RIA PRO: Fed Gives Up On Inflation, Welcome To The U.S. of Japan

- ***Retest Confirms Bullish Breakout***
- ***Fed Gives Up On Inflation***
- ***Welcome To The U.S. of Japan***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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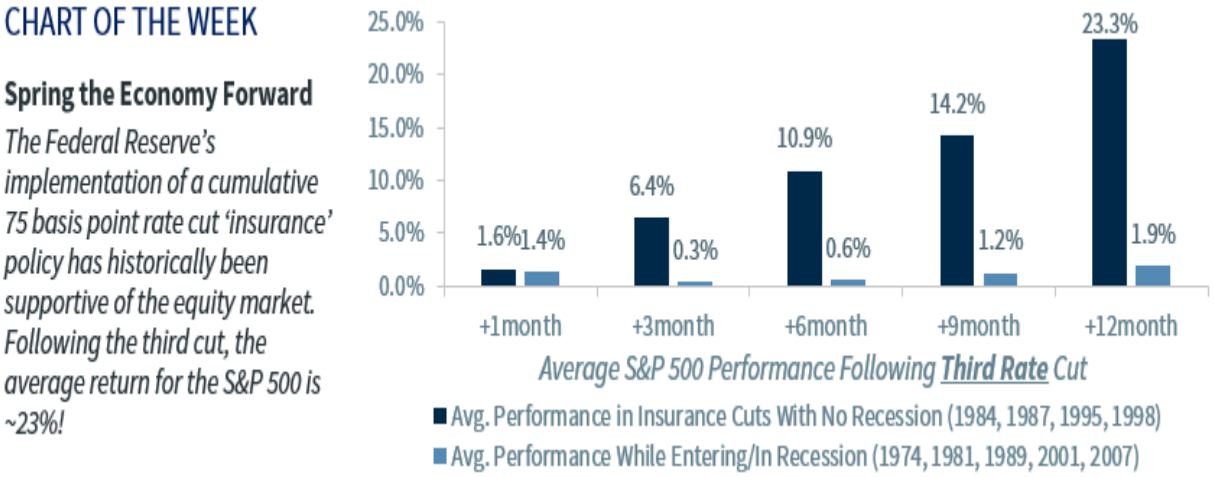
Retest Confirms Bullish Breakout

"If you are a bull, what is there not to love?"

That was the [message from two weeks ago,](#) and the reasoning **behind increasing our equity exposure** in portfolios as we head into the end of the year. With the Fed cutting rates on Wednesday, and companies winning the *"beat the estimate game"* as earnings season progresses, the markets finally broke out to new *"all-time"* highs this past week.

This breakout is consistent with the *"revival of the bulls"&#2013266080;*which is needed as there is too much attention focused on a *"recession"* and *"bear market."* *(If a recession/bear market would have occurred it would have been the first time in history "everyone" saw it coming.)*

?Over the last 30 years, when the Fed has implemented an ?insurance? rate cut policy of 75 basis points, the equity market has been ?lights out? as the S&P 500 has posted a 12-month forward return of ~23%, on average.? - Raymond James&#2013266080;



(H/T G. O'brien) That's the good news. However, before you go jumping in with both feet, there are a couple of points to be made. Concerning the chart above, you have to decide whether the recent rate cuts by the Fed **are *"mid-cycle adjustments"* or "*cuts entering a recession."&#2013266080;***While most people only notice the tall black bars, given we are in the longest economic expansion in history, the short-blue bars may be important. **Again, since bear markets/recessions NEVER occur when everyone is expecting them, the breakout to new highs is exactly what is needed to *"suck investors"* back into the market at the potential peak.** This is how bear markets have always begun in history. On a shorter-term basis, whether you are bullish or bearish, the market is now more than 6% above its 200-dma. **These more extreme price extensions tend to denote short-term tops to the market, and waiting for a pull-back to add exposures has been prudent.** The other concern is the weakness in overall participation in the market. **Despite the markets pushing to all-time highs, the number of stocks trading above their respective 50, 150, and 200-dma's remain in downtrends.** These negative divergences have preceded short to intermediate-term corrections in the past.

How To Play It

As we have been noting over the last month, with the&#2013266080;Fed's more accommodative positioning, we continue to maintain a long-equity bias in our portfolios currently. **We have reduced our hedges, along with some of our more defensive positioning. We are also adding opportunistically, to our equity allocations,** even as we carry a slightly higher than normal level of cash along with our fixed income positioning. **We also realize that *"all good things do come to an end."* While we are currently *"riding the bull,"* we are simply waiting for the *"8-second buzzer"* to prepare for our dismount.** *(That's a Texas rodeo thing if you don't know the reference.)* Therefore, make sure you have stop-losses in place on all positions and be prepared to execute accordingly. **The worst thing investors consistently do over time is to turn a *"winner"* into a *"loser"* before they eventually sell.** *(And they always sell.)* While you will certainly reduce your tax liability with this method, it is not a strategy by which you will increase your wealth. **Being *"rich on paper"* and having *"cash in the bank"* are two ENTIRELY different things.**

The Fed Gives Up On Inflation

On Wednesday, the Fed cut rates for the third time this year, which was widely expected by the market. What was not expected was the following statement.

> ***?****I think we would need to see a* ***really significant*** *move up in inflation that?s* ***persistent*** *before we* ***even consider*** *raising rates to address inflation concerns****.?*** **?**
> **Jerome Powell 10/30/2019**

The statement did not receive a lot of notoriety from the press, but this was the single most important statement from Federal Reserve Chairman Jerome Powell so far. **In fact, we cannot remember a time in the last 30 years when a Fed Chairman has so clearly articulated such a strong desire for more inflation.** Why do we say that? Let's&#2013266080;dissect the ***bolded*** words in the quote for further clarification.

- ***?really significant?****- Powell is not only saying that they will allow a significant move up in inflation but going one better by adding the word significant.*
- ***?persistent?****- Unlike the prior few Fed Chairman who claimed to be vigilant towards inflation, Powell is clearly telling us that he will not react to inflation that is not only well beyond a ?really significant? leap from current levels, but a rate that lasts for a period of time.*
- ***?even consider?****- If inflation is not only a really significant increase from current levels and stays at such levels for a while, they will only consider raising rates to fight inflation.*

We are stunned by the choice of words Powell used to describe the Fed?s view on inflation. We are even more shocked that the markets or media are not making more of it. Maybe, they are failing to focus on the three bolded sections. In fact, what they probably think they heard was: ***I think we would need to see a move up in inflation before we consider raising rates to address inflation concerns****.* Such a statement would have been more in line with traditional *"Fed-speak."*

> *We have published&#2013266080; an article for our* ***RIAPro subscribers (Try a FREE 30-Day Trial),****&#2013266080;which discusses our views on using&#2013266080;*

***Treasury Inflation-Protected Securities (TIPS)**, a hedge against Jerome Powell and the Fed getting inflation, or worse, failing and fostering deflation.*

TIPS							
	Investment	Coupon %	Inflation Rate %	Principal	Adjusted Principal	Annual Coupon	Maturity
Year 0	$ 1,000.00						
Year 1		2%	2.50%	$ 1,025.00	$ 25.00	$ 20.50	
Year 2		2%	3.00%	$ 1,055.75	$ 30.75	$ 21.12	
Year 3		2%	-1.00%	$ 1,045.19	$ (10.56)	$ 20.90	
Year 4		2%	1.50%	$ 1,060.87	$ 15.68	$ 21.22	
Year 5		2%	4.00%	$ 1,103.31	$ 42.43	$ 22.07	$ 1,103.31

There is an other far more insidious message in Chairman Powell's statement which should not be dismissed. **The Fed just acknowledged they are caught in a *"liquidity trap."***

What Is A Liquidity Trap

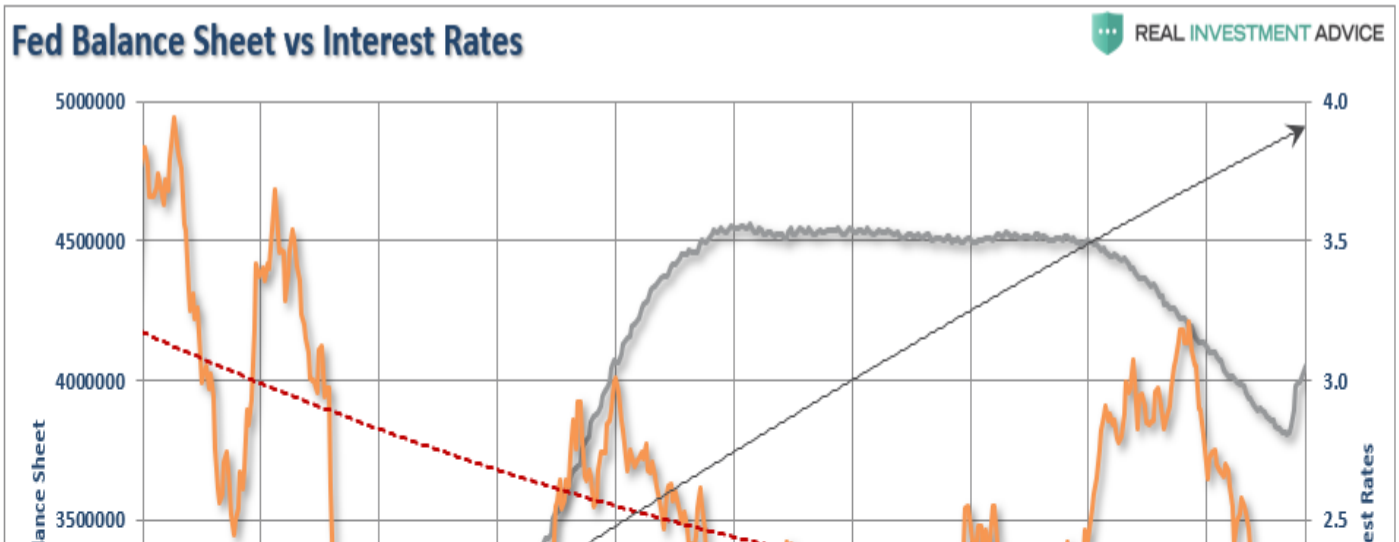
Here is the&#2013266080;definition:

> *?A liquidity trap is a situation described in Keynesian economics in which&#2013266080;**injections of cash into the private banking system by a central bank fail to lower interest rates and hence fail to stimulate economic growth.**&#2013266080;A liquidity trap is caused when people hoard cash because they expect an adverse event such as deflation, insufficient aggregate demand, or war.&#2013266080;**Signature characteristics of a liquidity trap are short-term interest rates that are near zero and fluctuations in the monetary base that fail to translate into fluctuations in general price levels.**?*

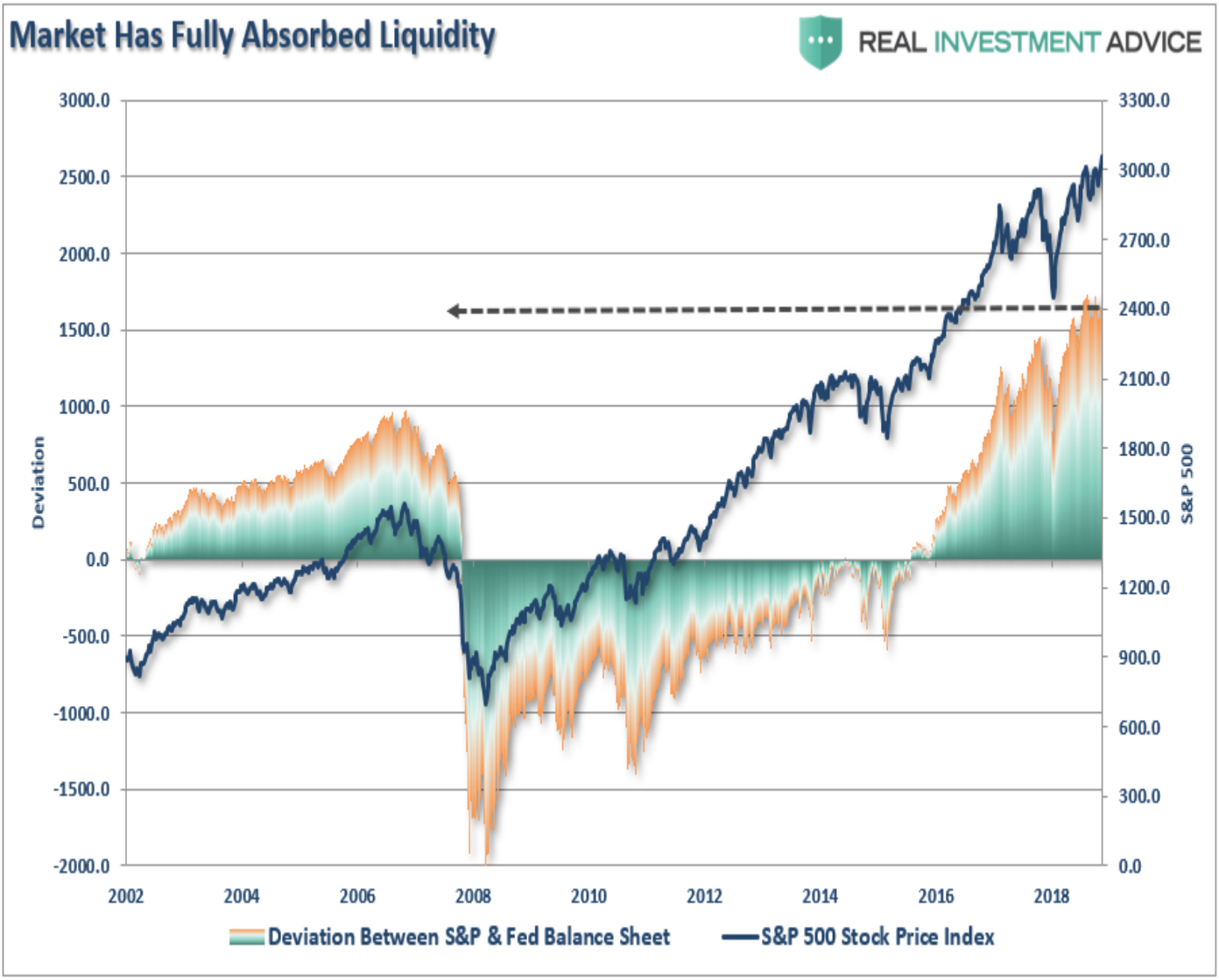
Let?s take a moment to analyze that definition by breaking it down into its overriding assumptions.

- *Are the Central Banks globally injecting liquidity into the financial system? Yes.*
- *Has the increase in liquidity into the private banking system lowered interest rates? &#2013266080; Yes.*

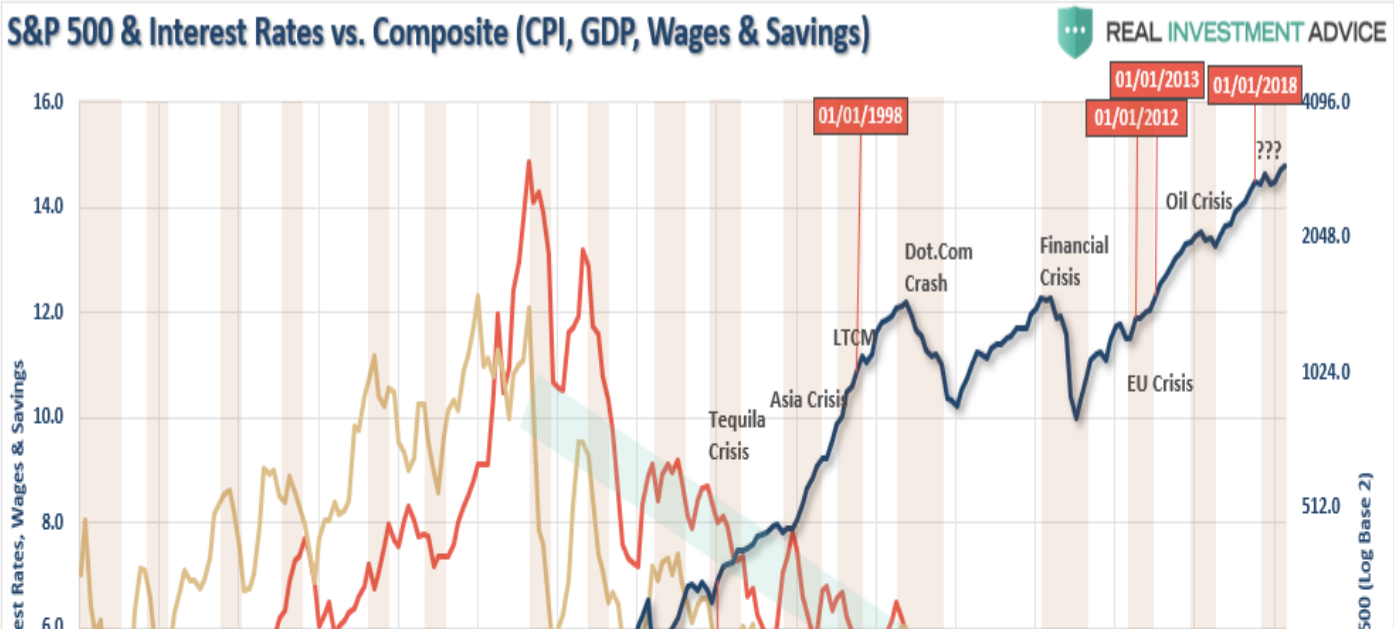
The chart below shows the increase in the Federal Reserve?s balance sheet, since they are the *?buyer?*&#2013266080;of bonds, which in turn increases the excess reserve accounts of the major banks, as compared to the 10-year Treasury rate.



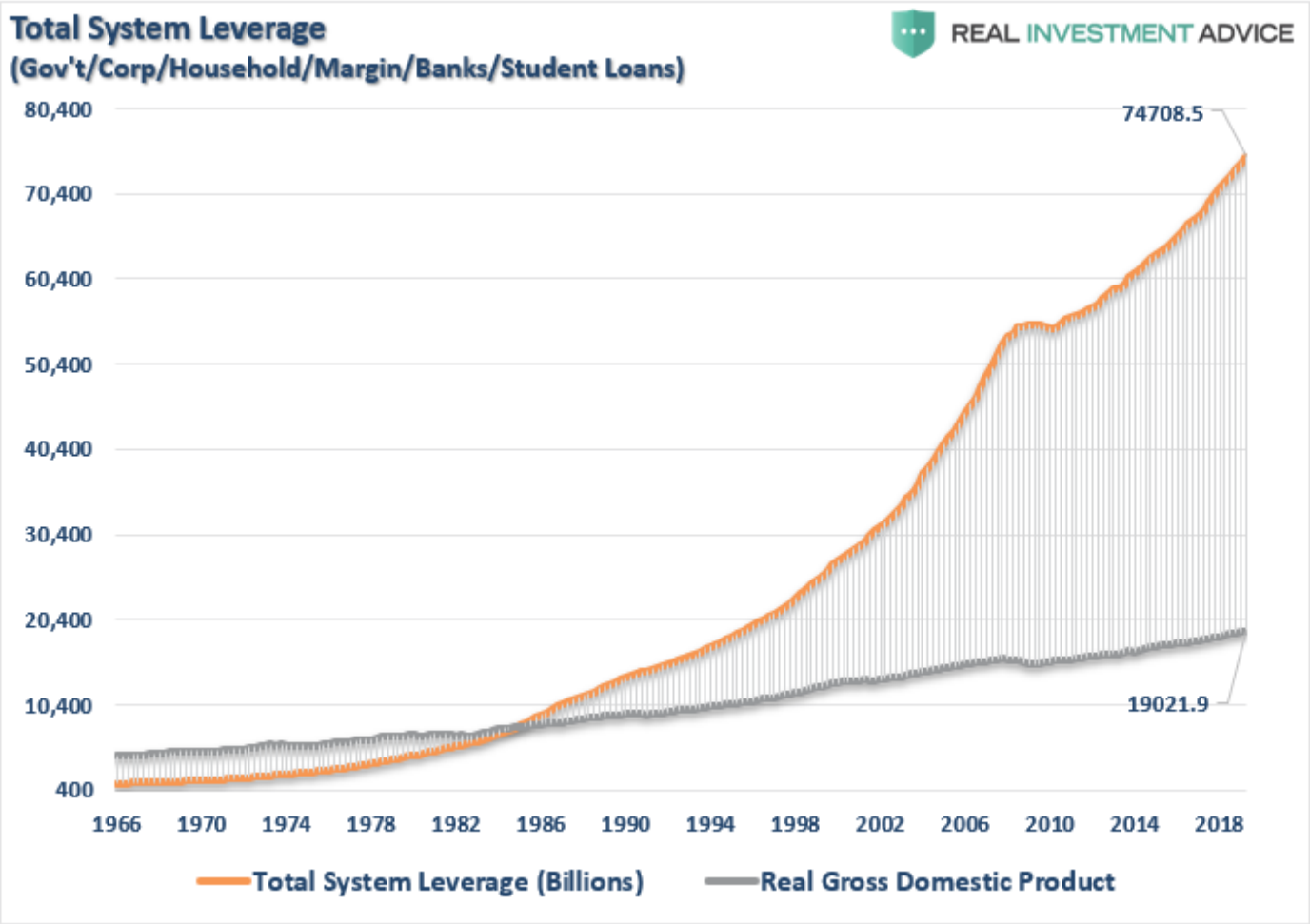
Of course, that money didn?t flow into the U.S. economy, it went into financial assets. With the markets having absorbed the current levels of accommodation, it is not surprising to see the markets demanding more,&#2013266080;*(The chart below compares the deviation between the S&P 500 and the Fed?s balance sheet. That deviation is the highest on record.)*



While, in the Fed?s defense, it may be clear the Fed?s monetary interventions have suppressed interest rates, I would argue their&#2013266080;**liquidity-driven inducements have not done much to support durable economic growth.** Interest rates have not been falling just since the monetary interventions began ? it began four decades ago as the economy began a shift to consumer credit leveraged service society.&#2013266080;&#2013266080;**The chart below shows the correlation between the decline of GDP, Interest Rates, Savings, and Inflation.**



In reality, the ongoing decline in economic activity has been the result of declining productivity, stagnant wage growth, demographic trends, and massive surges in consumer, corporate and, government debt.



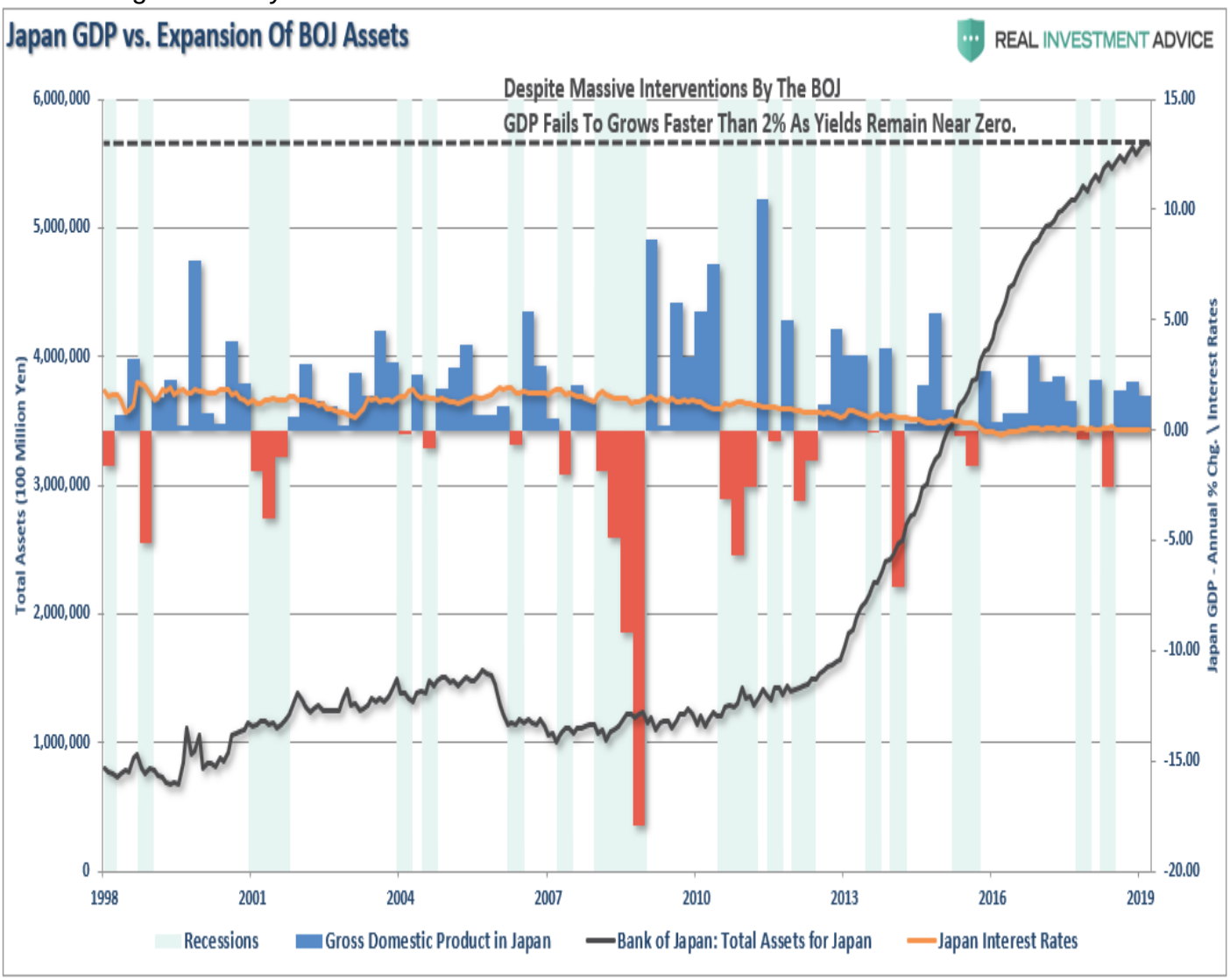
For these reasons, it is difficult to attribute much of the decline in interest rates and inflation to monetary policies when the long term trend was clearly intact long before these programs began. While an argument can be made that the early initial rounds of QE contributed to the bounce in economic activity, there were several other more important supports during the latest economic cycle.

1. ***Economic growth ALWAYS surges after recessionary weakness.&#2013266080;****This is due to the pent up demand that was built up during the recession and is unleashed back into the economy when confidence improves.*
2. ***There were multiple bailouts in 2009 from ?cash for houses?, ?cash for clunkers?, to direct bailouts of the banking system and the economy, etc., which greatly supported the post-recessionary boost.***
3. ***Several natural disasters****&#2013266080;from the ?Japanese Trifecta? which shut down manufacturing temporarily, to massive hurricanes and wildfires, provided a series of one-time boosts to economic growth just as weakness was appearing.*
4. ***A massive surge in government spending which directly feeds the economy***

   *The Fed?s interventions from 2010 forward, as the Fed became ?the only game in town,? seems to have had little effect other than a massive inflation in asset prices.&#2013266080;****The evidence suggests&#2013266080;the Federal Reserve has been experiencing a diminishing rate of return from their monetary policies.***

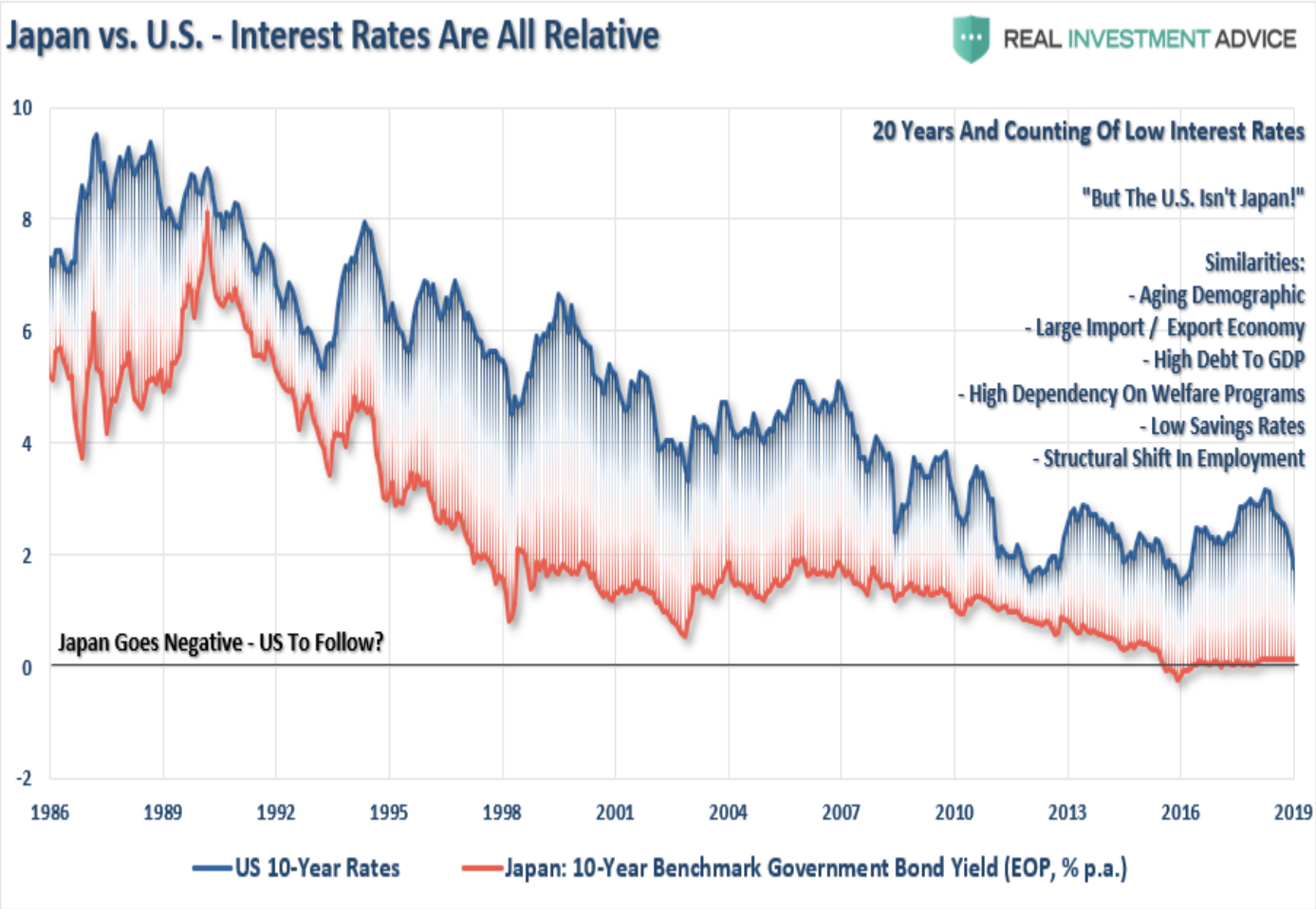
Welcome To The U.S. Of Japan

The Federal Reserve is caught in the same *?liquidity trap?*&#2013266080;that has been the&#2013266080;history of Japan for the last three decades.&#2013266080;**With an aging demographic, which will continue to strain the financial system, increasing levels of indebtedness, and unproductive fiscal policy to combat the issues restraining economic growth, it is unlikely monetary interventions will do anything other than simply continuing the boom/bust cycles in financial assets.** The chart below shows the 10-year Japanese Government Bond yield as compared to their quarterly economic growth rates and the BOJ?s balance sheet. Low interest rates, and massive QE programs, have failed to spur sustainable economic activity over the last 20 years. Currently, 2, 5, and 10 year Japanese Government Bonds all have negative real yields.



The reason you know the Fed is caught in a&#2013266080;*?liquidity trap?*&#2013266080;is because they are being forced to lower rates due to economic weakness. It is the only&#2013266080;*?trick?*&#2013266080;they know. Unfortunately, such action will likely have little, or no effect, this time due&#2013266080;to the current stage of the economic cycle. **If interest rates rise sharply, it is effectively *?game over?&#2013266080;*as borrowing costs surge, deficits balloon, housing falls, revenues weaken and consumer demand wanes.** &#2013266080;It is the worst thing that can happen to an economy that is currently remaining on life support. **The U.S., like Japan, is clearly caught in an on-going *?liquidity trap?* &#2013266080; where maintaining ultra-low interest rates are&#2013266080;the key to sustaining an economic pulse.**&#2013266080;The unintended consequence of such actions, as we are witnessing in the U.S. currently, is the ongoing battle with deflationary pressures.&#2013266080;**The lower interest rates go ? the less economic return that can be generated.&#2013266080;An ultra-low interest rate environment, contrary to mainstream thought, has a negative impact on making productive investments and risk begins to**

outweigh the potential return. Most importantly, while there are many calling for an end of the *?Great Bond Bull Market,?*&#2013266080;this is unlikely the case. As shown in the chart below, interest rates are relative globally.&#2013266080;**Rates can?t rise in one country while a majority of economies are pushing negative rates. As&#2013266080;has been the case over the last 30-years, so goes Japan, so goes the U.S.**



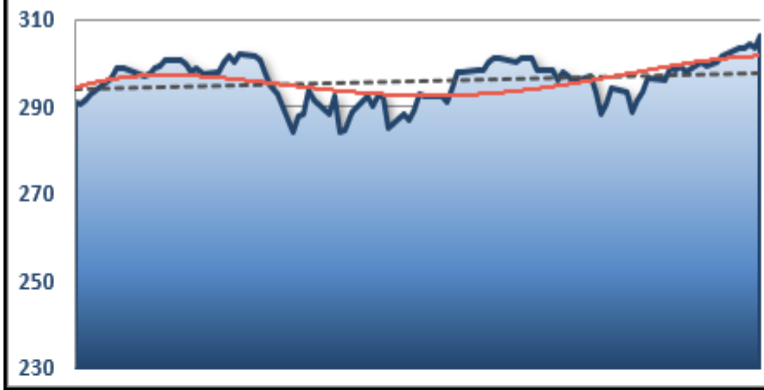
Simply pulling forward future consumption through monetary policy continues to leave an ever-growing void in the future that must be filled. **Eventually, the void will be too great to fill. But hey, let?s just keep doing the same thing over and over again, which hasn?t worked for anyone as of yet, and continue to hope for a different result.&#2013266080;** *What?s the worst that could happen? &#2013266080;* 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

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	18.89%	11.93%	22.50%	88.56%
Max Drawdown	-20.47%	-16.88%	-7.41%	-56.08%
Sharpe	0.69	0.86	2.05	1.38
Sortino	0.83	1.17	2.54	1.17
Volatility	14.94	15.75	13.44	(0.15)
Daily VaR-5%	(12.19)	(9.18)	7.64	(1.83)
Mnthly VaR-5%	(12.02)	(12.01)	6.06	(1.50)

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	1.87%	1.77%	1.81%	2.32%	2.18%	1.68%	(16.72%)	8.26%
P/E Ratio	21.27	18.98	18.89	(0.49%)	21.60	16.39	(12.5%)	15.27%
P/S Ratio	3.28	3.43	3.34	(2.66%)	3.58	2.61	(6.67%)	27.74%
P/B Ratio	3.60	4.14	4.15	0.05%	4.14	3.01	0.05%	37.68%
ROE	15.94%	18.26%	18.71%	2.40%	18.82%	15.00%	(0.59%)	24.76%
ROA	2.97%	3.43%	3.53%	2.81%	3.53%	2.81%	(0.05%)	25.53%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,408.3	2,328.4	(3.32%)
Sales	60,927	64,497	5.86%
SPS	25.3	27.7	9.49%
Earnings	8,816	9,501	7.77%
EPS TTM	4.4	4.9	11.37%
Dividend	1.6	1.7	6.16%

S&P 500 Asset Allocation

Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(14.41%)	4.33%	1.22	15.54	127.61	12.35	(87.8%)	9.1%	4.1%	6.55%	3.48	14.92
Materials	(14.81%)	2.69%	1.23	14.51	22.97	13.86	(36.8%)	9.8%	1.9%	6.95%	4.29	14.90
Industrials	13.04%	9.31%	1.17	17.89	22.23	14.78	(19.5%)	16.6%	1.9%	5.58%	5.33	15.80
Discretionary	12.60%	10.02%	1.04	24.39	27.17	20.19	(10.2%)	29.2%	1.3%	4.12%	5.03	21.23
Staples	9.66%	7.36%	0.59	20.72	22.83	17.62	(9.2%)	27.3%	2.7%	4.75%	3.97	20.05
Health Care	6.04%	13.99%	0.85	16.60	20.60	15.90	(19.4%)	30.9%	1.7%	5.90%	6.79	14.68
Financials	10.89%	12.98%	1.26	13.78	18.45	11.70	(25.3%)	11.8%	2.1%	7.31%	5.90	12.12
Technology	22.19%	22.25%	1.26	22.81	21.73	14.41	5.0%	39.6%	1.4%	4.43%	5.42	20.06
Telecom	9.02%	10.36%	0.88	20.59	26.73	17.47	(23.0%)	17.1%	0.9%	4.87%	6.66	17.45
Utilities	24.31%	3.46%	0.26	21.67	21.00	15.58	3.2%	10.4%	3.1%	4.60%	3.69	19.96
Real Estate	21.08%	3.15%	0.67	20.64	24.47	17.10	(15.7%)	9.6%	3.1%	4.69%	4.39	20.36

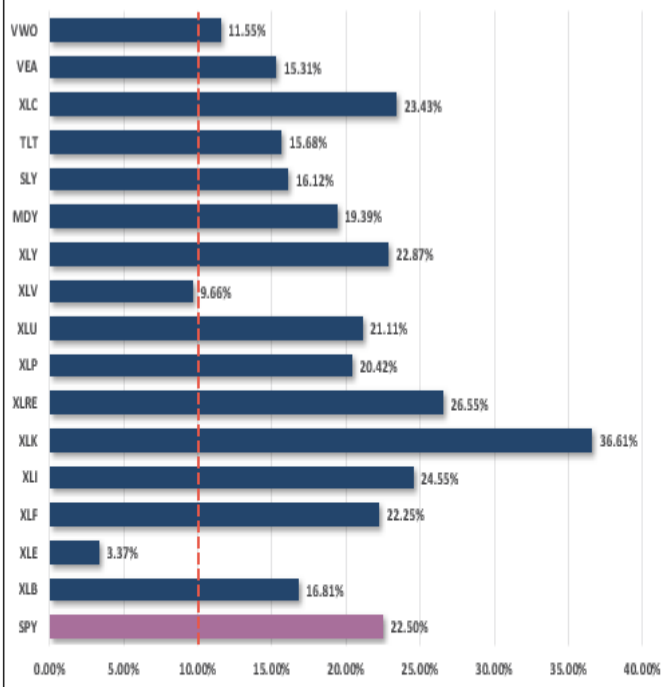
Momentum Analysis

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	306.14	7.47%	296.86	16	3.12%	289.04	109	5.92%	2.71%	(0.02%)	30.96%	Buy
Mid Cap	361.35	7.87%	350.27	16	3.16%	348.52	16	3.68%	0.50%	(0.42%)	27.03%	Buy
Small Cap	69.64	9.31%	67.18	14	3.67%	67.15	14	3.71%	0.04%	(1.43%)	23.69%	Buy

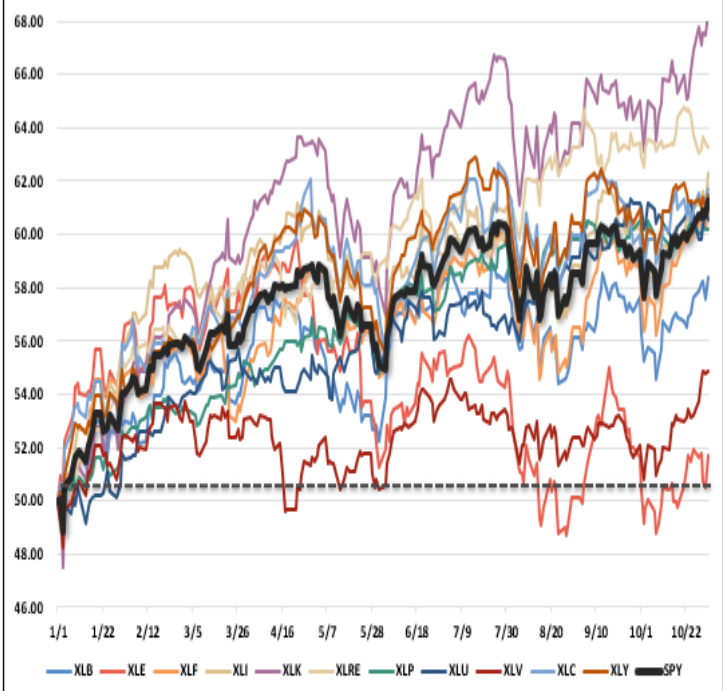
Performance Analysis

Year To Date Performance

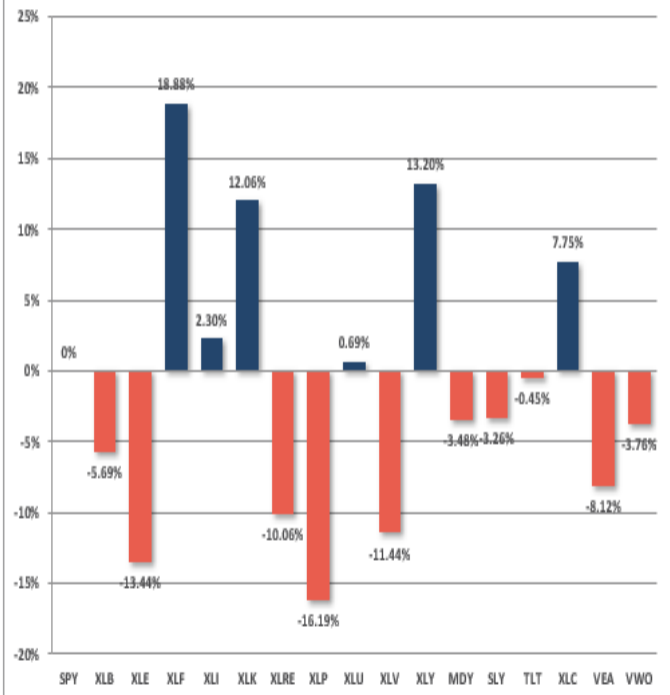
ZACKS REAL INVESTMENT ADVICE



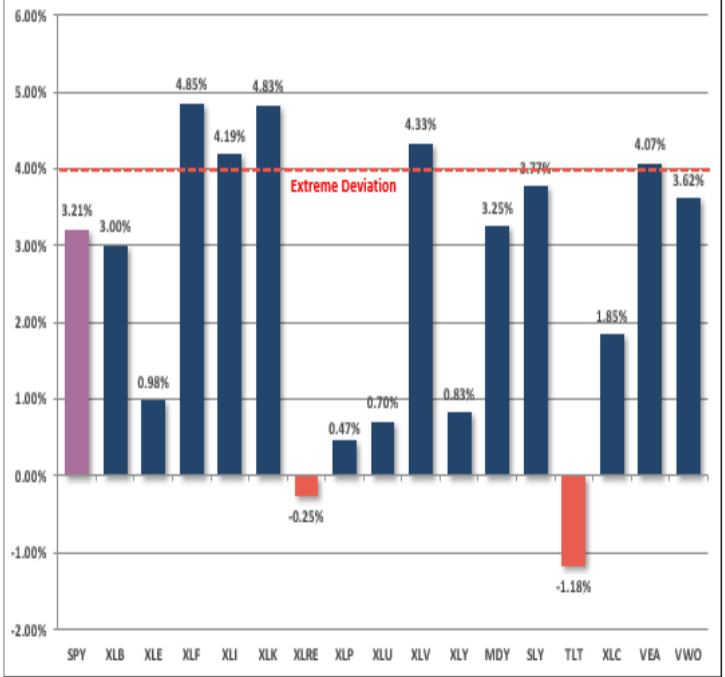
YTD Price - S&P Sectors Recalibrated To $50/share



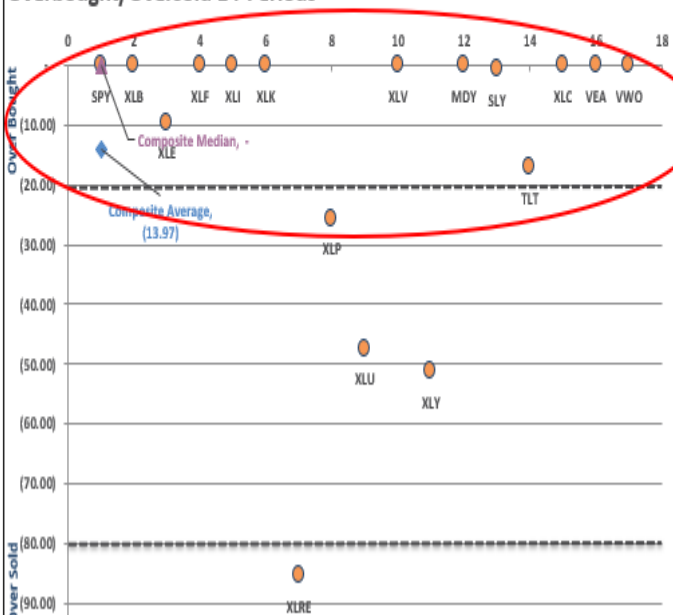
Year To Date Performance Relative To S&P 500



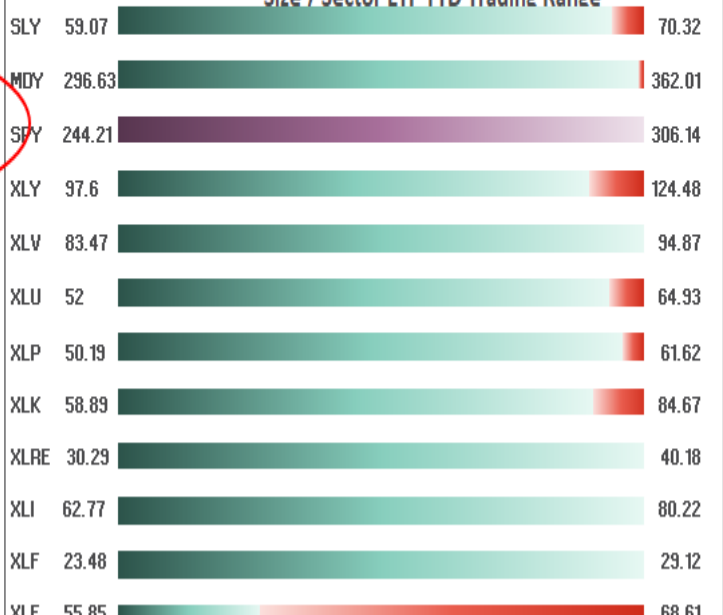
Price Deviation From 50-Day Moving Average



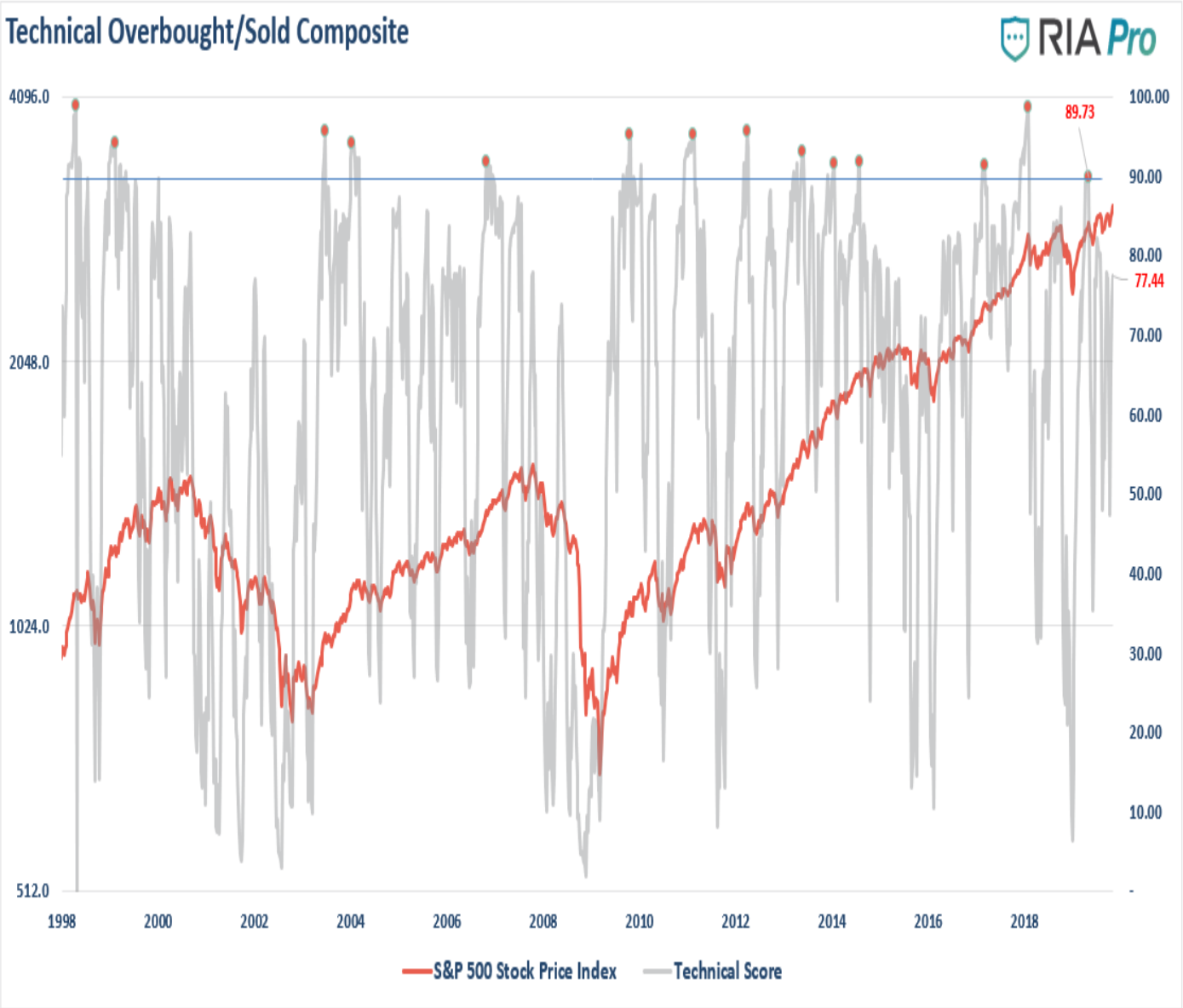
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



ETF Model Relative Performance Analysis

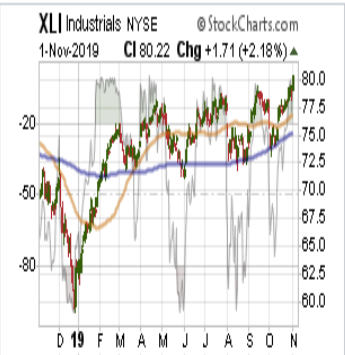
	RELATIVE PERFORMANCE	Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	307.95	1.53	4.03	4.97	6.96	12.44	296.80	293.40	3.76%	4.96%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	59.01	(0.24)	0.76	(2.76)	1.01	(3.08)	57.17	56.90	3.22%	3.70%	BUY
		XLE	SPDR-EGY SELS	59.28	(1.93)	(0.72)	(4.67)	(13.98)	(24.69)	58.58	61.97	1.20%	-4.33%	SELL
		XLF	SPDR-FINL SELS	29.12	0.15	2.02	2.20	1.37	(2.05)	27.54	27.32	5.72%	6.58%	BUY
		XLI	SPDR-INDU SELS	80.22	0.53	2.07	1.39	0.25	0.57	76.48	76.28	4.89%	5.16%	BUY
		XLK	SPDR-TECH SELS	84.67	0.58	1.08	2.90	5.36	10.74	80.22	78.15	5.54%	8.35%	BUY
		XLP	SPDR-CONS STPL	61.15	(1.43)	(4.44)	(1.89)	(1.08)	(1.48)	60.57	58.68	0.97%	4.21%	BUY
		XLU	SPDR-UTIL SELS	64.09	(1.64)	(5.08)	0.32	2.07	8.15	63.06	60.58	1.63%	5.79%	BUY
		XLC	SPDR-COMM SV SS	50.95	(0.28)	(0.91)	(2.29)	(2.98)	(1.29)	49.83	49.22	2.25%	3.52%	BUY
		XLV	SPDR-HLTH CR	94.87	1.52	1.23	(1.18)	0.31	(6.15)	90.84	90.76	4.43%	4.53%	BUY
		XLY	SPDR-CONS DISCR	121.65	(1.04)	(1.99)	(2.13)	(2.01)	0.23	119.91	118.43	1.45%	2.72%	BUY
	SIZE	SLY	SPDR-SP SC 600	69.64	(0.24)	1.39	0.30	(2.23)	(11.81)	66.76	67.01	4.32%	3.92%	SELL
		MDY	SPDR-SP MC 400	361.35	(0.24)	0.25	(0.66)	(2.05)	(5.87)	348.39	349.47	3.72%	3.40%	SELL
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	110.76	(0.31)	0.15	(0.13)	(1.19)	(1.84)	106.78	106.49	3.73%	4.01%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	105.10	(0.69)	0.25	0.65	(0.76)	(1.28)	101.06	100.52	3.99%	4.56%	BUY
	Real Estate	XLRE	SPDR-RE SELS	39.23	(2.19)	(4.46)	(3.00)	0.10	10.39	39.12	37.58	0.29%	4.39%	BUY
	International	EEM	ISHARS-EMG MKT	43.22	(0.31)	1.46	3.43	0.31	(6.56)	40.96	41.95	5.53%	3.03%	SELL
		EFA	ISHARS-EAFE	68.02	(0.04)	1.97	3.10	(1.95)	(5.06)	64.51	65.05	5.45%	4.56%	SELL
		IXUS	ISHARS-CR INT S	60.20	(0.27)	1.23	2.39	(1.63)	(5.70)	57.32	57.94	5.02%	3.90%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	140.56	(0.06)	(7.75)	(4.61)	4.60	13.06	142.39	133.32	-1.29%	5.43%	BUY
	International	BNDX	VANGD-TTL INT B	58.32	(1.44)	(5.03)	(5.21)	(2.90)	(5.37)	58.65	57.28	-0.56%	1.82%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.82	(2.18)	(3.58)	(4.31)	(5.94)	(9.41)	86.83	86.56	-0.01%	0.30%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.79										

RIA Pro

Sector & Market Analysis:

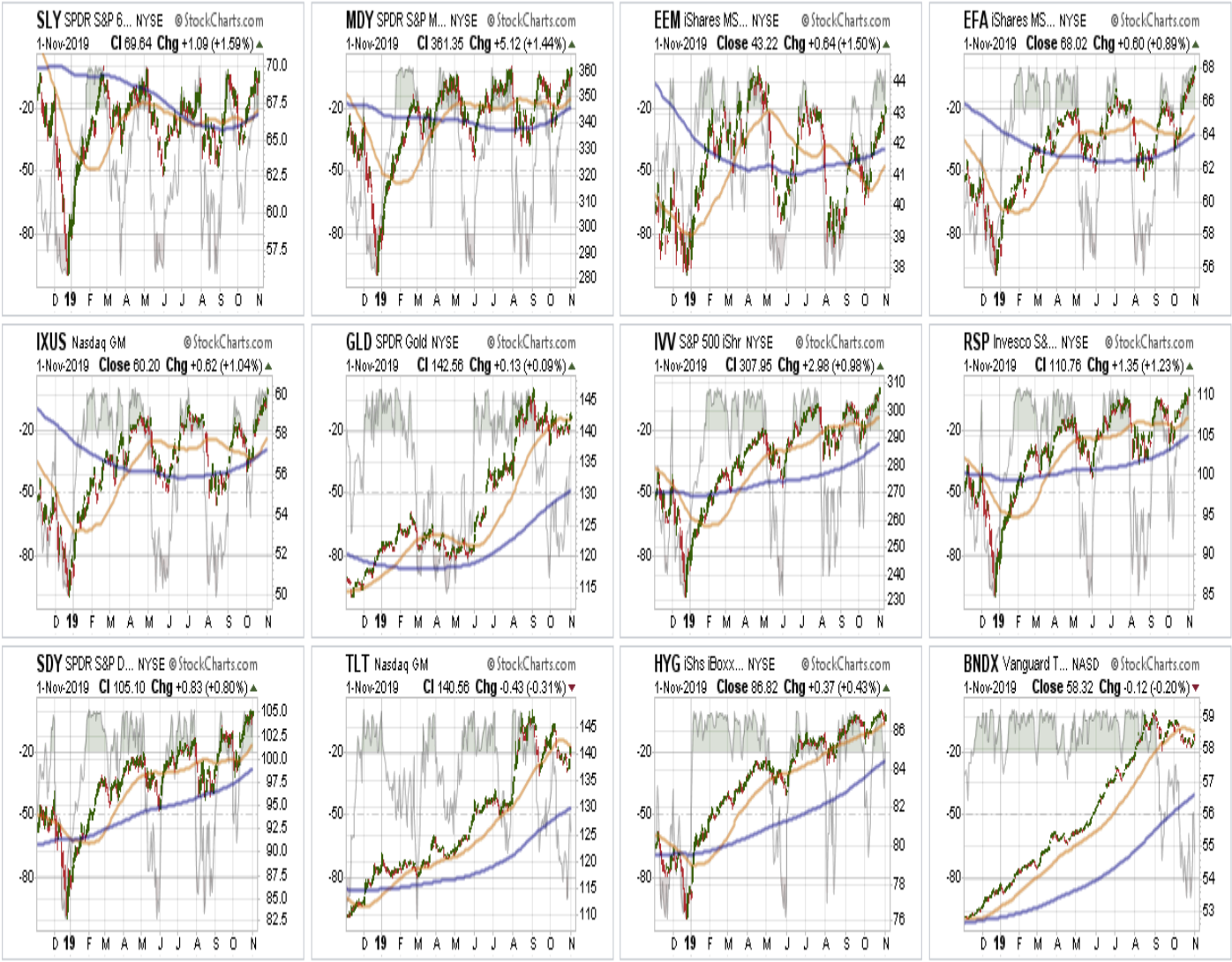
Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels

Sector-by-Sector



Improving ? Healthcare (XLV), Industrials (XLI), Energy (XLE) The relative performance improvement of Healthcare relative to the S&P 500 continued to improve this past week as money has rotated into underperforming sectors. Energy has also continued to improve as the rotation to *"value"* continues. It is still too early to get aggressive in the sector, but the improvement in relative performance puts it on our radar. Industrials, which perform better when the Fed is active with QE, broke out to new highs this past week, we are looking to add back to our position. ***Current Positions:&#2013266080;****Target weight XLV, 1/2 weight XLI* **Outperforming ? Financials (XLF)** Financials have been running hard on Fed rate cuts and more QE, but rate cuts are, longer-term, not great for net-interest income margins on banks. Combined with the high level of corporate debt on their books, we remain cautious on the sector. With the breakout to new highs, we will look for some consolidation to add exposure to the sector. **Current Positions:&#2013266080;***None* **Weakening ? Real Estate (XLRE), Staples (XLP), Technology (XLK), Discretionary (XLY)** As noted last week, Discretionary and Communications have turned higher and continue to consolidate in a broadening pennant pattern. Relative performance continues to lag the S&P 500 currently. We continue to hold Staples, and are remaining patient to see how the market shakes out over the next couple of weeks as we head into the end of the year. Real Estate continues to flirt with highs but remain GROSSLY extended. We have taken profits, but remain long positions for now. Technology broke out to all-time highs, which is bullish for now. **Current Position:** &#2013266080;*Target weight XLY, XLK, XLRE, XLP* **Lagging ? Basic Materials (XLB), and Communications (XLC)** Basic Materials are improving as the trade war is resolved, and we expect to see better performance as money rotates into the sector. Communications has dragged lately as earnings have disappointed. However, if the overall market is going to move higher, we expect to see a turn higher in this sector as well. **Current Position:** *1/2 weight XLB, Target weight XLC*

Market By Market



Small-Cap (SLY) and Mid Cap (MDY) ? Small- and Mid-caps continue to move higher and are testing the top of their respective consolidation ranges. If the market is going to move higher, it should pull small and mid-caps up, which would also be in line with what we would expect with the Fed engaged in QE. When we see a better entry point we will add exposure accordingly. Both markets are EXTREMELY overbought currently. Be patient for the right entry point. **Current Position:**&#2013266080;*No position* **Emerging, International (EEM) & Total International Markets (EFA)** The same advice goes for Emerging and International Markets, which we have been out of portfolios for several weeks due to lack of performance. These markets rallied recently on news of *"more QE."* However, the overall technical trend is not great, so we need to see if this is sustainable or just another *"head fake."&#2013266080;* Both markets are EXTREMELY overbought currently. Be patient for the right entry point. **Current Position:**&#2013266080;*No Position* **Dividends (VYM), Market (IVV), and Equal Weight (RSP)**&#2013266080;? These positions are our long-term&#2013266080;*?core?*&#2013266080;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&#2013266080;*?base?* &#2013266080;around which we overweight/underweight our allocations based on our outlook. **Current Position:**&#2013266080;*RSP, VYM, IVV* **Gold (GLD)** ? Despite the rally in the broader market, Gold turned higher last week after basing along the $140 level. Gold also broke above its 50-dma. We are still in a consolidation of the previous advance so be patient adding exposure for now. **Current Position:**&#2013266080;*GDX (Gold Miners), IAU (Gold)* **Bonds (TLT) ?&#2013266080;** Bonds continue to work off its massive overbought condition from the previous run down in rates. This rise in yields was expected, which is why we added a "*steepner trade"* to our portfolios. Given that we improved our credit quality and shortened duration previously, we are holding our positions for now. We have tightened up our stops. Stay long current positions for now,

and look for an opportunity to add to holdings. **Current Positions:**&#2013266080;*DBLTX, SHY, IEF*

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	OVERWEGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OB	Positive	Positive	Hold			X			Testing Resistance
XLK	Technology	OB	Positive	Positive	Hold			X			New Highs
XLI	Industrials	OB	Positive	Neutral	Hold			X			New Highs
XLB	Materials	OB	Positive	Neutral	Hold			X			Testing Resistance
XLE	Energy	Improving	Negative	Negative	No Position					X	Broke Above 50-dma
XLP	Staples	Declining	Positive	Positive	Hold			X			Holding Support/Near Highs
XLV	Health Care	OB	Positive	Neutral	Hold			X			New Highs
XLU	Utilities	Declining	Positive	Positive	Hold			X			Holding Support/Near Highs
XLF	Financials	OB	Positive	Neutral	Hold					X	New Highs
XLC	Communications	OB	Positive	Neutral	No Position			X			Holding Support/Near Highs
XLRE	Real Estate	Declining	Positive	Positive	Hold			X			Holding Support/Near Highs
SLY	Small Caps	OB	Negative	Negative	No Position					X	Extreme Overought/At Resistance
MDY	Mid Caps	OB	Positive	Neutral	No Position					X	Extreme Overbought/At Resistance
EEM	Emerging Mkt	OB	Positive	Negative	No Position					X	Extreme Overbought/At Resistance
EFA	International	OB	Positive	Negative	No Position					X	Extreme Overbought/At Resistance
IXUS	Total International	OB	Positive	Negative	No Position					X	Extreme Overbought/At Resistance
GLD	Gold	Improving	Positive	Positive	Add			X			Holding Support
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			New Highs
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			New Highs
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			New Highs
TLT	20+ Yr. Bond	OS	Positive	Positive	Add			X			Holding Support
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Testing Highs
BNDX	Int'l Bond Aggregrate	OS	Positive	Positive	No Position					X	Broke 50-DMA

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

Portfolio/Client Update:

Two week's ago, we addressed the reasons *(seasonality, trade, buybacks)* for increasing our equity exposures in portfolios. To wit:

> *"Given the fact the Federal Reserve is back to providing liquidity into the markets, we have to remain cognizant of the market's "perception" of what will happen with QE, versus what we expect to the outcome to be.* ***In the short-term, the catalyst is likely a net positive to stocks so we need to adjust equity exposure slightly to take advantage of the potential upside bias as we head into the end of the year."&#2013266080;***

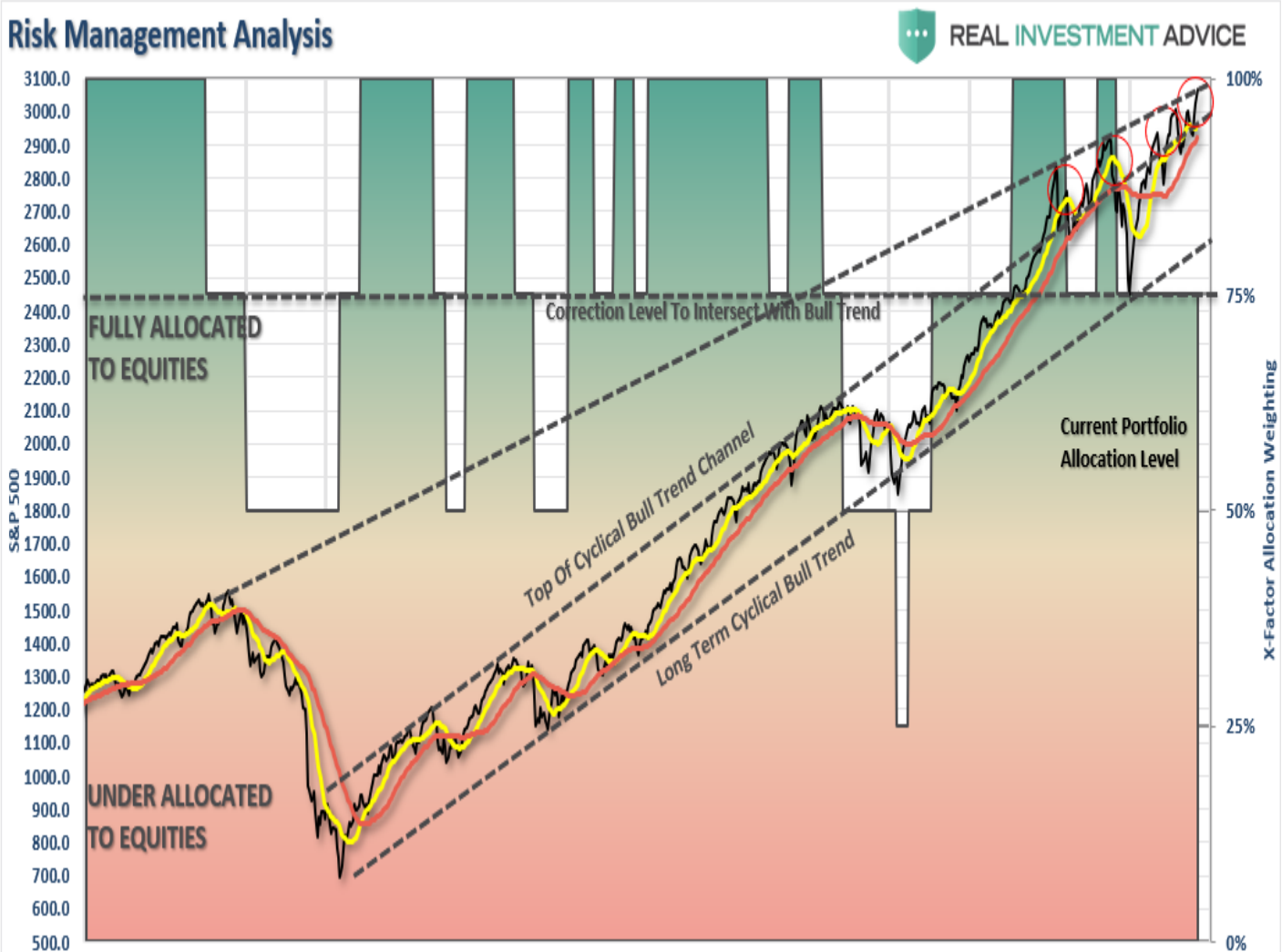
Last week, we noted that we have added some exposure in the Equity portfolio. However, given the short-term overbought status of the market we are waiting for a small correction to step into more exposure in the ETF portfolios. As noted, we are specifically looking to add exposure to small and mid-capitalization markets, basic materials, industrials, financials and energy. These additions will increase our overall allocation towards equity risk as we head into the end of the year. **These are NOT permanent additions, but rather opportunistic positions to potentially add some "alpha generation" to portfolios over the next couple of months.** We will be carrying tight stops and re-evaluating the holdings regularly for adjustments. As we move into next week, depending on how markets are acting, we will look to slowly increase our equity exposure modestly to *"rent whatever rally"* we may get from the *"QE-4."&#2013266080;*

- **New clients:** *Please contact your adviser with any questions.&#2013266080;*
- ***Equity Model:&#2013266080;****Sold YUM, MDLZ. Bought KHC*
- ***ETF Model****: No changes.*

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

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. ***I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative to a positive trend.*** *Emotions keep us from taking the correct action.*
401k-PlanManager-AllocationShift

The Fed Unleashes The Bull

Given the *"bulls"* have the upper-hand heading into the end of the year, we are increasing our equity exposure slowly. Given the markets tend to pullback just before Thanksgiving, and during the second week of December, we will have a better opportunity increase allocations if we are patient. We need to see a bit of pullback to reduce the rather excessive extension of the market above the 200-dma, but a pullback that doesn't break back below the previous highs. Such action will confirm the breakout and suggest our target of 3300 is attainable. However, please direct your attention to the chart above. The market is once again pushing above it's cyclical bullish trend line and testing the cycle trend highs from 2007. This has been a point of failure for the markets each time previously, so some caution is advised until a breakout is confirmed. This week, continue making adjustments to prepare to opportunistically increase equity exposure on a pullback which doesn't fail at support levels.

- *If you are* ***overweight&#2013266080;equities*** *- Hold current positions.*
- *If you are* ***underweight equities -*** *rebalance portfolios to target weights*
- *If at* ***target weight equities,*** *hold positioning and look for a pullback to increase exposure.*

Understand this increase could well be short-lived. The markets have been in a very long consolidation process and the breakout to the upside is indeed bullish. However, we must counter-balance that view with the simple reality we are VERY long in the current economic and market cycle which is where *"unexpected"* events have destroyed capital in the past. If you need help after reading the alert; do not hesitate to **contact me.**

401k Plan Manager Beta Is Live

Become a **RIA PRO subscriber** and be part of our ***"Break It Early Testing Associate"*** group by using **CODE: 401** ***(You get your first 30-days free)*** **The code will give you access to the entire site during the 401k-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 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)*

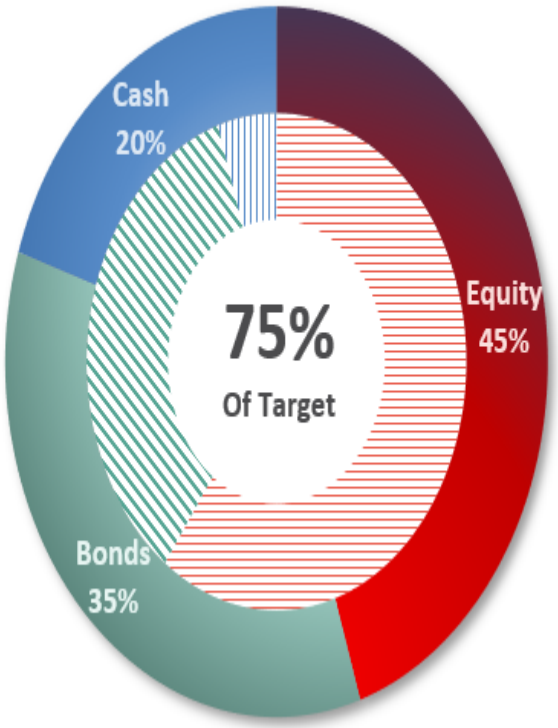
I have gotten quite a few plans, so keep sending them and I will include as many as we can. **If you would like to offer our service to your employees at a deeply discounted corporate rate, please contact me.**

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

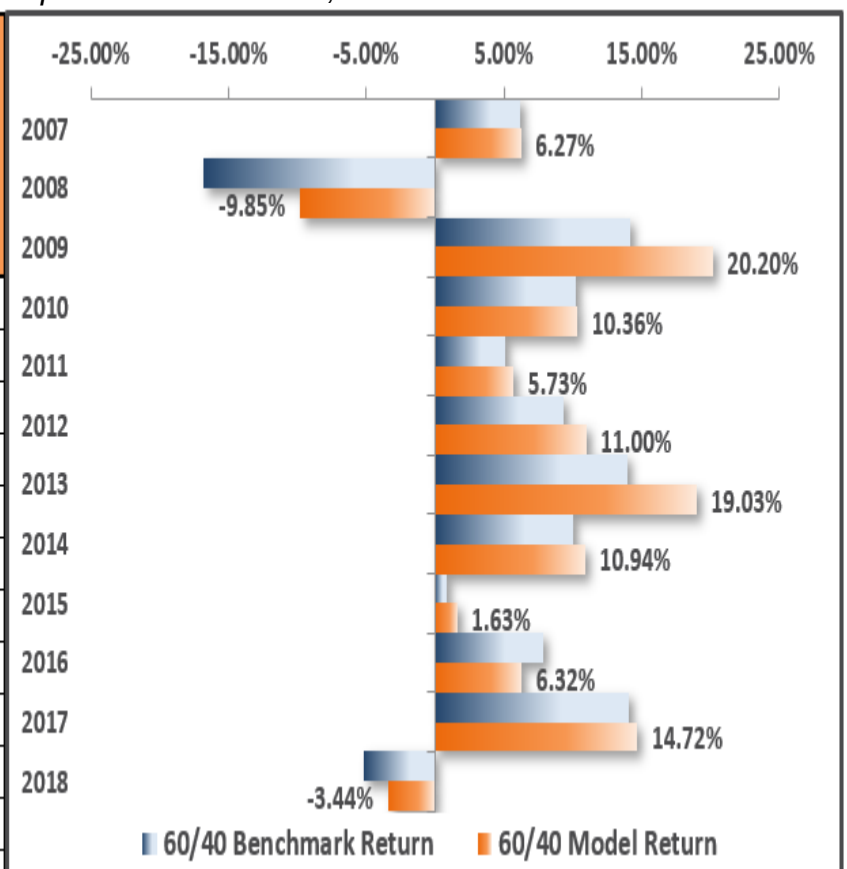
45.00% **Equity (Stocks)**

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

60/40 Benchmark vs. Risk Adjusted 60/40 Allocation