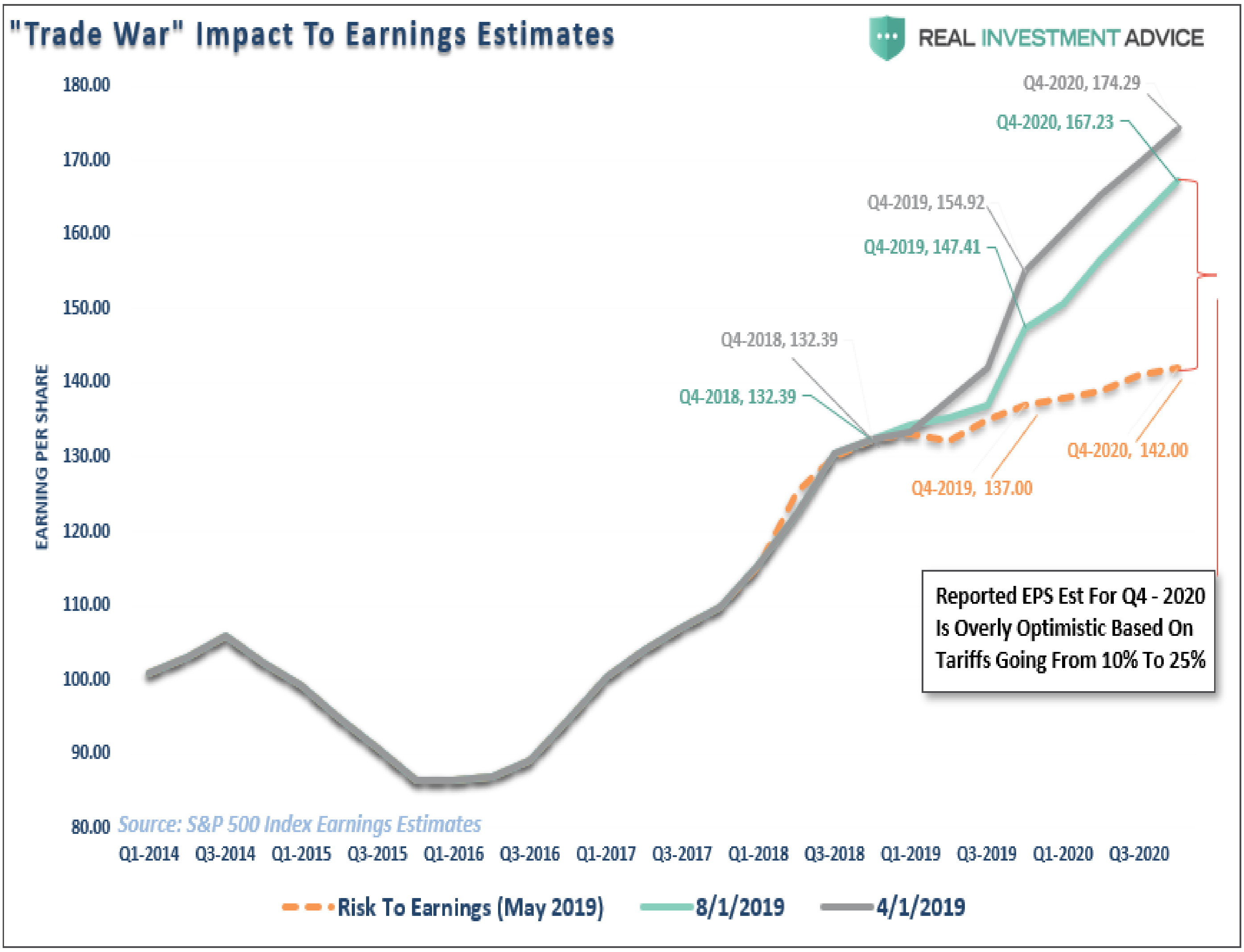
> *"Like in 2007, (though the circumstances are far different) many investors, and even Administration officials,* ***are ignoring the tea leaves of substantially slowing global economic growth.***
>
> *With the world more interconnected at any time in history, non-domestic economic activity is importantly* ***influencing the S&P Index's constituent companies' top- and bottom- lines."***

He is absolutely correct.&#2013266080;

Most importantly, while investors are betting on more Fed rate cuts, they are missing what is happening with earnings which continue to erode. **The first chart is our earnings estimates *(which we projected in June, 2018, unrevised&#2013266080;for accountability)* versus S&P's estimates** ***(which are constantly revised.)*** Note that estimates not only caught up with our original projections *(wiping out the entire benefit of tax cuts)* but has now exceed those levels.&#2013266080;



Despite the collapse in earnings, stocks are currently trading higher than they were in then. Valuations have expanded by 3x, while earnings have deteriorated. **More importantly, and even less optimistic for the bulls, is the continued deterioration of 2020 estimates.&#2013266080;** *(The orange dashed line is our estimate for earnings based on assumptions of trade war impacts.)* &#2013266080;



This is not a problem the Fed cutting rates, or doing QE, will fix.&#2013266080;

The other problem for the bullish view is the global glut.&#2013266080;

Following the financial crisis, it was China's consumption binge which bailed out the majority of the world. While many believe it was Central Banks that rescued the globe, it really wasn't.&#2013266080;

However, now, China is at its limits, and the global glut and output gap has now come home to roost.

Doug drives this point home:

> *"An output gap is the difference between actual global GDP and the level that would be consistent with operating at full capacity.&#2013266080;**The difference today is a consequential 0.5% - an unusually large figure considering the late stage cycle of economic growth.***
>
> *In other words, a subpar economic recovery since The Great Recession has yielded excess global supply.&#2013266080;**This idle capacity has been accompanied with a continuous deflationary influence that has contributed to generational lows in worldwide interest rates and a central bank community that is quickly out of monetary bullets.***

> ***This means that since 2007, the $128 trillion of new global debt has been supported by only $27 trillion of new income. (Debt has grown by a factor of 5x against the amount of money that can support it!)***
>
> *World debt is now about 295% of world GDP - a new record.*
>
> *To understand the severity of this problem we should look back into the 2001-07 cycle. During that period global debt rose by only $30 trillion (from $86 trillion to $116 trillion). In the interim interval, global GDP rose by $25 trillion to $58 trillion.* ***So, in the bubble cycle of 2001-07, debt growth (+$30 trillion) outstripped economic growth (+$25 trillion) by only 20% compared to the 2007-19 time frame in which debt growth (+$128 trillion) outstripped economic growth (+$37 trillion) by nearly 400%!!!***
>
> *Ignore the massive buildup of global debt (against the backdrop of slow global nominal GDP) at your own risk."*

While investors are hoping that Fed rate cuts and QE will extend the current cycle, I can't stress enough that when the recession hits, and it will, it will be a far more destructive process than the current consensus believes.&#2013266080;

It will be the *"Perfect Storm"* when debt, demographics, and unfunded pension obligations collide. There is simply not enough money to bail it all out at once.

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;

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Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	17.95%	2.30%	16.69%	626.18%
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.69	0.25	2.22	7.98
Sortino	0.80	0.25	2.84	10.38
Volatility	14.31	15.84	12.99	(0.18)
Daily VaR-5%	(11.76)	(20.64)	9.79	(1.47)
Mnthly VaR-5%	(10.62)	(21.20)	11.52	(1.54)

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%	1.78%	1.88%	4.98%	2.17%	1.67%	(13.69%)	12.35%
P/E Ratio	20.35	19.86	17.97	(10.55%)	20.88	15.81	(14.0%)	13.68%
P/S Ratio	3.20	3.37	3.38	0.31%	3.55	2.55	(4.67%)	32.56%
P/B Ratio	3.61	3.99	4.11	2.91%	4.14	3.01	(0.78%)	36.65%
ROE	15.82%	17.28%	19.17%	9.88%	19.17%	14.98%	0.00%	27.95%
ROA	2.93%	3.25%	3.50%	7.18%	3.53%	2.81%	(0.82%)	24.64%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,406.3	2,501.5	3.96%
Sales	61,174	64,859	6.02%
SPS	25.4	25.9	1.99%
Earnings	8,805	9,641	9.50%
EPS TTM	4.4	4.9	11.71%
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	(22.77%)	4.67%	1.21	15.60	156.27	12.49	(90.0%)	11.1%	3.9%	6.36%	3.42	16.19
Materials	(24.24%)	2.76%	1.22	14.30	22.97	13.86	(37.8%)	9.7%	1.9%	7.03%	4.21	15.22
Industrials	(1.21%)	9.20%	1.13	16.93	22.20	14.76	(23.7%)	16.6%	2.0%	5.88%	5.15	16.20
Discretionary	3.31%	10.13%	1.02	23.79	27.38	20.08	(13.1%)	28.7%	1.3%	4.12%	4.88	22.29
Staples	10.26%	7.45%	0.60	20.17	22.83	17.62	(11.7%)	28.3%	2.7%	4.94%	3.92	19.66
Health Care	1.92%	14.01%	0.87	16.30	20.62	15.93	(21.0%)	32.5%	1.8%	6.13%	6.61	15.17
Financials	(3.21%)	12.90%	1.23	12.80	18.45	11.71	(30.6%)	11.7%	2.1%	7.73%	5.82	12.33
Technology	10.22%	21.77%	1.25	21.06	21.75	14.42	(3.2%)	39.6%	1.5%	4.72%	5.33	20.38
Telecom	(5.72%)	10.42%	0.87	19.63	27.57	17.47	(28.8%)	17.5%	1.0%	5.08%	6.53	18.01
Utilities	17.56%	3.40%	0.31	20.49	20.31	15.58	0.9%	10.3%	3.2%	4.95%	3.62	18.63
Real Estate	15.45%	3.19%	0.72	20.86	24.47	17.10	(14.8%)	9.6%	3.1%	4.87%	4.33	19.64

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	291.62	5.94%	293.76	2	(0.73%)	279.04	49	4.51%	5.28%	(3.51%)	24.75%	Buy
Mid Cap	346.42	4.93%	351.22	2	(1.37%)	340.80	4	1.65%	3.06%	(7.40%)	21.79%	Buy
Small Cap	66.15	4.62%	66.70	2	(0.82%)	66.42	2	(0.40%)	0.43%	(15.46%)	17.50%	Buy

&#2013266080;&#2013266080;

Performance Analysis

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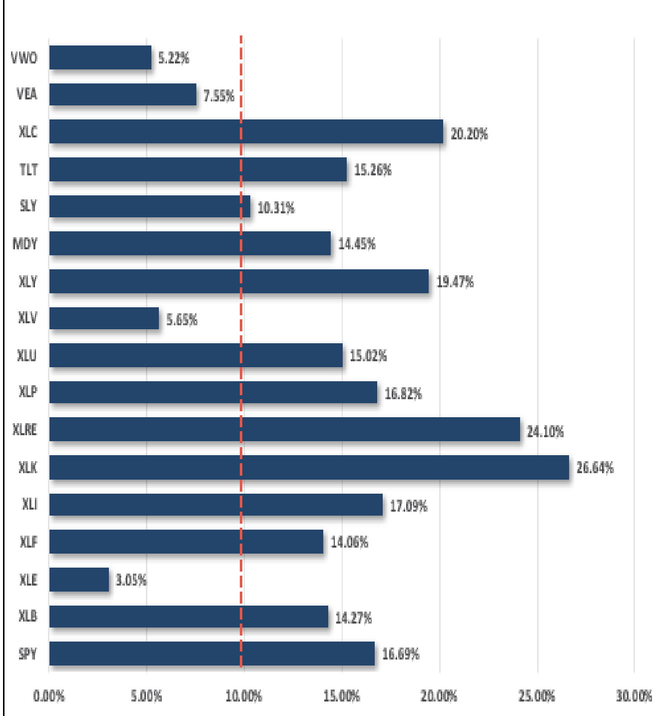
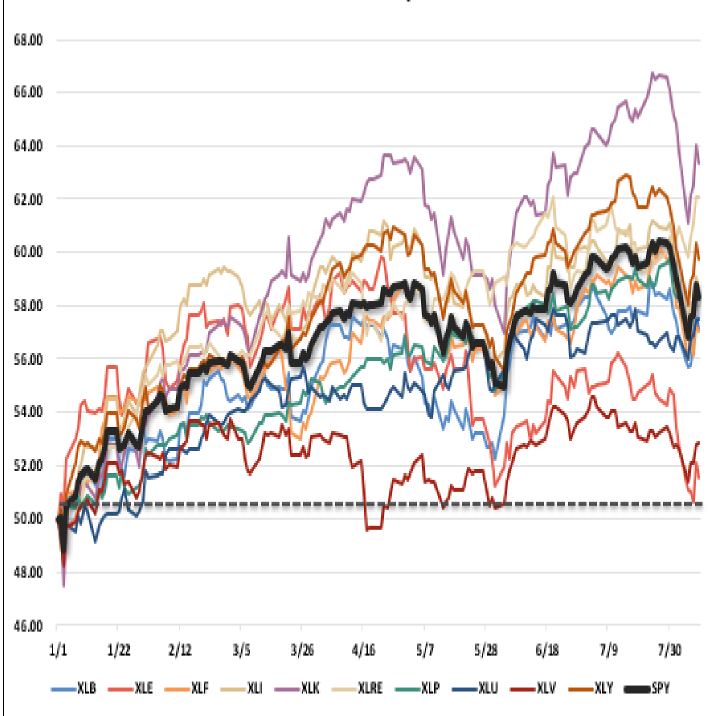
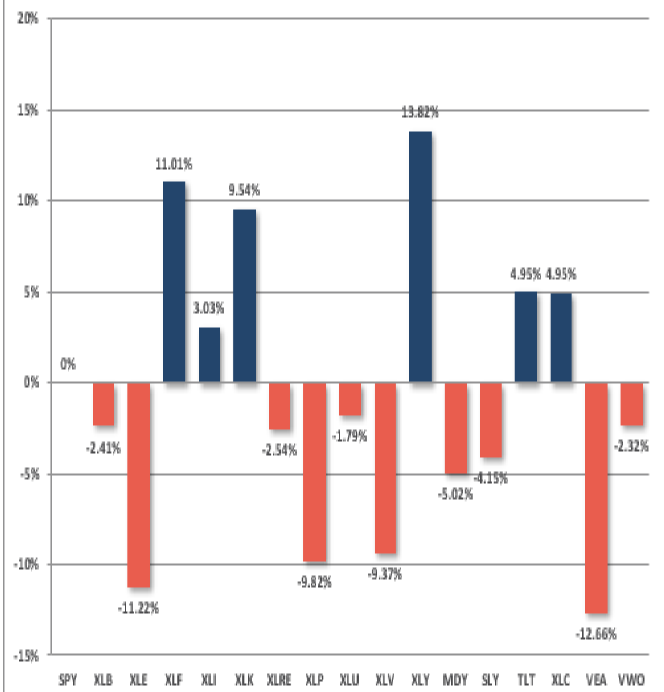
Year To Date Performance



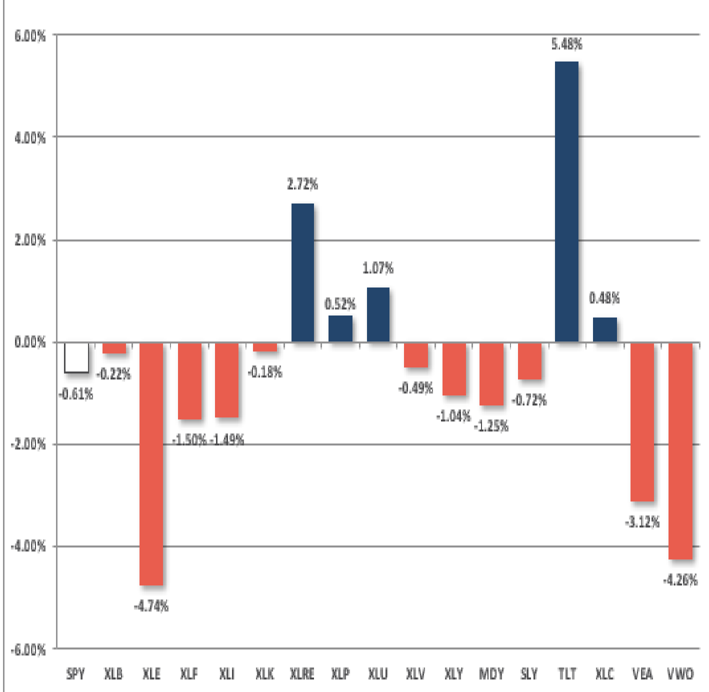
YTD Price - S&P Sectors Recalibrated To $50/share



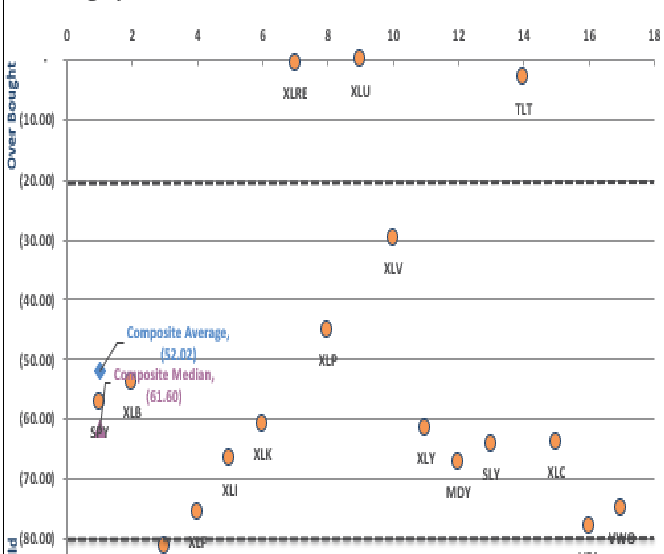
Year To Date Performance Relative To S&P 500

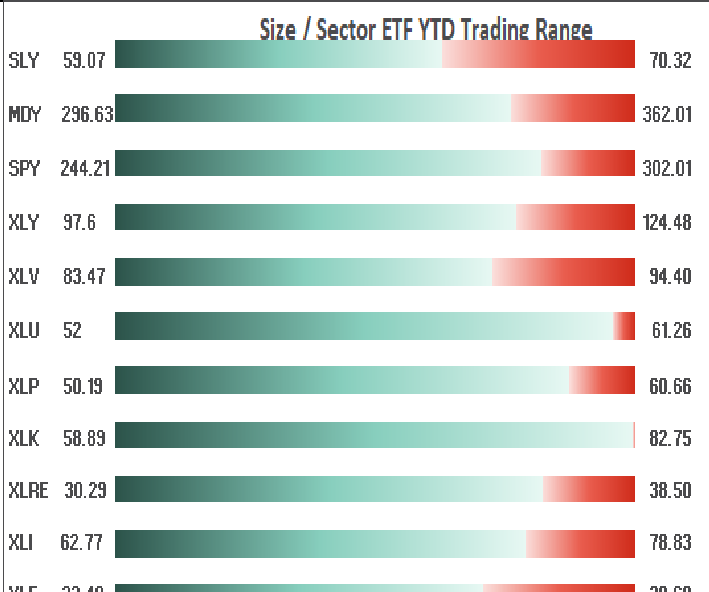


Price Deviation From 50-Day Moving Average

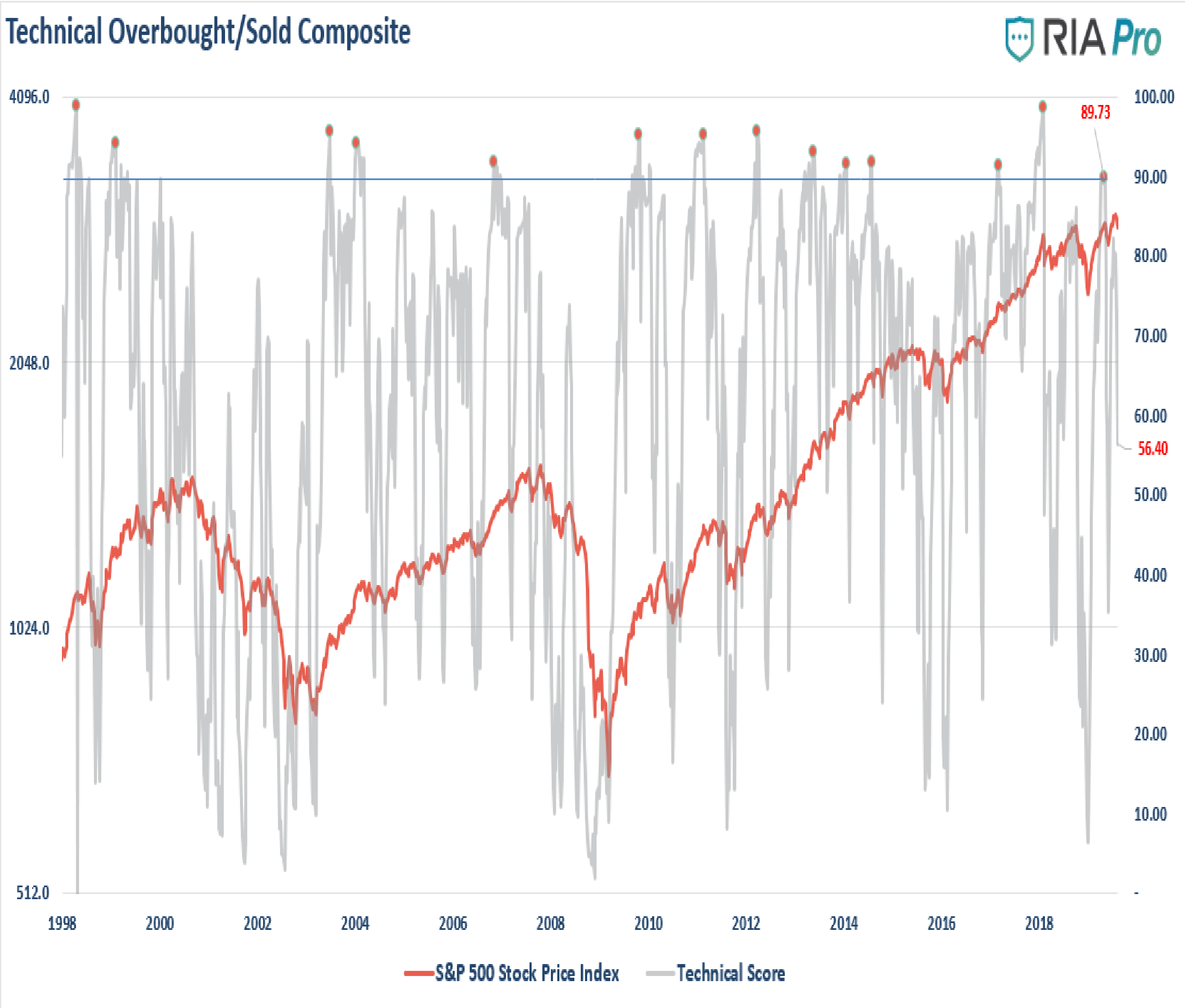


Overbought/Oversold 14-Periods





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	293.36	(0.36)	(3.02)	1.90	4.47	2.91	292.91	282.33	0.16%	3.91%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	57.73	1.06	1.92	3.74	(0.97)	(4.53)	57.02	55.33	1.24%	4.33%	BUY
		XLE	SPDR-EGY SELS	59.10	(1.79)	(5.27)	(9.19)	(14.59)	(24.41)	62.17	63.33	-4.93%	-6.68%	SELL
		XLF	SPDR-FINL SELS	27.17	(1.20)	(1.04)	(0.82)	(1.78)	(5.77)	27.42	26.50	-0.90%	2.51%	BUY
		XLI	SPDR-INDU SELS	75.42	(0.17)	(0.77)	(1.09)	(5.50)	(2.44)	76.07	74.02	-0.85%	1.90%	BUY
		XLK	SPDR-TECH SELS	78.49	(0.35)	(0.25)	2.23	6.65	4.57	77.65	72.97	1.08%	7.57%	BUY
		XLP	SPDR-CONS STPL	59.32	0.51	2.17	0.82	4.52	8.51	58.64	55.80	1.16%	6.31%	BUY
		XLU	SPDR-UTIL SELS	60.87	1.56	3.45	1.66	2.23	11.96	59.93	57.46	1.57%	5.93%	BUY
		XLC	SPDR-COMM SV SS	49.62	(0.50)	(0.14)	(0.63)	3.24	(2.20)	49.15	47.26	0.96%	5.00%	BUY
		XLV	SPDR-HLTH CR	91.40	0.74	1.89	1.45	(5.71)	(0.93)	91.14	90.02	0.29%	1.54%	BUY
		XLY	SPDR-CONS DISCR	118.29	0.52	(1.65)	0.16	2.00	2.03	118.40	113.19	-0.09%	4.51%	BUY
	SIZE	SLY	SPDR-SP SC 600	66.15	(0.33)	0.75	(2.41)	(10.17)	(15.23)	66.47	66.31	-0.48%	-0.24%	BUY
		MDY	SPDR-SP MC 400	346.42	(0.31)	0.03	(1.31)	(6.12)	(7.55)	348.80	341.88	-0.68%	1.33%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	105.64	(0.41)	(0.72)	(1.01)	(3.40)	(2.07)	106.50	103.36	-0.81%	2.20%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	99.50	0.08	0.33	(1.35)	(4.60)	0.46	100.24	97.97	-0.74%	1.56%	BUY
	Real Estate	XLRE	SPDR-RE SELS	38.47	2.16	5.28	3.10	5.20	13.92	37.23	35.42	3.34%	8.60%	BUY
	International	EEM	ISHARS-EMG MKT	39.87	(1.32)	(3.94)	(2.94)	(11.83)	(10.59)	41.69	42.01	-4.37%	-5.09%	SELL
		EFA	ISHARS-EAFE	62.94	(0.83)	(1.33)	(4.72)	(6.31)	(8.60)	64.96	63.99	-3.11%	-1.64%	BUY
		IXUS	ISHARS-CR INT S	56.07	(0.68)	(1.62)	(3.79)	(7.10)	(8.99)	57.78	57.17	-2.97%	-1.92%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	140.05	2.95	10.57	9.26	10.74	13.16	131.53	125.68	6.48%	11.44%	BUY
	International	BNDX	VANGD-TTL INT B	58.46	0.86	5.19	2.42	1.77	3.91	57.14	55.86	2.31%	4.65%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.25	0.20	2.24	(1.54)	(3.69)	(2.49)	86.43	85.50	-0.21%	0.88%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.74										

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

Healthcare, and defensive positioning, came back with a vengeance last week as President Trump went after China and sparked fears of a continued trade war. We have long been saying there would be no trade deal anytime soon, but the market has yet to grasp that concept. We are continuing to maintain our exposure to Health Care for now as defense continues to shield against volatility risk.

Current Positions:&#2013266080;*Overweight XLV*

Outperforming - Staples, Utilities, Materials

Interestingly, despite the *"trade war"* rhetoric, Materials turned higher last week. However, it was still defensive sectors ruling the advance. After taking profits, we haven't take any further action this past week, but are looking for opportunities to add to our holdings.

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

Weakening - Technology, Discretionary, Communications, Real Estate, Financials

While Technology, Discretionary and Communication did turn higher last week, the performance was relatively weak. Real Estate turned sharply higher, again a defensive position, and broke out to all-time highs and bond yields touched 3-year lows. No changes to holdings this week.&#2013266080;

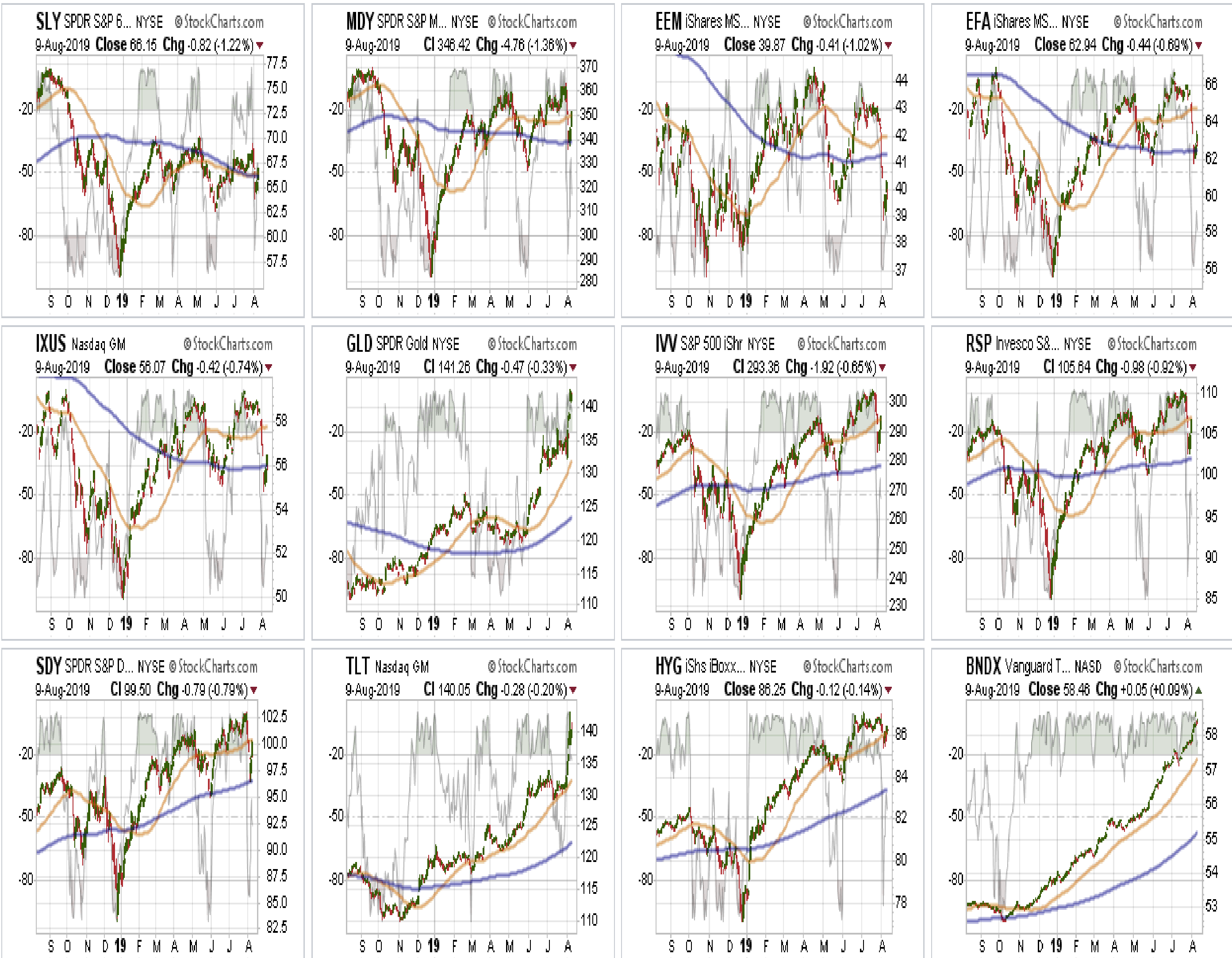
Current Position: *1/2 weight XLY, Reduced from overweight XLK, Target weight XLF, XLRE*

Lagging - Energy, Industrials

Energy is in a lot of trouble as oil prices remain weak due to a global slow down. Industrials broke support last week, but failed to at the new resistance level this week. There is no rush to increase exposure currently. For now, we are maintaining our *"underweight"* holdings in these two sectors but will consider reducing further on a rally in the next week.

Current Position: *1/2 weight XLE & XLI*

Market By Market



Small-Cap and Mid Cap - Small- and Mid-caps did pop with a short-covering rally this past week, but failed at resistance and turned lower. Small and Mid still continue to underperform the broader market which suggests leadership is becoming more narrow. Both of these markets are not oversold and there is more downside risk currently. We noted two weeks ago that with small and mid-caps extremely overbought, it was "*a great opportunity to rebalance portfolio risk and reducing weighting to an underperforming asset class for now until things improve."&#2013266080;&#2013266080;*That turned out to be good advice.

Current Position:&#2013266080;*No position*

Emerging, International & Total International Markets

We have been out of Emerging and International Markets for several weeks due to lack of performance. However, the addition of tariffs are not good for these markets and prices collapsed over the last couple of weeks. As we noted previously, *"patience will be rewarded either by avoiding portfolio drag or gaining a more advantageous entry point."&#2013266080;&#2013266080;*Not having exposure to these areas paid off well recently.

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.

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

Gold ? Gold continued to push higher due to the deteriorating economic backdrop. This continues to be bullish set up for *"gold bulls."* We are holding out positions for now and continue to look for a better entry point on a pullback to add to holdings. We haven't gotten one yet.

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

Bonds&#2013266080;?

Bonds continued to attract money flows as investors search for *"safety."&#2013266080;*However, as noted previously, bonds are EXTREMELY overbought. We are looking to increase our duration and credit quality on a pullback in price. We aren't expecting much of a correction, so we will likely scale into additional holdings during a correction process.&#2013266080;

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 and last week broke through, but recovered, the 50-dma. High yield bonds are setting up for either a bigger correction or a decent trading opportunity. We will wait and see how it plays out.

High yield bonds are NOT a long-term play. Junk bonds are almost pure risk due to the inherent bankruptcy risk. It is still 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.&#2013266080;**

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.)

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	Neutral	Positive	Positive	Hold			X			Testing Resistance
XLK	Technology	Neutral	Positive	Positive	Hold			X			Testing Resistance
XLI	Industrials	Neutral	Positive	Neutral	Hold			X			Testing Resistance
XLB	Materials	Neutral	Positive	Neutral	Hold			X			Testing Resistance
XLE	Energy	OS	Negative	Negative	Warning			X			Very Negative
XLP	Staples	OB	Positive	Positive	Hold			X			Pushing To Highs
XLV	Health Care	Neutral	Negative	Neutral	Hold			X			Testing Resistance
XLU	Utilities	OB	Positive	Positive	Hold			X			Pushing To Highs
XLF	Financials	Reversing	Positive	Neutral	Hold			X			Testing Resistance
XLC	Telecom	Neutral	Positive	Neutral	No Position					X	Testing Resistance
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Broke Out To Highs
SLY	Small Caps	Neutral	Negative	Negative	No Position					X	Testing Resistance
MDY	Mid Caps	Neutral	Positive	Neutral	No Position					X	Testing Resistance
EEM	Emerging Mkt	Reversing	Positive	Negative	No Position					X	Broke Support
EFA	International	Reversing	Positive	Negative	No Position					X	Broke Support
IXUS	Total International	Reversing	Positive	Negative	No Position					X	Broke Support
GLD	Gold	OB	Positive	Neutral	Hold			X			Extreme Overbought
RSP	SP500 Equal Wgt	Neutral	Positive	Positive	Hold			X			Testing Resistance
SDY	SP500 Dividend	Neutral	Positive	Positive	Hold			X			Testing Resistance
IVV	SP500 Market Wgt	Neutral	Positive	Positive	Hold			X			Testing Resistance
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Extreme Overbought
HYG	Corporate High Yield	Neutral	Positive	Positive	No Position					X	Correcting
BNDX	Int'l Bond Aggregrate	OB	Positive	Positive	No Position					X	Extreme Overbought

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

Portfolio/Client Update:

Last week, I wrote:

> *"As we have been discussing over the past couple of weeks, we needed to take profits and rebalance risks somewhat in portfolios.* ***Despite the recent rally, there are plenty of warning signs which suggests a near-term correction is coming." &#2013266080;***

The continued correction last week may be over for now, but I suspect we still have more downside to go before the summer is over.&#2013266080;

For newer clients, we are keeping accounts primarily in cash as our onboarding model is currently on a "sell signal" suggesting that risk outweighs reward currently.&#2013266080;

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.

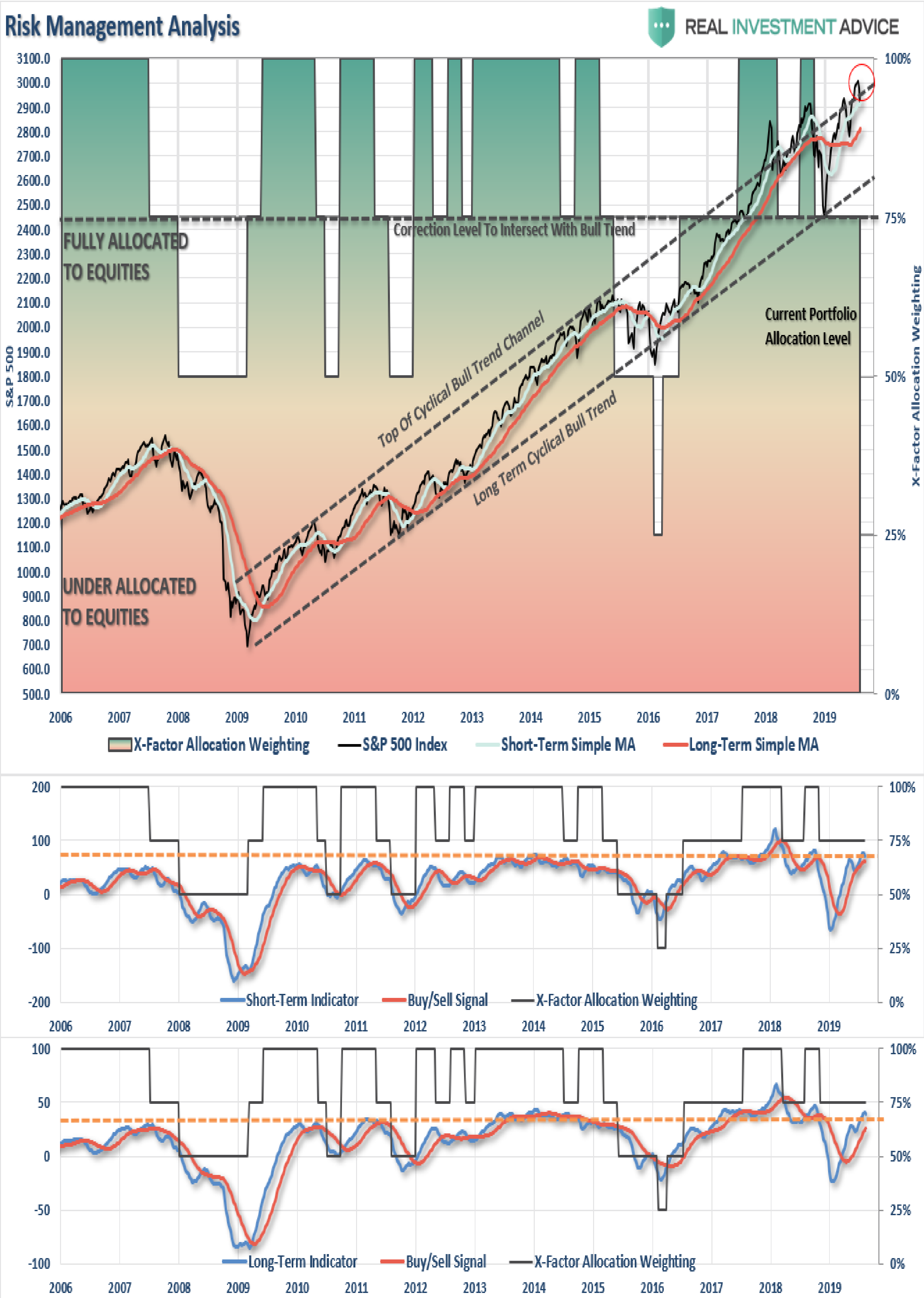
- **New clients:** *We are holding cash until our onboarding model turns back onto a "buy signal." At that time we will begin buying 1/2 of our target positions and step into the model allocation to minimize entry risk.&#2013266080;*
- ***Equity Model:*** *No trades this past week.&#2013266080; We are looking to add to our holdings of JNJ, NLY, AGNC, and WELL. However, the setup is not quite correct so we are being patient at the moment.*
- ***ETF Model****: We are looking at rebalancing additional risk and adding in potential trading positions to hedge risk as needed.*

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
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Correction Level To Intersect With Bull Trend
Top Of Cyclical Bull Trend Channel
Long Term Cyclical Bull Trend
Current Portfolio Allocation Level
S&P 500
X-Factor Allocation Weighting
X-Factor Allocation Weighting
S&P 500 Index
Short-Term Simple MA
Long-Term Simple MA
Short-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting
Long-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting

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

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401k-PlanManager-AllocationShift

Trump Is Making This Really Tough

As I wrote last week:

> *"A less than anticipated rate cut, and outlook, by the Fed tripped up participants. Then Trump deciding to add additional tariffs on China, in order to force the Fed to cut rates, roiled stocks even more.* ***Stocks sold off for the entirety of last week, so expect a rally early next week to sell into. Take some actions if you have not already as the next two months could bumpy. The correction is likely not complete yet.***

More tweets and volatility this week, however, stocks did rise from their lows as anticipated. However, like I wrote last week, we are not likely done with the correction yet. Take some actions in your plans on Monday as needed to minimize risk for now.

- *If you are* ***overweight&#2013266080;equities*** *- Hold current positions but remain aware of the risk. Take some profits and rebalance risk to some degree if you have not already.&#2013266080;*
- *If you are* ***underweight equities or at target -&#2013266080;****rebalance risks, look to increase holdings in domestic equities opportunistically if the markets can hold support at the May highs next week.&#2013266080;*

We will remain patient again this week.

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.&#2013266080;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:

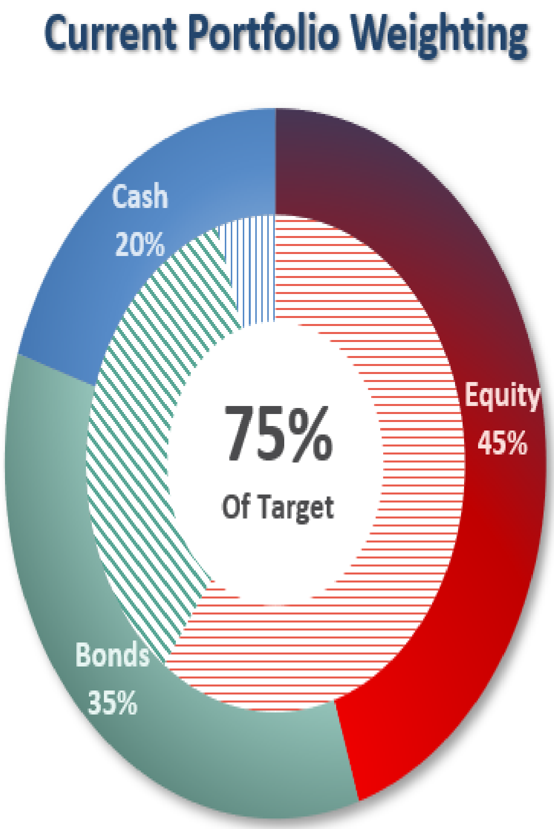
- *Name of the company*
- *Plan Sponsor*
- *A print out of your plan choices. (Fund Symbol and Fund Name)*

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 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*

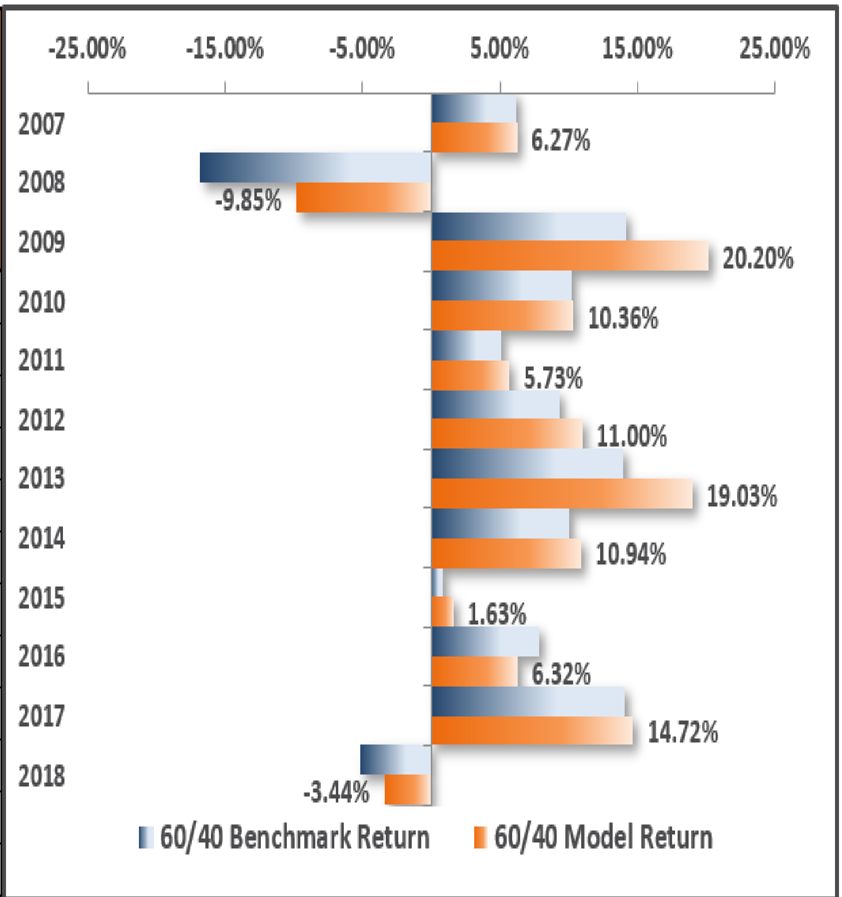
45.00% **Equity (Stocks)**

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;

Year	60/40 Benchmark Return	60/40 Model Return
2007	6.14%	6.27%
2008	-16.78%	-9.85%
2009	14.20%	20.20%
2010	10.22%	10.36%
2011	5.09%	5.73%
2012	9.33%	11.00%
2013	13.93%	19.03%
2014	10.06%	10.94%
2015	0.82%	1.63%
2016	7.81%	6.32%
2017	14.12%	14.72%
2018	-5.13%	-3.44%



Portfolio vs Benchmark Statistics	
Number of Up Years	10
Number of Down Years	2
Best One Year Return Of Benchmark	14.20%
Best One Year Return Of Model	20.20%
Worst One Year Return Of Benchmark	-16.78%
Worst One Year Return Of Model	-9.85%
Benchmark Return 2007-Present	88.49%
Model Return 2007-Present	135.70%
Total Alpha Generated	47.22%
Mean Annual Return Of Benchmark	6.08%
Mean Annual Return Of Model	8.16%
Beta Of Model vs Benchmark	0.86
Jensens Alpha	2.53%
Sharpe Ratio	0.20