RIA PRO: Powell Fails, Trump Rails & The Failure Of Negative Rates

- ***Trump & Powell Square Off***
- ***Negative Yields Everywhere***
- ***Why The Fed Won't Go Negative***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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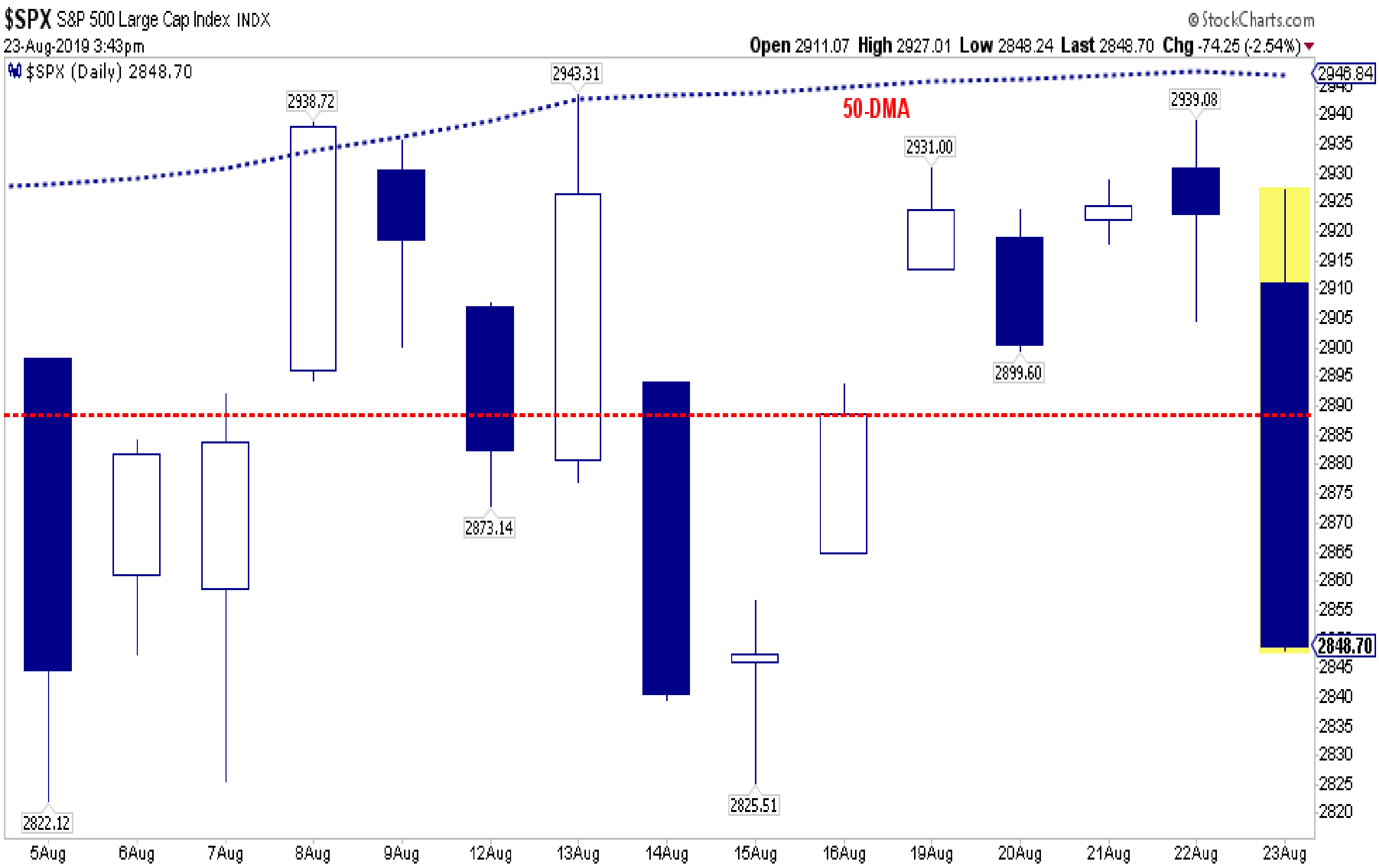
Trump & Powell Square Off

Let's start with a simple chart:



This has been an impossible market to effectively trade as rhetoric between the White House, the Fed, and China, has reached a fevered pitch.&#2013266080;

On Friday, several things happened which have at least temporarily significantly heightened market risk.

Jerome Powell disappointed the markets, and the White House, by sticking with their previous guidance concerning monetary policy actions. To wit:

- ***We Will Act As Appropriate To Sustain The Expansion (Will cut rates if needed)***
- *Says Events Since The July Fomc Have Been `Eventful'&#2013266080; (Trade War/Tariffs)*
- ***Carefully Watching Development For Impact On U.S. (China/US Trade)***
- *Monetary Policy Has No Rulebook For International Trade&#2013266080;*
- ***We've Seen Further Evidence Of A Global Slowdown (Germany in recession)***
- *Fitting Trade Policy Into Risk-Management Framework Is a New Challenge*
- ***Fed Faces Heightened Risk of Difficult-to-Escape Periods of Near-Zero Rates (Neg. rates)***

- ***U.S. Economy Has Continued to Perform Well Overall&#2013266080; (No rush to cut rates)***
- *Sees Financial Stability Risks as Moderate, but Will Remain Vigilant*

However, this commentary was not a surprise to us. We have suggested for several months the Fed should be slow to use what little ammo they currently have.&#2013266080;

> *"With the markets pushing record highs, recent employment and regional manufacturing surveys showing improvement, and retail sales rebounding, **it certainly suggests the Fed should remain patient on cutting rates for now** at least until more data becomes available. **Patience would also seem logical given the limited room to lower rates before returning to the 'zero bound.'?***

Not surprisingly, Chairman Powell's comments did not sit well with President Trump who has frequently pressed the Fed to cut rates aggressively. Mr. Powell stopped short of promising any specific monetary-policy easing, saying instead the central bank would ?*act as appropriate.?*

> *"**After Powell?s** closely watched speech in Jackson Hole, Trump tweeted, 'As usual, the Fed did NOTHING!'&#2013266080;*
>
> *After China announced more import tariffs on U.S. goods early Friday, Trump said he would respond Friday afternoon. **The president also asked 'who is our bigger enemy,' Powell or Chinese President Xi Jinping."**&#2013266080;- MarketWatch*

By the end of the day on Friday both the U.S. and China had hiked tariffs on one another.

> *"China said it would increase existing tariffs by 5% to 10% on more than 5,000 U.S. products, including soybeans, oil, and aircraft. A 25% duty on American-made cars would also be reinstituted. The value of these products is estimated by the Chinese Commerce Ministry to total around $75 billion.*
>
> *Trump responded after financial markets closed by saying he would raise current U.S. tariffs. A 10% duty on $300 billion in Chinese goods will be raised to 15% in September while a 25% tariff on $250 billion in imports would be increased to 30% in October." - MarketWatch*

The Investing Conundrum

The problem with managing money is that markets are now trading on *"tweets,"* and *"headlines,"* more than fundamentals. This makes being either long, or short, particularly difficult.&#2013266080;

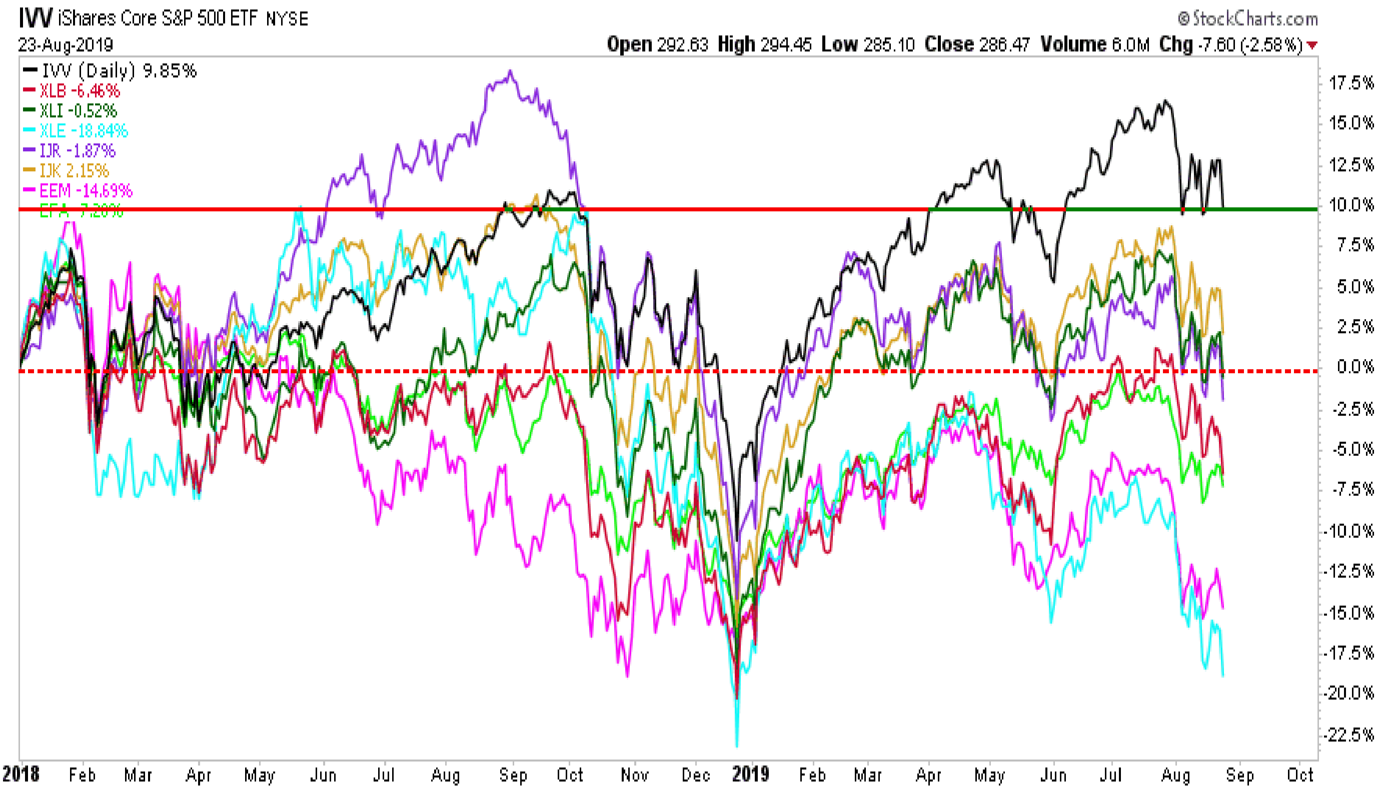
This was a point made earlier this week to our **RIAPRO subscribers:**

> *With the volatility seen in just the past two weeks, it is too difficult to trade short positions without being 'whipsawed' out of the holdings.*
>
> ***Trading Rule:***
>
> ***When you are 'unsure' about the best course of action, the best course of action is to 'do nothing.'?***

This is where we are currently.&#2013266080;

Over the past few months we have reiterated the importance of holding higher levels of cash, being long fixed income, and shifting risk exposures to more defensive positions. That strategy has continued to work well.&#2013266080;

- *We have remained devoid of small-cap, mid-cap, international and emerging market equities since early 2018 due to the impact of tariffs on these areas.*
- *For the same reasons we have also reduced or eliminated exposures to industrials, materials, and energy*
- *With the trade war ramping up, there is little reason to take on additional risk at the current time as our holdings in bonds, precious metals, utilities, staples, and real estate continue to do the heavy lifting.&#2013266080;*

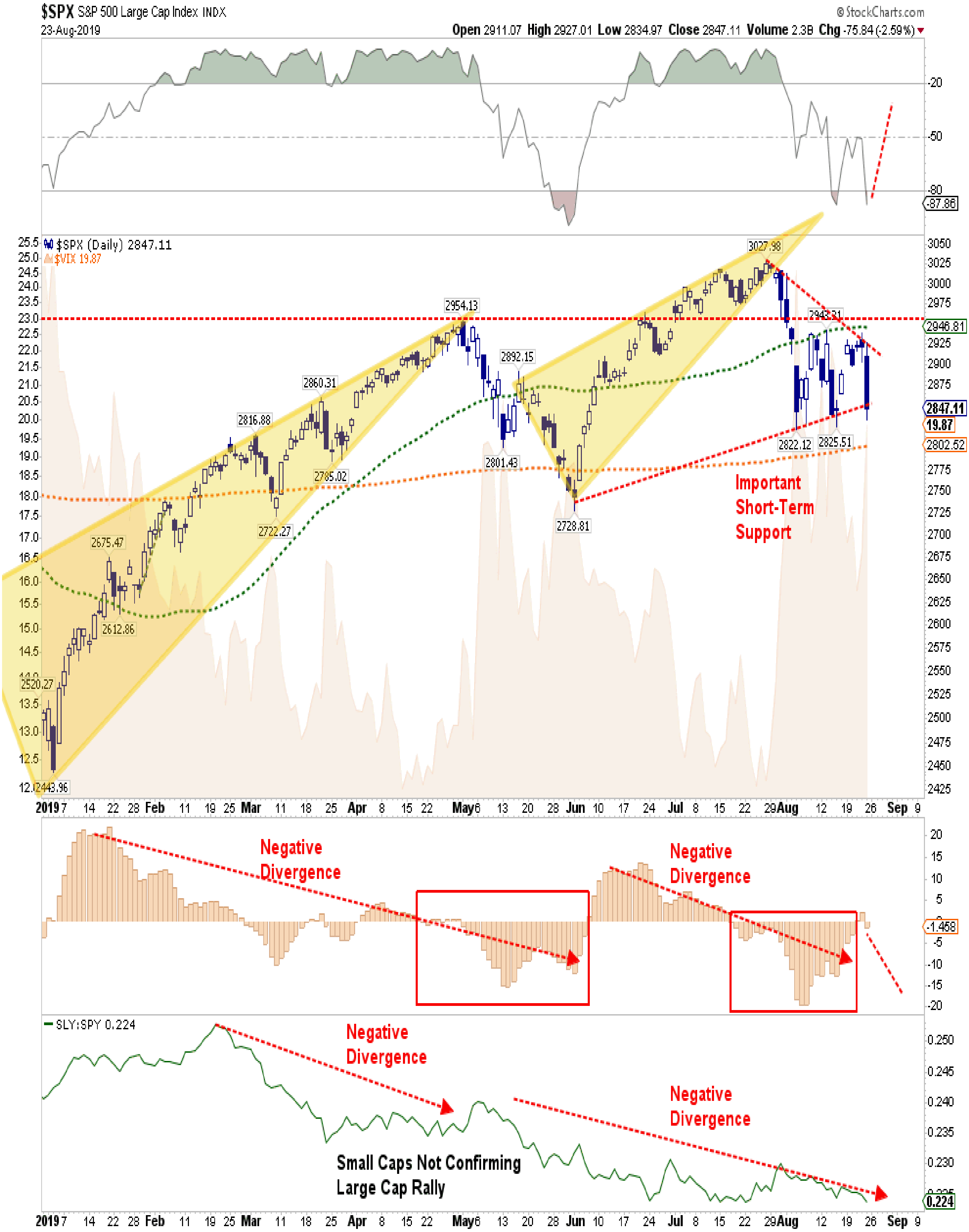


If you are being advised to hold all these asset classes for *"diversification"* reasons, you should be asking yourself, *"why?"*

Trade wars, and tariffs, are not friendly to these markets. With those *"taxes"* being ramped up by both parties, **things will get worse, before they get better.&#2013266080;**

Risk management is critically important to long-term returns, and risk is becoming more elevated daily. **So, if you are paying for a *"buy and hold"* portfolio, you may want to reconsider what you are paying for?**

From a technical perspective, the market is back to oversold, so a bounce next week is possible, but as noted last week, this is *"still a sellable rally."* However, if the market breaks the current consolidation to the downside, a test of the 200-dma will be critically important. Any failure at that support will bring the December lows back into focus.



As we have continued to note over the last few weeks, the ongoing deterioration of small and mid-capitalization companies continues to suggest the overall backdrop of the markets is not healthy.

We continue to remain cautious for the time being.&#2013266080;

Negative Yields Everywhere

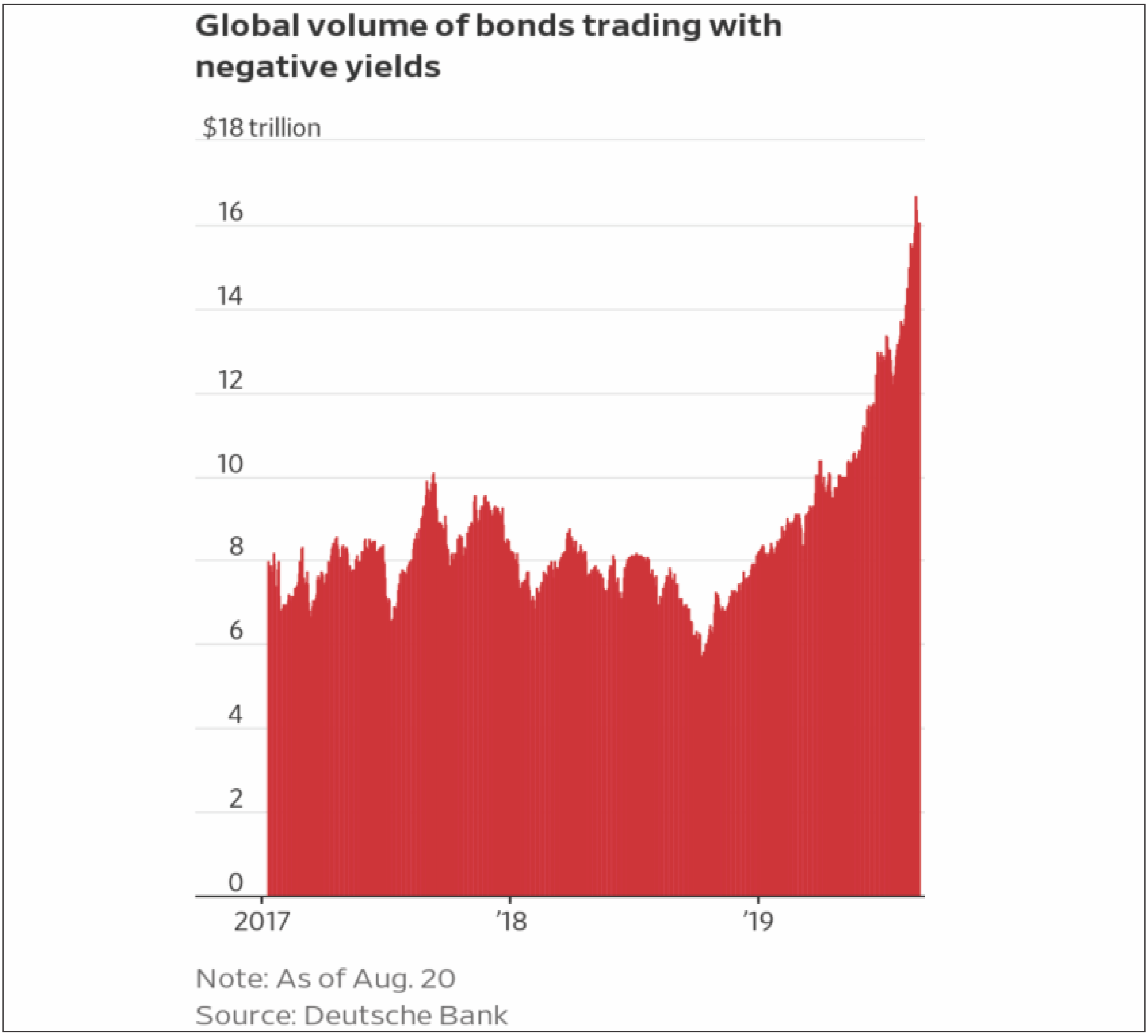
As I noted last week in *"Pavlov's Dogs & The Ringing Of The Bell:"*

> *"The 'ringing of the bell'&#2013266080;over the last decade has trained investors to rush into equity-related risk."*

With Powell disappointing traders, and Trump retaliating with additional tariffs, the initial response was to flee to *"safety,"* or rather should I say *" bonds."*

While retail investors continue to cling onto stocks hoping for a resurgence of the *"bull market,"* institutions are piling into bonds as the tidal wave of data continues to warn something is *"broken."*

(You don't have $17 Trillion in negative-yielding sovereign debt if there is economic and fiscal stability.)



Doug Kass reminded me on Thursday of a memorable lesson from *"Wall Street."*&#2013266080;

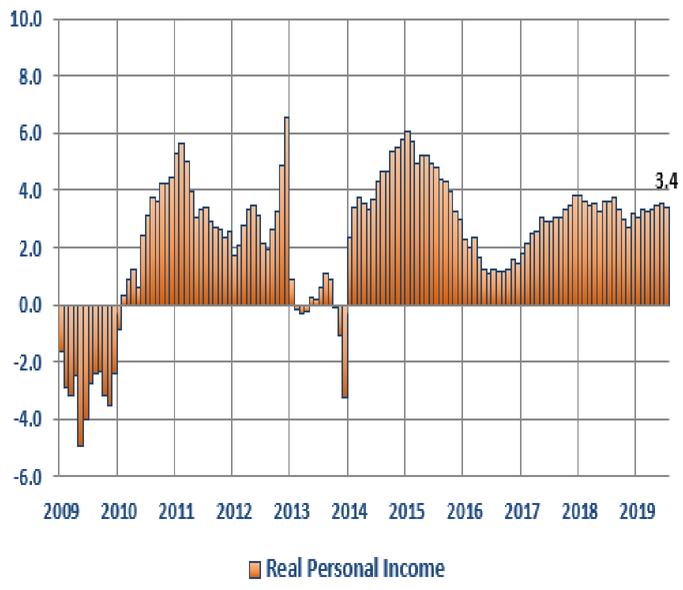
> *"Quick buck artists come and go with every bull market, but the steady players make it through the Bear Markets. Enjoy it while it lasts - 'cause it never does.'" - Lou Mannheim*

The message that negative yields are sending coincides with weaker growth rates in:

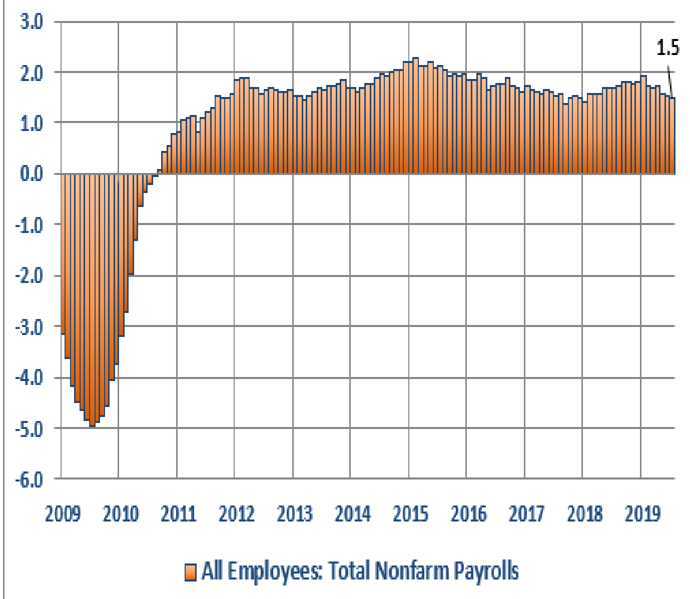
- *Corporate profits*
- *Employment*
- *CapEx*
- *Personal Consumption Expenditures*
- *Real Retail Sales*
- *GDP*

You can see this visually in the 6-panel chart from *last week's missive*

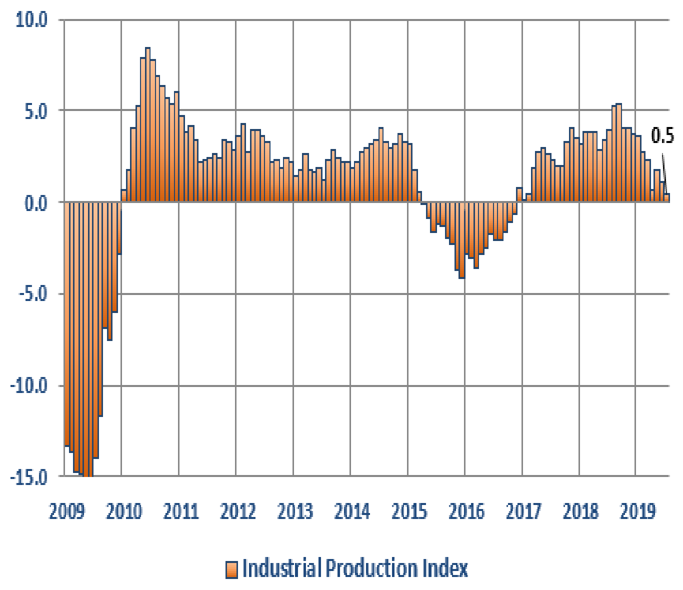
Personal Income



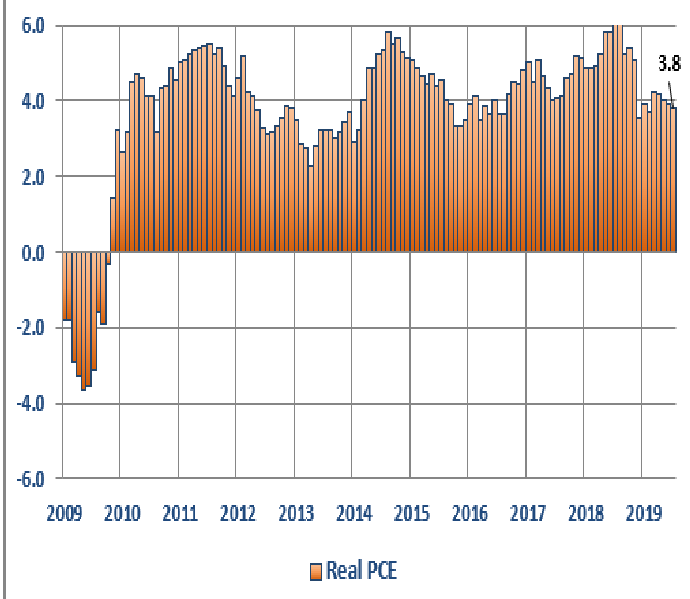
Employment



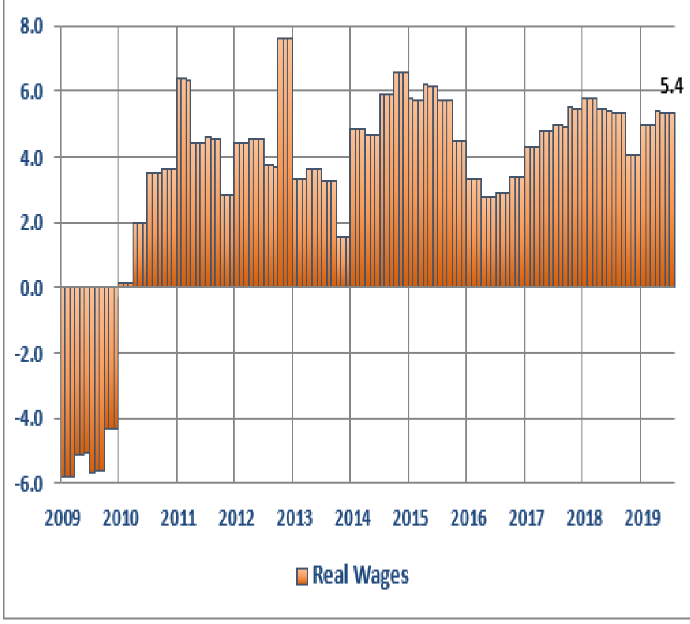
Industrial Production



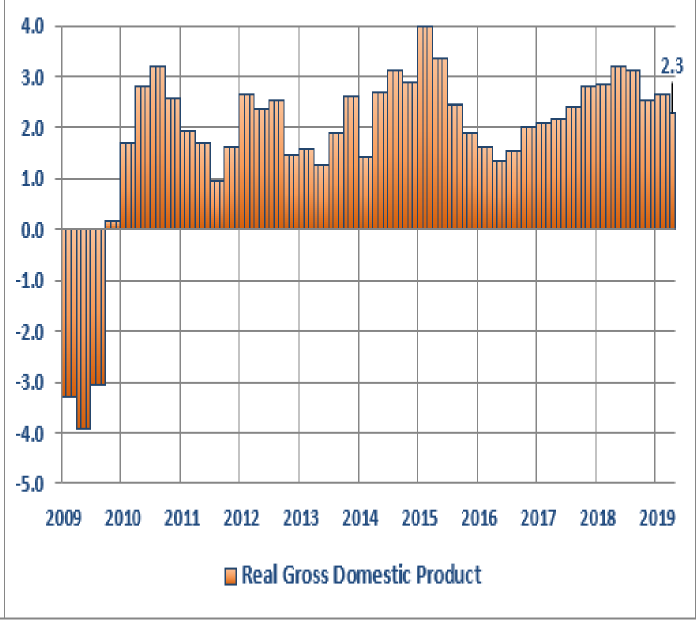
Real Consumer Spending (PCE)



Real Wages



Real GDP



Yes, the data is not negative which is why we aren't in a recession...yet,&#2013266080;
(However, the data is subject to substantial negative revisions, and as we showed last week, the month before the last recession started all the data was positive as well.)

This is also the reason the Fed stopped hiking rates.

Last September, the Fed believed they needed to hike rates more aggressively as they believed the *"neutral rate," (code for economic growth)* was considerably higher. We warned then several natural disasters were skewing the economic data, and that hiking rates was a mistake. By December, as rates reached 2%, and with the markets down 20%, the *"neutral rate"* had been achieved.

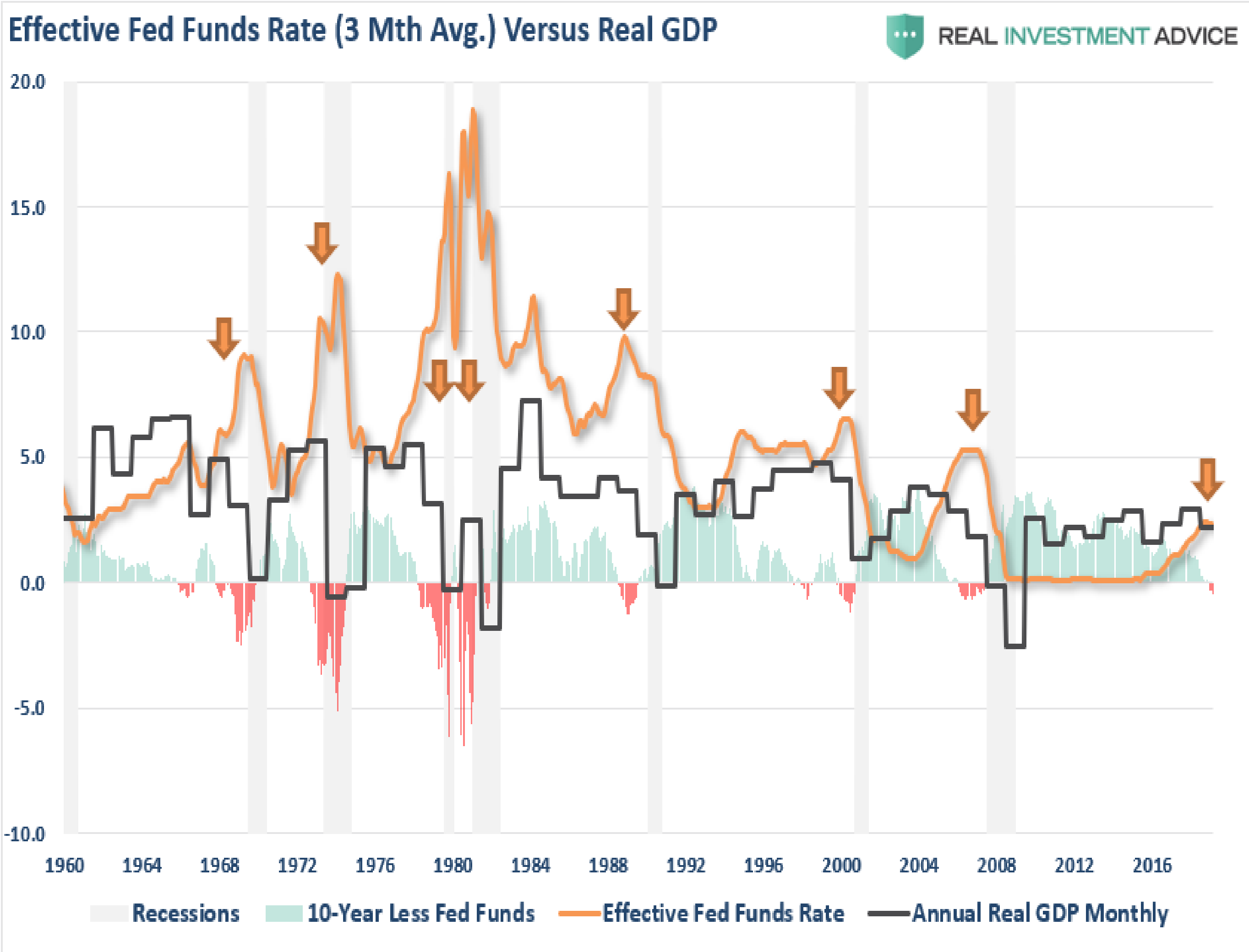
Don't mistake the following comment from Fed member Patrick Harker earlier this week:

> *"This was a situation where we were getting back to what I would see as a neutral rate. In December 2018, we raised rates by 25 basis points. At that time, I was not supportive of that move because I thought that we didn?t need to do that.* ***So, we?re just recalibrating back to where I thought we should have been, with a 25-basis-point cut."***

Since that is a lot of *"Fed speak,"* let me translate:

> *"Listen, as a member of the Fed,* ***I can't tell you*** *the economy has weakened significantly, and the threat of a recession has risen markedly.&#2013266080; If I did say that, the market would crash, consumer confidence would crash, and we would immediately be in a recession.&#2013266080;*
>
> ***The reality is that we needed to get rates off of zero percent, and we were hoping to get rates closer to 4%, to give us some room to support the economy during the next recession.*** *Unfortunately, we actually 'over tightened' which led to the market disruption last year. The rate cut in July was to be supportive of the economy short-term,* ***but we need to hold as much 'ammo' as possible in reserve for when the recession hits."***

Here is a chart of the Effective Fed Funds Rate versus the Neutral Rate *(Real GDP):*



You should note a couple of things.

1. *It wasn't until the 1990's that the "neutral rate" became a thing. However, **one of the best indicators of an impending recession is when the 10-year rate is inverted to the Fed Funds rate, as it is now.***
2. *The indicator is even more timely when the curve is inverted **combined with the Fed cutting rates, as they are now.***

Could this time be different? Absolutely, there is always the possibility this time could be different. However, betting on possibilities versus probabilities tends not to work out well.&#2013266080;

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Why The Fed Won't Go Negative

Since the Fed meeting in July when they cut rates by 0.25%, the Fed has been working diligently to lower expectations of further rates cuts. As noted, this is because the Fed understands the trap they have gotten themselves into.&#2013266080;

1. *With just a bit more than 2% between the current Fed funds rate and ZERO, the Fed understands what little bit of precious ammo they have to fend off the next recession.&#2013266080;*
2. ***They won't go "negative" on rates.***

Concerning the second point, my colleague Daniel LaCalle summed it up well:

> *"The paper ignores the collapse in net income margin and ROE and even dismisses ROTE (return on tangible equity)* ***to try to defend the idea that banks earnings have not suffered from negative rates.***
>
> ***The worrying part is that these statements ignore the fact that one of the main reasons why banks? bottom line has not fallen more is they have almost stopped making provisions on bad loans.****"*

His point is critically important.

> ***Negative rates*** **have irreparably damaged European banks, which only can be resolved through a massive debt revulsion.**

The Fed is at least smart enough to understand this dynamic, which is why they are defending what room they have with the one rate they can directly control.&#2013266080;

Wolf Richter also had some excellent points in this regard:

> ***"Negative interest rates drive banks to chase yield to make some kind of profit. So they do things that are way too risky and come with inadequate returns.*** *For example, to get some return, banks buy Collateralized Loan Obligations backed by corporate junk-rated leveraged loans. In other words, they load up on speculative financial risks. And as this drags on, banks get more precarious and unstable.*
>
> ***This is not a secret. The ECB and the Bank of Japan and even the Swiss National Bank have admitted that negative interest rates weaken banks.*** *The ECB has even been talking about a strategy to 'mitigate' the destructive effects its policies have on the banks.*
>
> *So that?s the issue with negative interest rates and banks.* ***They crush banks."***

Don't forget.&#2013266080;

Why did the Fed launch Q.E., and cut rates to zero, to begin with?&#2013266080;

To bail out the member banks of the Federal Reserve, or should I just say, *"Wall Street."*

Interest rates are a function of economic growth. Globally, despite massive levels of QE, and low interest rates, **economic growth is faltering, not strengthening.**

The Fed does understand this.

Unfortunately, the Fed is still misdiagnosing what ails the economy, and monetary policy is unlikely to change the outcome in the U.S., just as it failed in Japan.&#2013266080;**The reason is simple.**

You can?t cure a debt problem with more debt. Therefore, monetary interventions, and government spending, does not create organic, sustainable, economic growth. &#2013266080;

Simply pulling forward future consumption through monetary policy continues to leave an ever growing void in the future that must be filled.&#2013266080;**Eventually, the void will be too great to fill.**

If rates ever do rise, it's game over as borrowing costs surge, deficits balloon, housing falls, revenues weaken, and consumer demand wanes. It is the worst thing that can happen to an slow growing economy that is dependent of further debt expansion just to sustain current growth.

As Wolf noted, lower rates are not the solution, they are the problem.&#2013266080;

> ***"So far, the outcomes are already bad, and now, because the outcomes are already bad, they?re wanting to drive interest rates even lower to deal with the bad outcomes that these low interest rates have already caused."***

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

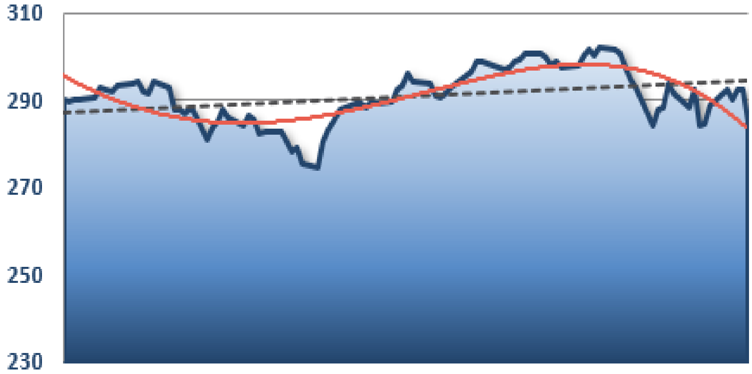
See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet &#2013266080;

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	16.47%	(0.33%)	13.98%	########
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.64	0.20	1.57	6.92
Sortino	0.71	0.04	1.90	43.30
Volatility	14.62	16.51	14.04	(0.15)
Daily VaR-5%	(13.12)	(24.34)	1.31	(1.05)
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%	1.92%	7.37%	2.17%	1.67%	(11.43%)	15.18%
P/E Ratio	20.08	19.85	17.52	(13.31%)	20.84	15.81	(16.0%)	10.79%
P/S Ratio	3.20	3.38	3.09	(9.41%)	3.55	2.61	(12.93%)	18.38%
P/B Ratio	3.61	3.99	3.81	(4.81%)	4.14	3.01	(8.04%)	26.63%
ROE	15.83%	17.29%	18.68%	7.47%	18.82%	14.99%	(0.73%)	24.66%
ROA	2.94%	3.25%	3.53%	7.72%	3.53%	2.81%	(0.19%)	25.40%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,408.7	2,335.9	(3.03%)
Sales	61,038	64,620	5.87%
SPS	25.3	27.7	9.17%
Earnings	8,818	9,515	7.91%
EPS TTM	4.4	4.9	11.41%
Dividend	1.5	1.6	6.77%

S&P 500 Asset Allocation

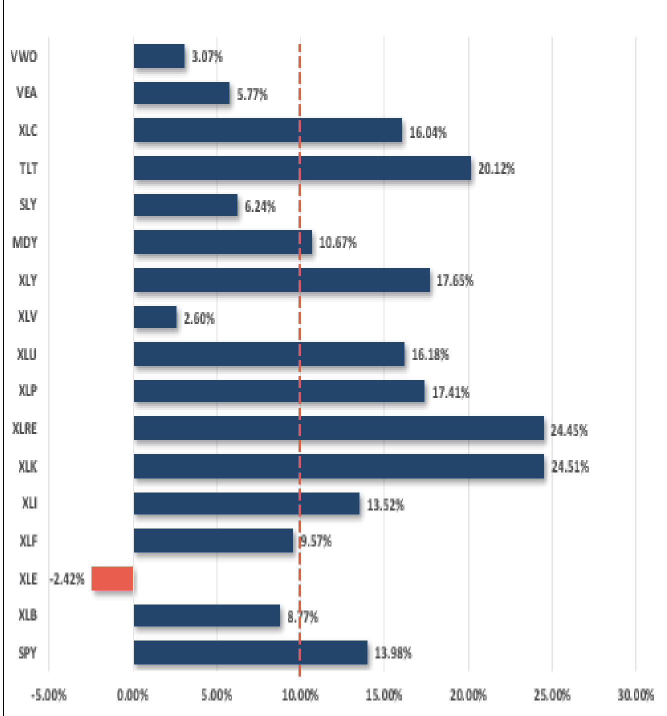
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(26.10%)	4.46%	1.20	14.59	127.61	12.35	(88.6%)	9.1%	4.2%	6.73%	3.47	15.80
Materials	(26.64%)	2.70%	1.22	13.45	22.97	13.86	(41.4%)	9.5%	2.0%	7.26%	4.21	15.22
Industrials	(4.86%)	9.14%	1.14	16.44	22.23	14.78	(26.0%)	16.6%	2.1%	5.96%	5.20	16.14
Discretionary	0.35%	10.18%	1.02	23.39	27.46	20.11	(14.8%)	29.1%	1.3%	4.14%	4.90	22.26
Staples	9.34%	7.51%	0.60	20.30	22.83	17.62	(11.1%)	27.3%	2.7%	4.88%	3.93	19.61
Health Care	(2.56%)	14.00%	0.87	15.81	20.62	15.93	(23.3%)	30.8%	1.8%	6.16%	6.63	15.12
Financials	(6.45%)	12.61%	1.23	12.30	18.45	11.71	(33.3%)	11.6%	2.2%	7.88%	5.83	12.31
Technology	7.69%	22.16%	1.25	20.65	21.74	14.43	(5.1%)	39.6%	1.5%	4.71%	5.35	20.29
Telecom	(6.27%)	10.40%	0.87	19.02	27.57	17.47	(31.0%)	17.1%	1.0%	5.15%	6.55	17.94
Utilities	18.09%	3.45%	0.31	20.64	20.31	15.58	1.6%	10.4%	3.2%	4.86%	3.63	18.59
Real Estate	15.16%	3.23%	0.72	20.84	24.47	17.10	(14.8%)	9.6%	3.1%	4.80%	4.34	19.60

Momentum Analysis

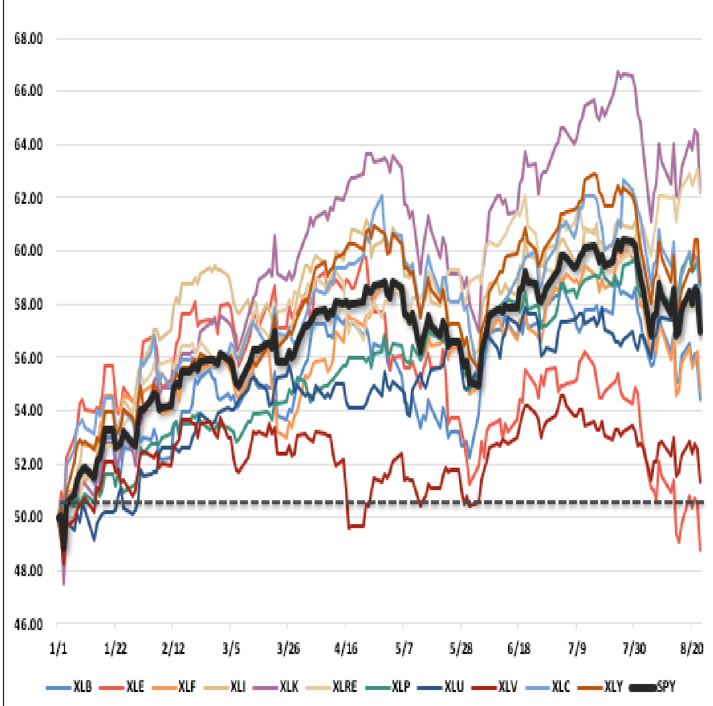
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	284.85	(1.52%)	294.45	12	(3.26%)	279.74	59	1.83%	5.26%	(5.75%)	21.86%	Buy
Mid Cap	334.98	(3.43%)	350.54	12	(4.44%)	340.79	6	(1.71%)	2.86%	(10.46%)	17.76%	Buy
Small Cap	63.71	(3.12%)	66.66	12	(4.42%)	66.23	12	(3.81%)	0.64%	(18.58%)	13.16%	Buy

Performance Analysis

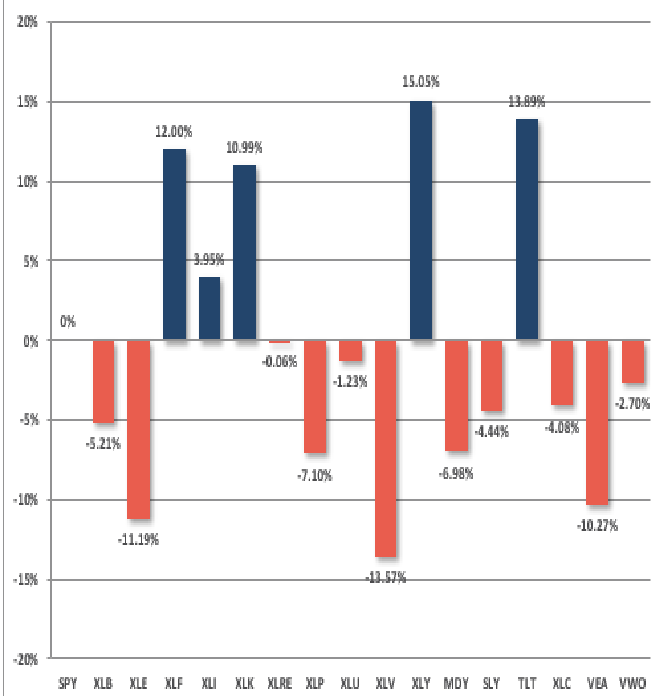
Year To Date Performance



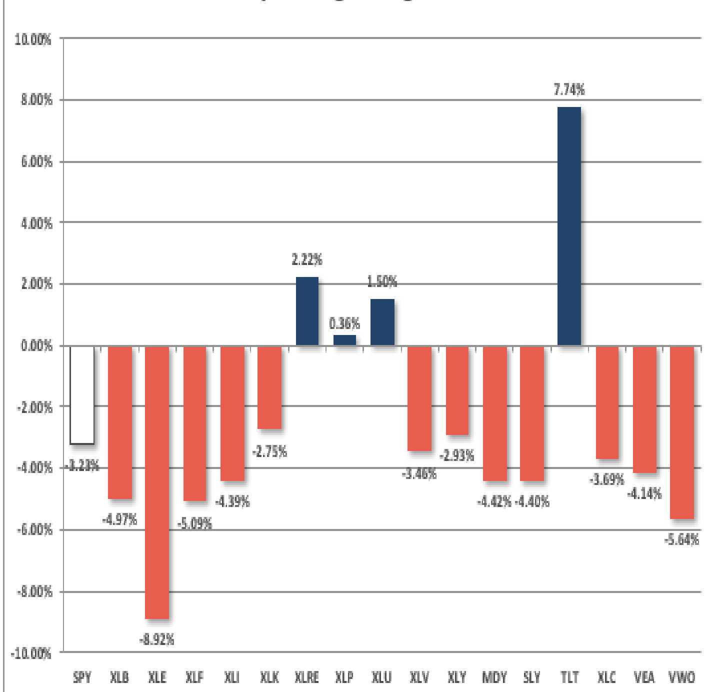
YTD Price - S&P Sectors Recalibrated To $50/share



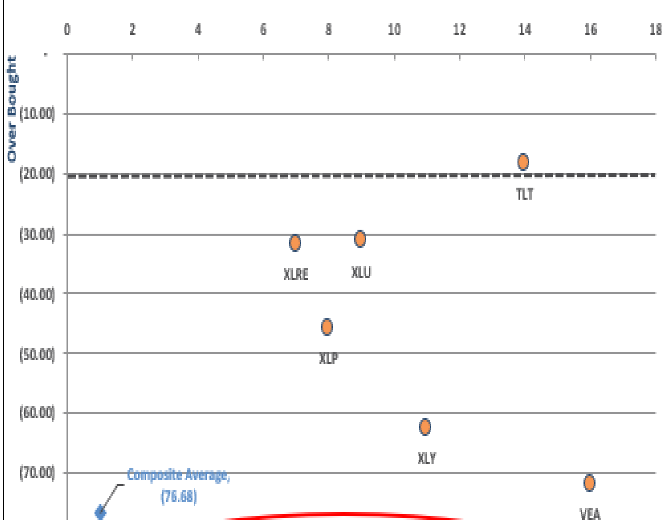
Year To Date Performance Relative To S&P 500



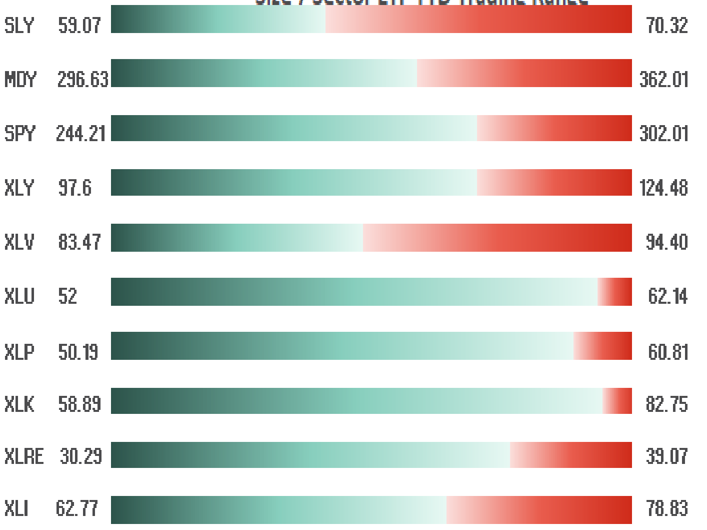
Price Deviation From 50-Day Moving Average



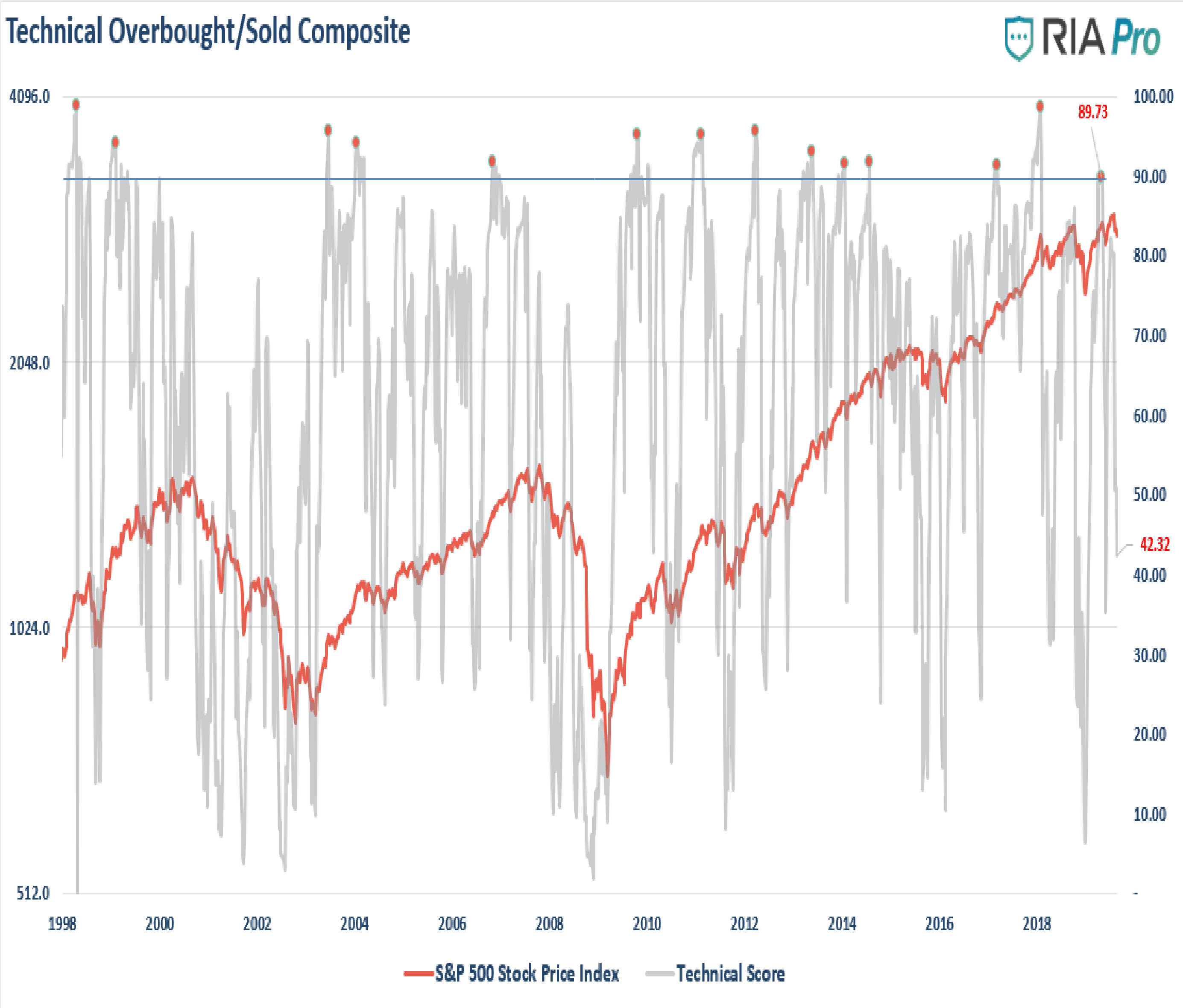
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index: 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	286.47	(1.41)	(5.70)	3.31	3.72	(1.05)	293.58	284.89	-2.42%	0.56%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	54.95	(1.54)	(1.26)	0.86	(3.32)	(6.02)	57.35	55.74	-4.19%	-1.42%	BUY
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	55.96	(0.44)	(4.70)	(8.09)	(16.14)	(23.87)	61.27	63.35	-8.66%	-11.66%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	26.10	(0.35)	(3.33)	(2.96)	(3.22)	(6.52)	27.36	26.69	-4.59%	-2.22%	BUY
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	73.12	(0.17)	(1.16)	(1.82)	(5.27)	(3.64)	76.00	74.65	-3.79%	-2.05%	BUY
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	77.17	(0.00)	(0.87)	4.04	6.82	4.94	78.26	74.00	-1.39%	4.28%	BUY
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	59.62	0.43	4.45	3.90	7.29	11.34	59.00	56.33	1.06%	5.83%	BUY
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	61.48	1.58	8.20	2.24	3.11	15.48	60.30	57.93	1.95%	6.13%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	47.90	(0.31)	(1.69)	(1.59)	0.03	(2.06)	49.22	47.72	-2.68%	0.38%	BUY
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	88.76	(0.56)	2.10	(1.61)	(4.43)	(2.35)	91.41	90.38	-2.90%	-1.80%	BUY
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	116.49	1.93	(0.02)	1.70	3.73	2.45	118.73	114.39	-1.89%	1.83%	BUY
TACTICAL	SIZE	SLY	SPDR-SP SC 600	63.71	(1.08)	(1.15)	(2.55)	(7.80)	(16.93)	66.28	66.68	-3.88%	-4.45%	SELL
TACTICAL	SIZE	MDY	SPDR-SP MC 400	334.98	(0.55)	(1.61)	(1.84)	(4.97)	(8.55)	348.36	344.38	-3.84%	-2.73%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	102.51	(0.10)	(1.13)	(1.50)	(3.12)	(2.82)	106.48	104.18	-3.72%	-1.60%	BUY
CORE	Dividend	SDY	SPDR-SP DIV ETF	97.01	0.10	0.13	(2.12)	(3.85)	(0.28)	100.15	98.55	-3.13%	-1.56%	BUY
CORE	Real Estate	XLRE	SPDR-RE SELS	38.58	1.21	9.82	2.48	7.08	15.91	37.56	35.86	2.72%	7.58%	BUY
CORE	International	EEM	ISHARS-EMG MKT	39.05	0.18	(2.85)	(7.38)	(9.94)	(8.91)	41.53	42.05	-5.97%	-7.13%	SELL
CORE	International	EFA	ISHARS-EAFE	61.96	0.95	0.29	(5.58)	(6.10)	(6.91)	64.61	64.22	-4.10%	-3.52%	BUY
CORE	International	IXUS	ISHARS-CR INT S	55.08	0.80	(0.28)	(5.65)	(6.61)	(7.41)	57.53	57.37	-4.26%	-3.99%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	145.96	1.30	16.72	7.41	16.34	20.41	134.40	127.11	8.60%	14.83%	BUY
FI	International	BNDX	VANGD-TTL INT B	58.89	1.09	7.53	0.98	2.83	8.63	57.58	56.11	2.27%	4.96%	BUY
FI	High Yield	HYG	ISHARS-IBX HYCB	86.55	1.94	4.98	(1.36)	(2.01)	1.25	86.50	85.81	0.06%	0.86%	BUY
FI	Cash	BSV	VANGD-SHT TRM B	81.08										

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 (XLV)

While we are maintaining exposure to Health Care for now, as defense continues to shield against volatility risk, the performance improvement has begun to wane this past week. However, healthcare is currently oversold and is testing critical support. After taking profits previously, we are holding tighter stops for now.&#2013266080;

Current Positions:&#2013266080;*Target weight XLV*

Outperforming - Staples (XLP), Utilities (XLU), Materials (XLB), Communications (XLC)

Trade war rhetoric hit Materials hard on Friday, but is currently holding support. We have moved stops up on our holdings a break of support will likely reduce our allocation further. Utilities and Real Estate have continued their performance, and after taking profits, we are maintaining our holdings in these sectors.

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

Weakening - Technology (XLK), Discretionary (XLY), Real Estate (XLRE)

While Technology, and Discretionary did turn higher, the performance was relatively weak. The rise of trade war tensions hit these two sectors hard on Friday but support is currently holdings. Raise stops and manage risk accordingly. Real Estate continues to hold up from defensive positioning.

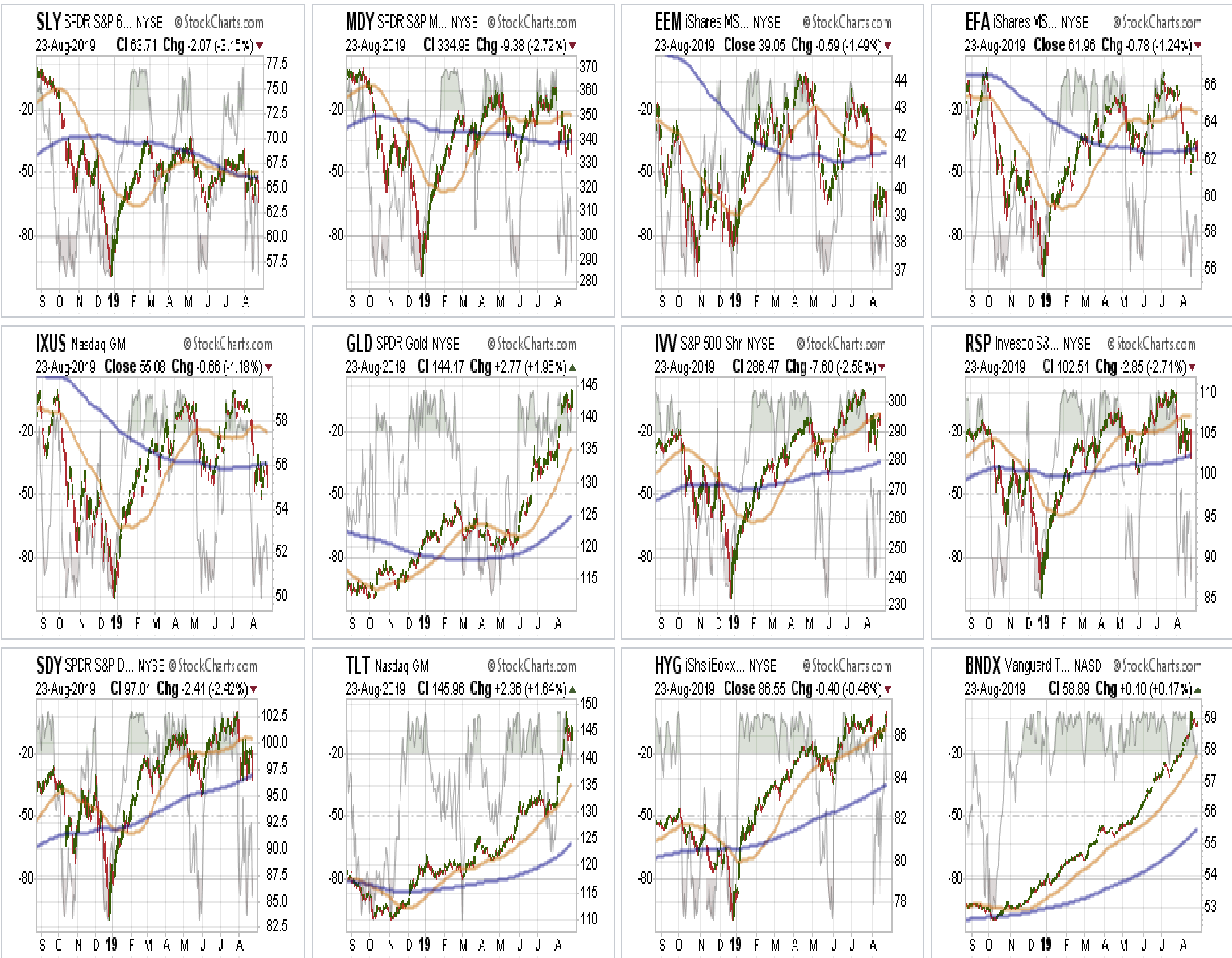
Current Position: *1/2 weight XLY, Target weight XLK, XLRE*

Lagging - Energy (XLE), Industrials (XLI), Financials (XLF)

Energy is in a lot of trouble as oil prices remain weak due to a global slow down. Industrials broke support last week, and failed at resistance. We were stopped out of XLE previously, but are maintaining our *"underweight"* holdings in XLI for now. We are close to getting stopped out on this position as well. We also reduced our holdings in the Financial sector as both the Fed lowering rates, and an inverted yield curve, are not beneficial their profits.

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

Market By Market



Small-Cap and Mid Cap - Small- and Mid-caps collapsed on Friday as more tariffs have a larger impact on their profit margins. Small- and Mid-caps have both violated their 200-dma. Mid-caps are only marginally in a better technical condition than small-caps but there is no reason to have weightings in either index currently.&#2013266080;

We noted a month 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 have collapsed over the last few 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 continues to pay off for now.

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;?

Like Gold, bonds continued to attract money flows as investors search for *"safety."* There has also been a massive short-covering rally with all those *"bond bears"* being forced to cover. 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 had been consolidating and got oversold. Last week, junk bonds surged back to highs as traders chased *"risk on."&#2013266080;&#2013266080;*With yield spreads very compressed this is a good opportunity to take profits and reduce risk. If this market does begin a bigger correction, there will be a lot of investors left *"holding the bag."&#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.)

RIA Pro

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

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

Portfolio/Client Update:

As noted above, the volatility in the market currently has made "trading" portfolios extremely complicated. Whatever you do, looks good one day, and terrible the next.

However, this is the market we are in currently and the feud between the White House, the Fed, and China is likely not going to end well. The correction continued again this past week, which has now gotten the market fairly oversold. The big news, of course, was the inversion of the yield curve, which has dominated headlines as of late. However, as I noted last week, it is when the yield curve un-inverts, as the Fed is aggressively cutting rates, that the recession is likely in process.&#2013266080;

We are watching this very closely.

With the volatility in the markets, and the fact the markets have not&#2013266080; done anything technically "wrong" as of yet, we have taken no actions this past week.&#2013266080;

However, there is a rising probability that we are about to start getting stopped out of positions that are directly tied to the *"trade war"* such as Materials, Industrials, and Discretionary holdings.

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.

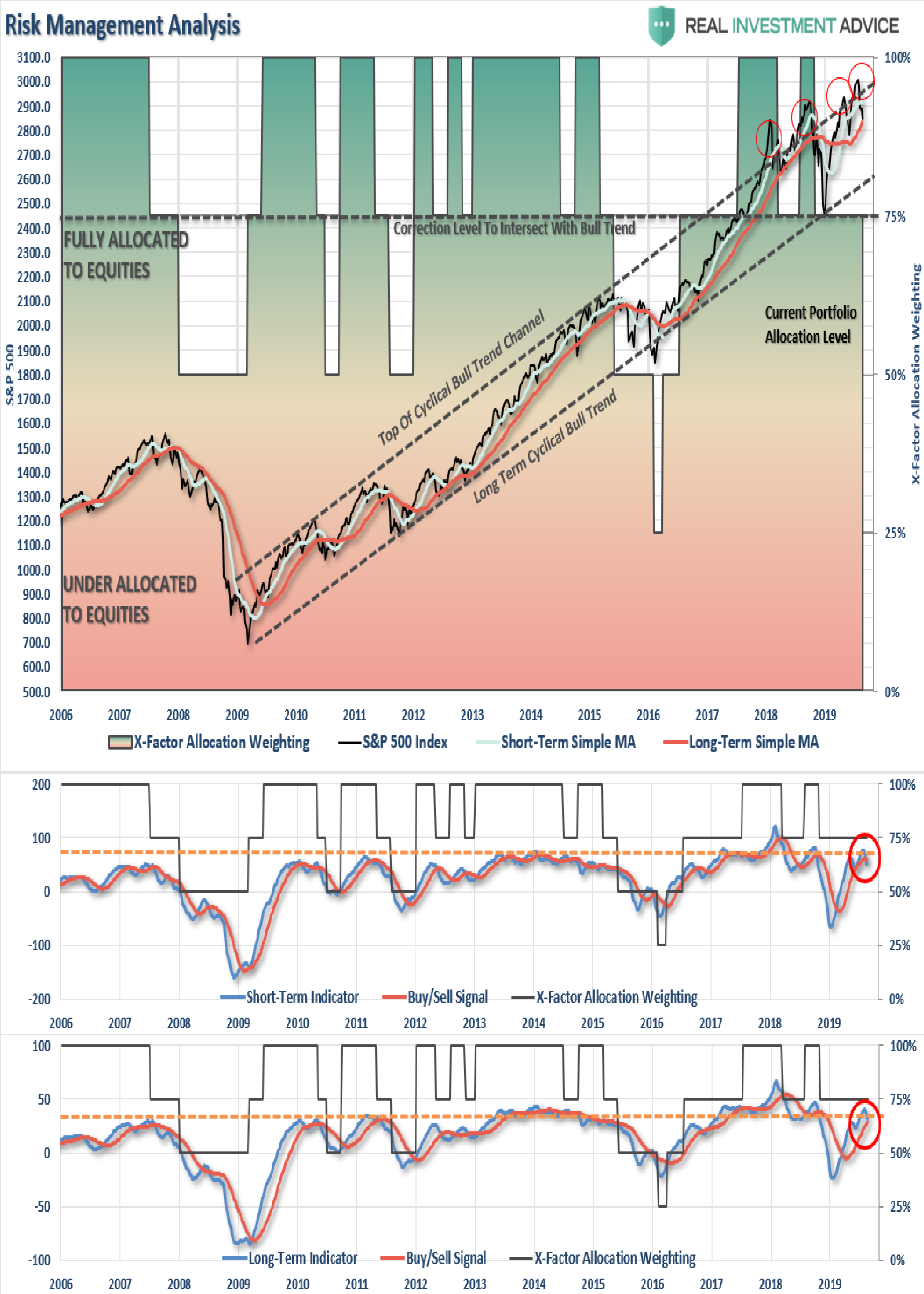
- **New clients:** *We are holding cash until our onboarding model turns back onto a "buy signal." At that time we will begin buying 1/2 of our target positions and step into the model allocation to minimize entry risk.&#2013266080;*
- ***Equity Model:*** *No trades this past week.&#2013266080;*
- ***ETF Model****:&#2013266080; No trades this past week.&#2013266080;*

Note for new clients:

It is important to understand that when we add to our equity allocations, ALL purchases are initially&#2013266080;*?trades?*&#2013266080;that can, and will, be closed out quickly if they fail to work as anticipated.&#2013266080;This is why we&#2013266080;*?step?*&#2013266080;into positions initially. Once a&#2013266080;*?trade?*&#2013266080;begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment.&#2013266080;**We will unwind these actions either by reducing, selling, or hedging if the market environment changes for the worse.**

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors


Risk Management Analysis
REAL INVESTMENT ADVICE
S&P 500
X-Factor Allocation Weighting
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
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 Pushes The Trade War&#2013266080;

Interestingly, what I wrote previously is worth reusing today:

> *"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, inverted yield curves, etc.*

With Powell disappointing the markets and President Trump on Friday, Trump took to his Twitter account to chastise the Fed and increase tariffs on China. Notably, China also increased tariffs on the U.S. - we are now in the midst of a *"real trade war."*

Don't dismiss the risk of a trade war. As Otto T. Mallery wrote in *"Economic Union and Durable Peace:"*

> *"When goods don't cross borders, soldiers will."&#2013266080;*

Trade wars are not economically healthy and, historically, pose a national threat. However, for the moment, the biggest risk is to the markets if investors begin to reprice risks.&#2013266080;

While volatility has risen markedly, the markets really haven't done anything "*wrong"* as of yet. This is one of those times we have to sit on our hands and wait. With markets moving from one tweet to the next, it is impossible to successfully trade these swings.&#2013266080;

However, note in the chart above, that both weekly *"buy/sell"* signals are close to triggering a *"sell."* Also, not that each penetration above the long-term upper trend line has repeatedly failed. A confirmed "sell" signal at this juncture will require a further reduction in equity risk.

Downside risk is elevated, so we are maintaining underweight holdings for now. However, if we begin to break supports, we will recommend reducing risks further.&#2013266080;

If you haven't taken any actions as of late, it is not a bad time to do so.&#2013266080;

- *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 done so already.&#2013266080;*
- *If you are* ***underweight equities or at target -&#2013266080;****rebalance risks and hold positioning for now.*

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)*

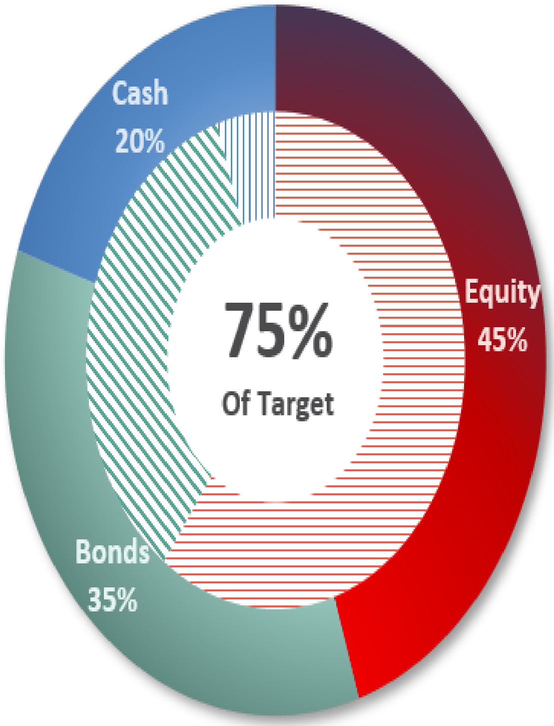
I have gotten quite a few plans, so keep sending them and I will include as many as we can.

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 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

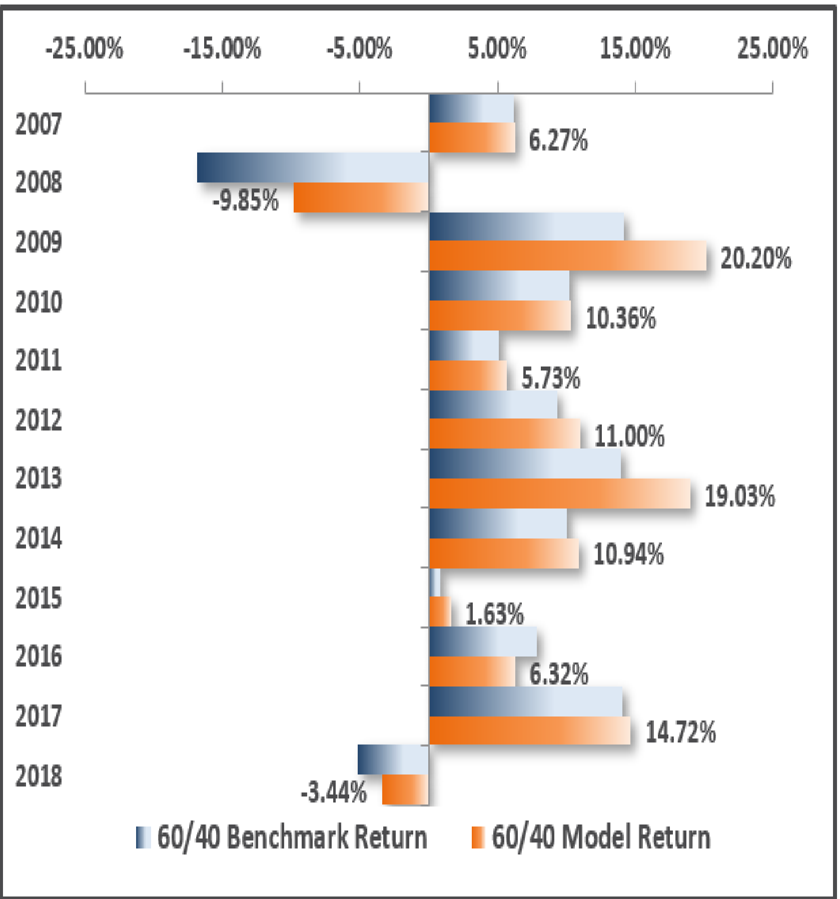
45.00% **Equity (Stocks)**

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;

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