RIA PRO: Market Advance Stalls As Liquidity Begins To Slow

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Catch Up On What You Missed Last Week

#WhatYouMissed On RIA: Week Of 01-20-20

Written by Lance Roberts | Jan 24, 2020

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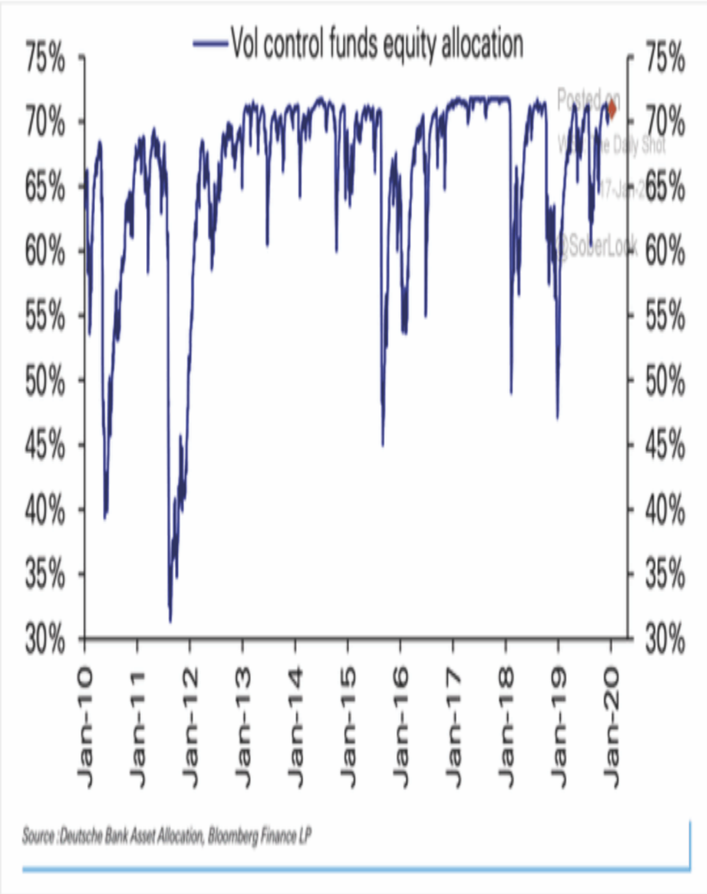
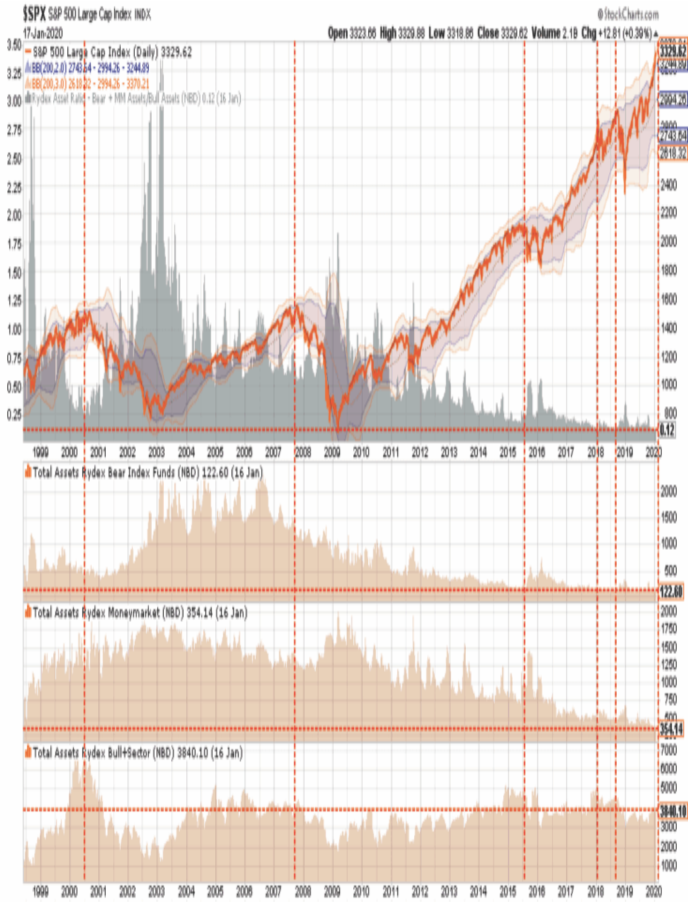
Market Advance Stalls

As noted last week, there have only been a few points over the previous 25-years where the market has been so overbought, extended, and bullishly optimistic. To wit:

> *"This is particularly the case given how extreme positioning by both institutions and individual investors has become. With investor cash and bearish positions, at extreme lows, with prices extremely extended, a reversion to the mean is likely and could lean toward to the 10% range."*



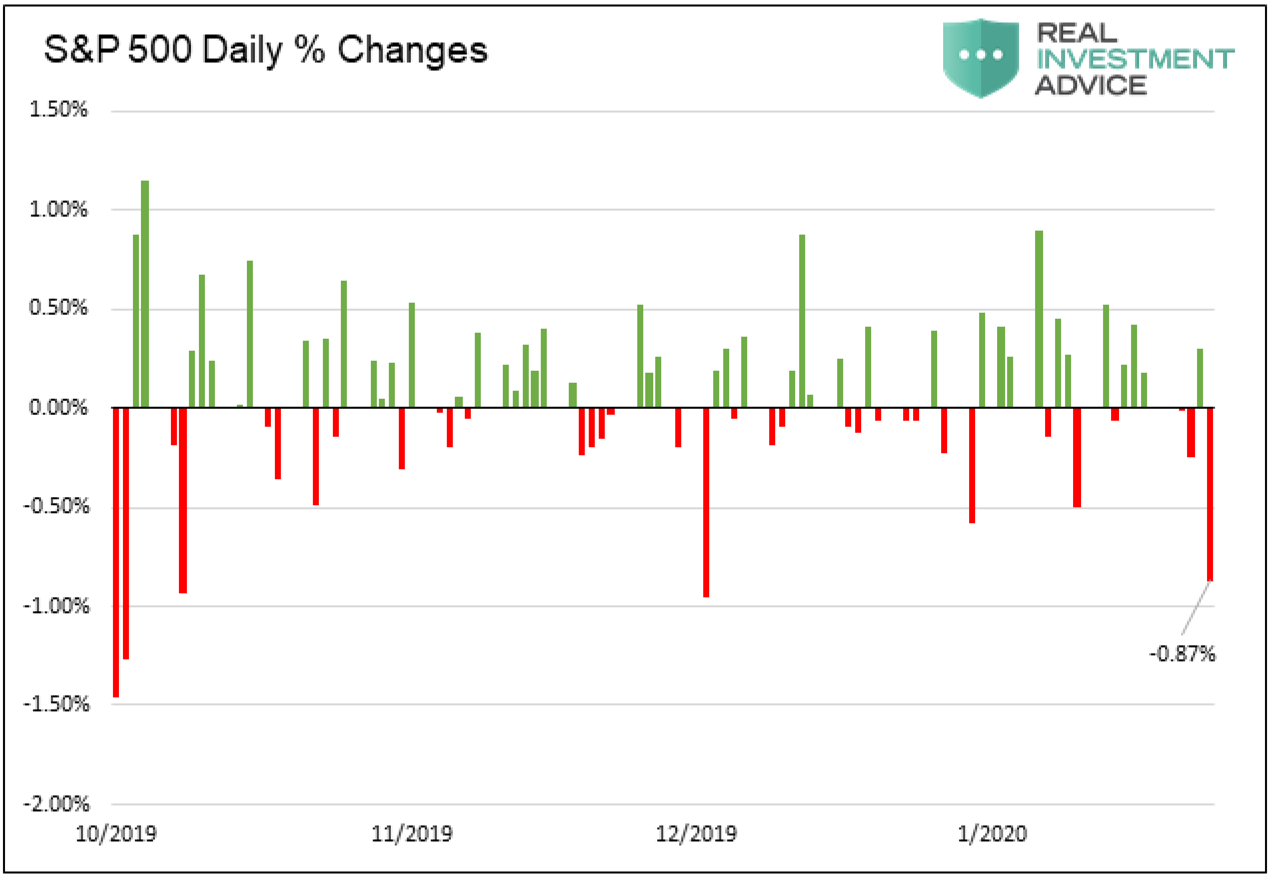


Importantly, this was the repeated message over the last few weeks as the Federal Reserve's *"repo"* operations continue to fuel the market's non-stop advance. As Howard Marks once quipped:

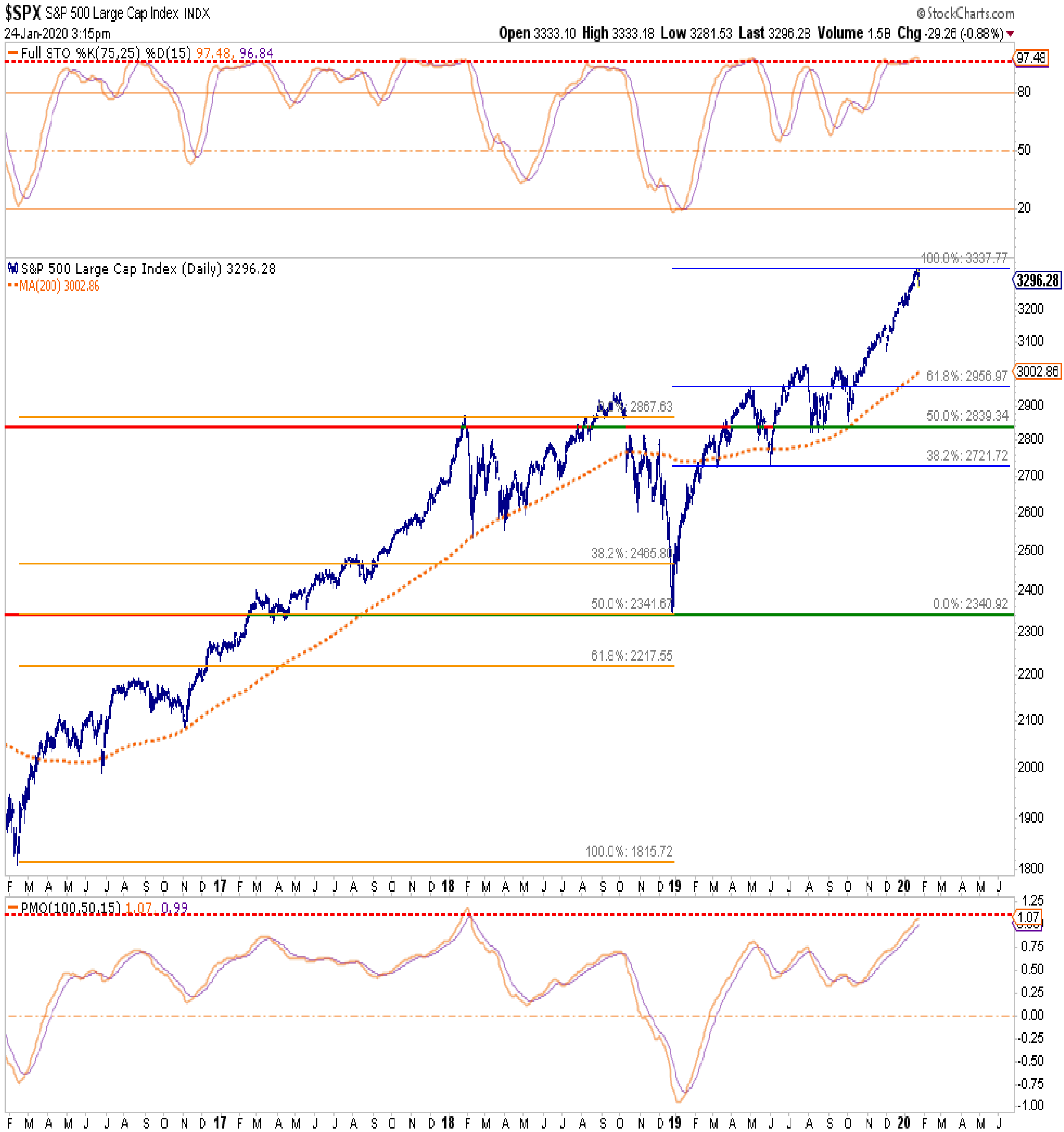
> *"Being right, but early, is the same as being wrong."&#2013266080;*

Clearly, we were early in reducing some of our long-equity exposure in portfolios two weeks ago, but we tend to lean toward the adage; *"you never go broke taking profits."* We remain comfortable with our positioning, given the imbalance of risk and reward currently.

Friday, the market had its first real sell-off since early December. As shown in the chart below, the only other times were in early October before the Fed launched its current *"Not QE"* program. To put this into some context, **since 1970, the market has averaged two 1% declines per month or about every 9-trading days.** Since October 2nd, 2018, **there have been ZERO days consisting of a 1% decline.** Assuming historical averages apply, there should have been nine such events of a 1% decline, or more, by now.



While the media was quick to blame the *"coronavirus"* in China as the cause for concern, the reality is the markets just needed a reason to sell. As shown in the chart below, the market is so extremely extended, the sell-off barely failed to register.&#2013266080;



There are two critical points to take away from the chart above:

1. *Notice both the overbought/sold indicator (top) and price momentum (bottom) are pegged at market extremes.* ***The previous peak in both indicators was in January 2018.***
2. *More importantly, from the 2016 low to the "blow-off" January 2018 high, the market had a 50% Fibonacci retracement.* ***A similar correction from the December 2018 lows to the recent high would correspond with the January 2018 highs.***

In other words, a somewhat typical 15% correction from such an extended, overbought, and bullish position would wipe out 100% of the 2019 gains.&#2013266080;

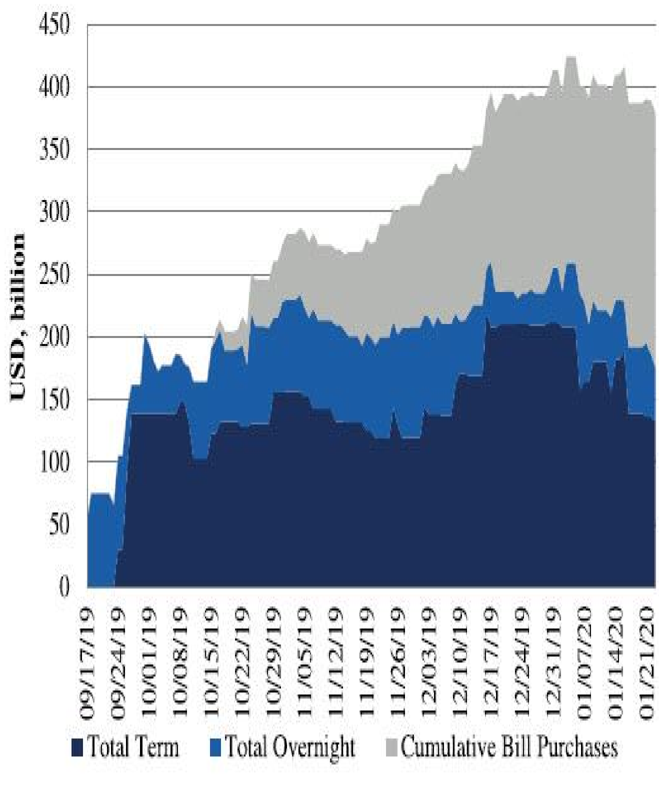
Don't Fight The Fed

I know, I know.&#2013266080;

Such a correction can't happen because the Fed is expanding its balance sheet. That is true, except the balance sheet expansion is beginning to slow. As recently noted by BMO [*(courtesy of Zerohedge):*]

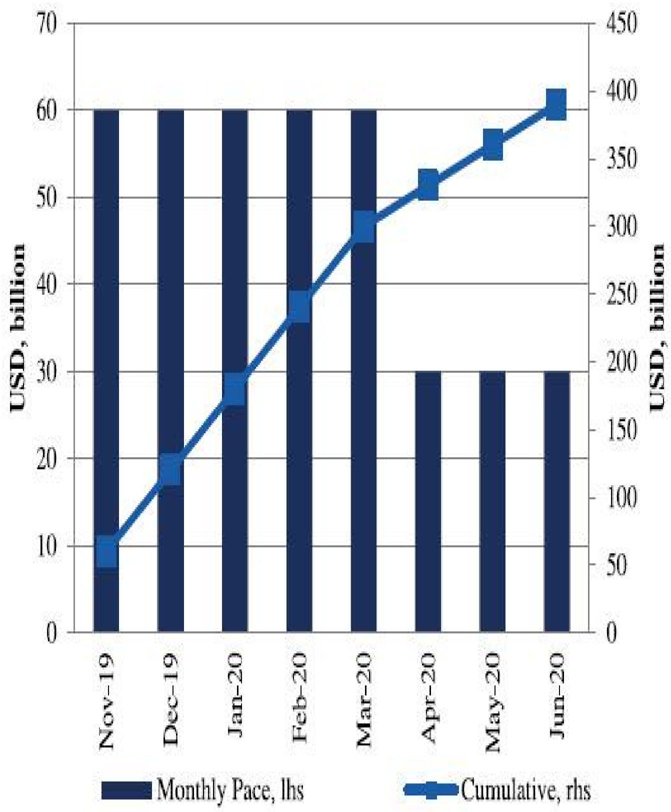
> *"BMO expects the monthly sizes of $60 billion, or $30 billion post assumed taper, would be composed of both bills and short coupons, 'helping to reduce expected pressure in the bill market.'"*

Figure 5 - Combined Fed Repo Injections and Reserve Management Purchases



Source: BMO CM, FRBNY, Bloomberg

Figure 6 - Projected Pace and Cumulative Total of Fed Reserve Management Purchases

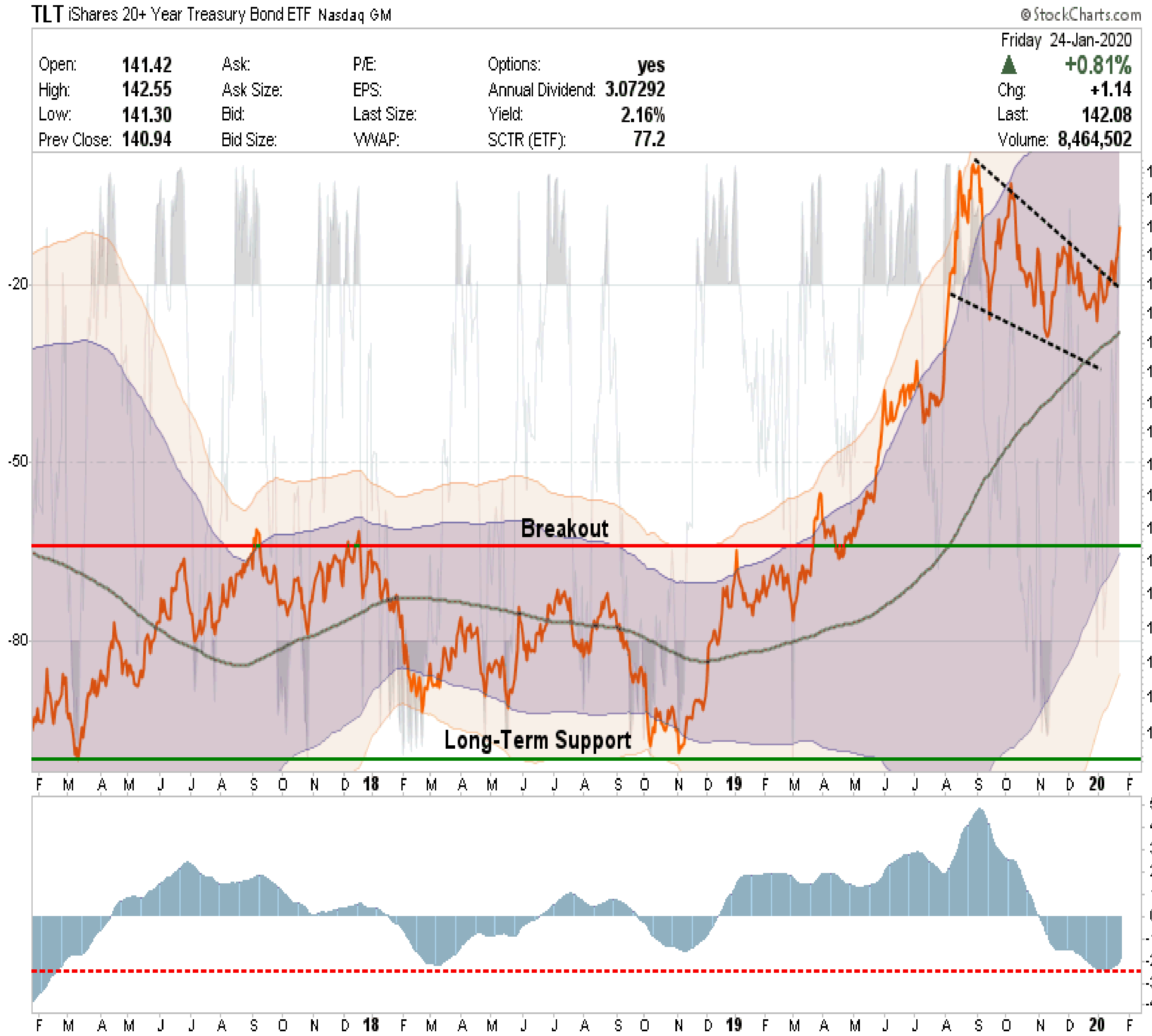


Source: BMO CM, Bloomberg

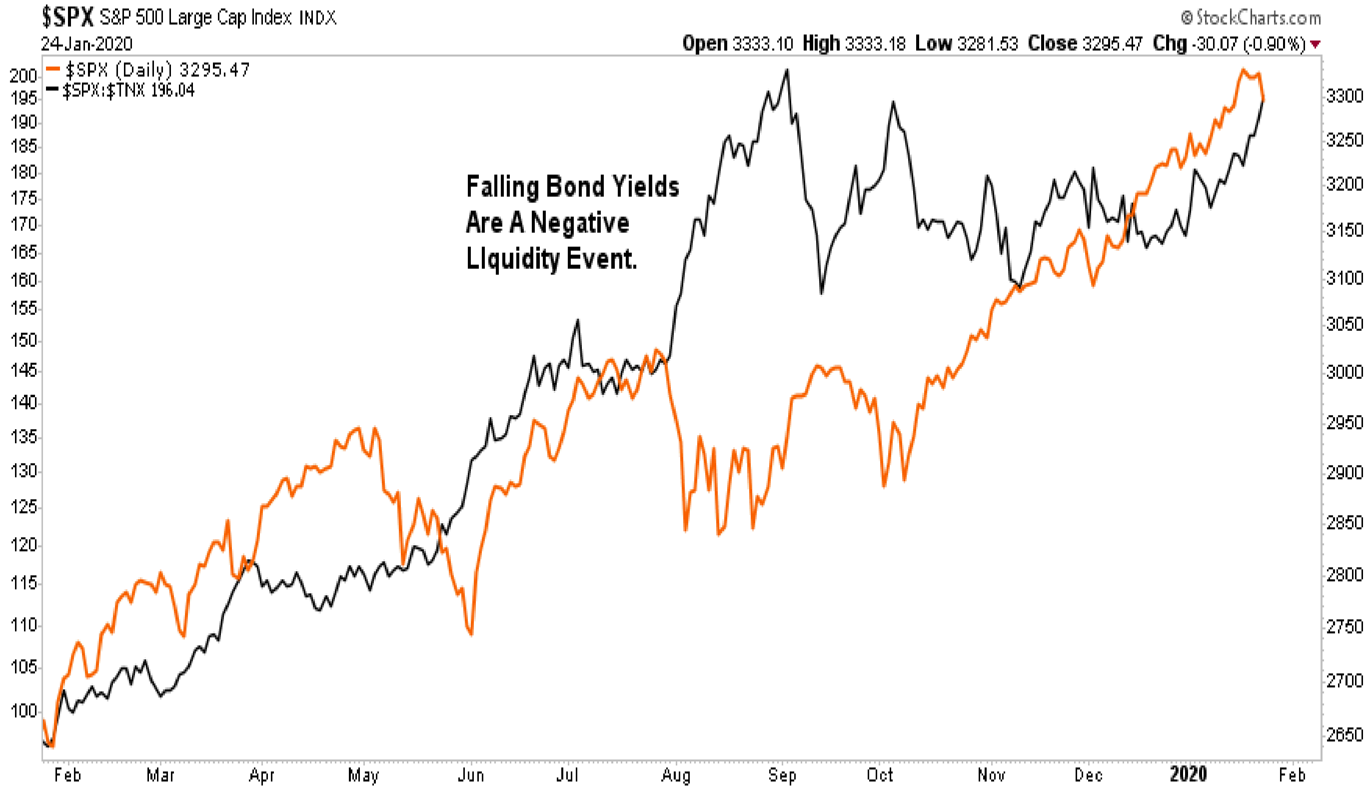
BMO is correct in its analysis; the Fed will convert its short-term bill purchases into longer-term notes to maintain the balance sheet at a higher level. However, maintaining the size of the balance sheet, and expanding it are two entirely different things. Moreover, the market has already been incorporating this reduction in liquidity in their positioning as noted by sharply falling bond yields.

As we discuss weekly with our ***[RIAPRO subscribers (30-day Risk-Free Trial),](#)***&#2013266080;the 10-year Treasury broke out of its downtrend last week and was signaling a *"risk-off"* market event. Last Monday ***[we wrote:](#)***

> "*Bond prices rallied last week, again, and are testing downtrend resistance. For now bonds remain in a bearish channel, suggesting higher yields (lower prices) are still likely short-term.* ***I suspect we are going to get some economic turmoil sooner, rather than later, which will lead to a correction in the equity markets and an uptick in bond prices."***



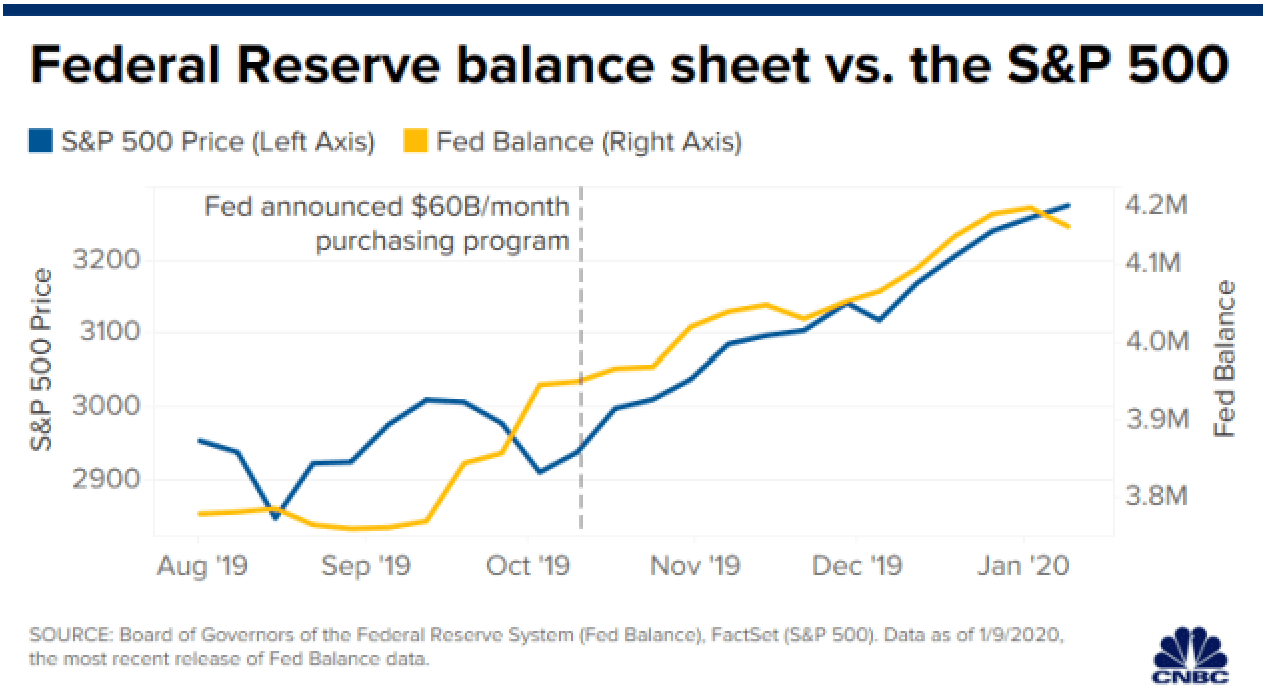
As noted above, with stocks extremely extended, all participants needed was an excuse to *"sell."* With a *"risk-off"* event materializing, the rotation from *"risk"* to *"safety"* was completed. The sharp push higher in the stock/bond ratio also suggested a correction was forthcoming.



If we are correct, the Fed will begin to taper their purchases and move to stabilize its balance sheet, which will leave the market *"starved for liquidity."* If economic and earnings growth remains weak, such will lead to concerns over current valuations, making that 10-15% correction more likely.&#2013266080;

While we certainly have no intention of *"Fighting the Fed,"* do not dismiss changes to the balance sheet given its close correlation to the rise in equity prices as discussed last week. ***(Note the decline in the balance sheet which foretold of this week's sell-off)***

> "*On Oct. 11, the central bank announced it would begin purchasing $60 billion of Treasury bills a month to keep control over short-term rates.&#2013266080;**The magnitude of the purchases resembles the quantitative easing program the Fed conducted during and after the financial crisis.?***



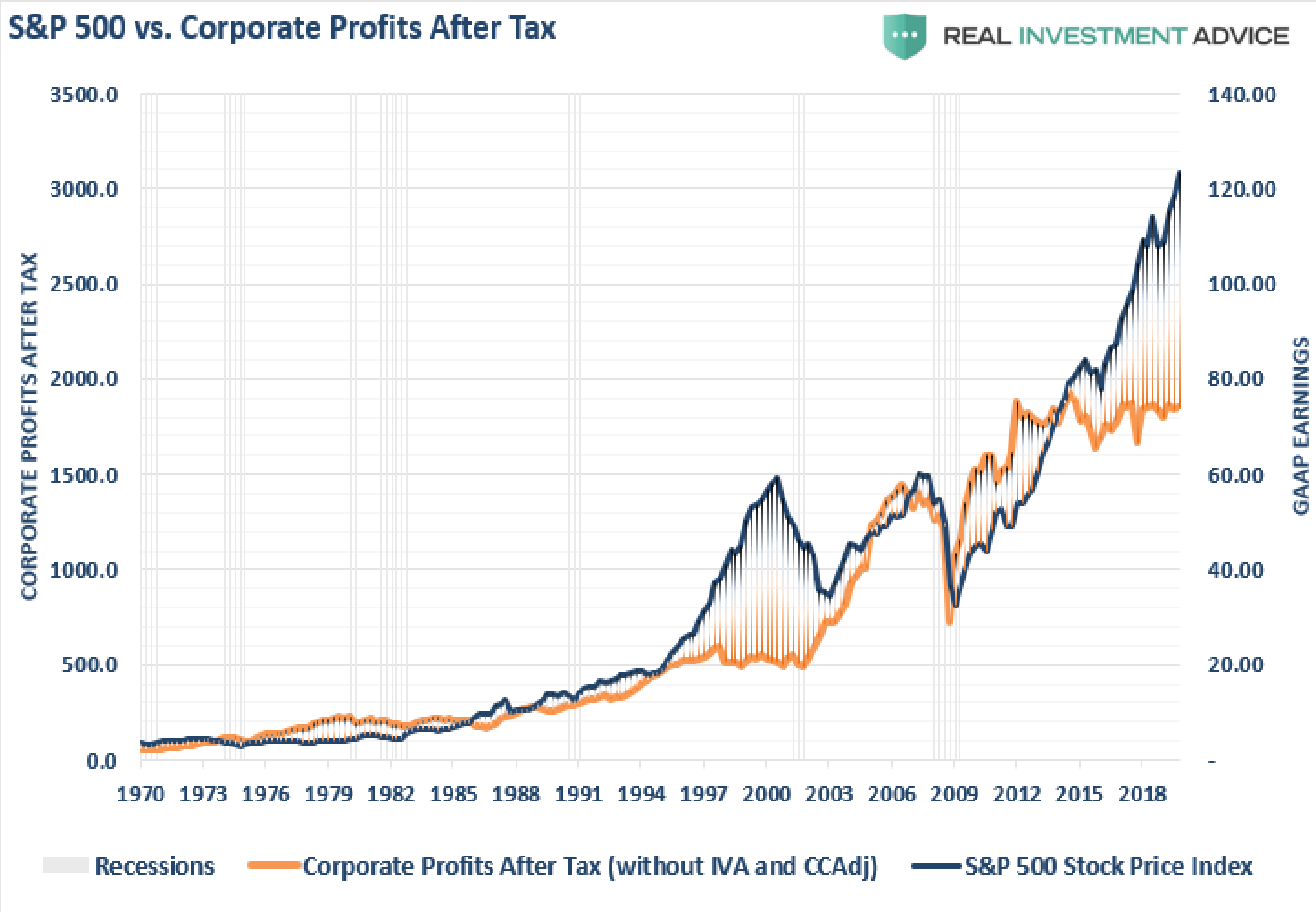
> ***?The increase in the Fed?s balance sheet has been in near lockstep with the stock market?s climb. The balance sheet has expanded 10% since October, while the S&P 500 shot up 12%, including notching its best fourth quarter since 2013.? - CNBC***

Given the extreme extension of the markets currently, it is quite likely we will see some more corrective action over the next week.

In other words, it may not be the time to *"buy the dip,"* just yet.&#2013266080;

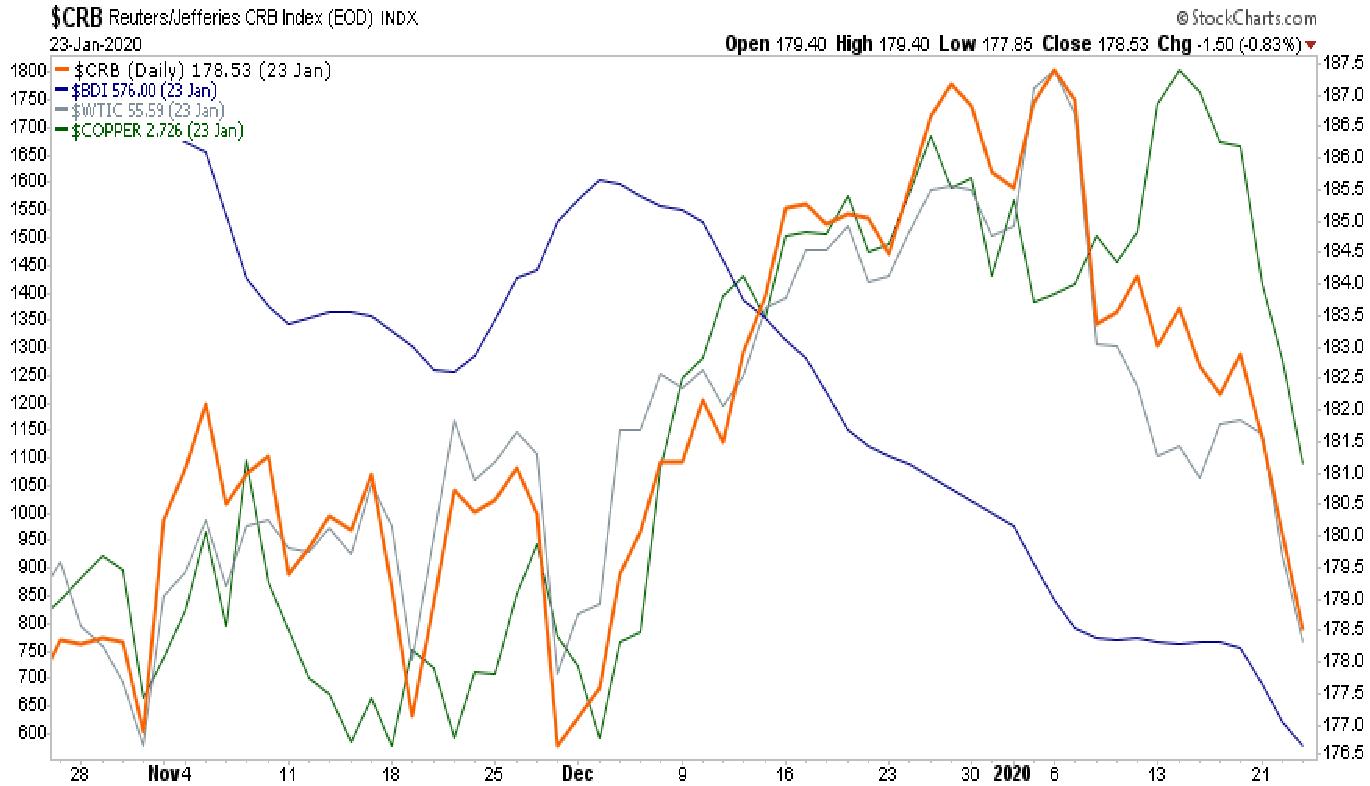
Economic Warnings

There is currently much hope that the economy is about to emerge from its sluggish growth over the past couple of quarters to support lofty earnings expectations and, potentially, a rise in corporate profitability. **As noted previously, the last time the S&P 500 was this deviated from a period of *"flat*" corporate profit growth was from 1995-1999.**

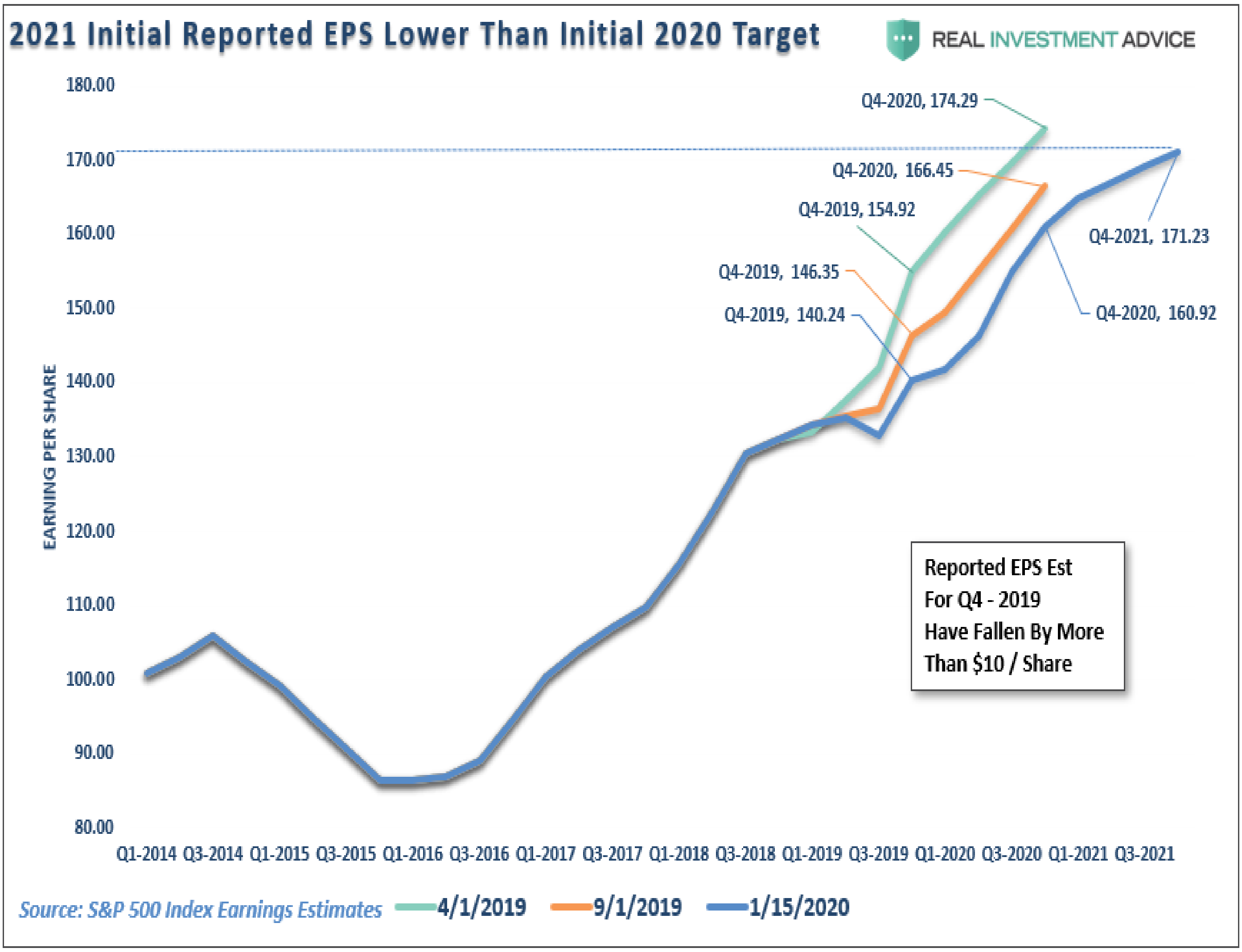


There are a few indicators which, by their very nature, should be signaling a surge in economic activity if there was indeed going to be one. **Copper, energy prices, commodities in general, and the Baltic Dry index, should all be rising if economic activity is indeed beginning to recover.&#2013266080;**

Not surprisingly, as the *"trade deal"* was agreed to, we DID see a pickup in commodity prices, which was reflected in the stronger economic reports as of late. **However, while the media is crowing that *"reflation is on the horizon,"&#2013266080;*the commodity complex is suggesting that whatever bump there was from the *"trade deal,"* is now over.**



If economic data doesn't significantly improve, the risk to further corporate profit weakness is of concern. It also puts extremely optimistic projections for S&P earnings through 2020 and 2021 at risk. *(Estimates for 2020 have already collapsed, and 2021 is lower than initial 2020 estimates.)*



Pay attention to the amount of risk in your portfolio. It will matter more than you think and always at the worst possible time.

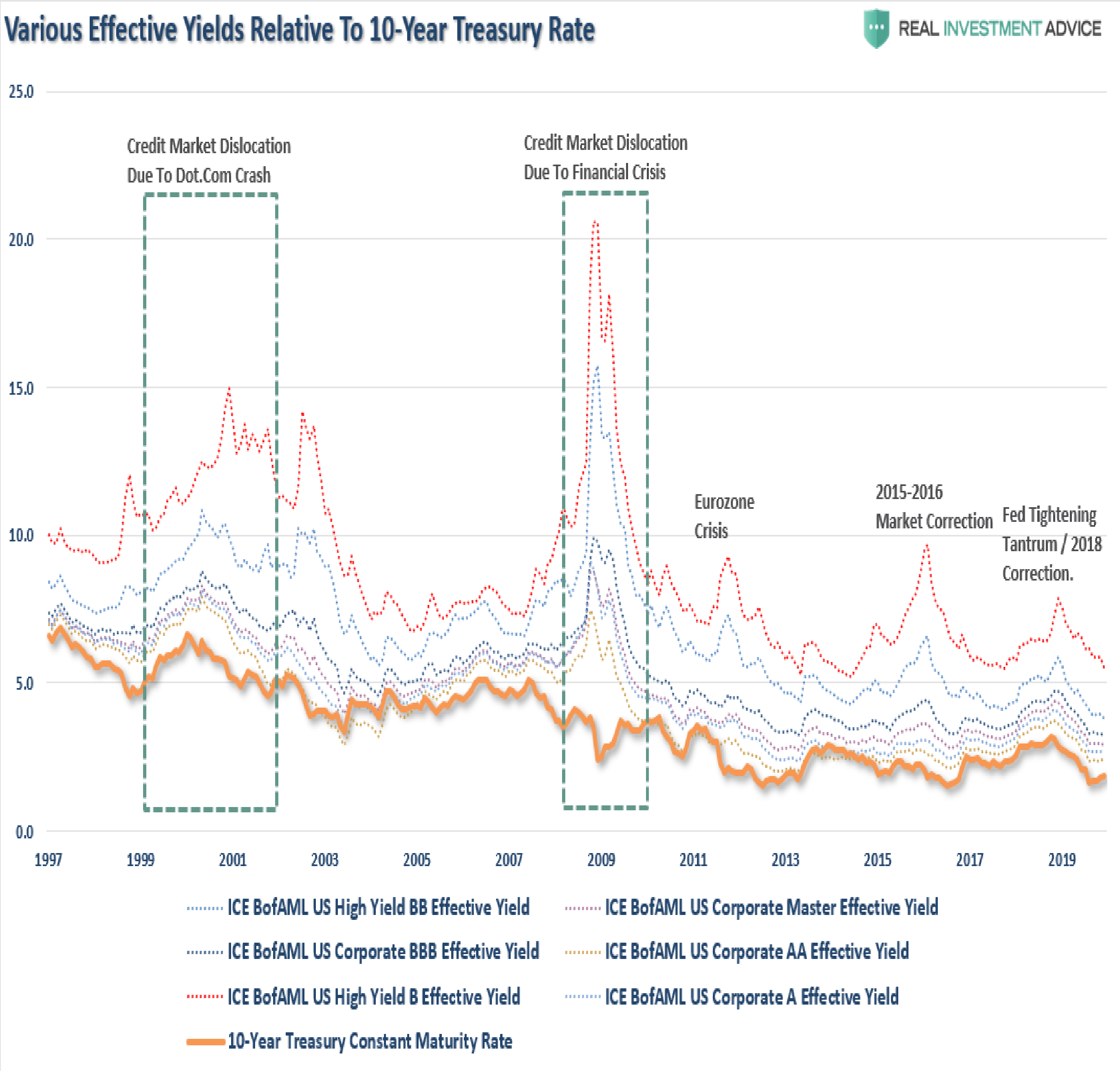
Portfolio Positioning

After previously reducing exposure *?slightly?* to equities, **we did not make any further changes to portfolios over the last few days.** Given we have shortened our duration in our bond holdings and raised cash levels to roughly 10% of the portfolio, we can afford at the moment to allow our existing long positions to ride the market higher.&#2013266080;

This positioning paid off well on Friday, as portfolio drag was about 1/3rd of the market overall. Rate-sensitive holdings *(bonds/reits)* performed as rates fell, and defensive positions held their ground.&#2013266080;

As we move into next week, the market is still going to be *"betting on the Fed"* until ultimately *"beaten into submission,"* so we will use rallies to rebalance equity risk as needed, but also add to our fixed income exposure.&#2013266080;

With respect to bonds, make sure you are focusing on *"credit quality,"* rather than *"chasing yield."* As shown in the chart below, and as **[discussed this past week,]** when the recession hits, you want to be in Treasuries, and literally nothing else.&#2013266080;



While that is hard to believe, just remember its happened twice before.

The Macro View

MacroView: Elites View The World Through "Market Colored" Glasses

Written by Lance Roberts | Jan 24, 2020

The Fed's problem is not only are they caught in an "economic liquidity trap," where monetary policy has become ineffective in stimulating economic growth, but are also captive to a "market liquidity trap."

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

See You Next Week

By Lance Roberts, CIO

Financial Planning Corner

REGISTER NOW for our most popular workshop: THE RIGHT LANE RETIREMENT CLASS

- ***The Westin, Austin at the Domain- 11301 Domain Drive, Austin, TX 78758***
- ***February 8th from 9-11am.***

#FPC: New Advisors: Stop Doing These Two Things.

Written by Richard Rosso | Jan 24, 2020

The higher stocks ride a glide path of zero volatility, the greater the risks for investors and their financial partners to fall victim to overconfidence. After all, we are human; when it comes to money and emotions our brains are no smarter than a lizard's.

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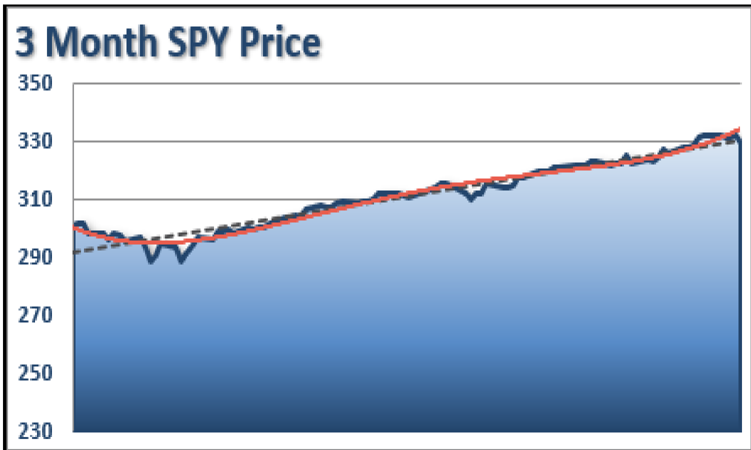
You?ll be hearing more about more specific strategies to diversify soon, but don?t hesitate to give me any suggestions or questions.

by Richard Rosso, CFP&#2013266094;, CIMA&#2013266094;

Market & Sector Analysis

S&P 500 Tear Sheet



SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	16.10%	24.75%	2.15%	(91.32%)
Max Drawdown	-20.47%	-7.41%	-1.68%	-77.35%
Sharpe	0.60	2.32	4.31	0.86
Sortino	0.71	2.64	7.20	1.73
Volatility	14.96	11.71	8.49	(0.27)
Daily VaR-5%	(13.66)	8.73	25.11	1.88
Mnthly VaR-5%	(10.95)	10.92	10.92	0.00

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	1.78%	2.09%	1.71%	(22.26%)	2.18%	1.68%	(21.74%)	1.96%
P/E Ratio	23.05	17.36	20.61	15.74%	2169%	1648%	(5.0%)	25.03%
P/S Ratio	3.38	2.88	3.56	19.01%	3.59	2.65	(0.75%)	34.12%
P/B Ratio	3.84	3.52	4.50	21.87%	4.29	3.01	5.02%	49.78%
ROE	16.03%	18.81%	18.57%	(1.29%)	18.81%	15.04%	(1.27%)	23.50%
ROA	3.00%	3.53%	3.51%	(0.50%)	3.53%	2.81%	(0.50%)	24.96%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,411.1	2,306.7	(4.33%)
Sales	61,976	64,732	4.45%
SPS	25.7	28.1	9.18%
Earnings	9,269	9,457	2.03%
EPS TTM	4.6	4.8	4.35%
Dividend	1.6	1.7	6.27%

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	(7.36%)	4.04%	1.25	17.40	127.61	12.35	(86.4%)	7.8%	4.1%	5.70%	2.54	21.34
Materials	(13.56%)	2.53%	1.25	16.36	22.97	13.86	(28.8%)	8.7%	1.9%	6.07%	3.29	20.58
Industrials	21.20%	8.96%	1.17	18.76	22.27	14.78	(15.7%)	17.6%	1.8%	5.29%	4.63	19.08
Discretionary	18.36%	9.64%	1.02	25.18	27.17	20.19	(7.3%)	29.4%	1.3%	3.91%	4.37	25.59
Staples	21.73%	7.10%	0.57	21.75	22.83	17.62	(4.7%)	27.6%	2.6%	4.56%	3.78	21.61
Health Care	15.36%	14.18%	0.84	18.01	20.19	15.79	(10.8%)	30.9%	1.7%	5.45%	6.42	17.68
Financials	19.07%	12.60%	1.27	14.26	18.50	11.73	(22.9%)	11.6%	2.0%	6.92%	5.61	14.08
Technology	51.62%	23.94%	1.25	26.70	24.05	14.47	11.0%	39.8%	1.2%	3.70%	4.98	25.03
Telecom	22.98%	10.63%	0.87	23.43	27.01	17.61	(13.3%)	16.9%	0.8%	4.21%	6.16	20.72
Utilities	27.42%	3.38%	0.26	22.63	21.40	15.58	5.7%	10.6%	2.9%	4.44%	3.56	20.70
Real Estate	22.20%	2.93%	0.64	21.76	24.48	17.19	(11.1%)	9.8%	3.0%	4.58%	4.20	21.23

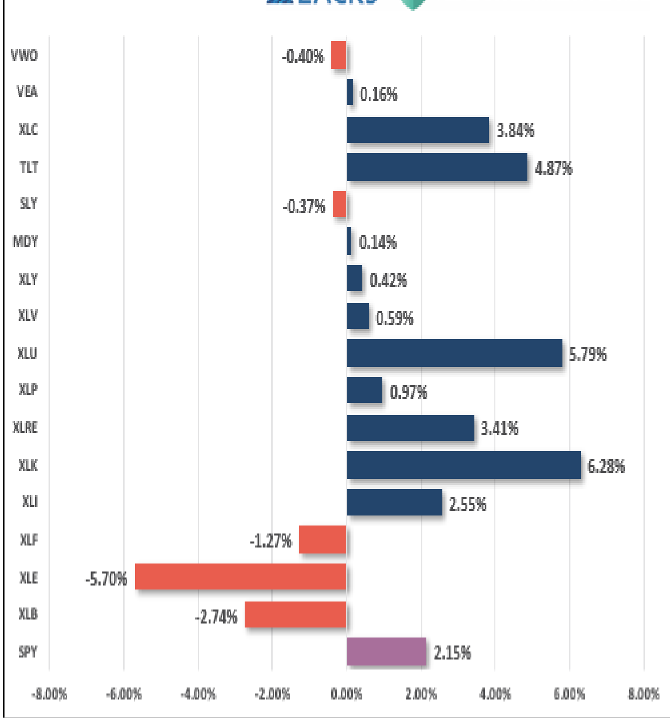
Momentum Analysis

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	328.77	5.45%	320.22	50	2.67%	300.63	169	9.36%	6.52%	(1.26%)	26.13%	Buy
Mid Cap	375.90	3.04%	372.24	50	0.98%	355.94	76	5.61%	4.58%	(1.96%)	16.59%	Buy
Small Cap	72.18	3.38%	71.76	50	0.59%	68.27	74	5.73%	5.11%	(2.76%)	14.63%	Buy

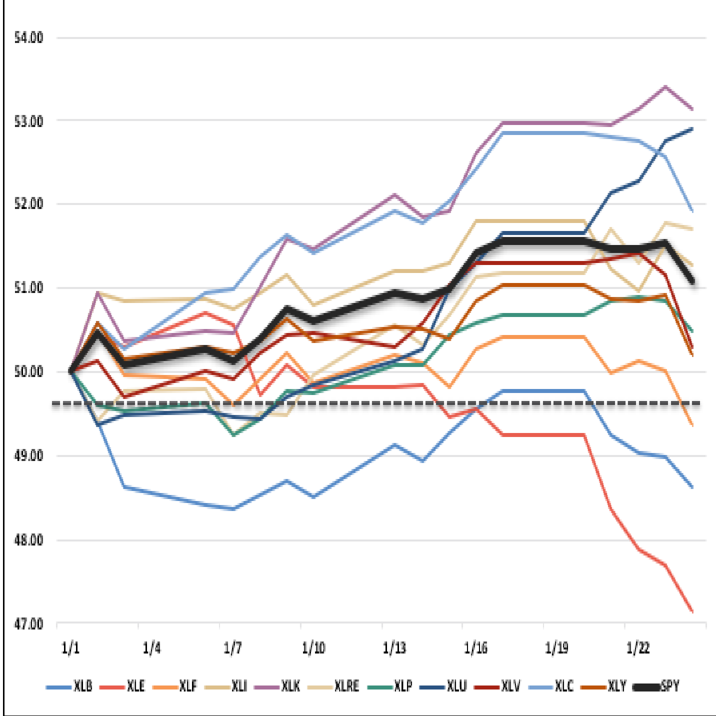
Performance Analysis

Year To Date Performance

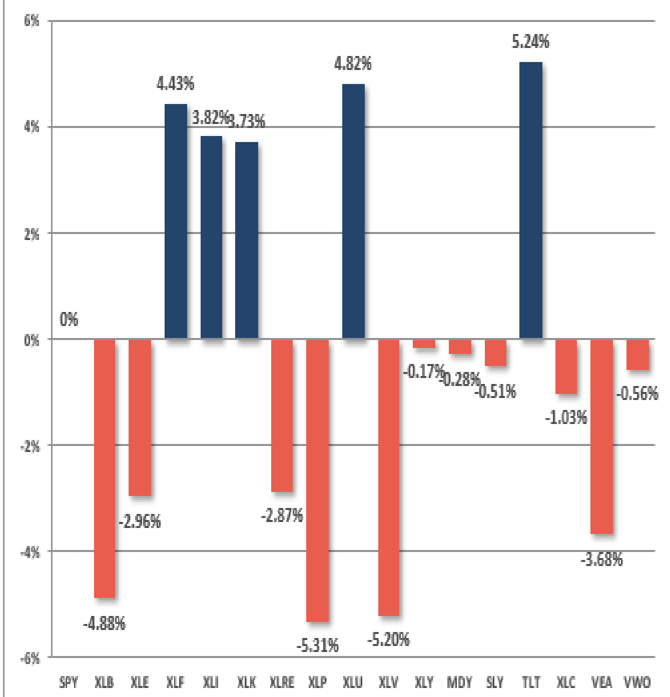
ZACKS | REAL INVESTMENT ADVICE



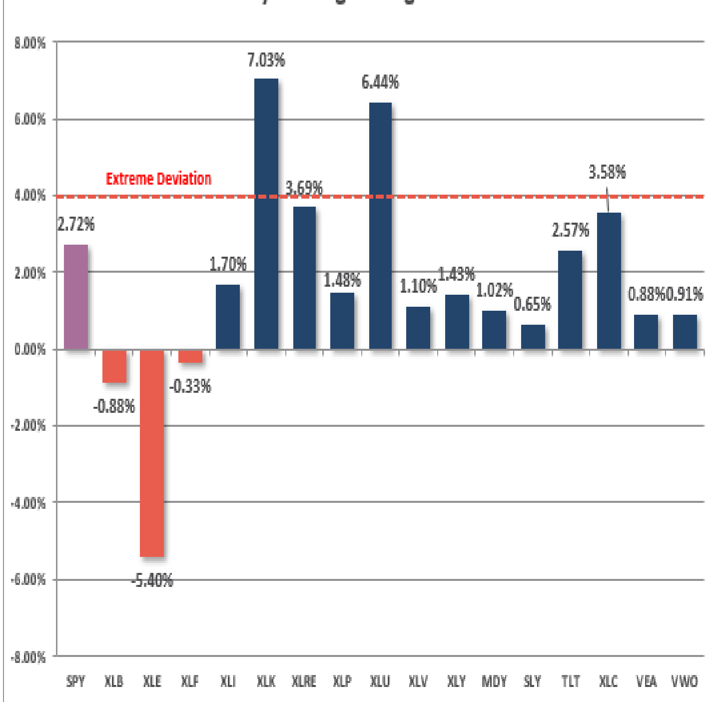
YTD Price - S&P Sectors Recalibrated To $50/share



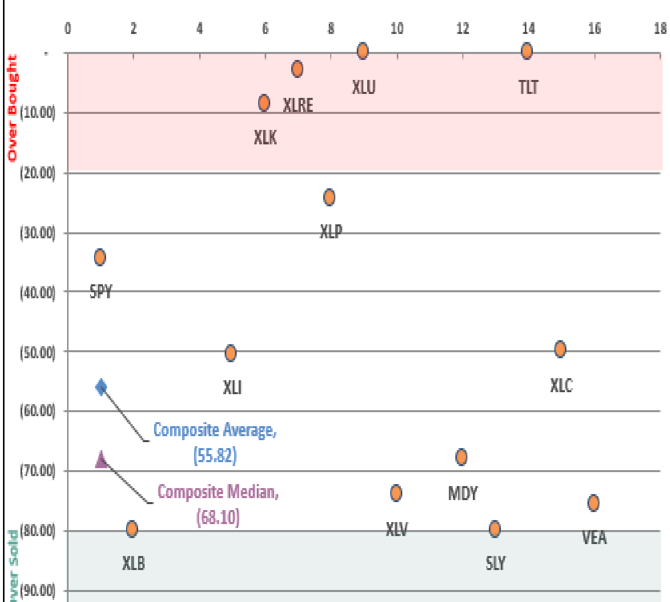
Year To Date Performance Relative To S&P 500



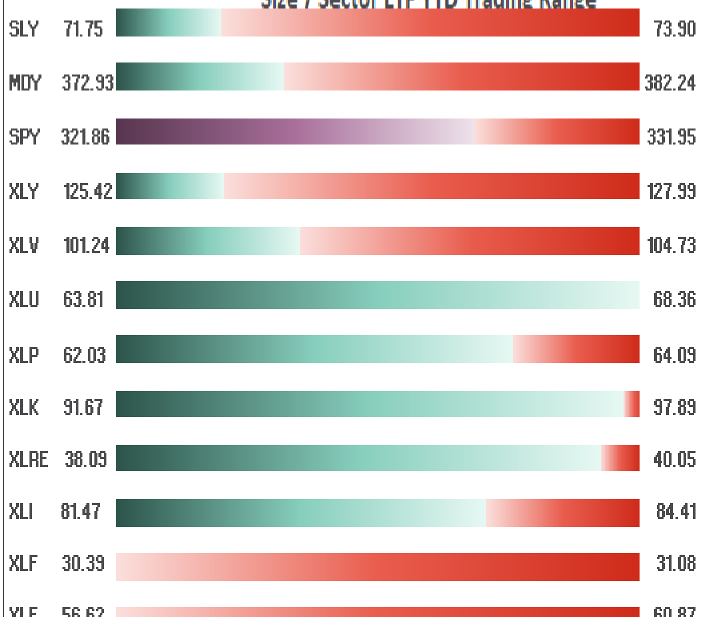
Price Deviation From 50-Day Moving Average



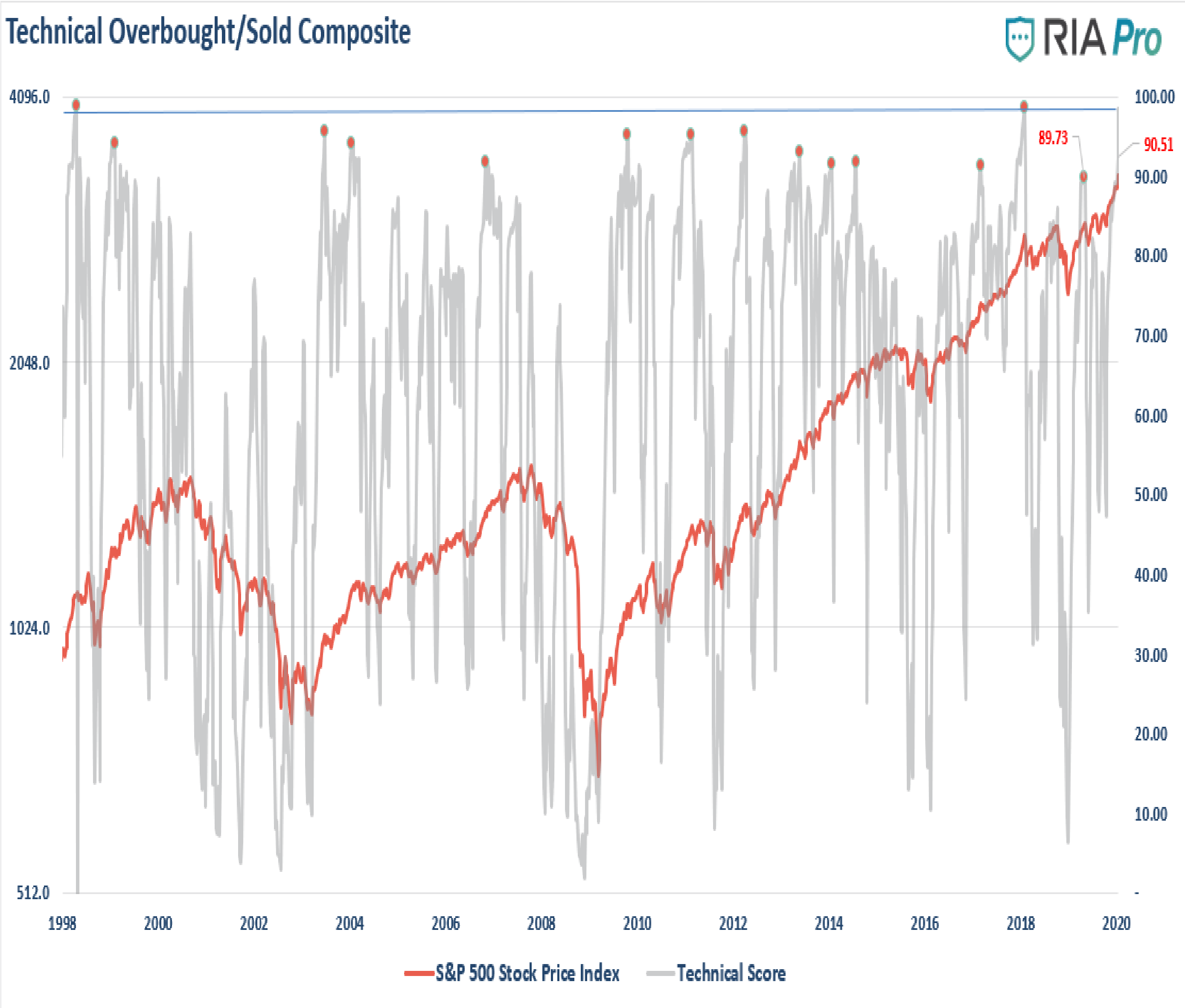
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite&#2013266080;



ETF Model Relative Performance Analysis

RIA Pro		RELATIVE PERFORMANCE		Current	Model Position Price Changes Relative to Index					SHORT	LONG	% DEV -	% DEV -	Buy / Sell
		Ticker	ETF NAME	Price	1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	WMA	WMA	Short M/A	Long M/A	Signal
	BENCHMARK	IVV	ISHARS-SP500	330.23	(0.98)	1.84	7.23	12.57	23.45	318.71	304.68	3.61%	8.39%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	59.74	(1.31)	(4.16)	(6.00)	(9.09)	(10.99)	60.10	58.48	-0.60%	2.15%	BUY
		XLE	SPDR-EGY SELS	56.62	(3.25)	(10.04)	(11.72)	(16.76)	(33.48)	59.85	60.09	-5.40%	-5.77%	SELL
		XLF	SPDR-FINL SELS	30.39	(1.08)	(3.08)	(2.87)	(0.72)	(6.57)	30.25	28.58	0.46%	6.34%	BUY
		XLI	SPDR-INDU SELS	83.55	(0.04)	0.17	(3.08)	(1.79)	(4.21)	81.84	78.55	2.08%	6.37%	BUY
		XLK	SPDR-TECH SELS	97.43	1.30	4.16	7.84	11.56	24.33	89.76	83.41	8.54%	16.81%	BUY
		XLP	SPDR-CONS STPL	63.59	0.62	(1.30)	(3.24)	(5.37)	(0.52)	62.30	60.83	2.08%	4.54%	BUY
		XLU	SPDR-UTIL SELS	68.36	3.38	4.34	(0.57)	(0.26)	4.76	63.92	62.63	6.95%	9.15%	BUY
		XLC	SPDR-COMM SV SS	55.69	(0.77)	1.12	2.07	(0.34)	1.41	53.19	50.99	4.71%	9.22%	BUY
		XLV	SPDR-HLTH CR	102.46	(0.96)	(2.31)	0.77	(0.47)	(8.22)	99.90	94.54	2.56%	8.38%	BUY
		XLY	SPDR-CONS DISCR	125.95	(0.61)	(1.92)	(3.70)	(6.09)	(5.77)	123.56	121.28	1.94%	3.85%	BUY
	SIZE	SLY	SPDR-SP SC 600	72.18	(1.25)	(2.02)	(3.59)	(3.45)	(13.32)	71.30	68.43	1.24%	5.48%	BUY
		MDY	SPDR-SP MC 400	375.90	(0.47)	(1.70)	(3.21)	(4.06)	(9.88)	369.86	357.23	1.63%	5.23%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	116.81	(0.36)	(0.87)	(1.77)	(1.99)	(5.32)	113.98	109.67	2.48%	6.51%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	107.08	(0.18)	(2.36)	(5.35)	(4.95)	(9.28)	106.63	103.08	0.42%	3.88%	BUY
	Real Estate	XLRE	SPDR-RE SELS	39.99	1.99	2.22	(5.30)	(8.62)	(2.74)	38.55	38.45	3.73%	4.01%	BUY
	International	EEM	ISHARS-EMG MKT	44.60	(2.55)	(2.88)	(4.04)	(0.70)	(17.76)	44.06	42.45	1.23%	5.07%	BUY
		EFA	ISHARS-EAFE	69.49	(0.28)	(2.06)	(5.07)	(2.16)	(11.68)	68.85	66.31	0.93%	4.79%	BUY
		IXUS	ISHARS-CR INT S	61.94	(0.75)	(2.10)	(4.34)	(2.10)	(12.80)	61.19	58.98	1.23%	5.01%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	142.08	3.92	1.63	(6.15)	(11.12)	(5.57)	138.30	138.18	2.73%	2.82%	BUY
	International	BNDX	VANGD-TTL INT B	57.26	1.77	(0.87)	(9.05)	(14.62)	(18.64)	57.58	57.91	-0.56%	-1.11%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	87.69	0.22	(2.10)	(6.23)	(10.90)	(19.56)	87.45	87.03	0.27%	0.76%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.98										

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), Communications (XLC)

The improvement in Energy stalled again this week, as oil prices continued to fall suggesting that economic weakness may be gaining traction. With oil prices failing the 200-dma, as expected, we saw further deterioration across the energy complex. Remain underweight for now.

As recommended two weeks ago, we reduced our weighting in XLC slightly to take in some profits. That action worked out well with the rout to the sector on Friday.

Current Positions: *1/2 weight AMLP, Underweight XLC*

Outperforming ? Technology (XLK), Healthcare (XLV)

We previously recommended taking profits in Technology and Healthcare, which have not only been leading the market but have gotten extremely overbought. On Friday, both sectors started to correct, and Healthcare is heading back to oversold, so we may get another opportunity to add back to our holdings.

Current Positions:&#2013266080; *Reduced from overweight to target weight XLK, XLV*

Weakening ? Financials (XLF)

We noted previously that Financials have been running hard on Fed rate cuts and more QE and that the sector was extremely overbought and due for a correction. That correction/consolidation started two weeks and continued this week. We recommended taking profits previously, but now the sector is getting back to oversold and is setting up for a potential entry point. The 50-dma needs to hold as support as a short-term sell signal has been registered.

Current Position: *No Position*

Lagging ? Industrials (XLI), Real Estate (XLRE), Staples (XLP), Discretionary (XLY), Materials (XLB), and Utilities (XLU)

> ***Note:*** *LAGGING Sectors are all showing signs of relative improvement to the S&P 500 suggesting a rotation from LEADING to LAGGING may be underway.*

Industrials, have been improving performance on a relative basis to the S&P 500 this past week and held up during Friday's sell off. The sector is working off its overbought condition but is close to triggering a short-term sell signal. We are going to wait for this correction to play out before adding to our current position.

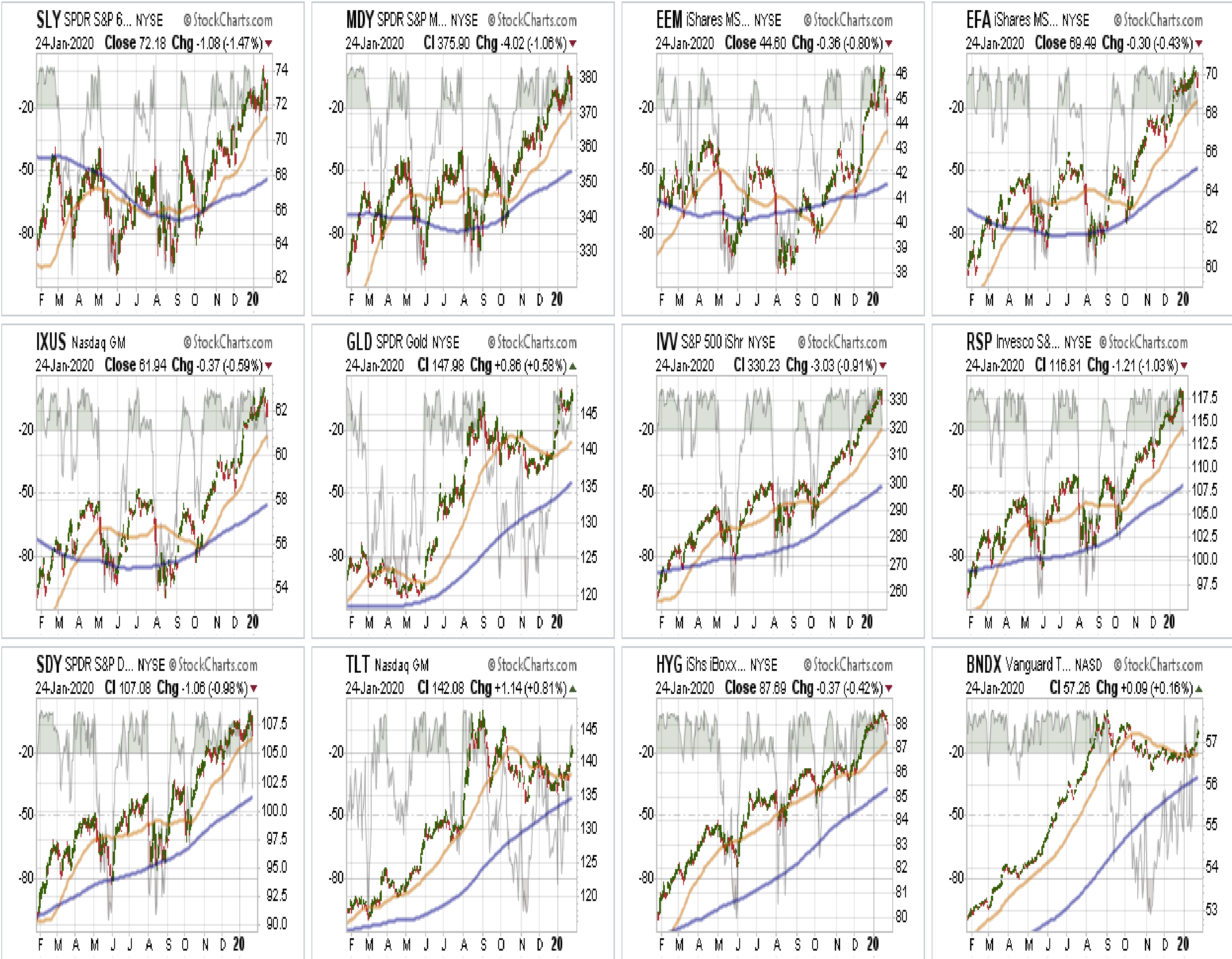
Staples continues to consolidate and hold above its 50-dma. Since taking profits previously, we are just maintaining our stop loss on the sector currently. The sector remains very overbought and there isn't a good entry point available just yet.

Discretionary, after finally breaking out to new highs, has gotten very extended in the short-term. We reduced our position slightly to take in profits. That was a good move as the sector corrected sharply on Friday. We remain optimistic on the sector for now, but need the overbought condition to be corrected with violating our stop-loss.&#2013266080;

XLRE has been rallying as of late and relative strength is improving. With rates falling, REIT's remain a solid defensive sector. We will look to add to our holdings if we get a bit of risk rotation next week to give us a bit of a pullback in Real Estate.&#2013266080;

Current Position:&#2013266080;*Target weight XLY, XLP, XLRE, 1/2 weight XLB and XLI*

Market By Market



Small-Cap (SLY) and Mid Cap (MDY) ? Small- and Mid-caps broke out to new highs last week, but as I discussed, the extreme overbought suggested a pullback was likely. That occurred this week. With the 50-dma not too far away it is critical the market holds and doesn't violate out stops. We are holding that position for now, but are tightening up our stops.

Current Position:&#2013266080;*KGGIX, SLYV*

Emerging, International (EEM) & Total International Markets (EFA)

Emerging and International Markets, like small and mid-caps above, had gotten extremely overbought and needed to correct. With support close by, it will be important that international stocks work off the overbought condition without violating our stop levels.&#2013266080;

Current Position: *EFV, DEM*

Dividends (VYM), Market (IVV), and Equal Weight (RSP)&#2013266080;? These positions are our long-term&#2013266080;*?core?* positions for the portfolio given that over the long-term markets do rise with economic growth and inflation. However, with the S&P extremely extended a pullback was likely. Currently, there is nothing to worry about, however, we are watching the market closely.&#2013266080;

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

Gold (GLD) ? As noted two weeks ago, Gold was holding support at the $140 level and registered a buy signal. GDX has also held support and turned higher with a triggered buy signal. Over the last two weeks, gold has broken out to highs, but stalled at those levels. We previously took our holdings back to full-weights after taking profits earlier this year. However, we are tightening up our stop levels.

Current Position:&#2013266080;*GDX (Gold Miners), IAU (Gold)*

Bonds (TLT) ?&#2013266080;

Bonds rallied back above the 50-dma on Friday as money rotated into bonds for *"safety"* as the market weakened on Friday. As noted last week:&#2013266080;*"There is a consolidation with rising bottoms occurring currently, which suggests we may see further weakness in the market with a "risk off" rotation into bonds."&#2013266080;*That rotation occurred on Friday.

After previously recommending adding to bonds, hold current positions for now.&#2013266080;

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	Declining	Positive	Positive	Hold			X			Correction Started
XLK	Technology	OB	Positive	Positive	Hold			X			Extremely Extended
XLI	Industrials	OB	Positive	Positive	Hold			X			Correction Started
XLB	Materials	Declining	Positive	Positive	Hold			X			Correction Started
XLE	Energy	OS	Positive	Negative	No Action					X	Failed At Support
XLP	Staples	OB	Positive	Positive	Hold			X			Holding Near Highs
XLV	Health Care	OB	Positive	Positive	Hold			X			Correction Started
XLU	Utilities	OB	Positive	Positive	Hold			X			Holding Near Highs
XLF	Financials	Declining	Positive	Positive	Hold			X			Correction Started
XLC	Communications	OB	Positive	Positive	Hold			X			Correction Started
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Holding Near Highs
SLY	Small Caps	Declining	Positive	Positive	Hold			X			Correction Started
MDY	Mid Caps	Declining	Positive	Positive	Hold			X			Correction Started
EEM	Emerging Mkt	Declining	Positive	Positive	Hold			X			Correction Started
EFA	International	Declining	Positive	Positive	Hold			X			Correction Started
IXUS	Total International	OB	Positive	Positive	Hold			X			Correction Started
GLD	Gold	OB	Positive	Positive	Hold			X			Testing Highs
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Extremely Extended
SDY	SP500 Dividend	Declining	Positive	Positive	Hold			X			Extremely Extended
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Extremely Extended
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Hold Positions
HYG	Corporate High Yield	Declining	Positive	Positive	No Position					X	Correction Started
BNDX	Int'l Bond Aggregrate	OB	Positive	Positive	No Position					X	Testing Resistance

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

Portfolio/Client Update:

In case you haven't taken the opportunity to watch the Market Outlook presentation with Michael Lebowitz and myself, here is the link. ***CLICK HERE TO WATCH:***

There was no change to portfolios last week as the extremely overbought conditions prohibited us from adding to equity risk currently.&#2013266080;

As noted in the main missive this week, the market did correct on Friday, which will either be a "one-day blip," or something that may mature into a bigger correction we can add money to. We just need some of the overbought condition to be removed to add money more reasonably into portfolios on a risk/reward basis.&#2013266080;

After previously taking actions to slightly reduce portfolio risk, and raise cash, we have the luxury to wait a bit for a better entry point.&#2013266080;

Let me address accounts that are in the ON-BOARDING process.&#2013266080;

When a new client portfolio arrives, Mike and I have two choices: 1) Sell everything and buy everything in our model, OR 2) sell some, buy what is reasonable, and then be patient to build out the rest of the portfolio.&#2013266080;

The problem with option 2) is that if the market goes into a melt-up phase, as we saw starting in October, the opportunity to safely add money to portfolios is not available. In hindsight, yes, we should have bought all of our overbought positions, which then went to extremely overbought. However, this is not a prudent, or sophisticated manner, in which to manage portfolio risk.

IF this current corrective process continues and brings our positions back to a near-term oversold condition without violating stop-levels or triggering sell signals, we will build out on-boarding models accordingly.&#2013266080;

If you have any questions, please don't hesitate to email me.

There we no additional portfolio actions this past week.

- **New clients:**&#2013266080;*See note above.*
- ***Dynamic Model:*** *No actions required*
- ***Equity Model:*** *No actions required*
- ***ETF Model****: No actions required*

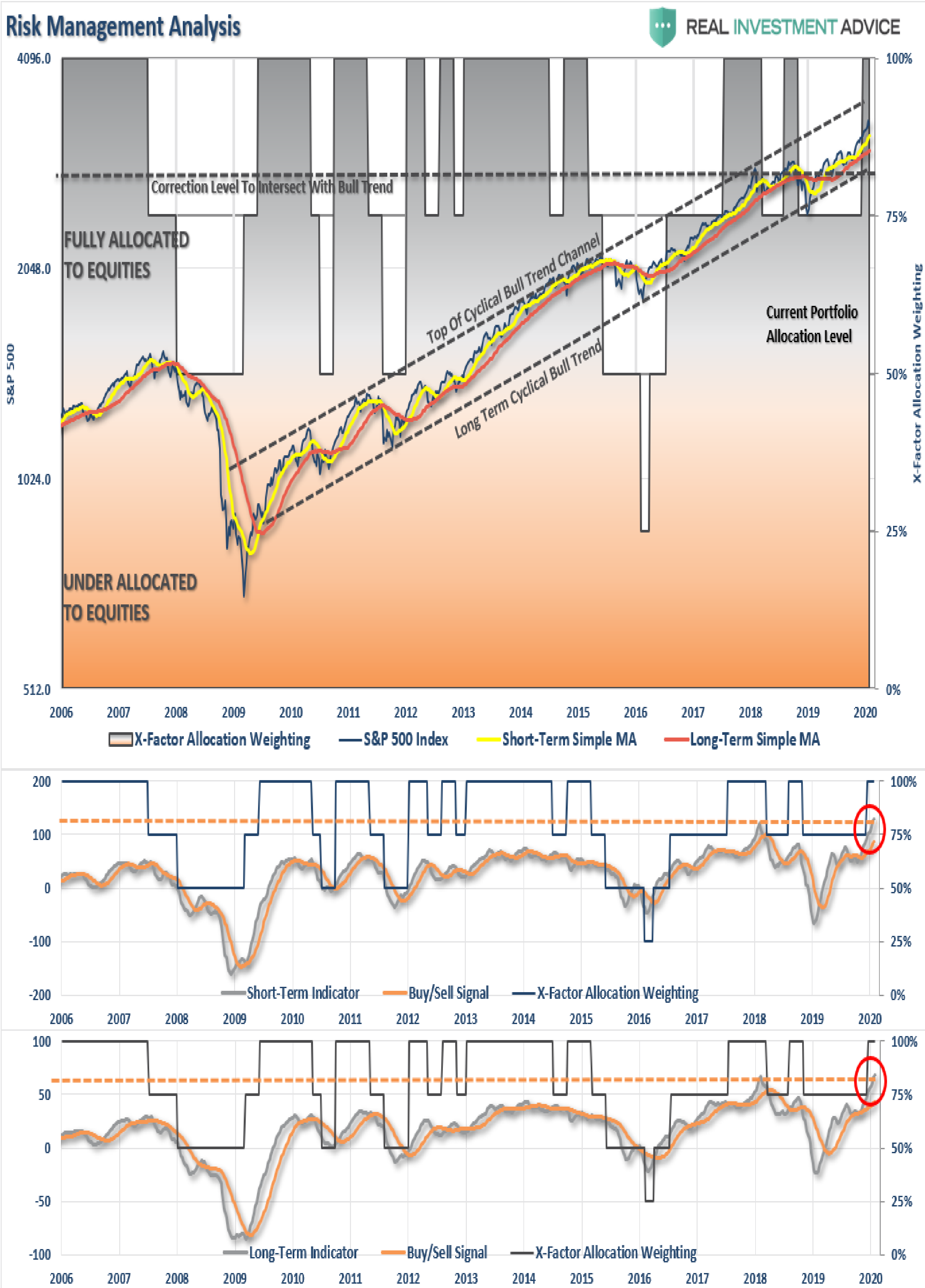
Note for new clients:

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.**

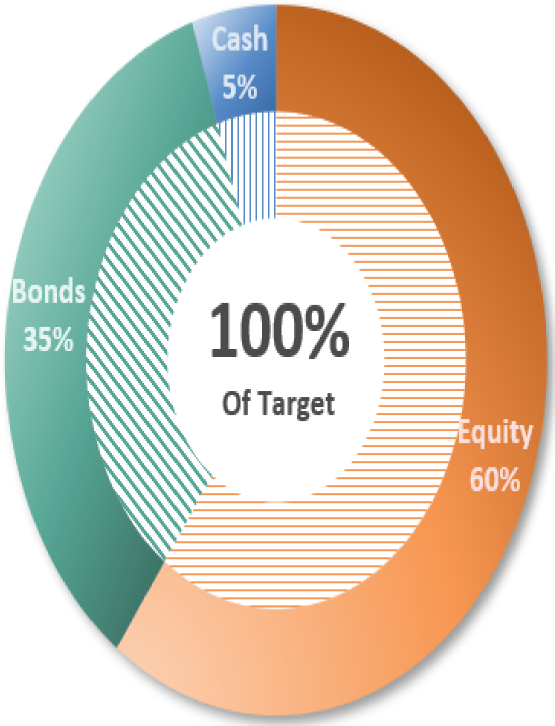
THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors

The 401k plan allocation plan below follows the K.I.S.S. principle. By keeping the allocation simplified, it allows for better control of the allocation, and closer tracking to the benchmark objective over time. ***(If you want to make it more complicated, you can, however, statistics show simply adding more funds does not increase performance to any significant degree.)***


Risk Management Analysis
REAL INVESTMENT ADVICE
4096.0
2048.0
1024.0
512.0
S&P 500
100%
75%
50%
25%
0%
X-Factor Allocation Weighting
Correction Level To Intersect With Bull Trend
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Top Of Cyclical Bull Trend Channel
Long Term Cyclical Bull Trend
Current Portfolio Allocation Level
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
X-Factor Allocation Weighting
S&P 500 Index
Short-Term Simple MA
Long-Term Simple MA
200
100
0
-100
-200
Short-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting
100
50
0
-50
-100
Long-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting

Current Portfolio Weighting



Current 401k Allocation Model

5.00% **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*

60.00% **Equity (Stocks)**

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

15% Equity Income, Balanced or Conservative Allocation
35% Large Cap Growth (S&P 500 Index)
5% International Large Cap Dividend
5% Mid Cap Growth

Portfolio Instructions:

Allocation Level To Equities	Reommendation	When To Take Action
Less Than Target Allocation	HOLD POSITIONS	Wait For A Correction
Equal To Target Allocation	REBALANCE HOLDINGS	Immediately
Over Target Allocation	REBALANCE HOLDINGS	Immediately

Commentary

As noted in the commentary above, the started a correction on Friday from the extreme overbought and extended condition we have been warning about. Importantly, note in the 401k chart above, the bottom two "buy/sell" indicators are at the highest level since we begin tracking this model in 2007. ***While we increased the portfolio model to 100% due to the Fed's interventions, we cautioned against chasing the markets and using corrections to opportunistically increase exposure. We may be getting that opportunity.***

As noted last week, rebalancing risks accordingly. As noted last week: "While it may seem easy to chase risk here, it is likely you are going to pay the price for that over the next few months. Caution is advised."

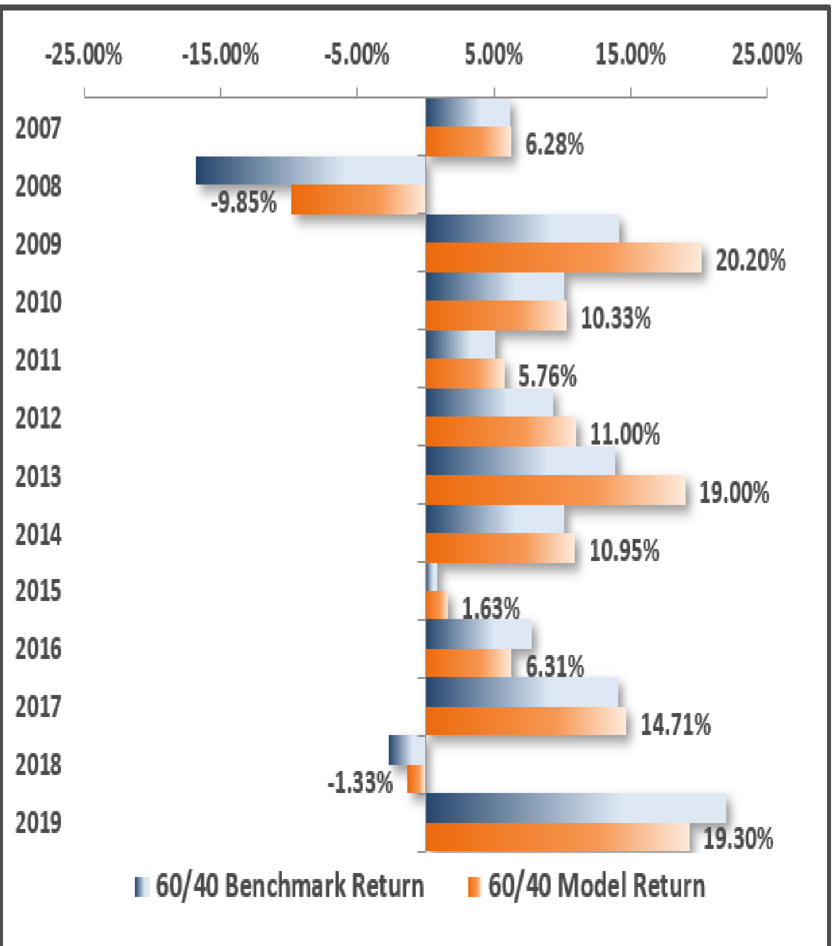
If you need help after reading the alert; do not hesitate to **contact me.**

Click Here For The "LIVE" Version Of The 401k Plan Manager

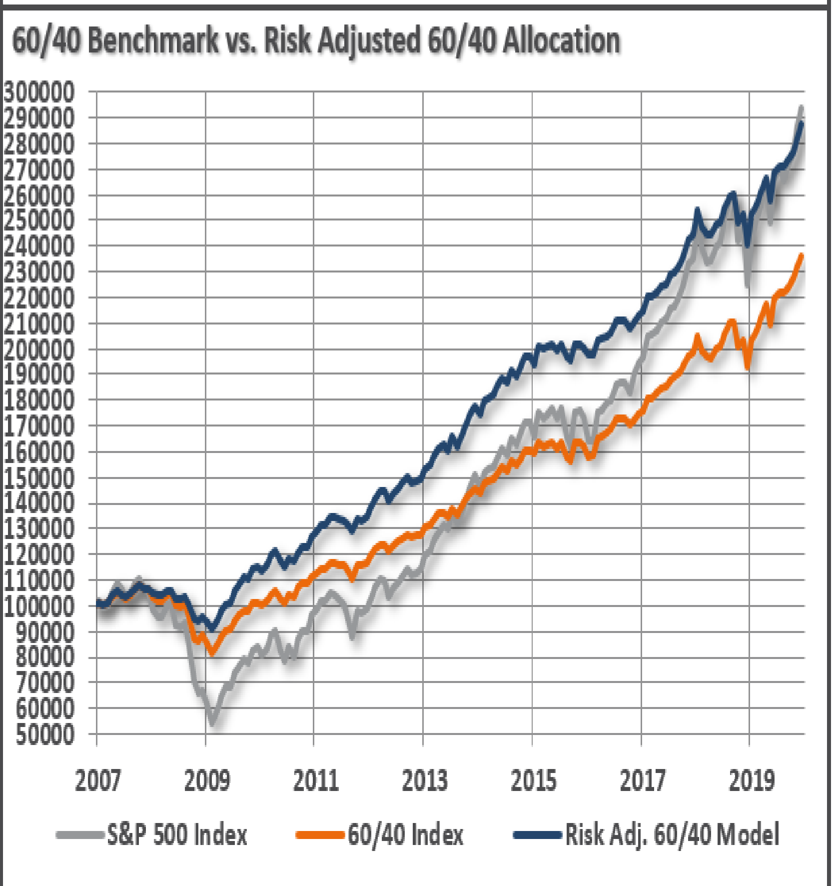
See below for an example of a comparative&#2013266080;model.

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;&#2013266080;

Year	60/40 Benchmark Return	60/40 Model Return
2007	6.15%	6.28%
2008	-16.79%	-9.85%
2009	14.22%	20.20%
2010	10.17%	10.33%
2011	5.14%	5.76%
2012	9.33%	11.00%
2013	13.91%	19.00%
2014	10.08%	10.95%
2015	0.83%	1.63%
2016	7.79%	6.31%
2017	14.12%	14.71%
2018	-2.72%	-1.33%
2019	21.96%	19.30%



Portfolio vs Benchmark Statistics	
Number of Up Years	11
Number of Down Years	2
Best One Year Return Of Benchmark	21.96%
Best One Year Return Of Model	20.20%
Worst One Year Return Of Benchmark	-16.79%
Worst One Year Return Of Model	-9.85%
Benchmark Return 2007-Present	123.78%
Model Return 2007-Present	173.11%
Total Alpha Generated	49.33%
Mean Annual Return Of Benchmark	7.25%
Mean Annual Return Of Model	8.79%
Beta Of Model vs Benchmark	0.86
Jensens Alpha	2.30%
Sharpe Ratio	0.29



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.

RIAPro

Investment Analysis, Research & Data
From The RIA Investment Team

Dashboard | Macro ▾ | Ideas ▾ | Research ▾ | Portfolio ▾ | 401K - Beta | Symbol | Help

This is the Beta version of 401K. Some Errors are expected ! Click Here to report Issues

My Portfolios: CVS Health | Enter Portfolio Name | Add Portfolio | Delete Portfolio | Rename Portfolio

My Info | Fund Selection | Comparison | Summary | Commentary

My Portfolio

RIAPro Portfolio: RIA PRO MODEL PL

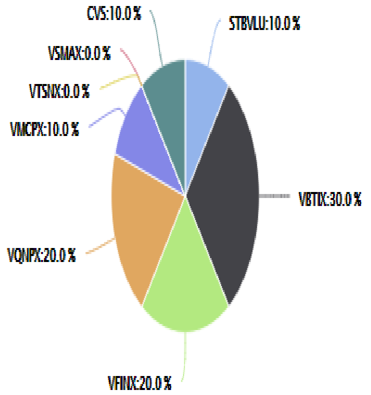
Retirement Income (My Portfolio Annual ROR 9.44 %)

Current account balance	10,000
Estimated Retirement Balance	632,861
Estimated Retirement Balance (Inflation Adj)	620,204
Monthly Income	2,768
Monthly Income (Inflation Adj)	2,713
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

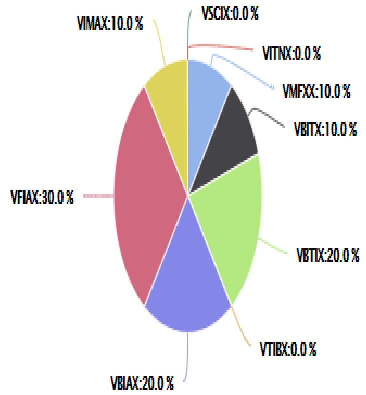
Retirement Income (RiaPro Annual ROR 9.02 %)

Current account balance	10,000
Estimated Retirement Balance	609,786
Estimated Retirement Balance (Inflation Adj)	597,590
Monthly Income	2,667
Monthly Income (Inflation Adj)	2,614
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

My Fund Composition



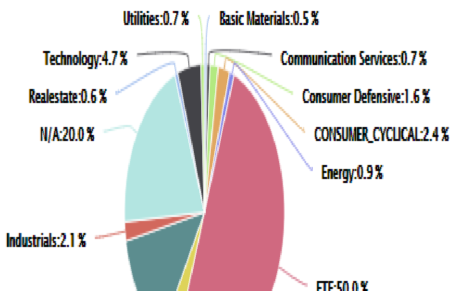
RIAPro Fund Composition



My Asset Composition

RIAPro Asset Composition

My Sector Composition



RIAPro Sector Composition