RIA PRO: Too Fast, Too Furious - Hedging For A Short-Term Correction

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The "QE, Not QE" Rally Is On

Last week, we discussed the "QE, Not QE" rally:

> *"Just recently, we released a study for our* ***[RIAPro Subscribers (30-Day Free Trial)](#)*** *on historical QE programs and what sectors,&#2013266080; markets, and commodities perform best. (If you subscribe for a 30-day Free Trial you can read the entire report* ***'An Investor's Guide To QE-4.'****)" 'On October 9, 2019, the Federal Reserve announced a resumption of quantitative easing (QE).* ***Fed Chairman Jerome Powell went to great lengths to make sure he characterized the new operation as something different than QE.*** *Like QE 1, 2, and 3, this new action involves a series of large asset purchases of Treasury securities conducted by the Fed. The action is designed to pump liquidity and reserves into the banking system.* ***Regardless of the nomenclature, what matters to investors is whether this new action will have an effect on asset prices similar to prior rounds of QE.*** *For the remainder of this article, we refer to the latest*

Equity Index Returns / Equity Factors

	Large Cap Dow Jones	Large Cap S&P 500	Large Cap NASDAQ	Large Cap S&P 100	Mid Cap S&P 400	Small Cap S&P 600	Small Cap Russell 2k	All Equity	Growth	Value
QE3	18.3%	23.6%	19.6%	19.7%	30.1%	35.6%	31.5%	25.5%	21.4%	26.3%
QE3 Max	18.3%	23.6%	19.6%	19.7%	30.4%	35.6%	31.5%	25.5%	21.4%	26.3%
QE3 Min	-7.3%	-6.9%	-11.4%	-7.9%	-5.3%	-8.5%	-9.3%	-8.1%	-7.6%	-6.0%
QE2	7.3%	6.0%	2.6%	5.0%	10.5%	9.9%	8.7%	7.1%	5.4%	6.7%
QE2 Max	14.5%	13.7%	12.4%	12.6%	20.3%	19.5%	20.3%	16.2%	12.5%	15.0%
QE2 Min	-0.9%	-0.8%	-0.1%	-1.2%	0.0%	0.0%	0.0%	-0.4%	-0.1%	-1.6%
QE1	25.6%	33.2%	65.8%	26.0%	58.0%	45.9%	47.3%	43.1%	38.9%	26.9%
QE1 Max	25.6%	33.2%	65.8%	26.0%	58.0%	45.9%	47.3%	43.1%	38.9%	26.9%
QE1 Min	-23.3%	-22.0%	-9.6%	-23.4%	-18.1%	-25.0%	-23.9%	-20.7%	-14.4%	-29.8%
QE Avg.	17.1%	20.9%	29.3%	16.9%	32.9%	30.5%	29.1%	25.2%	21.9%	20.0%
QE Avg. Max	19.5%	23.5%	32.6%	19.4%	36.2%	33.7%	33.0%	28.3%	24.3%	22.7%
QE Avg. Min	-10.5%	-9.9%	-7.1%	-10.9%	-7.8%	-11.2%	-11.0%	-9.8%	-7.3%	-12.5%
Average vs. S&P 500	-3.9%	0.0%	8.4%	-4.0%	11.9%	9.5%	8.2%	4.3%	1.0%	-1.0%

Equity Indexes - Annualized and Normalized Returns per $100bn of QE / Equity Factors

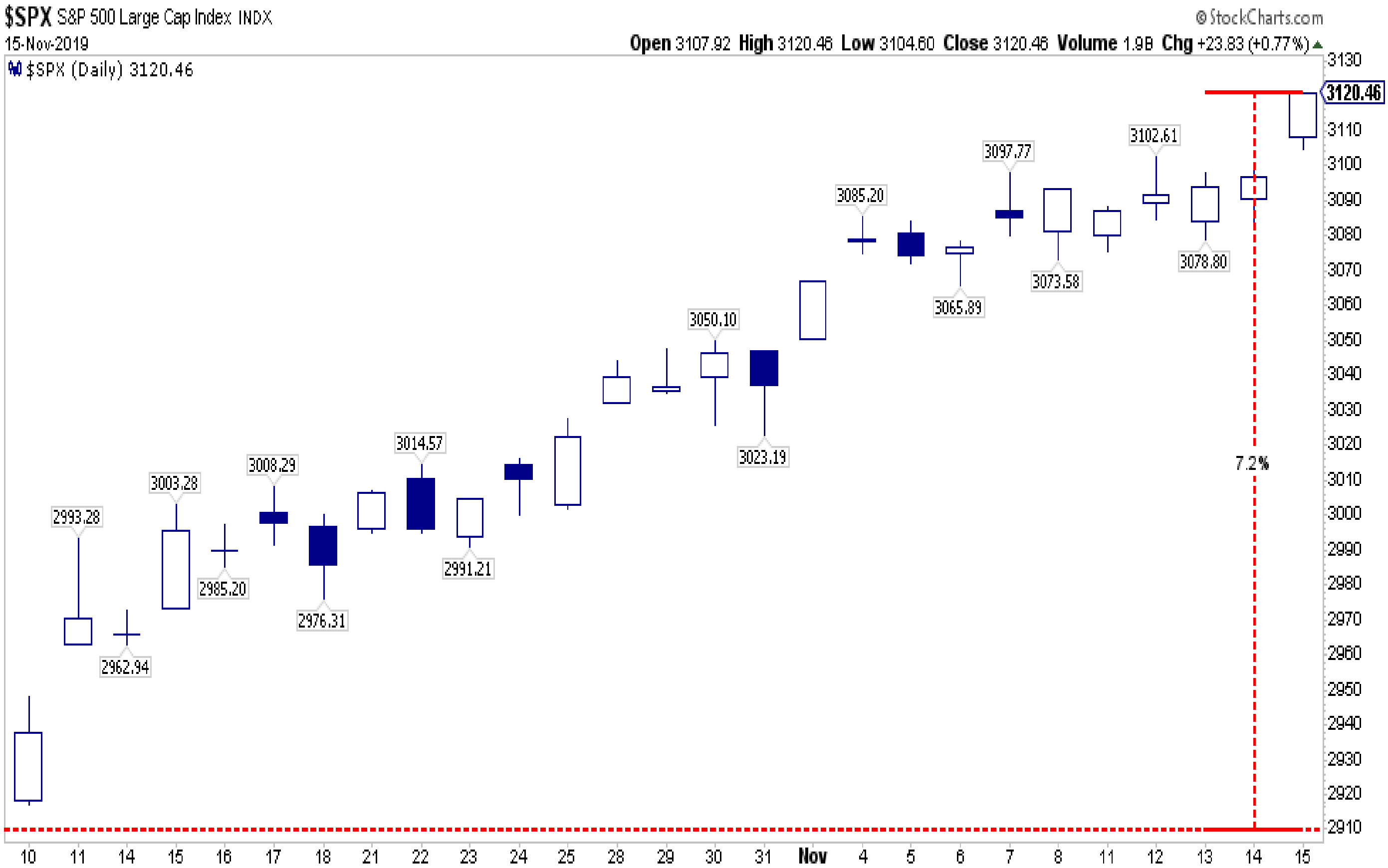
	Large Cap Dow Jones	Large Cap S&P 500	Large Cap NASDAQ	Large Cap S&P 100	Mid Cap S&P 400	Small Cap S&P 600	Small Cap Russell 2k	All Equity	Growth	Value
QE3	1.34%	1.72%	1.43%	1.44%	2.18%	2.56%	2.28%	1.85%	1.56%	1.91%
QE2	1.83%	1.51%	0.64%	1.24%	2.67%	2.52%	2.20%	1.80%	1.35%	1.69%
QE1	1.42%	1.82%	3.45%	1.44%	3.07%	2.47%	2.54%	2.33%	2.12%	1.49%
QE Avg.	1.53%	1.68%	1.84%	1.38%	2.64%	2.52%	2.34%	1.99%	1.68%	1.70%

As you will notice, all major markets increased in value during QE-1, 2, and 3.

Regardless, whether you believe the Fed's actions are *"QE," "QE-Lite," of "Not QE at all"* is largely irrelevant. What is relevant is that&#2013266080;each time the Fed has engaged in monetary programs, the markets have risen. Therefore, it should **not be surprising investors now have a *["Pavlovian"](#)* response to the Fed's *"ringing of the bell."&#2013266080;*** During the past few weeks, we have discussed the probability of a year-end rally, which would be supported by both the Fed, and a *"trade deal."&#2013266080;&#2013266080;*The following links will catch you up on our premise.

- *[The QE Rally Is On - How To Play It & What Happens Next 11-08-19](#)*
- *[The Fed's "Not QE" And How We Are Playing It 10-25-19](#)*
- *[For The Bulls, It's Now Or Never 10-18-19](#)*
- *[Trade Deal Done? Is 3300 The Next Stop For The Market? 10-11-19](#)*

With the Fed cutting rates, Trump touting *"trade deals,"* and now *"tax cuts for the middle class,"&#2013266080;*not to mention the Federal Reserve increasing their balance sheet, it should not surprising markets have rallied over the last 5-weeks as shown below.



Think about it this way, in just 5-weeks the market has almost advanced as much as the long-term historical average annual return. This should suggest two things.

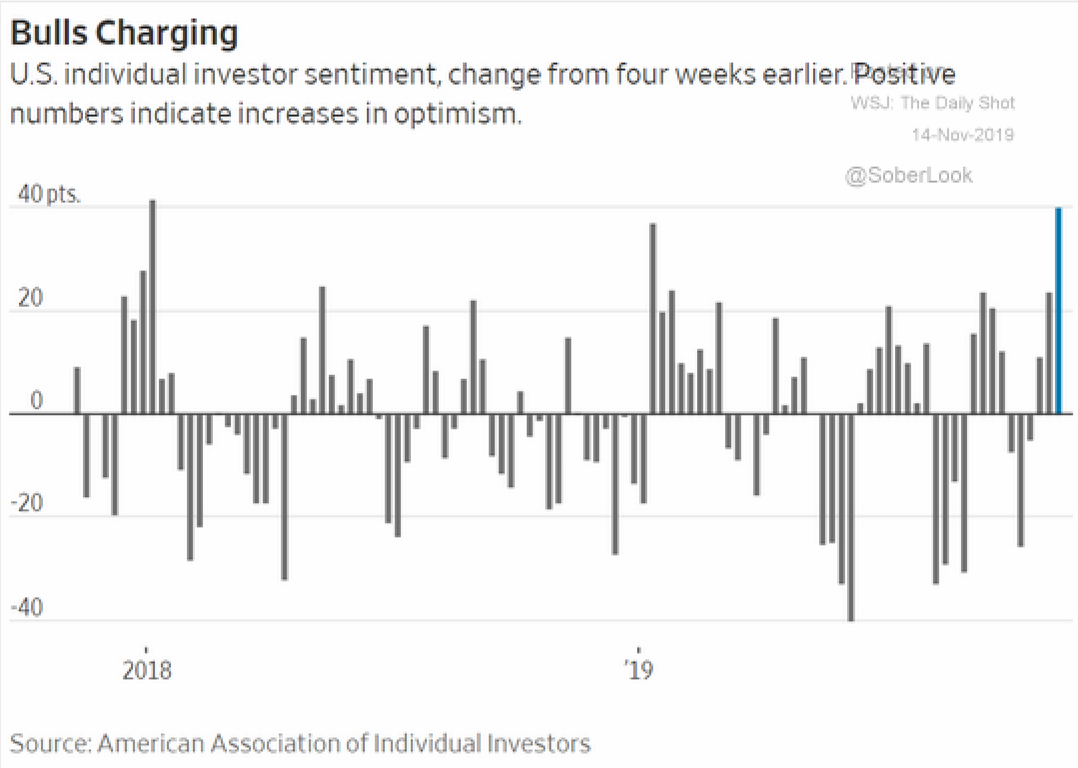
1. *The market has already priced in a bulk of the benefit from the additional liquidity; and,&#2013266080;*
2. *The market has advanced too quickly.*

Too Fast, Too Furious

On Tuesday, I posted a series of charts which showed the rather rapid reversion from more extreme bearishness mid-summer to more extreme bullishness now. As I noted:

> *"But it isn?t just the more extreme advance of the market over the past 5-weeks which has us a bit concerned in the short-term,&#2013266080;**but a series of other indications which typically suggest short- to intermediate-terms corrections in the market. Historically, when all of the indicators are suggesting the market has likely encompassed the majority of its price advance, a correction to reverse those conditions is often not far away. Regardless of the timing of that correction, it is unlikely there is much upside remaining in the current advance, and taking on additional equity exposure at these levels will likely yield a poor***

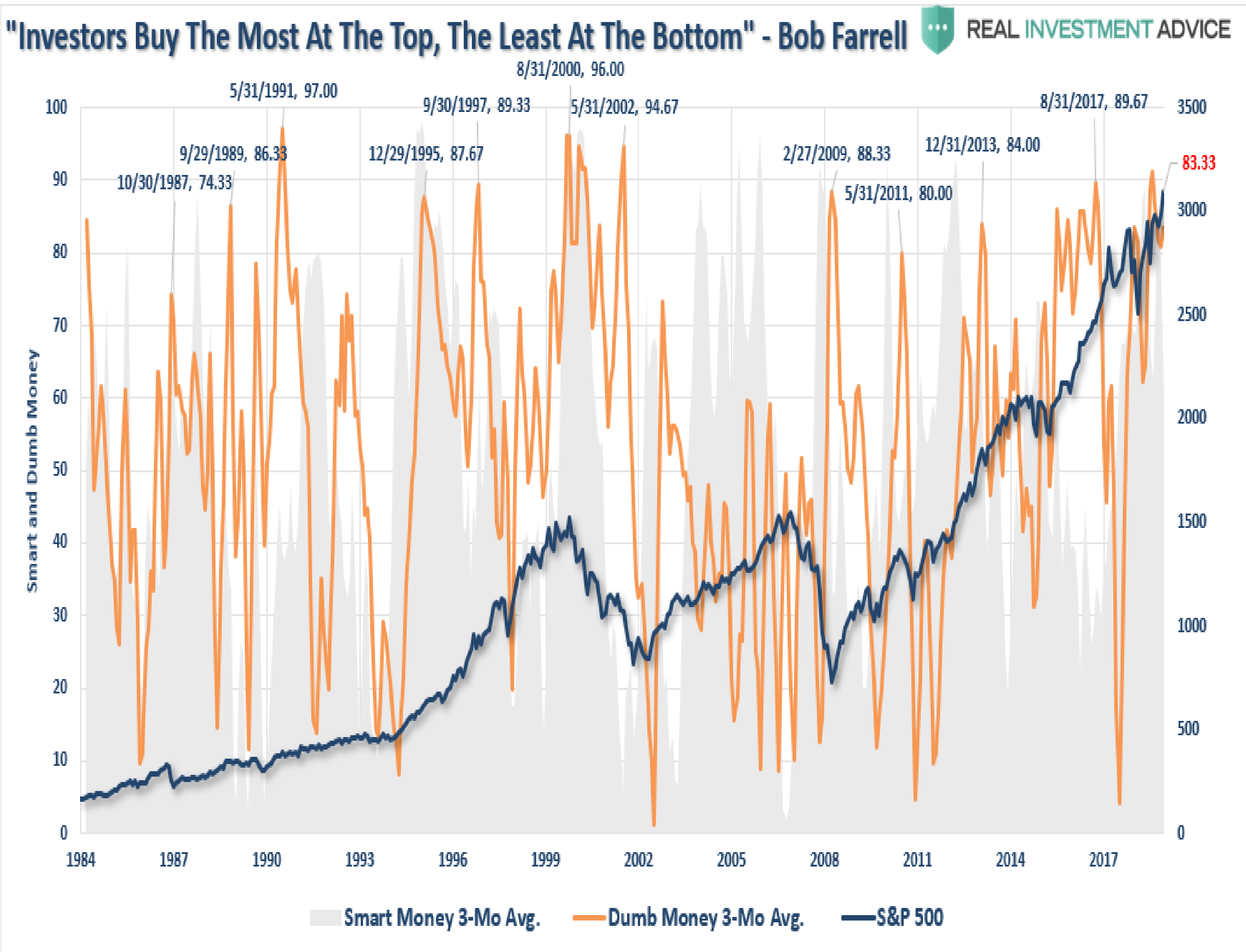
result."



d precisely as the Fed
as this bullish was at

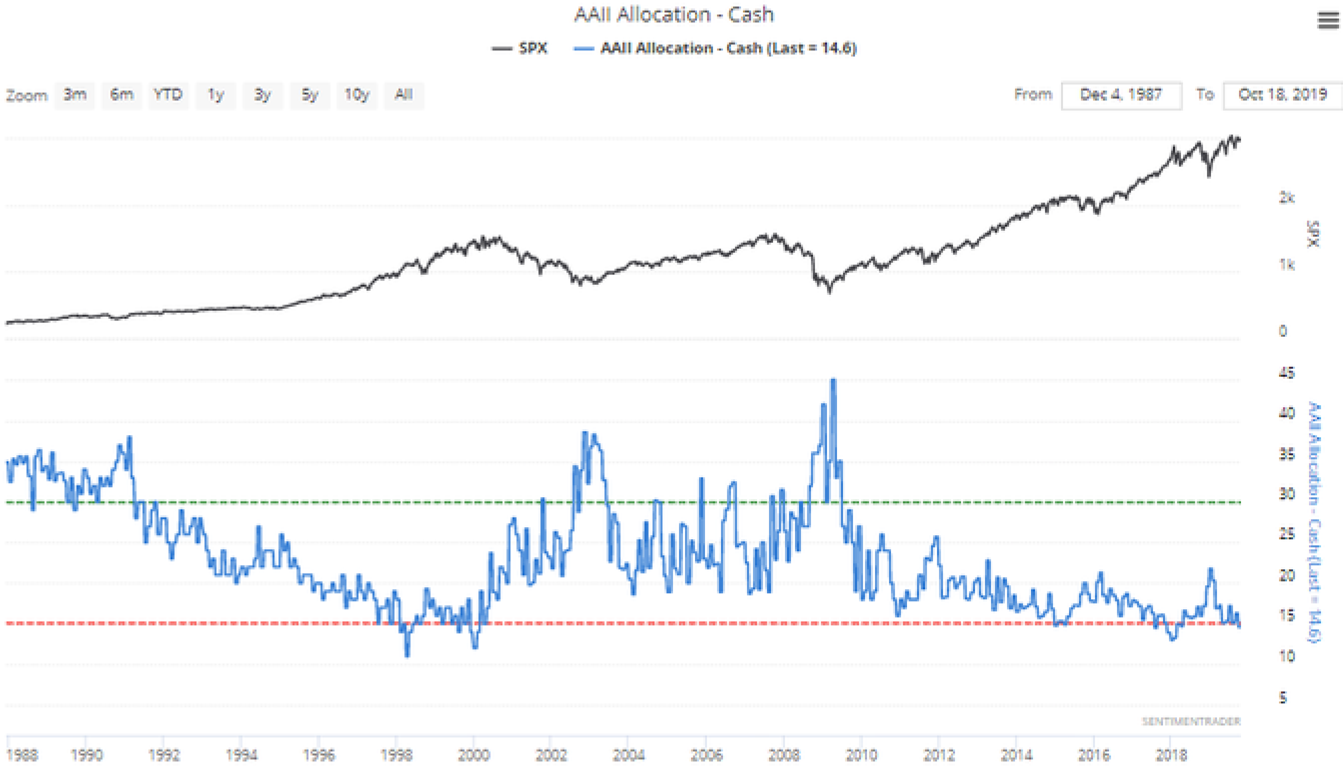
As with above, retail

investors are "all in" once again with the smart/dumb money indicator noting an extreme bullish bias of retail investors.



Of course, this coincides with extremely low individual cash levels of individuals.

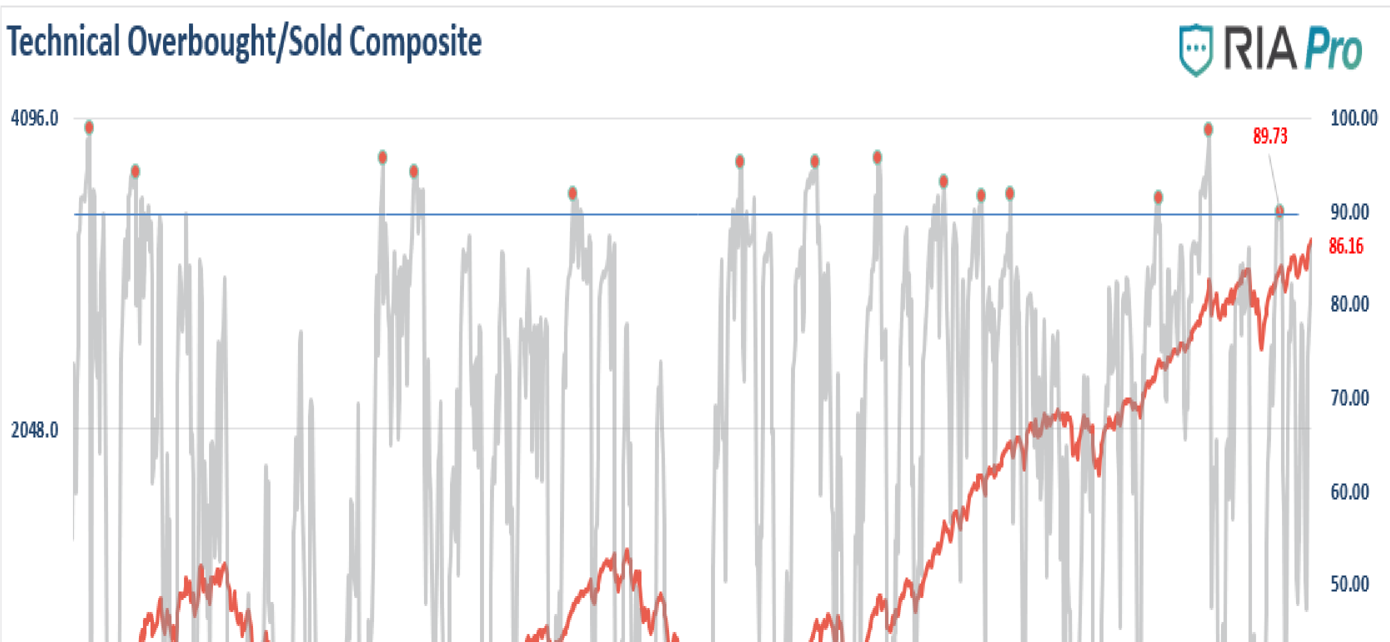
> ***"With cash levels at the lowest level since 1997, and equity allocations near the highest levels since 1999 and 2007, it suggests investors are now functionally 'all in.'?&#2013266080;***



With net exposure to equity risk by individuals at historically high levels, it suggests two things:

1. ***There is little buying left from individuals to push markets marginally higher, and;***
2. ***The stock/cash ratio, shown below, is at levels normally coincident with more important market peaks.***

Lastly, for a *"bullish sentiment"* perspective, investment newsletters are now exceedingly bullish. https://twitter.com/LanceRoberts/status/1194220089572245504?s=20 These are all *"contrarian"* indicators, which suggest that if everyone is *"all in,"* there is currently no one left to *"buy."* Such conditions typically are associated with short-term market corrections. However, even if we set aside investor sentiment and positioning for a moment, the rapid reversion is price has sent our technical composite overbought/oversold gauge back towards more extreme levels of overbought conditions. ***(Get this chart every week at RIAPRO.NET)***



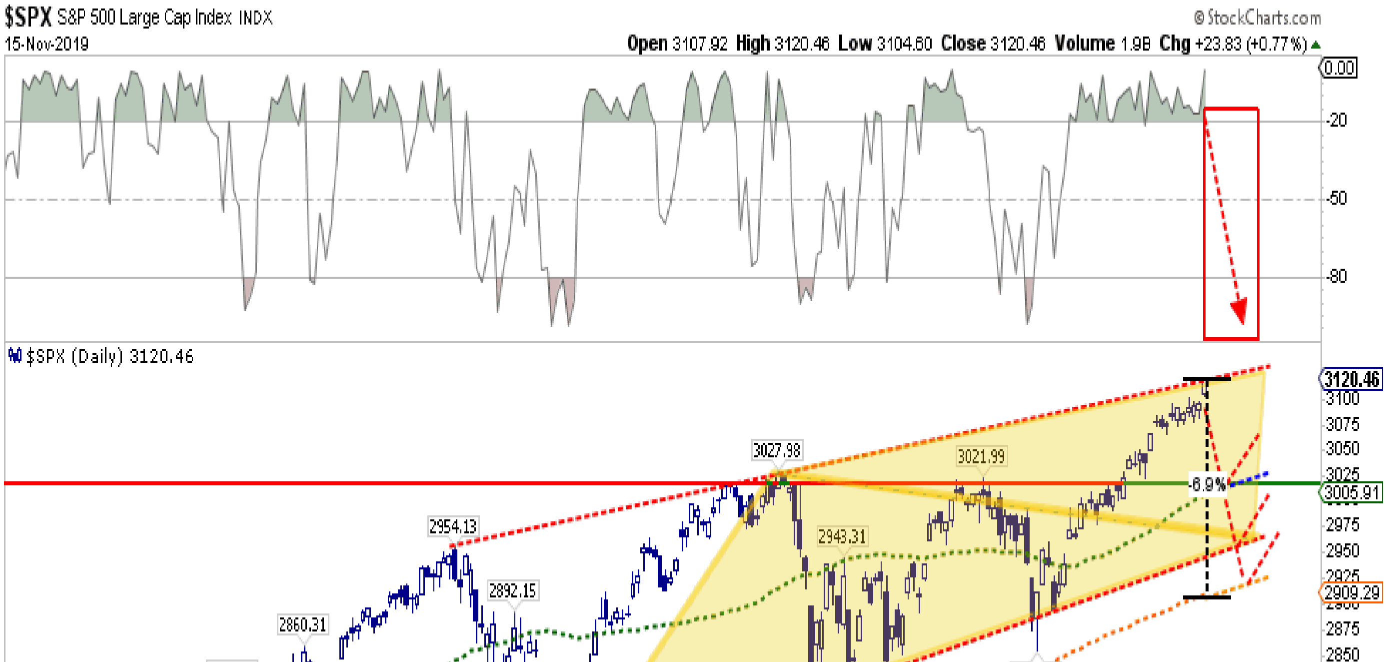
As noted previously, virtually every measure of volatility has been suppressed as the *"fear of a correction"* has evaporated. https://twitter.com/sentimentrader/status/1194668465182924801?s=20 Low volatility measures are a representation of more extreme levels of investor complacency. Such complacency provides *"fuel"* for a reversion as investors sentiment transitions from complacency to fear. As we noted just recently for our RIAPRO.NET subscribers, the divergence of breadth is also indicative of short-term tops in markets. https://twitter.com/Not_Jim_Cramer/status/1195065667680161792?s=20 What all of this data suggests is that markets have risen *"too fast, too furious"* which raises the probability of a price correction in the short-term. **This is why&#2013266080;we have hedged our portfolios last week.** Does that mean we are bearish and betting on the market to crash. Not at all.

Why We Hedge

Currently, our portfolios are long-biased meaning we have more equity-risk in our allocation than fixed income and cash. Given the market's advance, and the data points set out above, and [this past Tuesday,](#) we have three choices in how we manage our client portfolios at this juncture:

1. **Do Nothing** - if the markets correct, we lose some of our gains and just have to wait for the portfolio to recover.
2. **Take Profits** - as we have done with extremely overvalued assets in the past, we can take profits, raise cash, and reduce our equity exposure in advance of a correction. Such actions mitigate the damage of the decline, but positions have to be repurchased, or new ones added, to resize the portfolio in the future.
3. **Hedge** - adding a position to the portfolio that is the *"inverse"* of the market. *(the position goes up in value as the market declines.)&#2013266080;*This action allows us to keep our existing positions intact, and by *"shorting against the portfolio"* allows us to effectively reduce our equity risk (and related capital destruction) during a market correction.

Why did we choose *"Option 3"* at this juncture? Option 1 - is never really a good option. Riding the market up and down, and spending time *"getting back to even,"* doesn't make a whole lot of sense. Option 2 - is something that we took advantage of twice this year already. We took profits at the peak of the market in May and July before both of the subsequent swoons. We also added new exposures in early October. So, taking profits again in some positions would lead to a gross underweight in certain areas of the portfolio allocation. **This makes Option 3 the most optimal at this stage of the rally.** With the Fed engaged in pumping liquidity into the markets, and any day may also include a random market manipulation from a *"Trump tweet,"* the most opportunistic method to hedge risk is to add a *"short S&P 500"* index position to the portfolio. The chart below shows the range of options which we expect could occur.



1. ***Market breaks ABOVE the current upward trending range.*** *We are currently carrying a stop at 3150 for our short position, where we will close it out. Yes, we will have a minimal loss in the position but the rest of our equity holdings will advance more than making up for the differential.* ***(Example: On Friday, the S&P 500 increased .77%, our 60/40 Equity Portfolio with the Short Position rose by .46%)***
2. ***Market corrects to the currently rising 50-dma*** *and in that process reverses the current overbought condition of the market (top panel, red box) back to oversold. Note: the 50-dma also currently coincides with the previous resistance of this year's market highs. A retest of this level that holds, and removes the overbought condition as noted, would be very bullish. We will close out the hedge and increase our long-exposure.*
3. ***If the market breaks below the 50-dma, and is NOT oversold,*** *the next level of support is the lower rising trendline. This is also important support, and a successful test that reverses the overbought condition would require a removal of hedges.&#2013266080;*
4. ***The last support is the rising 200-dma.*** *If the market test and holds the 200-dma, is oversold, and sentiment has returned to a more bearish position, we will close out our hedges.*
5. ***IF the market breaks below the 200-dma,*** *we will likely be discussing the process of reducing long positions and increasing short-hedges.&#2013266080;*

Importantly, the range of corrections discussed only runs 3-6%, which is well within the normal confines of a bullish correction. When we discuss hedging against risk, it is invariably taken that we have sold everything and are now betting on a market *"crash."&#2013266080;* Such is hardly the case. We are simply taking prudent actions in the portfolio management process to reduce capital risk, and potentially add some incremental *"alpha"* to portfolios if a correction occurs. This is just how we manage risk. You have a choice to either manage risk, or ignore it. The only problem is that ignoring risk has a long history of not working out very well. If you need help or have questions, we are always glad to help. Just email me. See you next week.

"NEW" - Financial Planning Corner

by Danny Ratliff, CFP Welcome to the planning corner. I?m Danny Ratliff a Certified Financial Planner with RIA Advisors. **Starting next week, we will provide an unadulterated look at financial planning norms and myths. We will inform you on financial planning trends, changes in laws and regulations.** &#2013266080;The intent is to be a resource of sound financial advice that you, or someone you know, can put to practical use. We will be covering such topics as:

- ***Social Security*** *- take it now or later.*
- ***Long Term Care*** *- do you really need it?*
- ***Medicare*** *- the best strategies to maximize your benefits.*
- ***Workplace Benefits*** *- are you getting the most from them? You may be missing out on "free money."&#2013266080;*
- ***Risk Management -*** *what you need to know to mitigate the things that can hurt you.&#2013266080;*
- ***Estate Planning*** *- now that you've got money, tips on how to pay less taxes and not lose it.&#2013266080;*
- ***Savings Rates*** *- what is important, and what's not.*
- ***Accumulation and distribution of assets*** *- taxes, legal issues, and considerations you probably haven't thought of.*

Don't hesitate to ***send me an email*** if you have any questions or topics you'd like us to cover.&#2013266080; We encourage your feedback and look forward to hearing from you.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

SPY RISK INFO — ZACKS — REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	21.58%	14.20%	24.76%	74.33%
Max Drawdown	-20.47%	-16.63%	-7.41%	-55.44%
Sharpe	0.78	1.04	2.19	1.09
Sortino	0.90	1.34	2.67	0.99
Volatility	14.95	15.40	13.17	(0.14)
Daily VaR-5%	(11.29)	(6.31)	9.33	(2.48)
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	1.83%	1.91%	1.79%	(6.76%)	2.18%	1.68%	(18.05%)	6.52%
P/E Ratio	20.73	17.81	19.35	7.97%	20.84	15.81	(7.1%)	22.39%
P/S Ratio	3.32	3.19	3.37	5.39%	3.55	2.65	(5.12%)	27.40%
P/B Ratio	3.69	3.85	4.31	10.62%	4.14	3.01	4.03%	43.16%
ROE	15.94%	18.26%	18.70%	2.34%	18.82%	15.00%	(0.65%)	24.69%
ROA	2.96%	3.43%	3.54%	3.06%	3.54%	2.81%	(0.14%)	25.80%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,404.9	2,322.3	(3.44%)
Sales	62,163	64,872	4.36%
SPS	25.8	27.9	8.07%
Earnings	9,253	9,466	2.30%
EPS TTM	4.7	4.9	4.38%
Dividend	1.6	1.7	6.14%

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	(11.82%)	4.36%	1.21	17.83	127.61	12.35	(86.0%)	7.8%	4.0%	5.70%	2.94	17.22
Materials	(14.21%)	2.70%	1.23	16.50	22.97	13.86	(28.2%)	8.8%	1.8%	6.70%	4.25	15.05
Industrials	14.42%	9.40%	1.17	18.45	22.23	14.78	(17.0%)	17.6%	1.9%	5.47%	5.23	16.22
Discretionary	13.09%	9.79%	1.04	24.00	27.17	20.19	(11.7%)	29.4%	1.3%	4.10%	4.89	21.89
Staples	9.61%	7.25%	0.59	21.05	22.83	17.62	(7.8%)	27.7%	2.7%	4.79%	3.96	19.98
Health Care	7.53%	13.85%	0.85	16.85	20.60	15.70	(18.2%)	31.2%	1.7%	6.01%	6.85	15.27
Financials	12.37%	13.10%	1.26	13.88	18.45	11.70	(24.8%)	11.5%	2.1%	7.05%	5.86	12.55
Technology	29.42%	22.64%	1.27	23.64	22.56	14.41	4.8%	39.8%	1.3%	4.26%	5.44	20.75
Telecom	13.91%	10.46%	0.88	21.65	26.73	17.47	(19.0%)	17.4%	0.9%	4.75%	6.58	18.14
Utilities	17.80%	3.32%	0.26	20.71	21.00	15.58	(1.4%)	10.6%	3.2%	4.73%	3.70	19.77
Real Estate	16.37%	2.98%	0.67	20.69	24.47	17.10	(15.5%)	9.7%	3.1%	4.96%	4.40	20.27

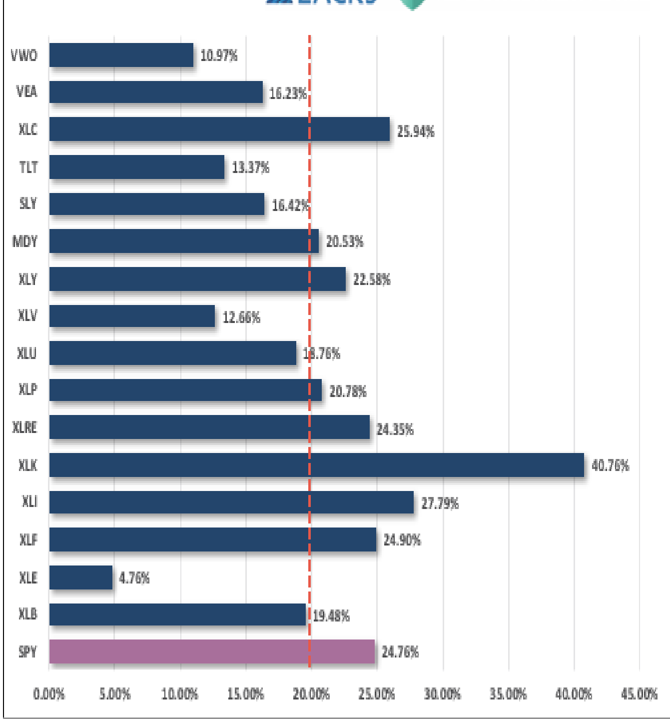
Momentum Analysis

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	311.79	4.61%	300.15	26	3.88%	291.01	119	7.14%	3.14%	(0.02%)	33.38%	Buy
Mid Cap	364.81	4.58%	354.58	26	2.88%	349.92	26	4.25%	1.33%	(0.42%)	28.25%	Buy

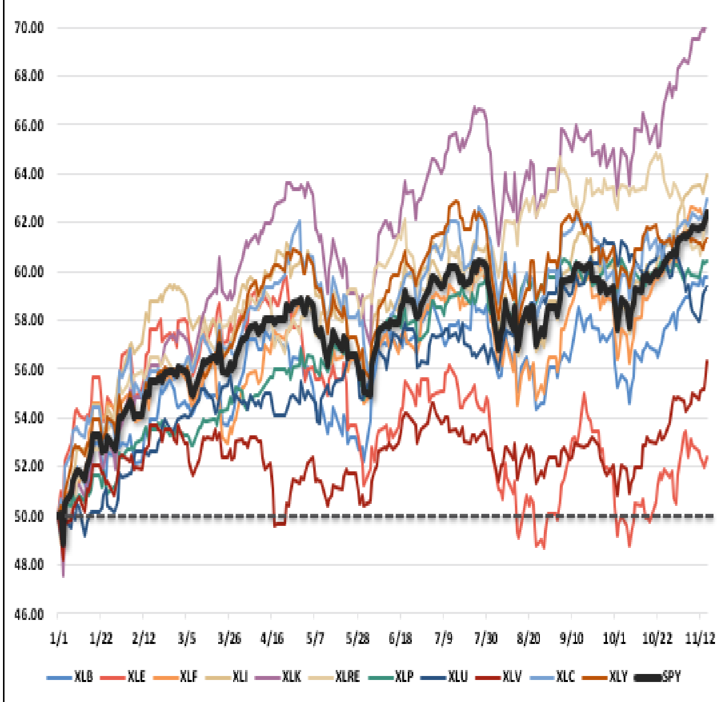
Performance Analysis

Year To Date Performance

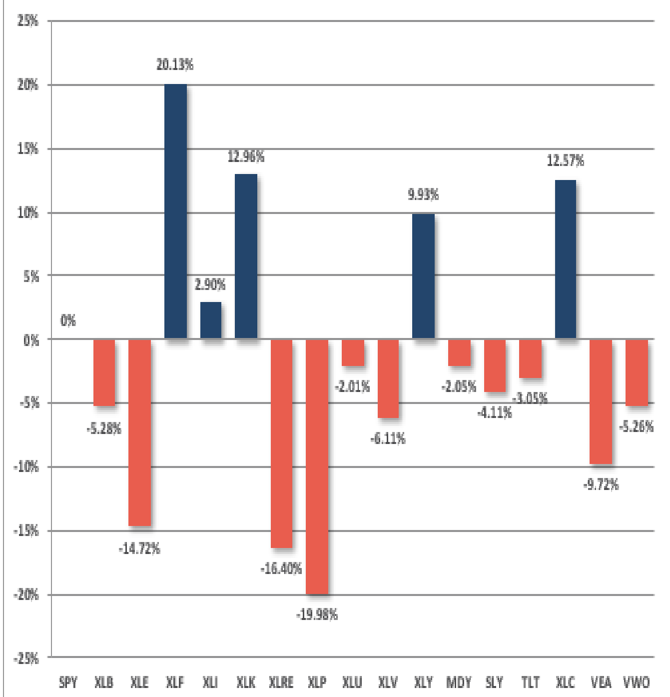
ZACKS REAL INVESTMENT ADVICE



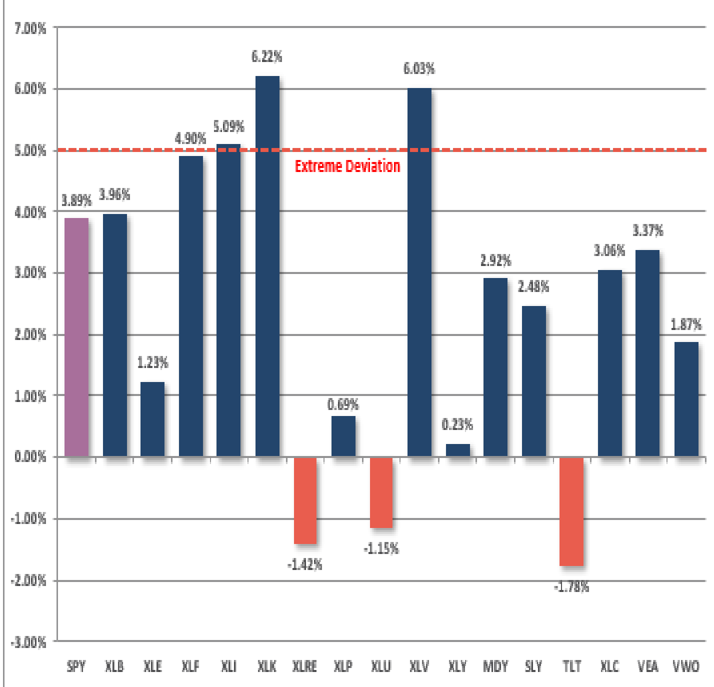
YTD Price - S&P Sectors Recalibrated To $50/share



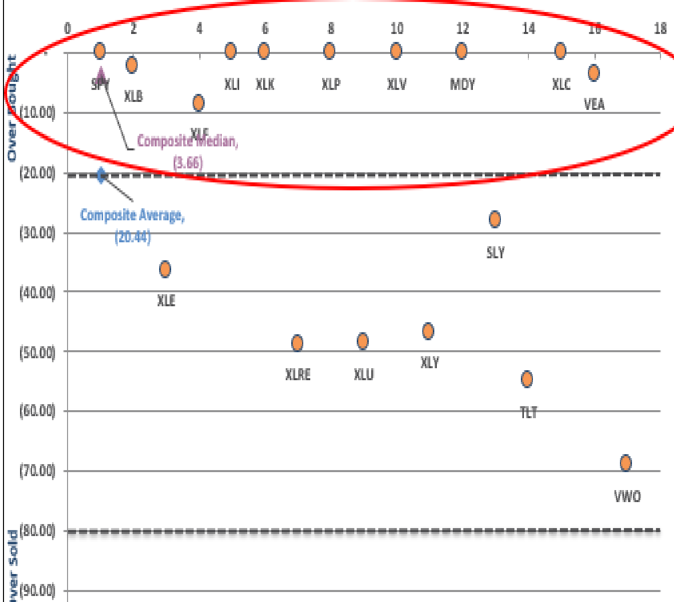
Year To Date Performance Relative To S&P 500



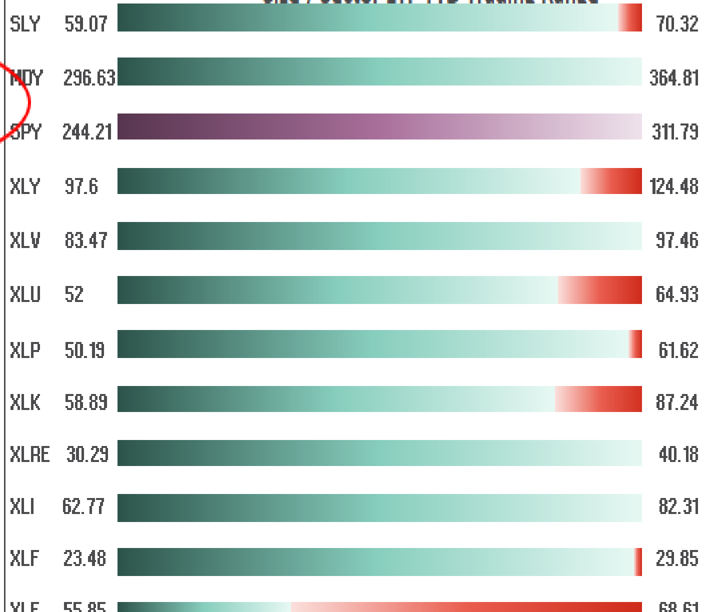
Price Deviation From 50-Day Moving Average



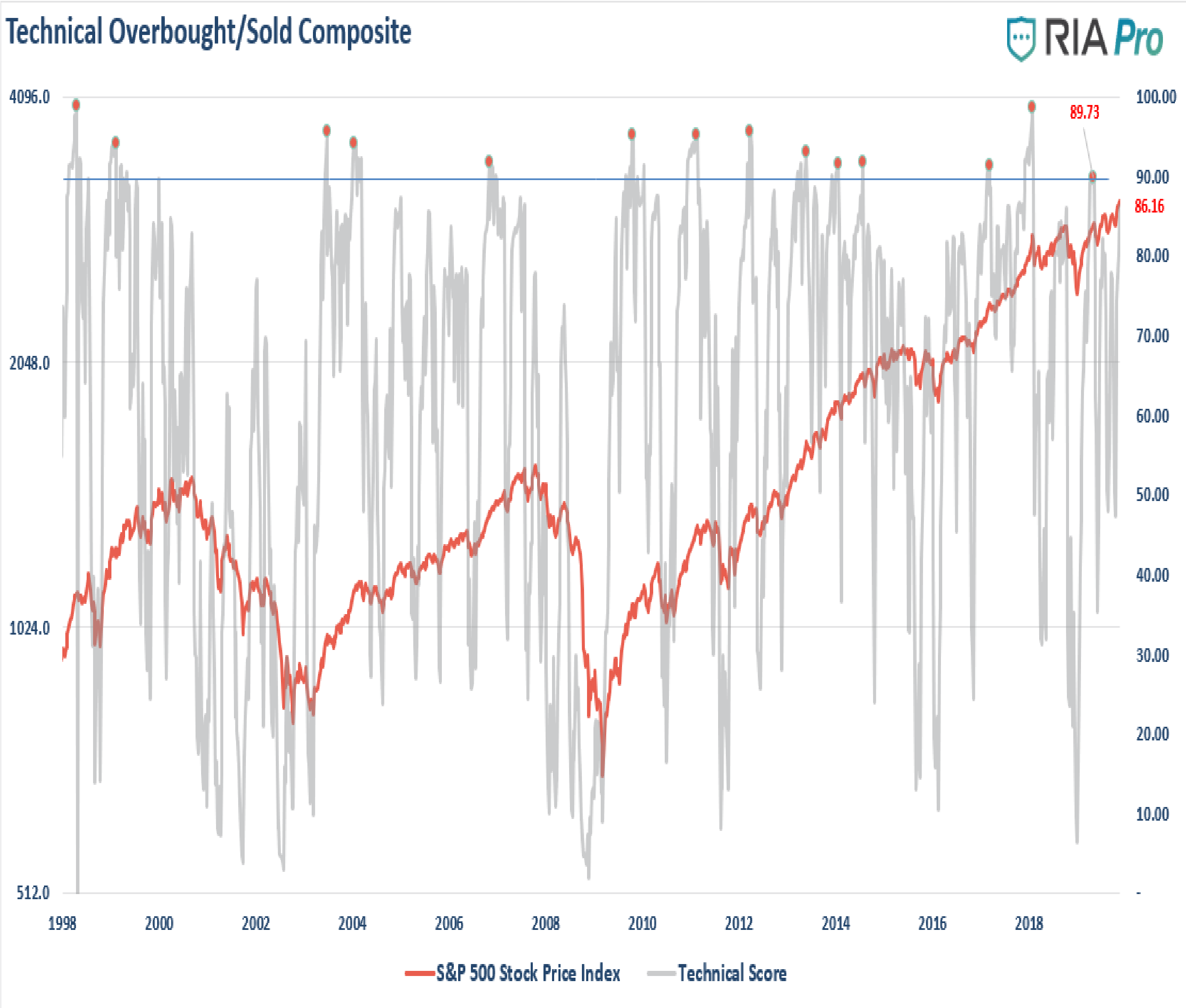
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



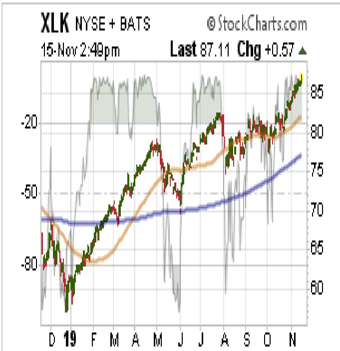
ETF Model Relative Performance Analysis

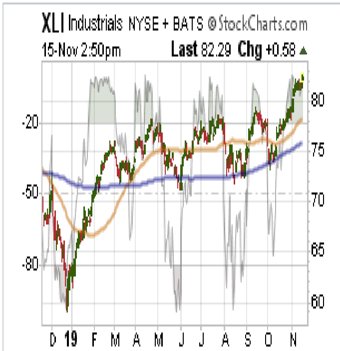
		Ticker	ETF NAME	Current Price	1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
RIA Pro	RELATIVE PERFORMANCE				Model Position Price Changes Relative to Index									
	BENCHMARK	IVV	ISHARS-SP500	313.61	0.95	4.68	9.47	13.09	13.73	299.94	294.99	4.56%	6.31%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	60.36	(0.63)	0.28	0.37	1.33	(4.47)	57.67	57.17	4.67%	5.58%	BUY
		XLE	SPDR-EGY SELS	60.08	(1.95)	0.67	(2.11)	(10.87)	(24.30)	58.93	61.64	1.96%	-2.52%	SELL
		XLF	SPDR-FINL SELS	29.75	(1.25)	1.16	4.51	1.28	(2.69)	28.00	27.52	6.26%	8.11%	BUY
		XLI	SPDR-INDU SELS	82.31	(0.27)	2.30	3.09	1.15	0.60	77.58	76.71	6.09%	7.30%	BUY
		XLK	SPDR-TECH SELS	87.24	0.35	3.15	3.58	8.26	14.17	81.50	78.92	7.05%	10.55%	BUY
		XLP	SPDR-CONS STPL	61.33	(0.01)	(3.70)	(6.61)	(2.81)	(4.33)	60.85	59.05	0.78%	3.87%	BUY
		XLU	SPDR-UTIL SELS	62.85	0.84	(6.20)	(7.25)	(5.20)	0.79	63.33	60.83	-0.76%	3.32%	BUY
		XLC	SPDR-COMM SV SS	51.99	(0.05)	(1.32)	(0.94)	(2.69)	2.11	50.19	49.47	3.58%	5.09%	BUY
		XLV	SPDR-HLTH CR	97.46	1.50	1.54	0.33	(1.43)	(7.85)	91.57	90.96	6.43%	7.14%	BUY
		XLY	SPDR-CONS DISCR	121.37	(0.92)	(5.33)	(5.28)	(3.69)	0.37	120.63	119.01	0.62%	1.98%	BUY
	SIZE	SLY	SPDR-SP SC 600	69.82	(1.60)	(1.25)	0.12	(2.67)	(11.60)	67.47	67.18	3.48%	3.93%	BUY
		MDY	SPDR-SP MC 400	364.81	(0.78)	(1.22)	(0.57)	(2.59)	(6.36)	351.66	350.58	3.74%	4.06%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	112.56	(0.28)	(0.30)	0.33	(1.31)	(2.40)	107.90	106.94	4.32%	5.25%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	106.21	(0.87)	(1.83)	0.01	(2.31)	(4.40)	102.23	100.96	3.89%	5.20%	BUY
	Real Estate	XLRE	SPDR-RE SELS	38.55	1.09	(8.08)	(9.55)	(7.39)	1.48	39.12	37.73	-1.45%	2.17%	BUY
	International	EEM	ISHARS-EMG MKT	43.13	(2.21)	(1.94)	0.97	(7.15)	(8.28)	41.56	41.97	3.78%	2.76%	SELL
		EFA	ISHARS-EAFE	68.32	(1.03)	(1.58)	0.79	(5.33)	(5.22)	65.40	65.25	4.46%	4.70%	BUY
		IXUS	ISHARS-CR INT S	60.52	(1.18)	(1.68)	0.40	(5.79)	(5.76)	58.08	58.08	4.19%	4.20%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	137.76	1.17	(5.98)	(15.09)	(8.60)	6.37	141.52	134.17	-2.66%	2.67%	BUY
	International	BNDX	VANGD-TTL INT B	58.05	(0.55)	(5.05)	(10.90)	(10.30)	(7.28)	58.55	57.43	-0.85%	1.08%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.94	(0.84)	(4.85)	(9.02)	(10.69)	(9.33)	86.96	86.63	-0.02%	0.36%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.65										

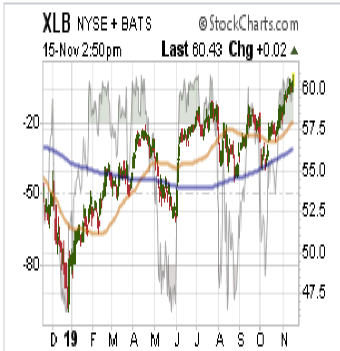
Sector & Market Analysis:

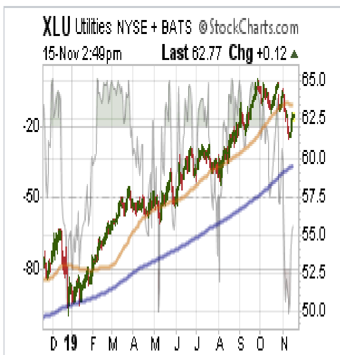
Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels

Sector-by-Sector



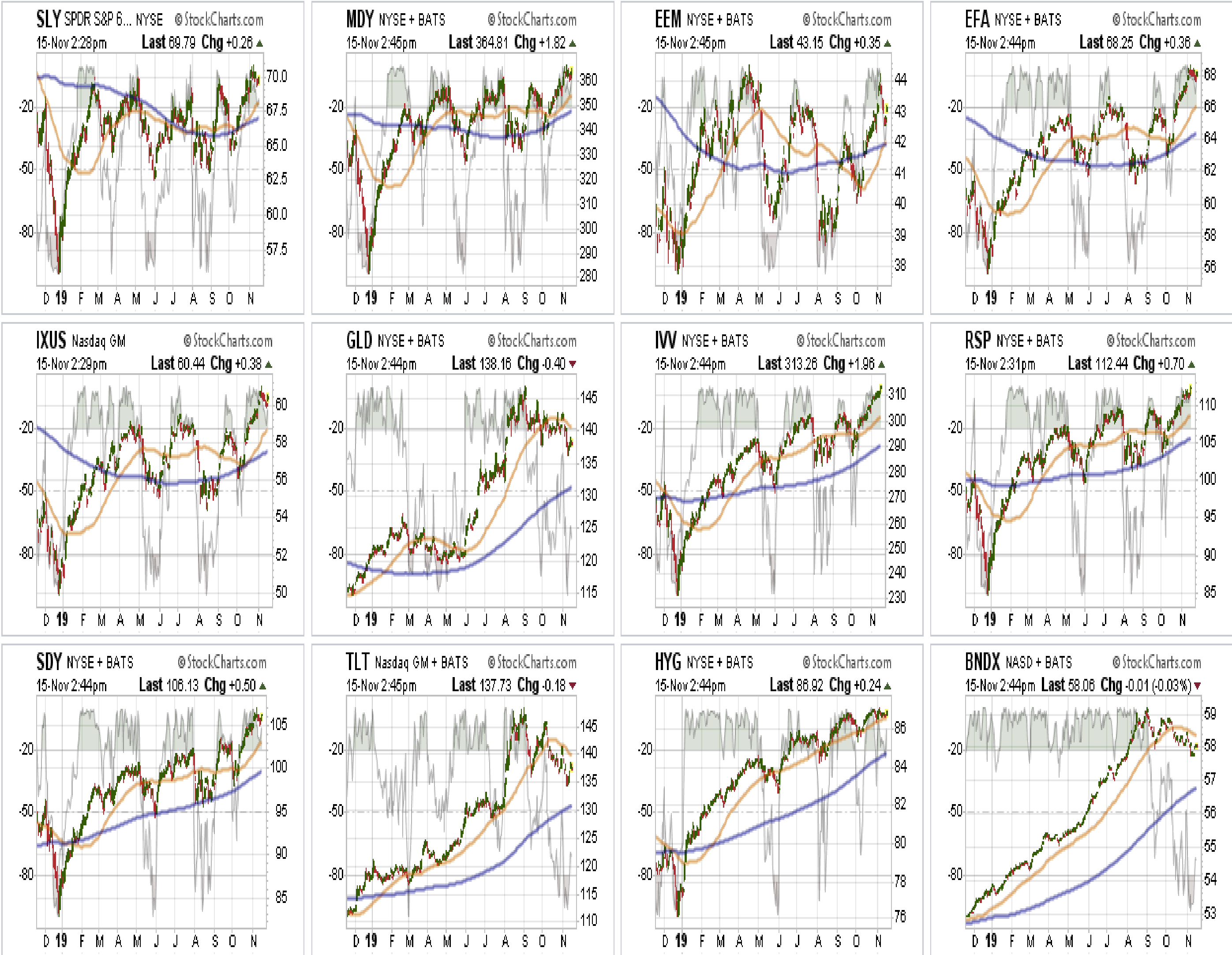






Improving ? Energy (XLE), Healthcare (XLV) The relative performance improvement of Healthcare relative to the S&P 500 picked up on Friday as economic data continues to point to weaker economic growth (below 1%). Energy has improved as the rotation to *"value"* continues but faltered at resistance which is the 200-dma. Energy needs to break above the downtrend to become an attractive candidate for portfolios. ***Current Positions:&#2013266080;****Target weight XLV* **Outperforming ? Technology (XLK), Materials (XLB), Industrials (XLI), 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. But, with the breakout to new highs, we are looking for some consolidation to add exposure to the sector, which is extremely overbought currently. Industrials and Materials, which perform better when the Fed is active with QE, also broke out to new highs, Given they are extremely overbought, we will look to add back to our position but need a bit of a correction or consolidation first. Technology has been the clear leader as of late, and the sector made a sharp recovery from weakening to leading relative to the overall market. Like everything else, XLK is extremely overbought so wait for a correction to add exposure. **Current Positions:&#2013266080;** *1/2 weight XLI, XLB, Full weight XLK* **Weakening ? Real Estate (XLRE), Staples (XLP), Utilities (XLU)** After having taken profits in our defensive sectors, the rotation from defense to offense has picked up a bit of a bounce on Friday. Utilities, Real Estates broke their 50-dmas and are FINALLY working off the extreme overbought condition that existed. This is good news is they are now very oversold and are a decent entry point for a trade. We are at full weightings currently, but a trade setup is available with a stop at recent lows. **Current Position:**&#2013266080;*Target weight XLRE, XLU, XLP* **Lagging ? Discretionary (XLY), Communications (XLC)** Discretionary stocks have been a surprising laggard given we are moving in the retail shopping season. I suspect this has more to deal with the "real economy," rather than just a sector lagging the market currently. Watch XLY, a failure at support will likely suggest a larger corrective process. Communications broke out to new highs on Friday, but is still lagging the overall market. Given the sector is very overbought, be patient for a better entry point. **Current Position:** *Target weight XLC, XLY*

Market By Market



Small-Cap (SLY) and Mid Cap (MDY) ? Small- and Mid-caps finally broke out of the previous ranges but this past weak slipped back to retest those breakouts. It is crucially important both these markets hold the breakout. The test will come with a correction of the broader market. However, 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,"* and finally broke above important resistance. However, these markets are sensitive to the US Dollar which is showing some strength. With both markets 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. Be aware that all of our core positions are EXTREMELY overbought. A short-term correction or consolidation is likely before a further advance can be made. **Current Position:**&#2013266080;*RSP, VYM, IVV* **Gold ([GLD])** ? With QE-4 in play, the most defensive of sectors got hit recently. Gold broke support at the $140 level but held support at $136. Stops should be placed on all positions at $132. Gold is very oversold so a tradeable opportunity is approaching. **Current Position:**&#2013266080;*GDX (Gold Miners), IAU (Gold)* **Bonds (TLT) ?&#2013266080;** As stated last week, Bonds were extremely oversold from the recent rise in rates. As we stated, that rise in yields was expected, which is why we added a "*steepener 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. This past week, bonds held support and bounced late in the week. With yields very oversold more of a rally is likely especially if we see a short-term correction in stocks as we currently expect. 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	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	RIA Pro 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			New Highs
XLE	Energy	Declining	Negative	Negative	No Position					X	Testing 200-DMA
XLP	Staples	Rising	Positive	Positive	Hold			X			Holding Support/Near Highs
XLV	Health Care	OB	Positive	Neutral	Hold			X			New Highs
XLU	Utilities	OS	Positive	Positive	Hold			X			Broke 50-DMA
XLF	Financials	OB	Positive	Neutral	Hold					X	New Highs
XLC	Communications	OB	Positive	Neutral	No Position			X			New Highs
XLRE	Real Estate	OS	Positive	Positive	Hold			X			Broke 50-DMA
SLY	Small Caps	OB	Negative	Negative	No Position					X	Holding Near Highs
MDY	Mid Caps	OB	Positive	Neutral	No Position					X	Holding Near Highs
EEM	Emerging Mkt	OB	Positive	Negative	No Position					X	50-DMA Crossed Above 200-DMA
EFA	International	OB	Positive	Negative	No Position					X	Holding Support
IXUS	Total International	OB	Positive	Negative	No Position					X	Holding Support
GLD	Gold	OS	Positive	Positive	Add			X			Bounced Off Support
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			New Highs/Extreme Overbought
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			New Highs/Extreme Overbought
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			New Highs/Extreme Overbought
TLT	20+ Yr. Bond	OS	Positive	Positive	Add			X			Holding Support
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Holding Support
BNDX	Int'l Bond Aggregrate	OS	Positive	Positive	No Position					X	Broke Support

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

Portfolio/Client Update:

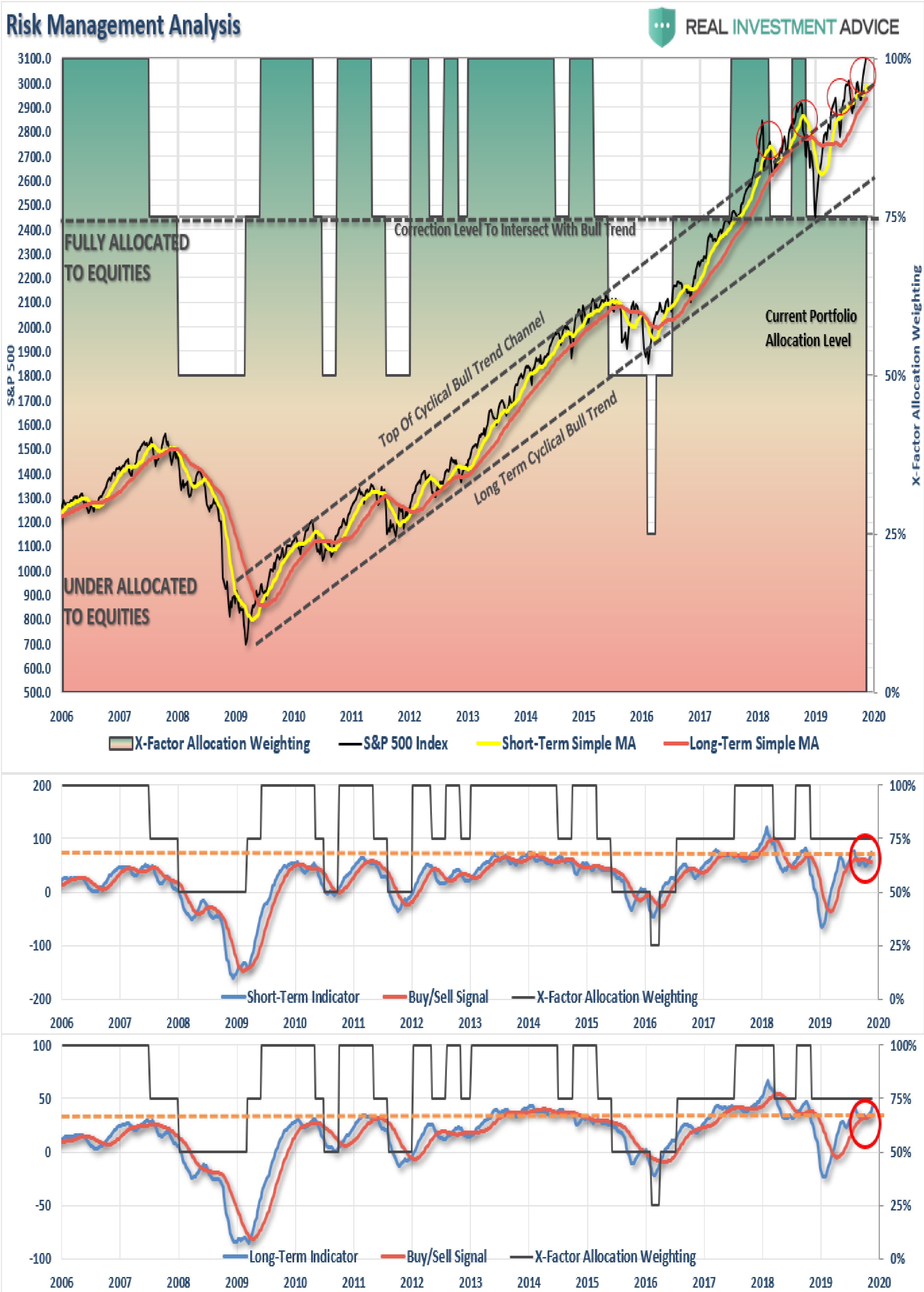
The market continued its melt up this past week, as the Fed's liquidity infusions continued to fund to equity chase. As noted in the main body of this missive, the market is extremely overbought which limits our ability to add "*broad market*" exposures. We are waiting for a brief market pullback or consolidation to add exposure to ETF Models in small and mid-capitalization markets, basic materials, industrials, financials and energy. We are actively looking **to slowly increase our equity exposure modestly** to *"rent whatever rally"* we may get from the *"QE-4."&#2013266080;&#2013266080;***However, in the short-term we added a "Short S&P 500" ETF position to both the Equity and ETF model to hedge against a correction.&#2013266080;**

- **New clients:** *We are holding off onboarding new client assets until we see some corrective action or consolidation in the market.*
- ***Equity Model:&#2013266080;****Bought SDS*
- ***ETF Model****: Bought SDS*

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



Click To Enlarge

Portfolio Instructions:		
Allocation Level To Equities	Reommendation	When To Take Action
Less Than Target Allocation	Increase To Target	On Correction In Market
Equal To Target Allocation	No Change	N/A
Over Target Allocation	Rebalance Holdings	Immediately

Commentary

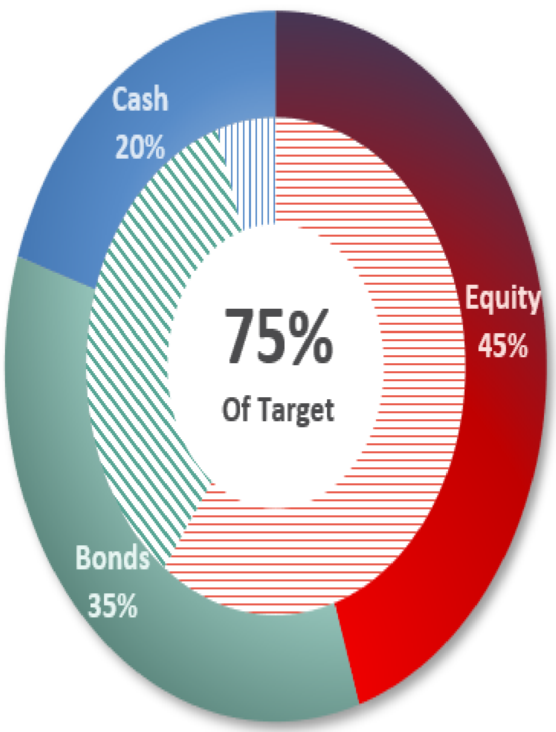
Currently, the market is very overbought and deviated well above long-term trends. This has historically been unsustainable, so remaining patient for a modest correction will provide for a better opportunity to add addtional risk. Market trend is positive, but risk/reward is temporarily out of favor.

If you need help after reading the alert; do not hesitate to **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)**

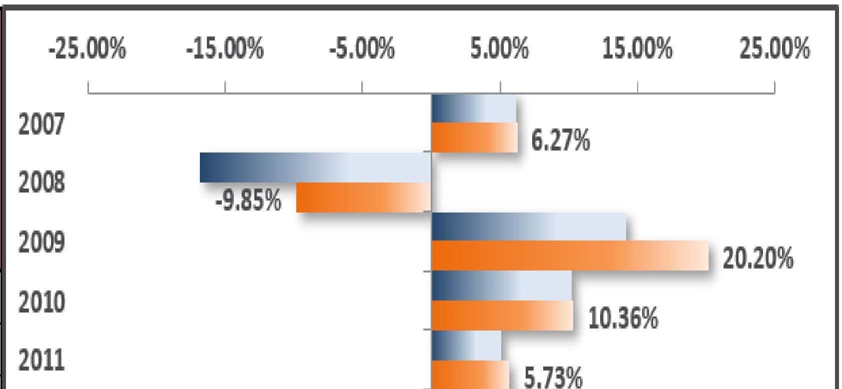
The vast majority of funds track an index.
Therefore, select on ONE fund from each category.
Keep it Simple.

10% Equity Income, Balanced or Conservative Allocation
35% Large Cap Growth (S&P 500 Index)
0% International Large Cap Dividend
0% Mid Cap Growth

Click Here For The "LIVE" Version Of The 401k Plan Manager *See below for more details.*

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%



401k Plan Manager Live Model

As an **[RIA PRO subscriber](#)** ***(You get your first 30-days free) you have access to our live 401k p*** **&#2013266080;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)*

If you would like to offer our service to your employees at a deeply discounted corporate rate, [please contact me.](#)