RIA PRO: Breaking Down The Bull/Bear Argument



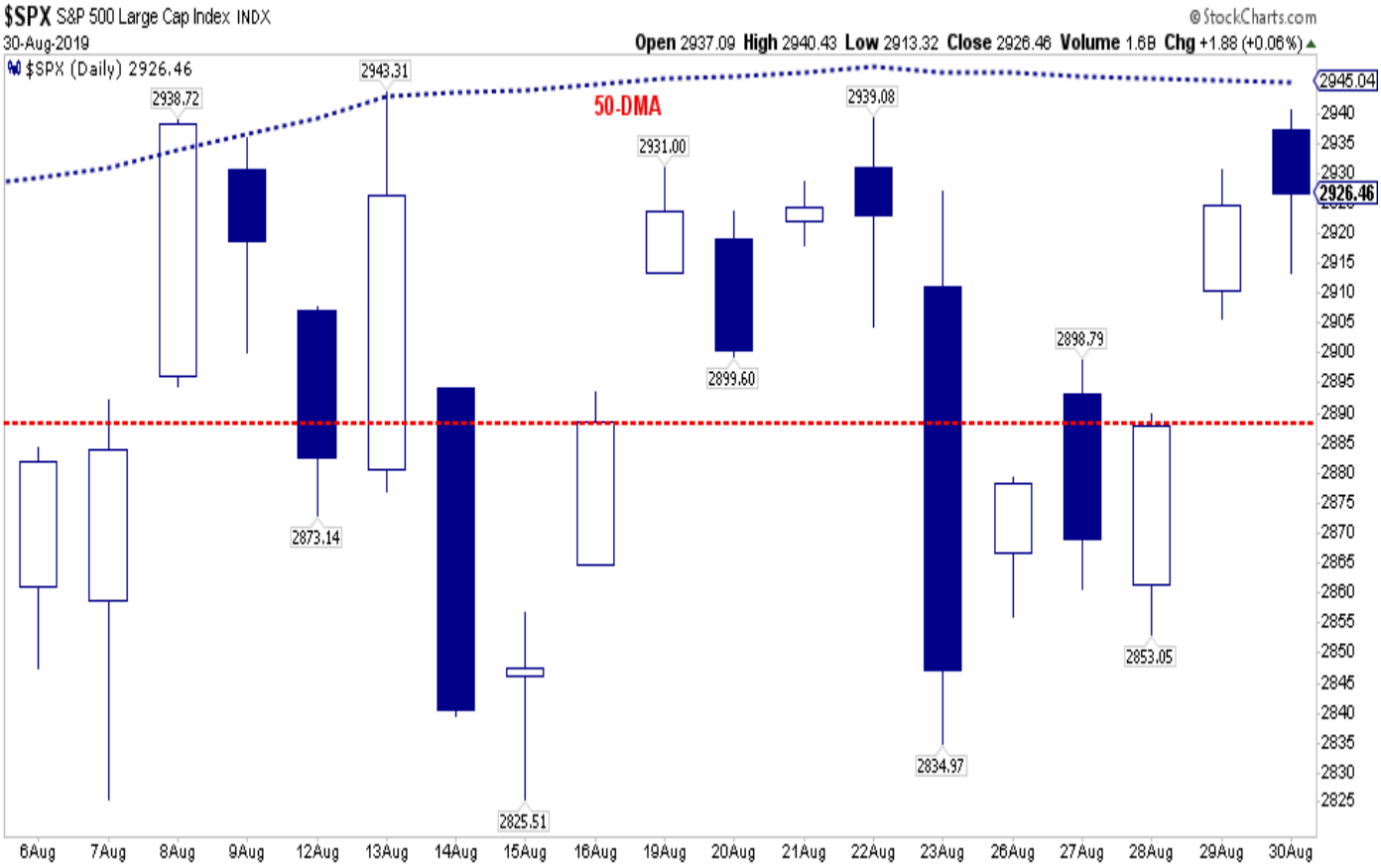
- ***Market Review & Update***
- ***Breaking Down The Bull/Bear Argument***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

Follow Us On: *Twitter, Facebook, Linked-In, Sound Cloud, Seeking Alpha*

Real Investment Show with Lance Roberts
Get it on your favorite podcast app!
SOUNDCLOUD STITCHER Google Play Music iTunes
libsyn YouTube livestream facebook

Market Review & Update

Really! Another week of nowhere?&#2013266080;



This is the same chart from last week, updated, but here is the salient point.

> *"This has been an impossible market to effectively trade as rhetoric between the White House, the Fed, and China has reached a fevered pitch."*

Don't fall into the trap.

On Thursday, the market rallied as China said they were not going to retaliate against the U.S. on trade immediately. They also stated they wanted to take a *"calm"* approach to the discussions.&#2013266080;

The media, and Wall Street, heard:&#2013266080; *"Trade Deal."&#2013266080;*

That is NOT the case by any stretch of the imagination.

As we wrote previously:

> *China is playing a very long game.&#2013266080;**The pressure is on the Trump Administration to conclude a 'deal,' not on China.** Trump needs a deal done before the 2020 election cycle, AND he needs the markets and economy to be strong. If the markets and economy weaken because of tariffs, which are a tax on domestic consumers and corporate profits, as they did in 2018, the risk-off electoral losses rise. China knows this and is willing to 'wait it out' to get a better deal. **China is not going to jeopardize its 50 to 100-year economic growth plan on a current President who will be out of office within the next 5-years at most.**?*

What China has figured out is they can easily manipulate Trump into giving up strategic positioning by offering to *"talk."* This continues to be an effective strategy since they know Trump's re-election is contingent upon a strong U.S. economy, and stock market. By slow-rolling progress, and agreeing to *"talk,"* Trump has given up ground to support U.S. corporations. At the G-20 he agreed to allow companies to sell products to Huawei. Then, he delayed tariffs until December on major consumer goods, which would have negatively impacted U.S. corporations Christmas selling season.&#2013266080;

In exchange, China has done....nothing.&#2013266080;

This is the same trap I warned Trump would fall into with North Korea over nuclear weapons. To wit:

> *"As a dictator, he [Kim Jung Un] can not afford to show weakness. Therefore, he needs the U.S. to acquiesce to some degree to allow him to claim victory over the ?evil empire? of the west. By continuing to bring Trump to the table to 'talk,' he doesn't give up anything. However, the 'talks' continue to buy time to continue his missile development."&#2013266080;*

Today, there is *"no deal"* with either North Korea or China.&#2013266080;

In the coming weeks, China will once again come to the table, they will make concessions, which will temporarily excite the markets, and then they will default on those agreements. Trump will get mad, he will slap more tariffs on China, and the entire cycle will begin again.&#2013266080;

The risk, however, with tariffs already engaged, is whether economic growth falters before the upcoming election. **An economic downturn prior to the 2020 election is the greatest threat to Trump's re-election.** This is precisely what China is trying to achieve which would give them tremendous bargaining power over Trump.

One thing is certain, there will be much more volatility between now, and the end of the year.&#2013266080;

From a short-term market perspective, the risk is to the downside next week:

1. *Historically, September is one of the weakest months of the year, particularly when it follows a weak August.*
2. *The market remains range bound and failed at both the 50-dma and downtrend line on Friday*
3. *The oversold condition has now reversed. (Top panel)*
4. *Volatility is continuing to remain elevated.*
5. *Important downside support moves up to 2875*
6. *The bulls regain control of the narrative on a breakout above 2945.&#2013266080;*



It is from this perspective that we continue to hold an overweight position in cash **(see 8-Reasons),** have taken steps to improve the credit-quality in our bond portfolios, and shifted our equity portfolios to more defensive positioning.&#2013266080;

For now, the reduced volatility, and hedges, continue to allow us to navigate market uncertainty until a better risk/reward opportunity presents itself.&#2013266080;

REAL INVESTMENT ADVICE
Are your investments prepared for the next bear market?
SCHEDULE YOUR CONSULTATION TODAY

Breaking Down The Bull/Bear Argument

I received an interesting email on Thursday *(I have reformatted the email for readability.)*

> *"According to the legend, Martin Armstrong most people get caught at the top when the trend turns on them.&#2013266080; Likewise, we know the story that when the shoeshine guy giving stock tips; you know its time to sell.&#2013266080;*
>
> *It looks to me like we find ourselves in a radically different predicament.*
>
> 1. *The S&P 500 is still just a stone's throw away from all-time highs,* ***yet the sentiment everywhere is decidedly bearish.*** *The shoe shine guy (if I could find one) would be telling us to sell everything.*
> 2. *There have been record outflows from the market for months, if not years, and the sky is going to fall on everyone tomorrow.*
> 3. ***There is record amounts of cash on the sidelines due to fear.***
>
> *I cannot get this combination of facts to jive.* ***The ?herd? does not have a very good track record of making great timing calls on the market and I literally cannot find one bull anywhere.*** *I would feel a lot better about calling a turn in the market if everyone and their brother was bullish."*

The email is a great example of the *"quandary"* facing investors currently. On the one hand, there is troubling economic data and *"trade wars,"* which provide a logical concern for investors with capital at risk. But, on the other hand, the *"algo's"* which make up roughly 80% of the trading in the markets are knee-jerking every *"trade,"* or *"Fed,"* related headline keeping asset prices elevated near all-time highs.

What do you do?

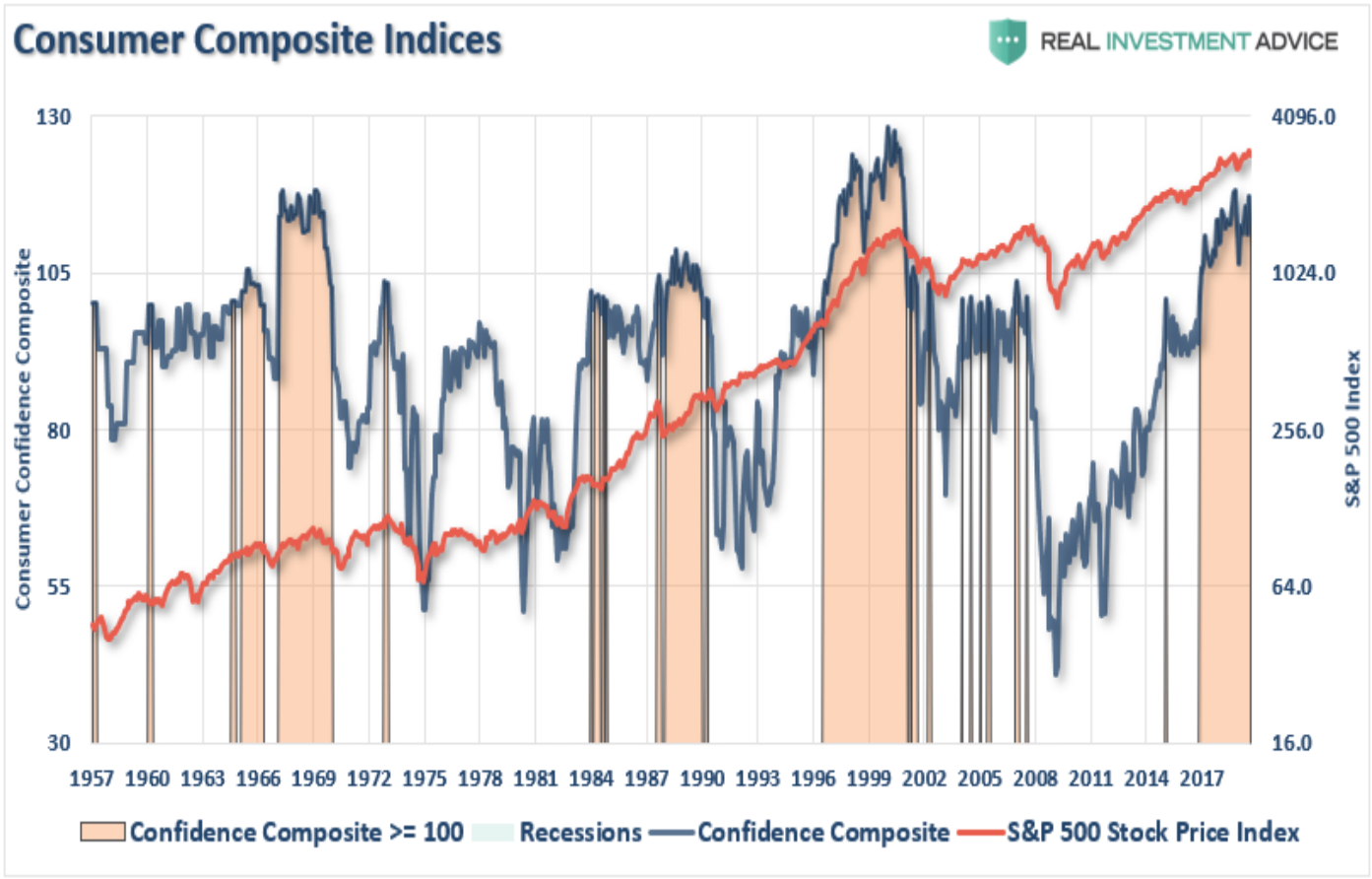
The answer is *"nothing."*&#2013266080;

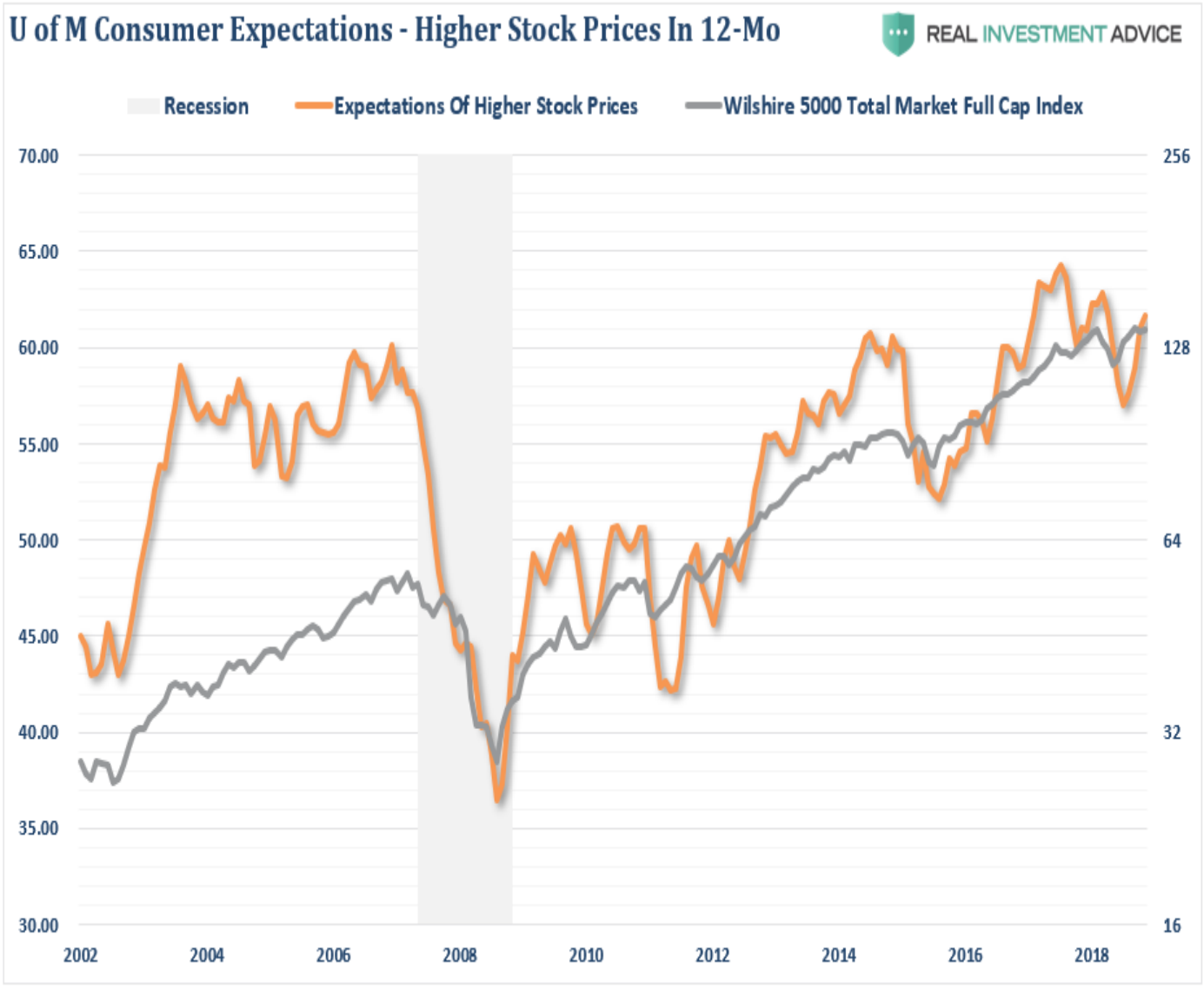
As we noted previously, sometimes, when the path forward is unclear, and volatility is high, the best thing to do is to *"sit on your hands"* and wait for the market to *"tell"* you what to do next. Over the last few weeks, being *"long"* equities has been frustrating. However, being *"short"* has been equally discouraging.

The email hits on a few of the *"myths"* which&#2013266080;prevail in the markets currently. These are fairly important concepts to understand, so let's break them down individually.&#2013266080;

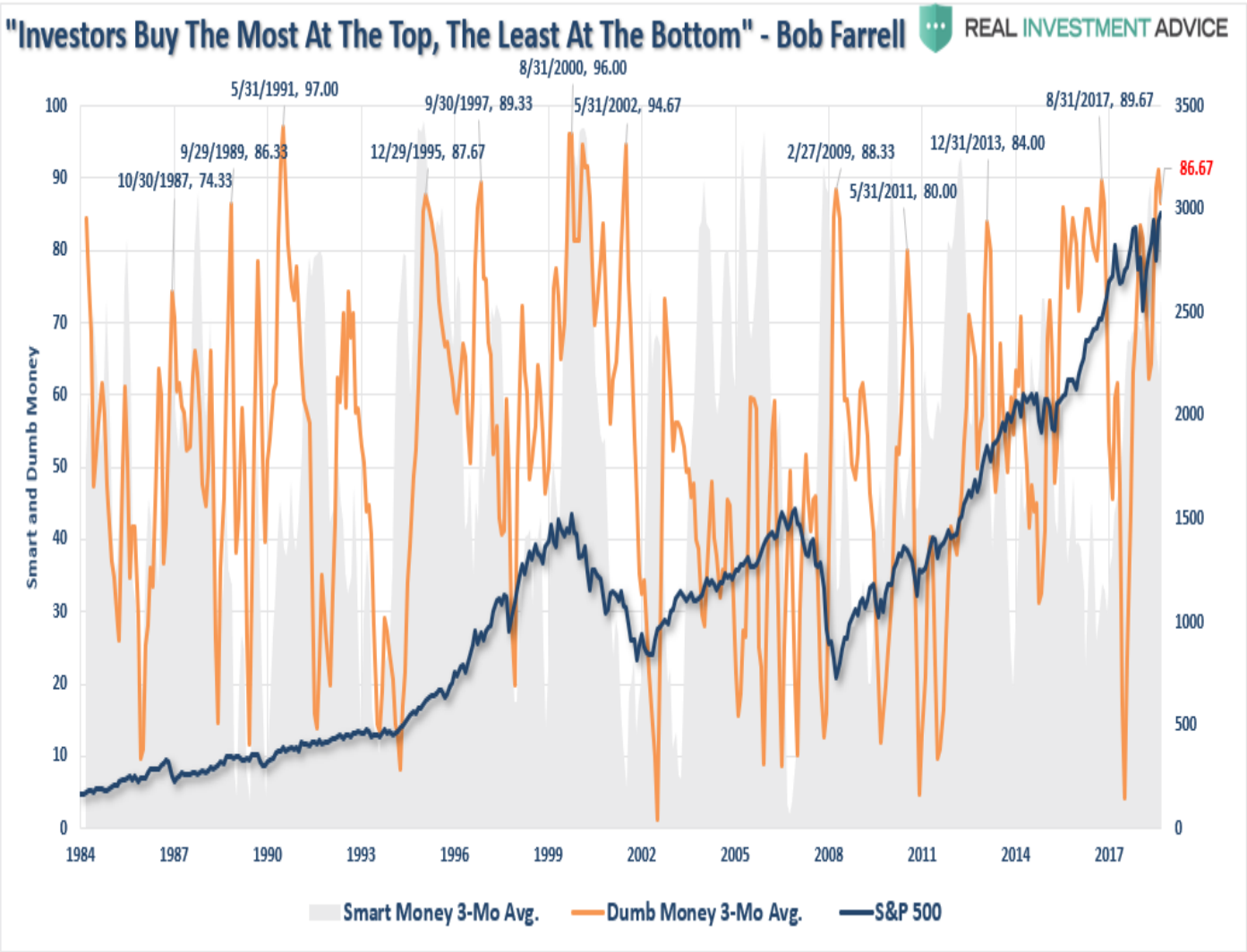
1) Sentiment Is Hardly Bearish

Currently, individuals could not be more confident about the markets or the economy. As shown in the chart below both investor confidence about the economy, and expected returns from stocks over the next 12-months, are near record highs, not lows.


Consumer Composite Indices
REAL INVESTMENT ADVICE
Consumer Confidence Composite
130
105
80
55
30
4096.0
1024.0
256.0
64.0
16.0
S&P 500 Index
1957 1960 1963 1966 1969 1972 1975 1978 1981 1984 1987 1990 1993 1996 1999 2002 2005 2008 2011 2014 2017
Confidence Composite >= 100
Recessions
Confidence Composite
S&P 500 Stock Price Index



Moreover, as I noted just recently in *"When A Bond Bull Becomes A Raving Stock Bull,"* the retail investor is just about as long-biased as they can get.&#2013266080;



While it may *"seem"* like everyone is *"bearish,"&#2013266080;*it isn't the case. Part of this has to do with the *"training,"&#2013266080;*investors have received over the last decade.

While some sentiment indicators clearly show a surge in **bearish sentiment, which normally denotes a substantial level of fear by investors,**&#2013266080;**there has been no substantial change to actual allocations.**

While stock allocations have fallen modestly, cash and bond allocations have barely budged. This is a far different story than was seen during previous major and intermediate-term corrections in the market.

This suggests that while investors are worried about the markets and their investments, **they are too afraid to actually make changes to their portfolio as long as Central Banks continue to support the markets.**

?Are you afraid of a market crash? Yes.

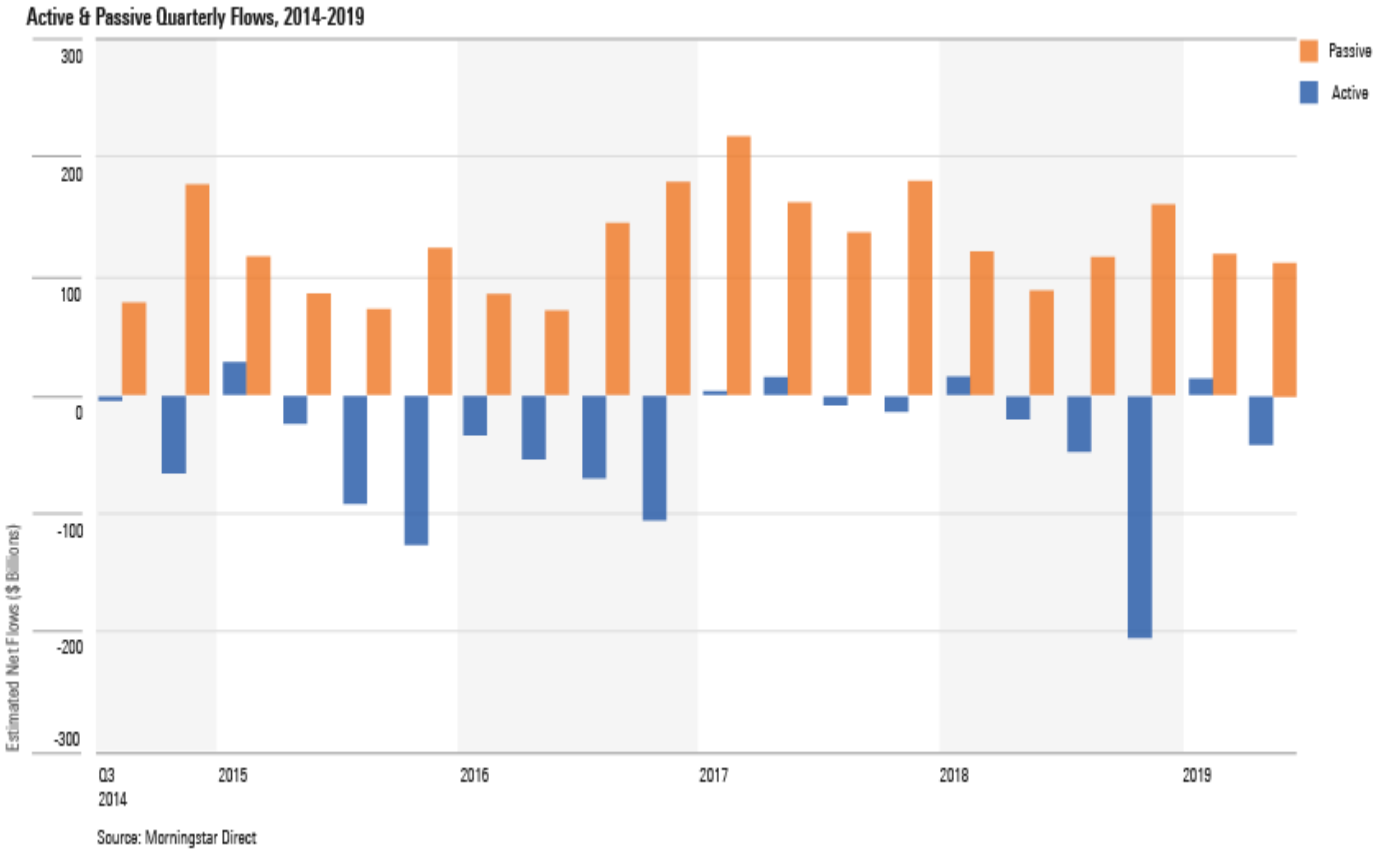
Are you doing anything about it? No.?&#2013266080;

This *"fear"* to do something, leaves lots of room for *"panic"* when something eventually breaks.

2) Record Outflows?

There has been lot's of discussions about the record outflows from equities. That really isn't the case as shown by the most recent fund flows analysis.&#2013266080;

"Long-term fund flows enjoyed a solid second quarter and a robust first half of 2019. Long-term fund flows?open-end and exchange-traded funds?collected nearly $93 billion in the second quarter, a slight decrease from the first quarter?s $136 billion. ***In total, long-term fund flows collected $224 billion in the first half of the year, slightly ahead of 2018?s $219 billion."***



Of course, the crowding into ETF's is a whole other *"time bomb"* waiting for unwitting investors.

To wit:

*"**With more ETF?s than individual stocks, and the number of outstanding shares traded being reduced by share buybacks, the&#2013266080;risk of a sharp and disorderly reversal remains due to compressed credit and liquidity risk premia.&#2013266080;**As a result,&#2013266080;market participants need to be mindful of the risks of diminished market liquidity, asset price discontinuities and contagion across asset markets.*

*Secondly, individual investors&#2013266080;**are NOT passive**&#2013266080;even though they are investing in&#2013266080;?passive?&#2013266080;vehicles. Today, more than ever, advisors are actively migrating portfolio management to the use of ETF?s for either some, if not all, of the asset allocation equation.&#2013266080;* ***However, they are NOT doing it 'passively.'***

Just because individuals are choosing to ?buy baskets? of stocks, rather than individual securities, ***it is not a 'passive' choice but rather 'active management'&#2013266080;in a different form.&#2013266080;&#2013266080;***

> *While the idea of passive indexing works while all prices are rising, the reverse is also true.&#2013266080;**The problem is that once prices begin to fall the previously 'passive indexers' will become 'active panic sellers.'** The tables are once again set for a dramatic and damaging ending."*

Furthermore, it is hard to suggest there are record outflows when the market is extremely overbought. As Ned Davis noted:&#2013266080;

> *"Stock market bulls have been arguing for months that muted stock market valuations and consistent equity-fund outflows are proof-positive that stock-market investors **are not feeling the sort of euphoria that typically exists before the start of an economic recession or bear market. But a longer-term view of equity valuations and allocations indicates 'excessive optimism.'"***



Davis, in a note, said that the value of the S&P is much higher today than the index?s average growth would predict. In fact, it?s higher relative to the average than it has been 80% of the time.

In other words, be careful of the idea that investors are unduly "bearish," the reality is quite different.

3) The Myth Of Cash On The Sidelines

Despite 8-years of a bull market advance, one of the prevailing myths that seeming will not die is that of *?cash on the sidelines.?*&#2013266080;To wit:

> *?Underpinning gains in both stocks and bonds&#2013266080;is* ***$5 trillion of capital that is sitting on the sidelines and serving as a reservoir for buying on weakness.&#2013266080;T****his excess cash acts as a backstop for financial assets, both bonds and equities, because any correction is quickly reversed by investors deploying their excess cash to buy the dip,? Nikolaos Panigirtzoglou, the managing director of global market strategy at JPMorgan, wrote in a client note.*

Stop it.&#2013266080;&#2013266080;

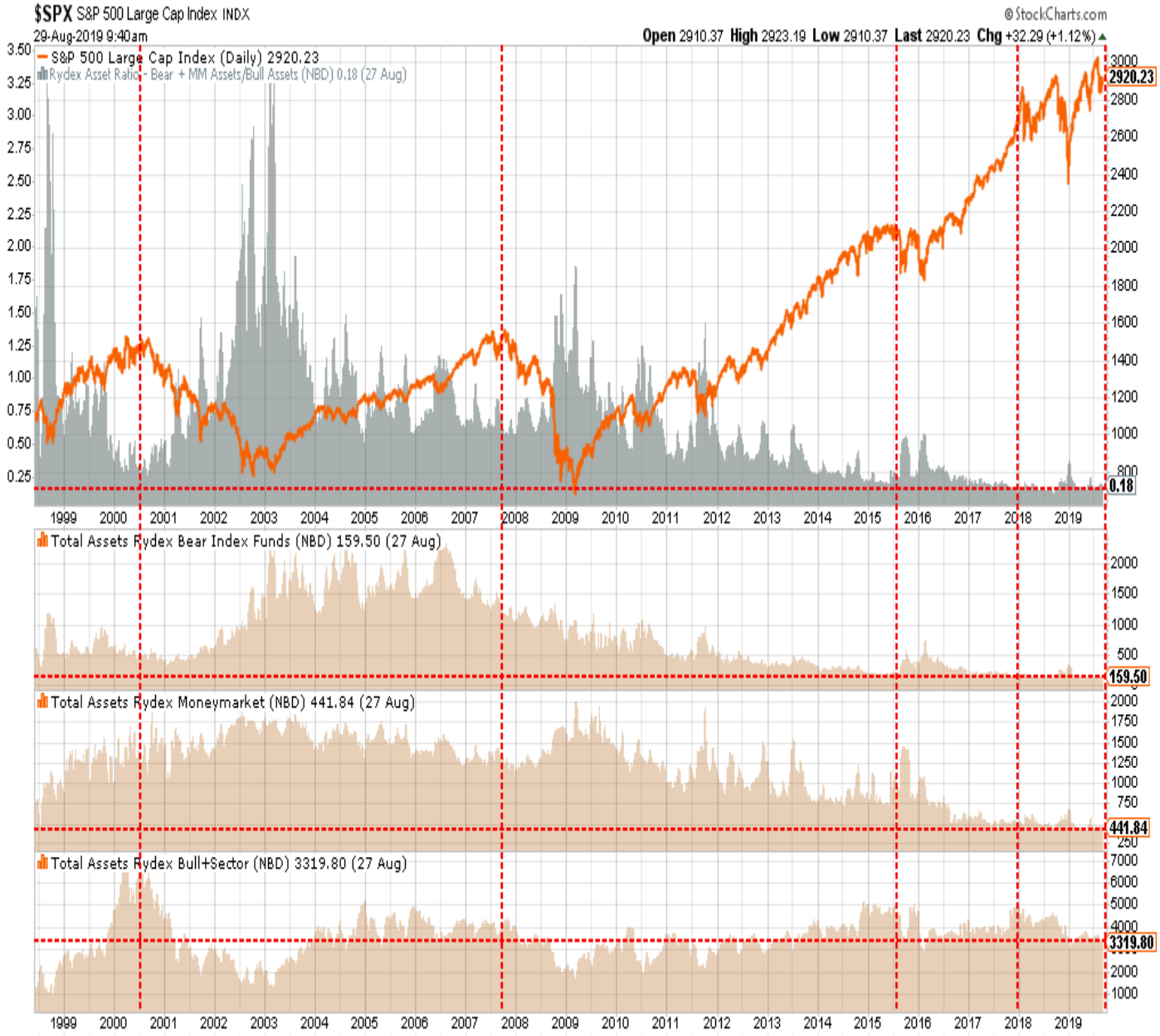
This is the age-old excuse why the current *?bull market?* rally is set to continue into the indefinite future. The ongoing belief is that at any moment investors are suddenly going to empty bank accounts and pour it into the markets. **However, the reality is if they haven?t done it by now after 3-consecutive rounds of Q.E. in the U.S., a 300% advance in the markets, and ongoing global Q.E., exactly what will that catalyst be?**

Clifford Asness previously touched on this issue as well.

> *?There are no&#2013266080;sidelines.&#2013266080;****Those saying this seem to envision a seller&#2013266080;of stocks moving her money to cash and awaiting&#2013266080;a chance to return. But they always ignore that this&#2013266080;seller sold to somebody, who presumably moved&#2013266080;a precisely equal amount of cash off the sidelines.?***

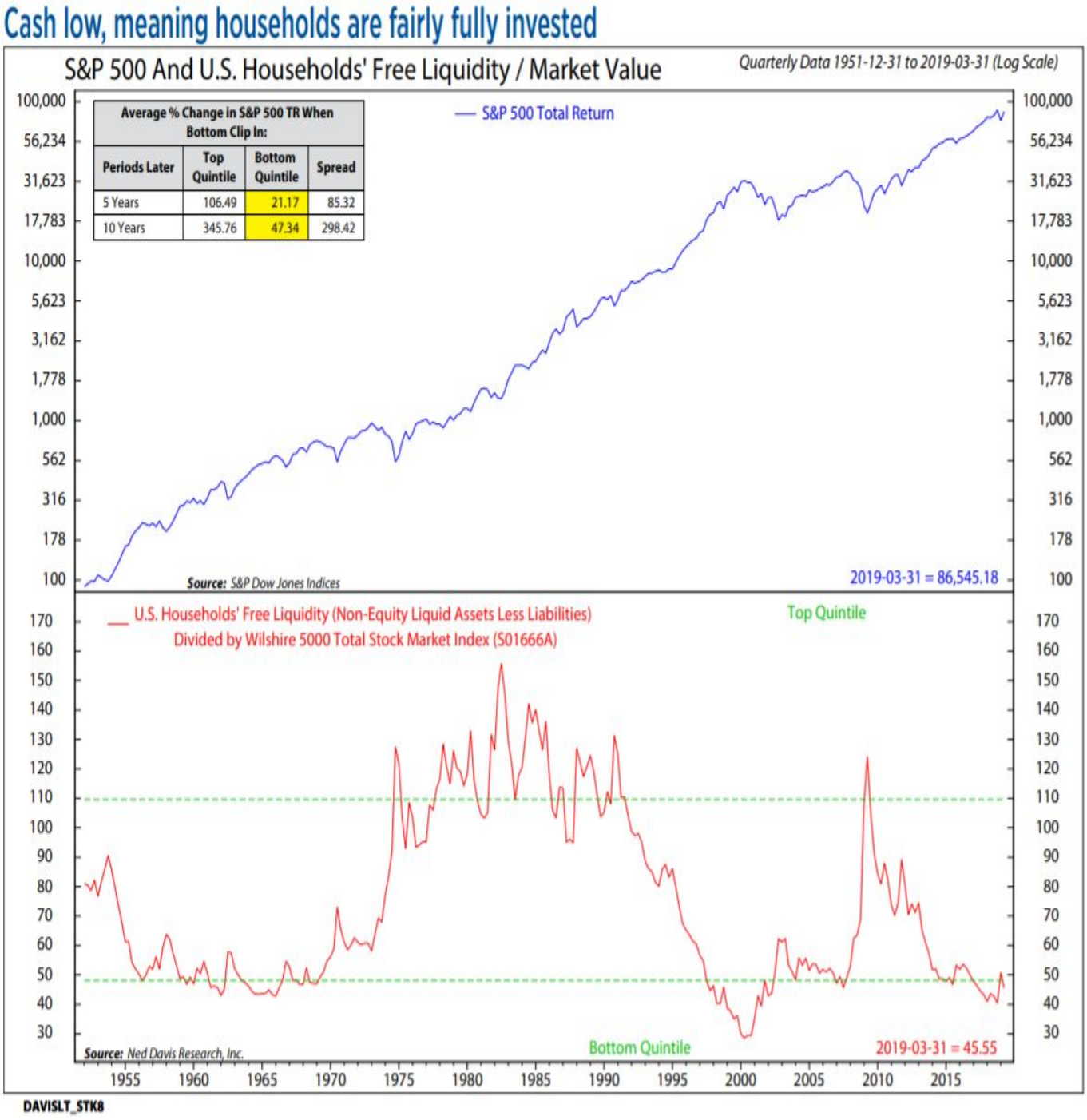
Every transaction in the market requires both a buyer and a seller with the only differentiating factor being at what&#2013266080;PRICE&#2013266080;the transaction occurs. Since this is required for there to be equilibrium in the markets, **there can be no *?sidelines.?&#2013266080;***

Furthermore, despite this very salient point, a look at the stock-to-cash ratios also suggest there is very little available buying power for investors current.



The reality is that investors remain more invested in riskier assets than has historically been the case.&#2013266080;And, as Ned Davis noted:

> *"Cash is low, meaning households are fairly fully invested."&#2013266080;*




Real Investment Show
with Lance Roberts
Monday to Friday,
from 6 to 7am.
› Get it now

Not A Bull In Sight

Lastly, our emailer suggests he can't find a bull anywhere. It is only because he isn't looking in the right places.

> *"**Our full year GDP is on pace for 2.6%, which is stronger than the average annual GDP of this entire 10&#2013266109; year expansion. Unemployment is near record lows. Consumer confidence is near record highs. And corporate earnings continue to impress.***
>
> ***None of that says recession.***
>
> *But let me just play along for a moment and pretend that the inverted yield curve actually meant something this time around ?* ***the fact of the matter is that the economy often expands after an inversion, and the stock market goes up on average of double-digits afterwards.***
>
> ***If anything, the inverted yield curve is one of the best buy signals of all time."****- Kevin Matras, Zacks Research*

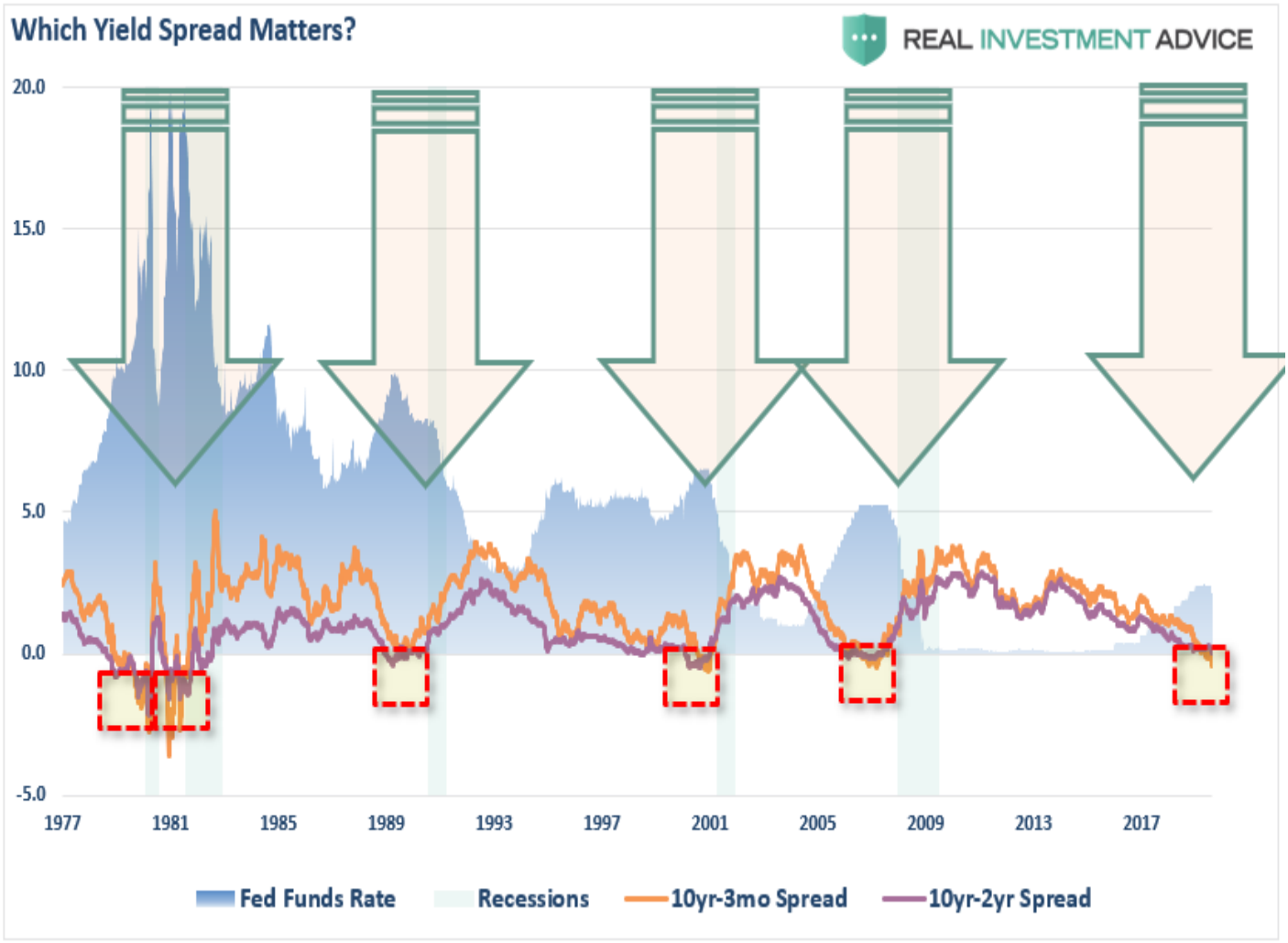
Or, this:

> ***"Despite recent recession fears and yield curve inversions, the bull market should live on until early 2021,*** *analyst Tom McClellan said Thursday on CNBC?s ' Closing Bell. ' Everyone needs to just keep their pants on for now and realize that the yield curve gives a really long early warning about trouble. It doesn?t say that trouble is upon us now.* ***It takes several months to over a year before we get the final price high after a yield curve inversion.*** *If you get an instance like 1995, there was a very momentary yield curve inversion and then it backed off and the bull market kept on going. So that is possible.? - CNBC*

You can't get much more bullish than that.

However, as I wrote previously in *"The Yield Curve Is Sending A Message:"&#2013266080;*

> *"While everybody is 'freaking out' over the 'inversion,'&#2013266080;****it is when the yield-curve 'un-inverts'&#2013266080;that is the most important.***
>
> *The chart below, shows that when the Fed is aggressively cutting rates, the yield curve un-inverts as the short-end of the curve falls faster than the long-end.&#2013266080;* ***(This is because money is leaving 'risk' to seek the absolute 'safety' of money markets, i.e. 'market crash.')"***



> *"As noted above, the current economic data is only a 'guess'&#2013266080;about the current economy. In the next 12-months, we will see the 'revised'&#2013266080;data, but the yield curve is already telling you it will be weaker.*
>
> ***Just as in December 2007, there was 'no recession.'** It wasn?t until December 2008, when the data was revised, that the National Bureau of Economic Research (NBER) announced the recession had begun a full year earlier. In December 2007."* &#2013266080;

Lastly, this isn't 1995.&#2013266080;

The Fed did cut rates in 1995 to fend off risks from the Orange County Bankruptcy, but the yield curve was nowhere near inversion. When The Fed begin seriously cutting rates, in 1999, as the yield curve inverted, well, I don't need to remind you what happened next.

The Fed is cutting rates with the "yield curve" inverted.&#2013266080;

I wouldn't dismiss that too quickly.

Kevin Matras is correct. The stock market DOES indeed go up double digits following a yield curve inversion. The only issue is that it is the first step in recovering from the bear market that preceded it.

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

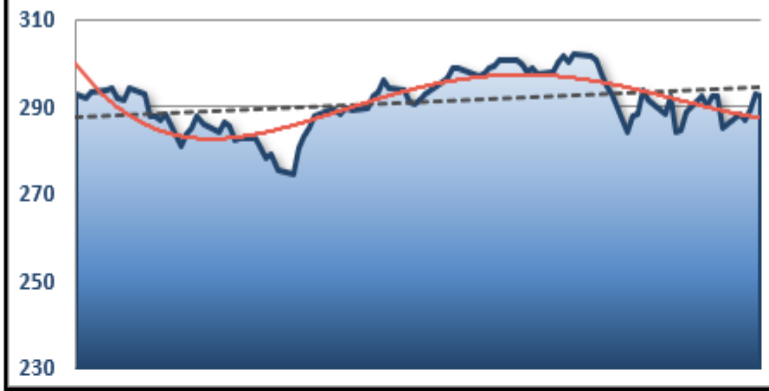
See you next week, and have a great Labor Day.

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	18.88%	0.74%	17.02%	2197.73%
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.71	0.09	1.88	20.20
Sortino	0.84	0.11	2.29	20.72
Volatility	14.67	16.58	14.00	(0.16)
Daily VaR-5%	(11.58)	(23.62)	5.62	(1.24)
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%	5.34%	2.17%	1.67%	(13.33%)	12.71%
P/E Ratio	20.18	20.16	17.99	(12.10%)	20.84	15.81	(13.7%)	13.77%
P/S Ratio	3.20	3.38	3.17	(6.78%)	3.55	2.61	(10.81%)	21.27%
P/B Ratio	3.61	3.99	3.91	(1.99%)	4.14	3.01	(5.49%)	30.14%
ROE	15.83%	17.29%	18.68%	7.48%	18.82%	14.99%	(0.72%)	24.67%
ROA	2.94%	3.25%	3.53%	7.76%	3.53%	2.81%	(0.15%)	25.41%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,408.7	2,333.0	(3.14%)
Sales	61,020	64,602	5.87%
SPS	25.3	27.7	9.31%
Earnings	8,818	9,512	7.87%
EPS TTM	4.4	4.9	11.39%
Dividend	1.5	1.6	6.77%

S&P 500 Asset Allocation

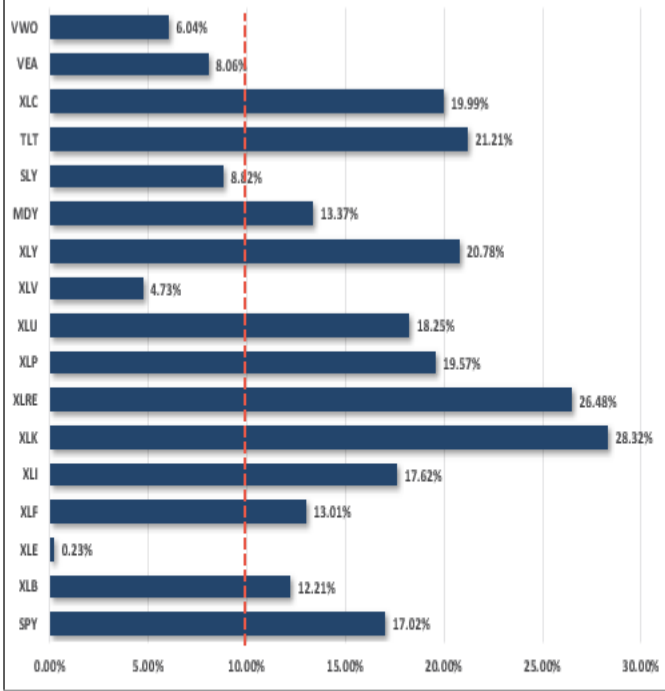
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(25.07%)	4.40%	1.20	15.00	127.61	12.35	(88.2%)	9.1%	4.1%	6.67%	3.49	15.72
Materials	(25.63%)	2.68%	1.22	13.88	22.97	13.86	(39.6%)	9.5%	1.9%	7.17%	4.22	15.18
Industrials	(2.86%)	9.14%	1.14	16.95	22.23	14.78	(23.8%)	16.6%	2.0%	5.90%	5.21	16.09
Discretionary	(0.36%)	10.19%	1.03	23.72	27.46	20.11	(13.6%)	29.1%	1.3%	4.15%	4.91	22.22
Staples	11.76%	7.65%	0.60	20.78	22.83	17.62	(9.0%)	27.3%	2.7%	4.83%	3.93	19.59
Health Care	(1.96%)	13.93%	0.87	16.14	20.62	15.93	(21.7%)	30.8%	1.8%	6.15%	6.64	15.10
Financials	(4.59%)	12.69%	1.23	12.63	18.45	11.71	(31.5%)	11.6%	2.2%	7.81%	5.84	12.30
Technology	7.74%	21.94%	1.25	21.30	21.74	14.43	(2.0%)	39.6%	1.5%	4.66%	5.37	20.25
Telecom	(4.50%)	10.46%	0.88	19.82	27.57	17.47	(28.1%)	17.1%	1.0%	5.02%	6.56	17.91
Utilities	20.09%	3.49%	0.31	21.00	20.31	15.58	3.4%	10.4%	3.2%	4.82%	3.64	18.57
Real Estate	16.06%	3.27%	0.72	21.22	24.47	17.10	(13.3%)	9.6%	3.1%	4.77%	4.34	19.58

Momentum Analysis

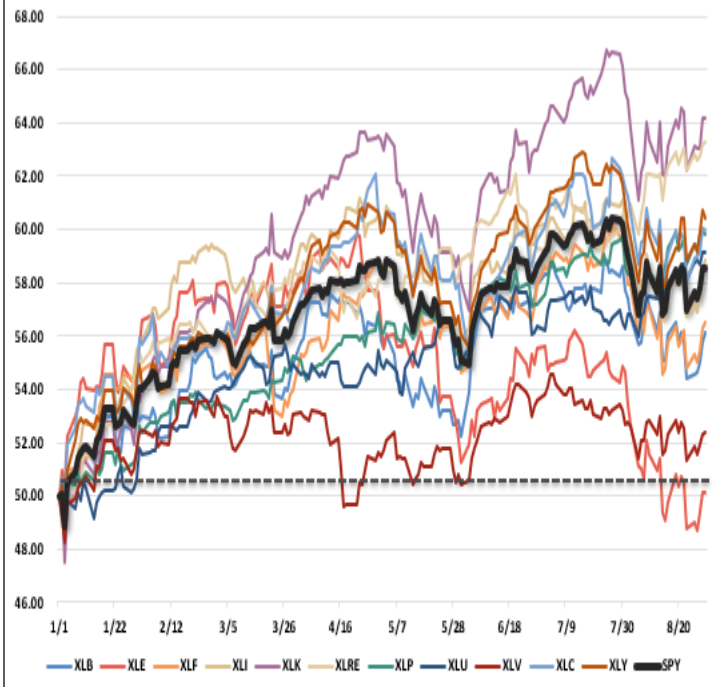
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	292.45	(0.53%)	294.13	17	(0.57%)	280.35	64	4.32%	4.91%	(3.24%)	25.11%	Buy
Mid Cap	343.14	(2.16%)	349.35	17	(1.78%)	340.95	2	0.64%	2.46%	(8.28%)	20.63%	Buy
Small Cap	65.26	(2.13%)	66.46	17	(1.80%)	66.18	17	(1.39%)	0.42%	(16.55%)	15.91%	Buy

Performance Analysis

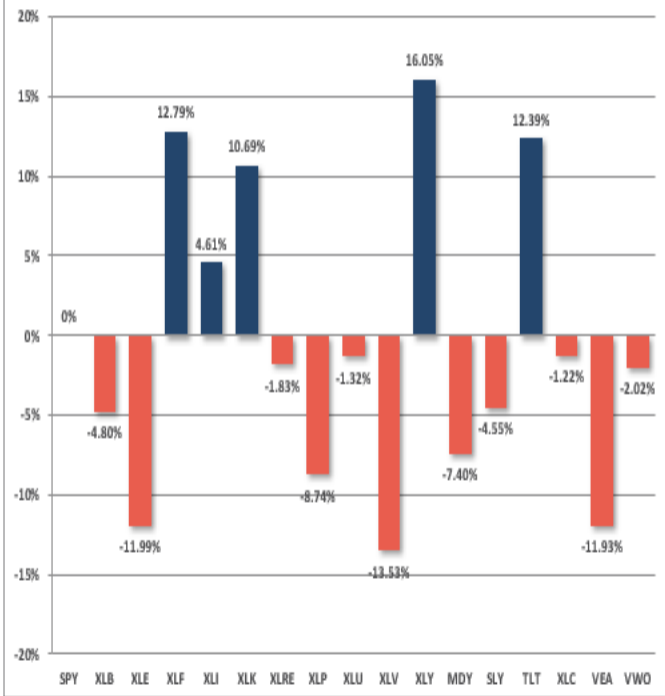
Year To Date Performance



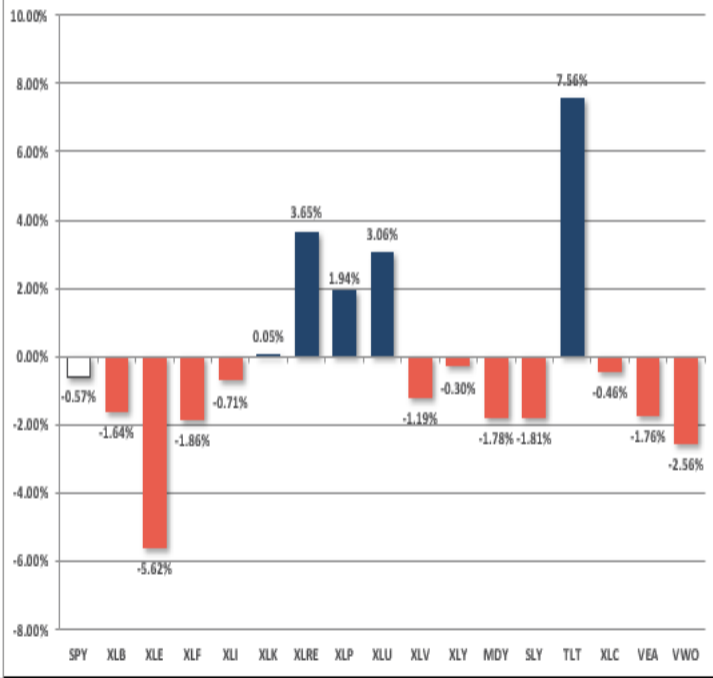
YTD Price - S&P Sectors Recalibrated To $50/share



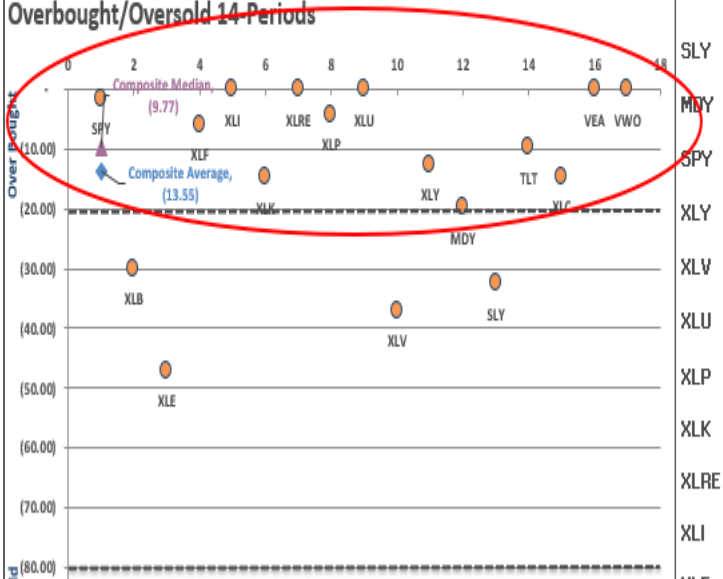
Year To Date Performance Relative To S&P 500



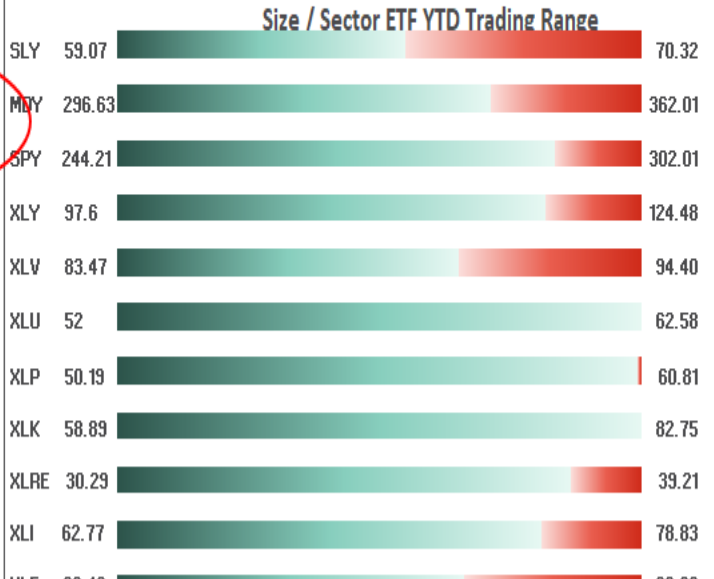
Price Deviation From 50-Day Moving Average



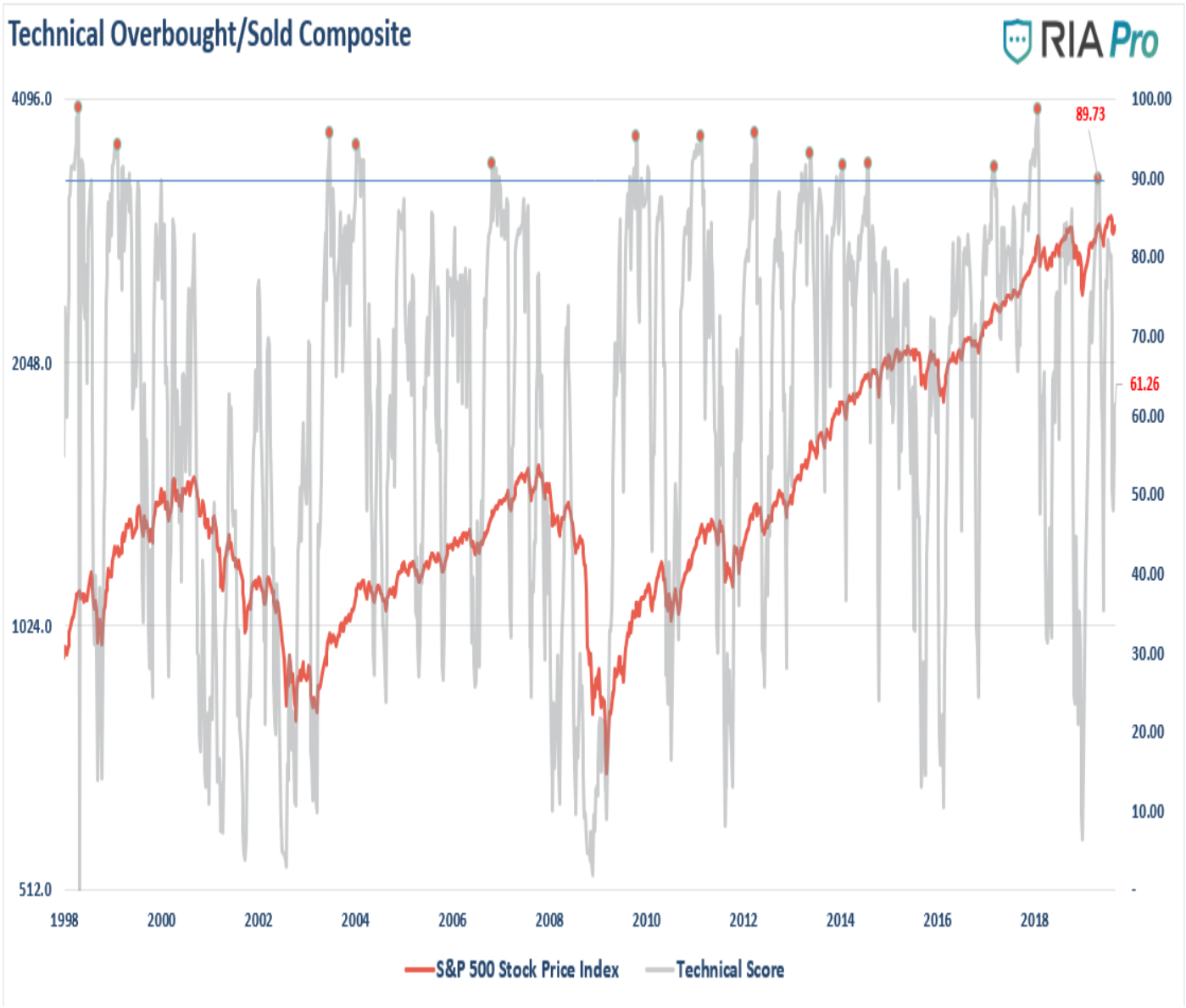
Overbought/Oversold 14-Periods



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					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	ISHARS-SP500	294.27	2.72	(0.05)	1.59	3.51	0.63	294.38	286.08	-0.04%	2.86%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	56.69	0.44	(1.07)	(3.05)	(1.19)	(4.98)	57.54	55.90	-1.48%	1.42%	BUY
		XLE	SPDR-EGY SELS	57.48	(0.01)	(4.78)	(7.77)	(15.77)	(23.41)	60.99	63.31	-5.76%	-9.20%	SELL
		XLF	SPDR-FINL SELS	26.92	0.42	(2.41)	(2.33)	(2.43)	(5.60)	27.36	26.77	-1.62%	0.55%	BUY
		XLI	SPDR-INDU SELS	75.76	0.89	(0.03)	(1.54)	(1.12)	(2.36)	76.12	74.95	-0.47%	1.08%	BUY
		XLK	SPDR-TECH SELS	79.53	0.34	0.66	2.80	5.45	4.57	78.72	74.51	1.03%	6.73%	BUY
		XLP	SPDR-CONS STPL	60.72	(0.88)	2.57	1.98	7.49	12.28	59.31	56.62	2.37%	7.23%	BUY
		XLU	SPDR-UTIL SELS	62.58	(0.93)	4.09	2.61	4.03	16.41	60.59	58.22	3.28%	7.49%	BUY
		XLC	SPDR-COMM SV SS	49.53	0.68	(0.99)	2.53	1.82	0.09	49.32	47.94	0.43%	3.32%	BUY
		XLV	SPDR-HLTH CR	90.60	(0.65)	(0.44)	(2.04)	(5.03)	(2.98)	91.56	90.51	-1.04%	0.09%	BUY
		XLY	SPDR-CONS DISCR	119.58	(0.07)	1.30	1.69	4.61	1.62	119.22	114.96	0.30%	4.02%	BUY
	SIZE	SLY	SPDR-SP SC 600	65.26	(0.29)	(1.98)	(1.80)	(6.66)	(17.09)	66.30	66.81	-1.57%	-2.32%	SELL
		MDY	SPDR-SP MC 400	343.14	(0.29)	(1.55)	(2.17)	(3.98)	(8.51)	348.68	345.47	-1.59%	-0.68%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	105.16	(0.14)	(1.17)	(1.97)	(2.80)	(2.45)	106.63	104.55	-1.38%	0.58%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	99.39	(0.27)	(0.34)	(2.37)	(2.53)	0.51	100.24	98.82	-0.85%	0.58%	BUY
	Real Estate	XLRE	SPDR-RE SELS	39.21	(1.09)	3.81	3.17	7.06	15.21	37.76	36.10	3.83%	8.60%	BUY
	International	EEM	ISHARS-EMG MKT	40.19	0.20	(0.84)	(3.99)	(10.22)	(7.53)	41.48	42.07	-3.10%	-4.46%	SELL
		EFA	ISHARS-EAFE	63.21	(0.71)	(0.72)	(5.17)	(6.60)	(6.76)	64.51	64.33	-2.01%	-1.75%	BUY
		IXUS	ISHARS-CR INT S	56.28	(0.54)	(0.62)	(4.47)	(7.03)	(7.11)	57.46	57.46	-2.06%	-2.05%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	147.28	(1.82)	7.94	10.21	17.46	21.10	135.74	127.84	8.50%	15.21%	BUY
	International	BNDX	VANGD-TTL INT B	59.13	(2.32)	1.70	2.48	3.41	7.43	57.79	56.25	2.31%	5.12%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	87.16	(2.02)	0.94	(0.36)	(1.91)	0.30	86.63	85.98	0.61%	1.37%	BUY
	Cash	BSV	VANGD-SHT TRM B	81.16										

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)

The relative performance improvement of HealthCare relative to the S&P 500 is now fading and is close to turning negative. However, the sector is holding support and remaining above stop-loss levels. The pickup in volatility in the market has hit all sectors, so after taking profits in the sector previously we will continue to hold our current positioning for now.

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

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

Our more defensive positioning continues to outperform relative to the broader market. Volatility has risen markedly which makes markets tough to navigate for now. However, after taking some profits and repositioning the portfolio we will remain patient and wait for the market to tell us what it wants to do next.

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 is dragging slightly on a relative basis. However, the sectors are very close to beginning to outperform once again, so we will maintain our positioning for now.&#2013266080;

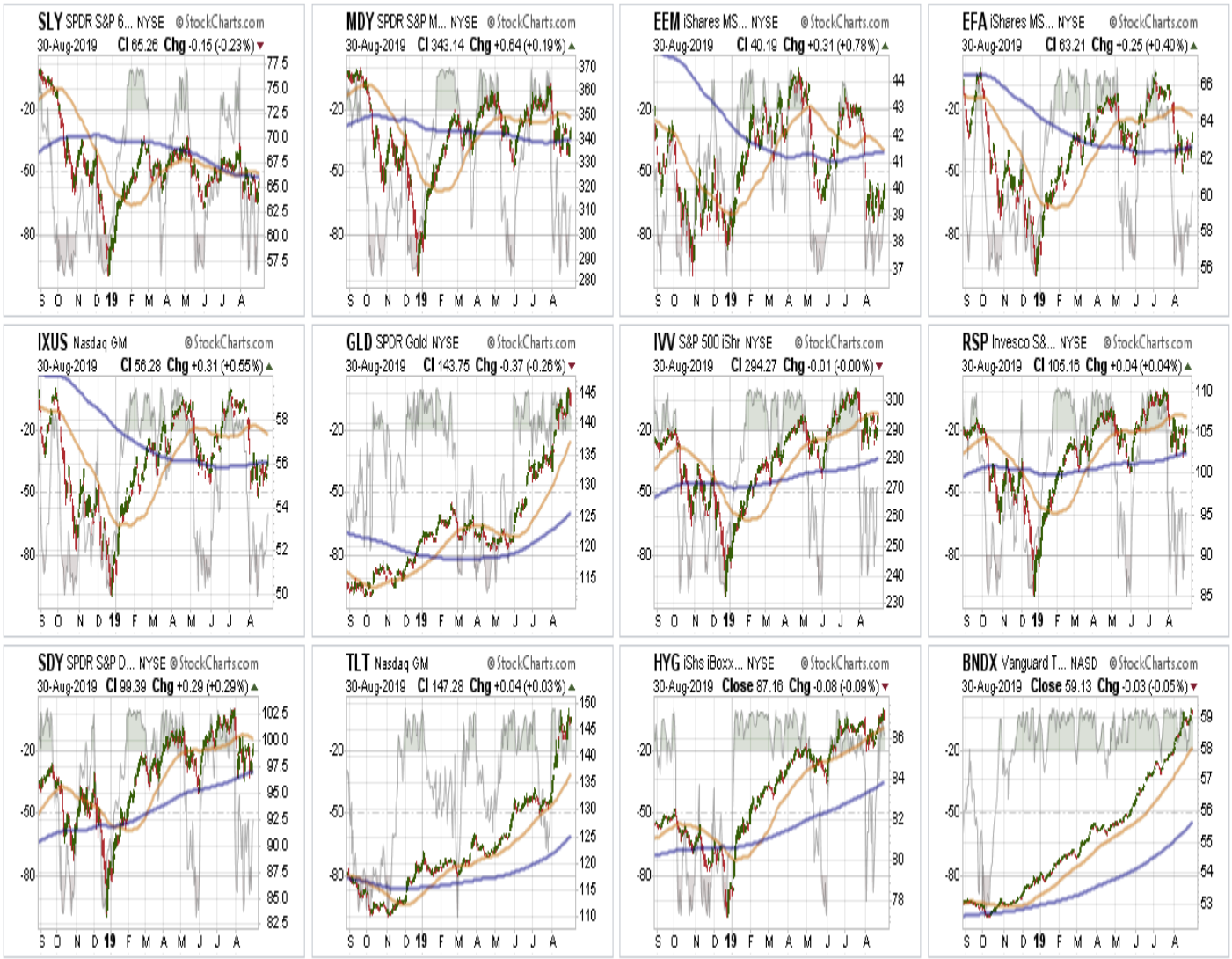
Current Position: *1/2 weight XLY, Target weight XLK, XLRE*

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

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 closed out our holdings in Financials last week as both the Fed lowering rates, and an inverted yield curve, are not beneficial their profits.

Current Position: *1/2 weight XLI*

Market By Market



Small-Cap and Mid Cap - Small- and Mid-caps continue to struggle and are grossly under-performing relative to large capitalization stocks.&#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. Continue to use any rally to reduce holdings for now.

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.

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 begin to correct a little this past week which may give us an opportunity soon to add to our current holdings. We are holding out positions for now, and getting a decent entry point is requiring a lot of patience.&#2013266080;

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. Yields did pull back slightly this week, so we may get an opportunity to add to our duration and credit quality here soon. 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*," 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.)

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	RIA Pro Notes
XLY	Discretionary	OB	Positive	Positive	Hold			X			Testing Resistance
XLK	Technology	OB	Positive	Positive	Hold			X			Testing Resistance
XLI	Industrials	OB	Positive	Neutral	Hold			X			Testing Resistance
XLB	Materials	Rising	Positive	Neutral	Hold			X			Testing Resistance
XLE	Energy	OS	Negative	Negative	No Position					X	Very Negative
XLP	Staples	OB	Positive	Positive	Hold			X			Pushing To Highs
XLV	Health Care	Rising	Negative	Neutral	Hold			X			Testing Resistance
XLU	Utilities	OB	Positive	Positive	Hold			X			Pushing To Highs
XLF	Financials	Rising	Positive	Neutral	Hold					X	Testing Resistance
XLC	Communications	Rising	Positive	Neutral	No Position			X			Testing Resistance
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	Reclaimed 200-DMA
EEM	Emerging Mkt	OS	Positive	Negative	No Position					X	Broke Support
EFA	International	OS	Positive	Negative	No Position					X	Reclaimed 200-DMA
IXUS	Total International	OS	Positive	Negative	No Position					X	Reclaimed 200-DMA
GLD	Gold	OB	Positive	Neutral	Hold			X			Extreme Overbought
RSP	SP500 Equal Wgt	OS	Positive	Positive	Hold			X			Testing Resistance
SDY	SP500 Dividend	OS	Positive	Positive	Hold			X			Testing Resistance
IVV	SP500 Market Wgt	OS	Positive	Positive	Hold			X			Testing Resistance
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:

Let me repeat from last week, because nothing changed:

> *"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,~~ the rally last week has now ~~which has now gotten the market fairly oversold~~ pushed the market back to overbought on a short-term basis."*

With the volatility in the markets, and the fact the markets have not&#2013266080; done anything technically *"wrong"* as of yet, we are hesitant to take much action.&#2013266080;

The only action we took last week was removing the Financial sector holding from portfolios to raise a little bit of cash. Financials will be hurt by an inverted yield curve, combined with the Fed cutting rates, which negatively impacts their *"net interest income."*

We were VERY close to getting stopped out of positions which are directly tied to the *"trade war"* such as Materials, Industrials, and Discretionary holdings. However, the rally last week kept those stops from being triggered.

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.

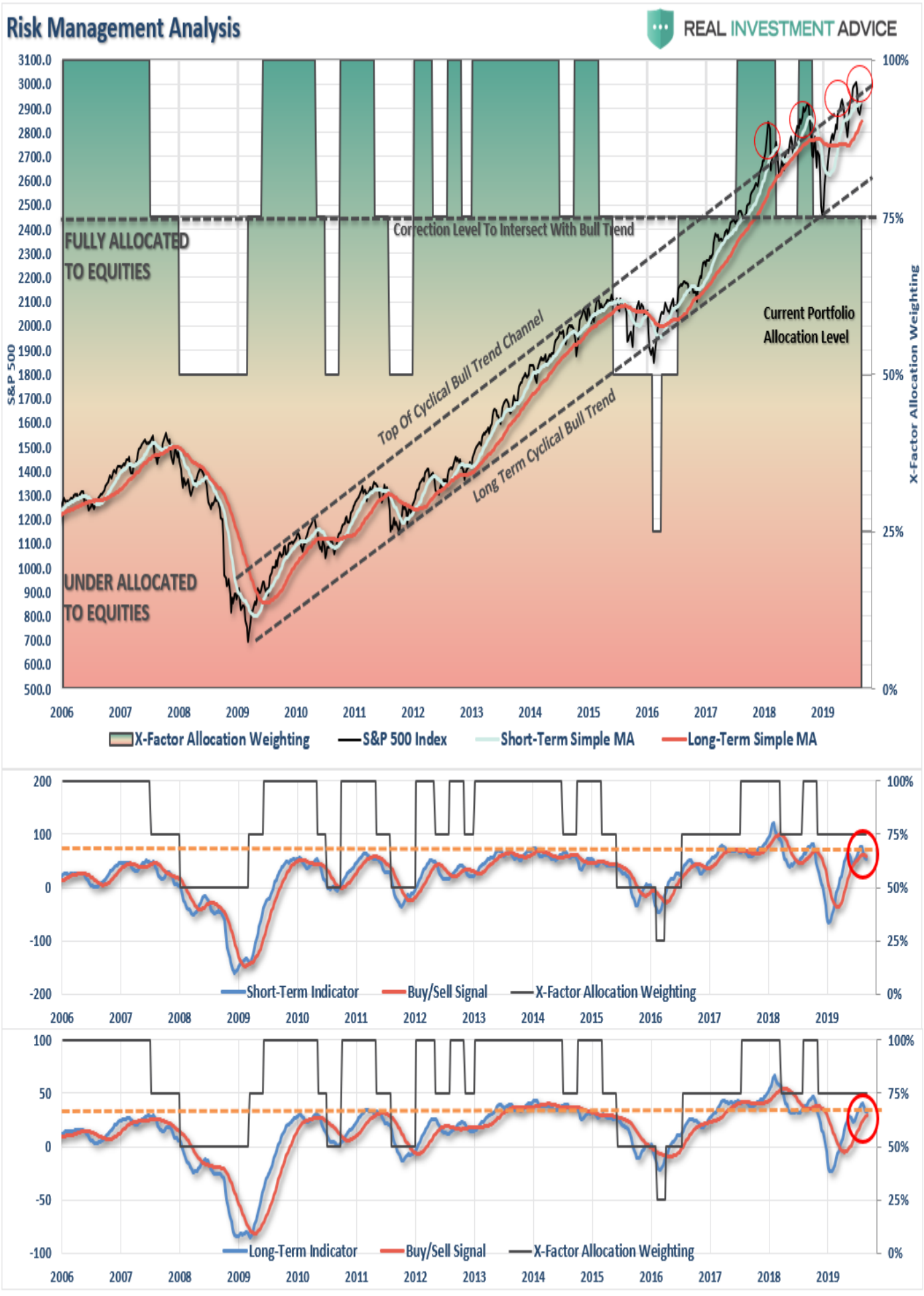
- **New clients:** *We are holding cash until our onboarding model turns back onto a "buy signal." At that time we will begin buying 1/2 of our target positions and step into the model allocation to minimize entry risk.&#2013266080;*
- ***Equity Model:*** *Sold JPM*
- ***ETF Model****:&#2013266080; Sold XLF/FNCL*

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.*

401k-PlanManager-AllocationShift

More Volatility With No Direction

As noted above, more rhetoric on the "trade front" sent stocks running back to resistance last week only to fail. While the week posted a gain, the market still remains trapped within a very tight trading range below the 50-dma.&#2013266080;

A break above that resistance will allow for a push back to all-time highs. A break to the downside will retest much lower levels very quickly. The risk/reward currently simply does not warrant taking on excessive risk until the market declares itself one way, or the other.&#2013266080;

The economy is slowing down, and the underlying data suggests it is much weaker than headlines state. Corporate profits are also weakening, and there is a rising possibility that investors could begin to reprice valuations in the next month prior to the Fed meeting.&#2013266080;

Speaking of *"the Fed,"* the war between the Fed and the White House continues unabated. With the Fed on deck in mid-September, there is a not-so-insignificant risk the markets could be disappointed by a failure to cut rates.&#2013266080;

As noted last week, 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)*

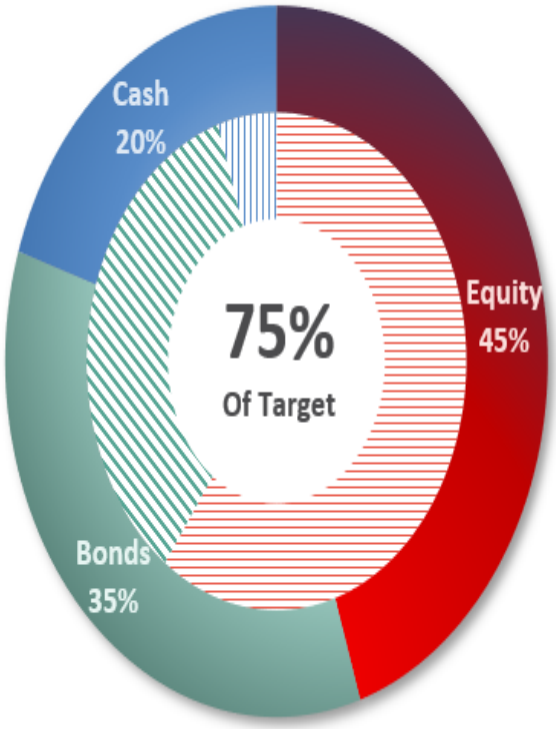
I have gotten quite a few plans, so keep sending them and I will include as many as we can.

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

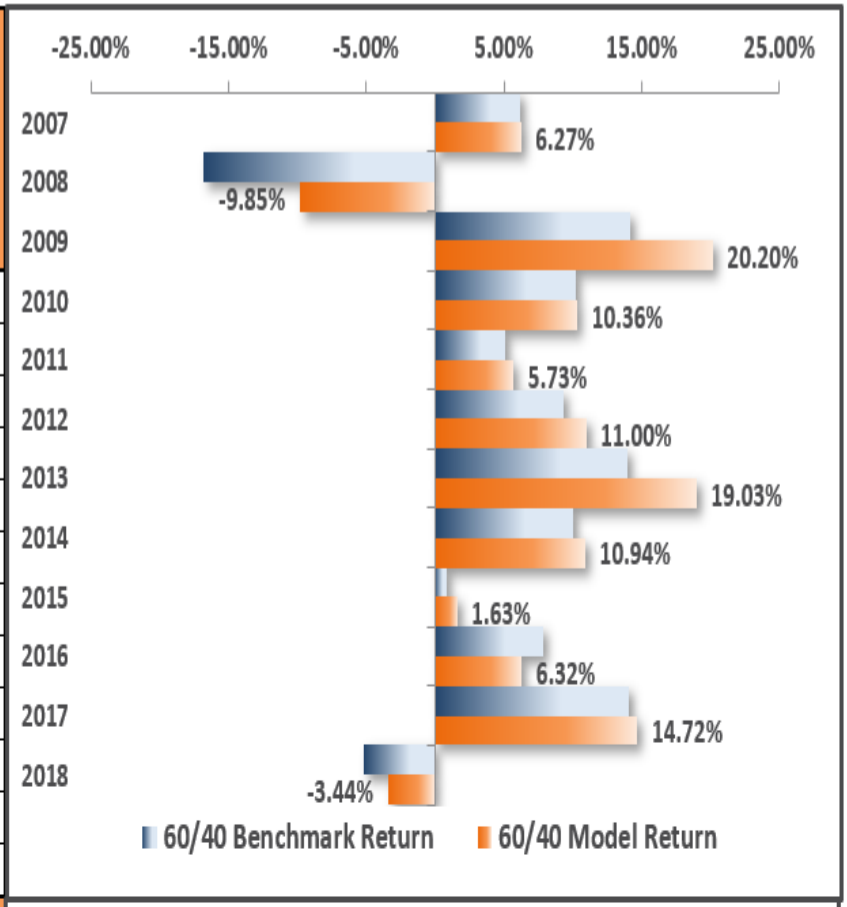
45.00% **Equity (Stocks)**

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

