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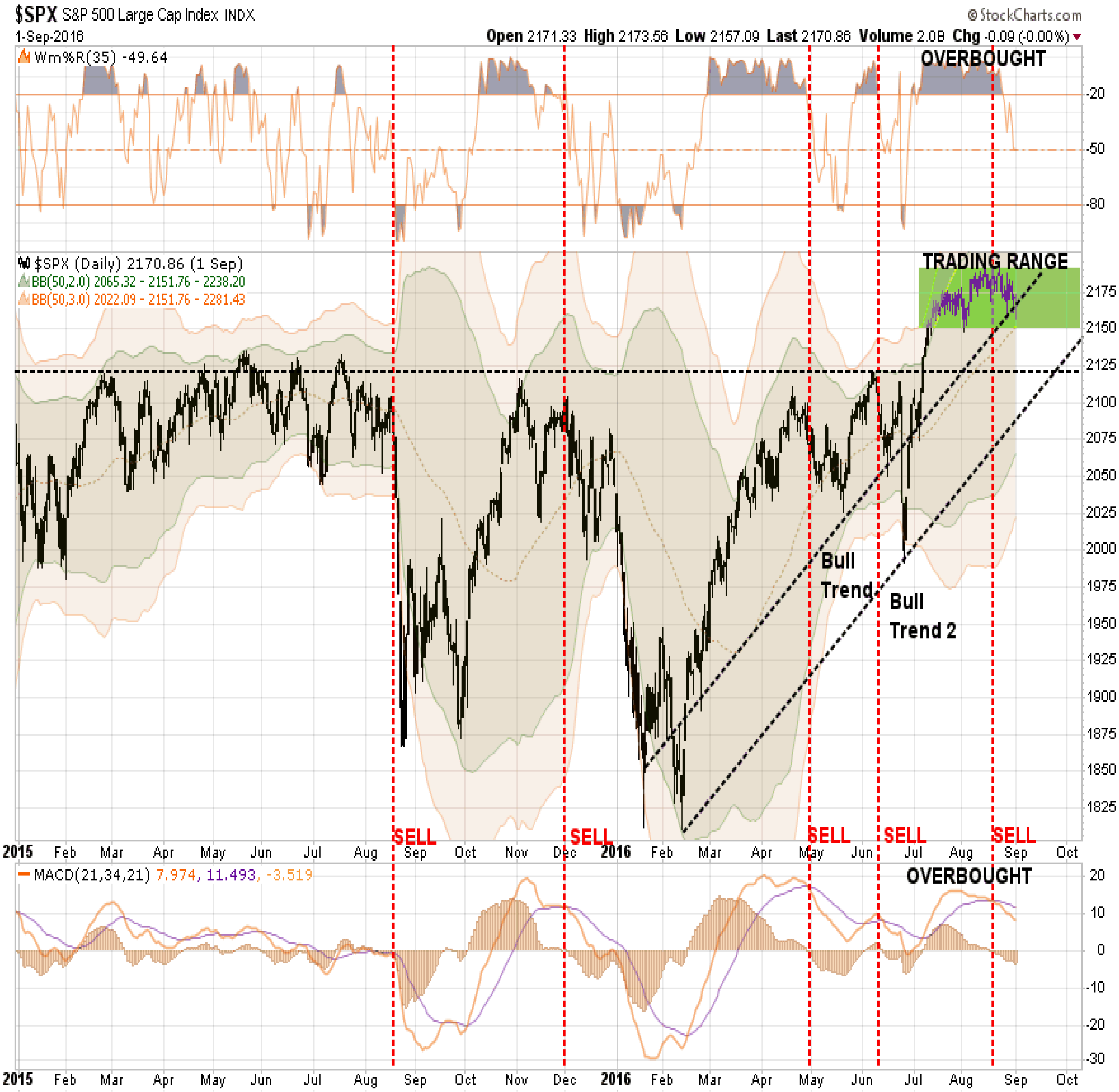
This past week featured a rather dismal set of economic data confirming continuing weakness from wholesale trade, to ISM manufacturing•to the employment report on Friday.**The good news is *"the market loved it."*•**Despite the*"hawkish"* intentions by the Fed to suggest they would raise interest rates in September, **the•weak data likely keeps them*"sidelined"* once again waiting for more confirmation of a strengthening economy that never actually comes.** However, keeping the Fed on the sidelines when translated•means*"continued accommodation for the markets."* John Murphy over at [Stockcharts.com] summed it up well:

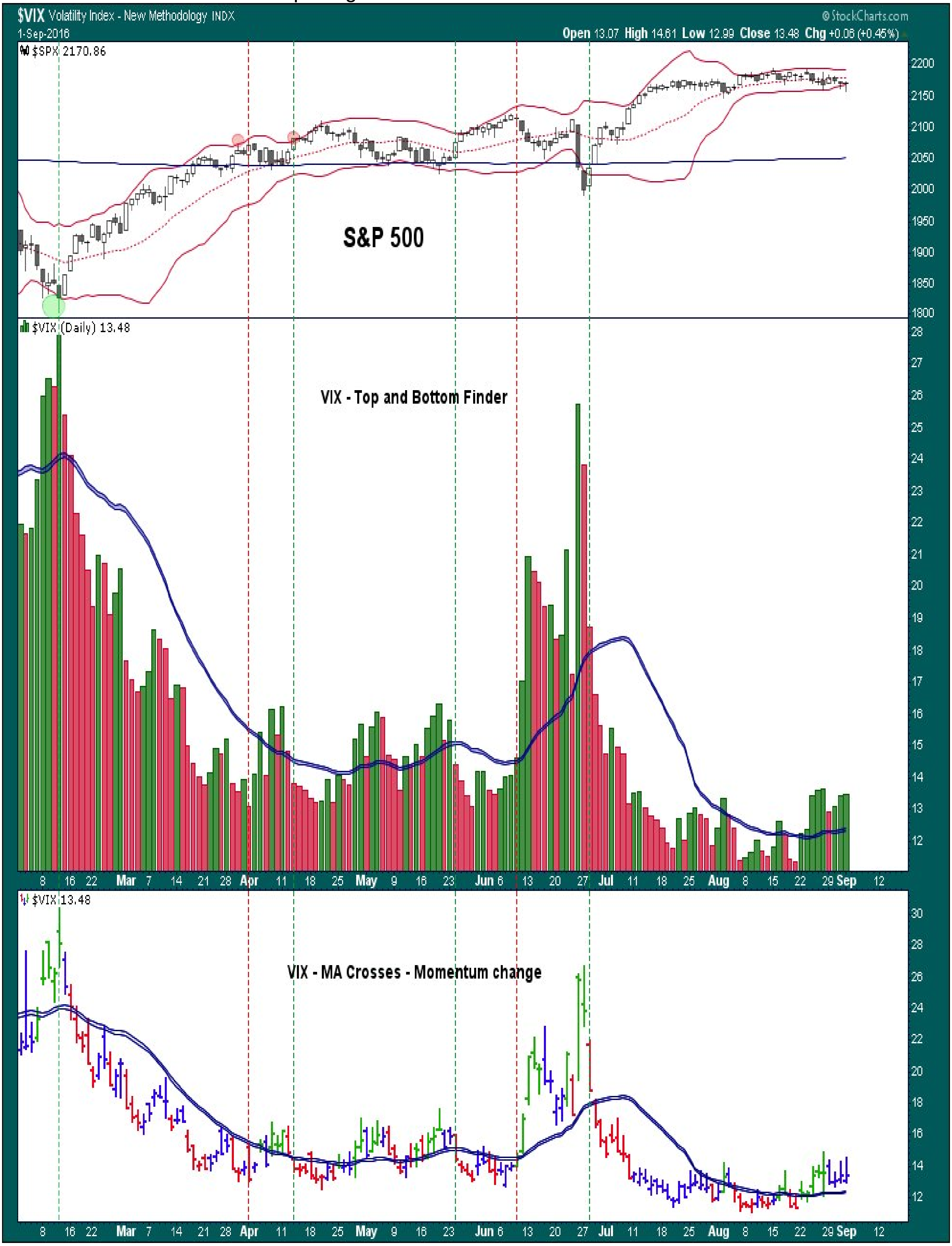
> *"This morning's August jobs report saw a gain of 151,000 jobs versus estimates for a gain of 180,000. **That low number is giving a boost to stocks, and helping to unwind some of the recent hedges against a possible September rate hike.**"*

So stocks rose on Friday. Unfortunately, as shown in the chart below. We just aren't really going anywhere.



The good news is the market is holding its bullish trend line which runs along the 50-day moving average. A violation of that moving average will likely lead to a retest of the previous breakout highs **which intersects with the more important bullish trend from the February lows.** That bull trend line was successfully tested in June allowing for an increase in equity exposure in portfolios at that time. **However, since then, not much has happened. David Larew** (*you should follow him @ThinkTankCharts*) had a couple of very interesting pieces on Friday confirming•my own analysis. The chart below shows the negative divergences in relative strength and the moving average convergence divergence indicators.

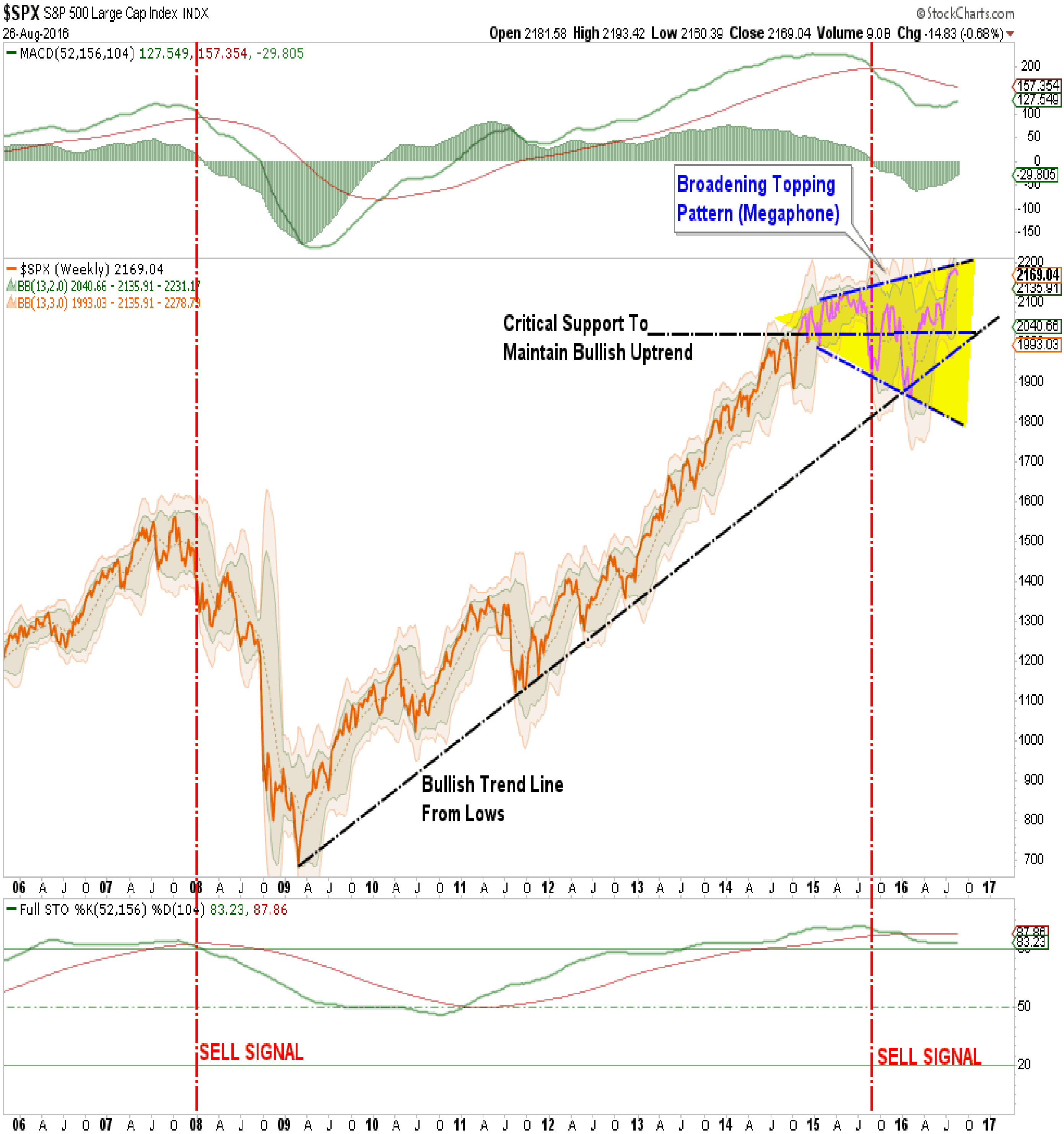
David shows the market wrestling with•a supportive*"neckline"* currently which is indicative of a more important developing topping pattern. With the Volatility Index breaking above its moving average, and the range of the VIX very compressed *(chart below)* a rather violent break to the downside would not be surprising.



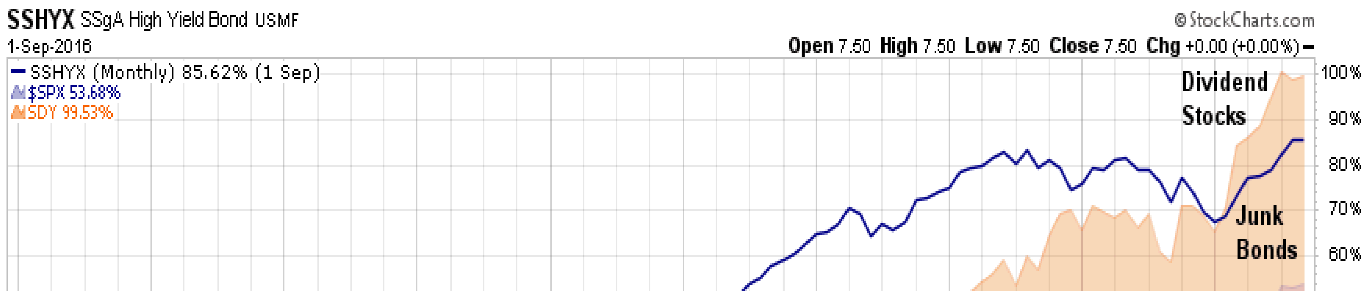
This potential topping pattern also brings into focus the more important broadening topping process

[I addressed last week.](#)

> *"Furthermore, on a longer-term basis, the market continues within a ?broadening topping process? or a ?megaphone?pattern.* ***While these patterns do not always come to fruition, the fact this one is combined with a dual sell-signals only registered prior to the financial crisis does provide some cause for•concern."***



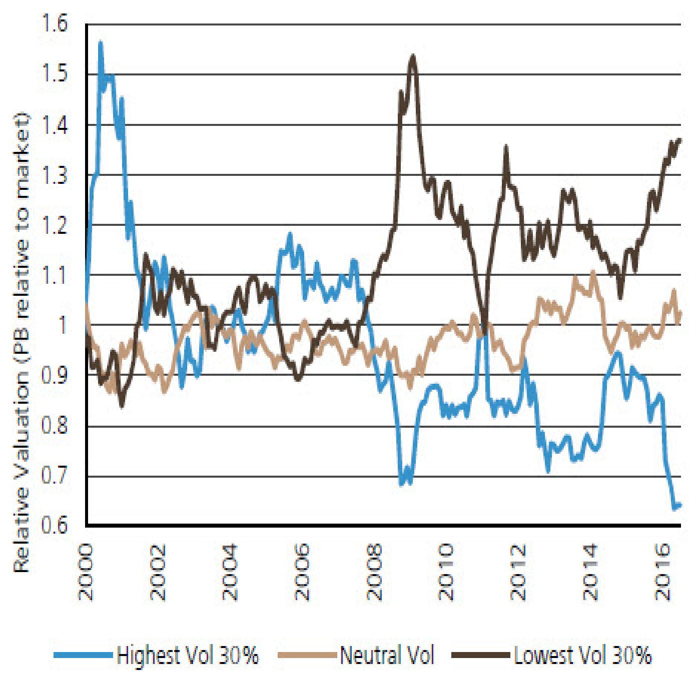
Importantly, for now, the bulls clearly remain in charge of the market. Regardless of the news, it seems as if the market simply will not go down. *I get it. I understand it. But, don't get trapped by it.* Take a look at the chart below.



The chase for yield has pushed relative performance of dividend yielding investments will above that of the overall market. Does this at all seem like a normal thing that should be happening? The?*chase low volatility/safe haven assets?* is very likely the bubble that will be identified in hindsight. As pointed out by [Paul Winter of UBS] just recently:

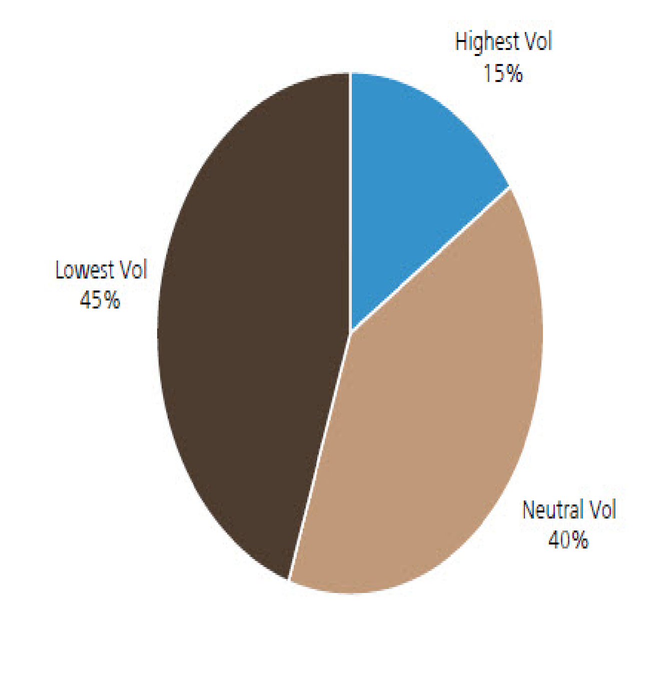
> *"**Secondly, low volatility equities are trading at significantly higher multiples relative to the market.** Importantly, whilst low volatility stocks appear to be trading on a premium to their own history, it should also be noted that these stocks make up a significant proportion of the market by weight."*

Figure 5: The valuation of low volatility stocks



Source: FactSet, UBS Quant.Universe is MSCI World. Trailing Price/Book using last reported book value

Figure 6: Market weight of low volatility stocks



Source: Factset, UBS Quant

> *"Low volatility deciles 1, 2 and 3 make up approximately 45% of the market by market•capitalization.**As a result, the overvaluation of low volatility stocks is significantly•contributing to the valuation of the market as a whole.**These stocks tend to have higher levels of gearing and whilst they have a low beta to equity markets (Figure 7), **they carry a higher residual beta to credit markets** (Figure 8)."*

Figure 7: Volatility and gearing

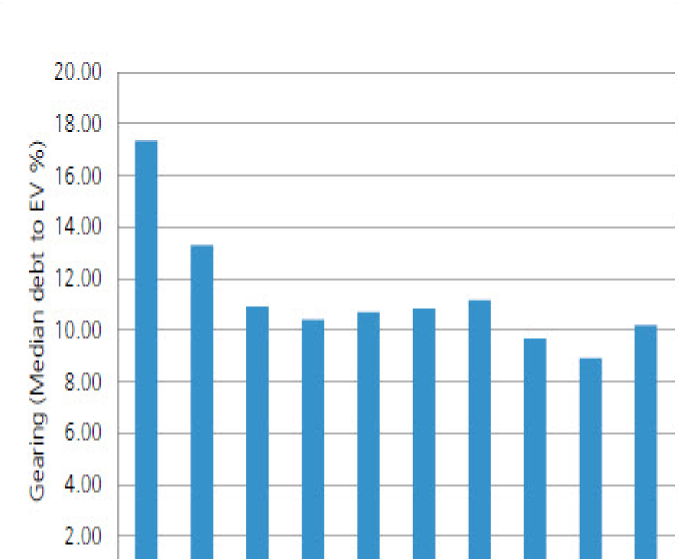
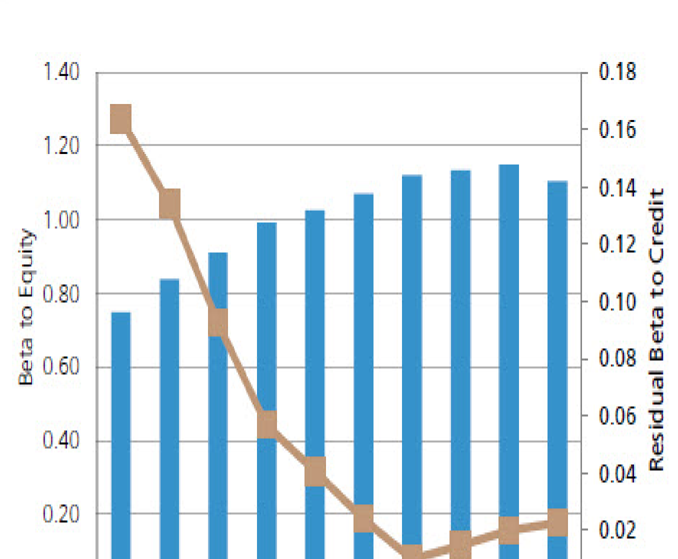


Figure 8: Volatility and beta to equity and credit

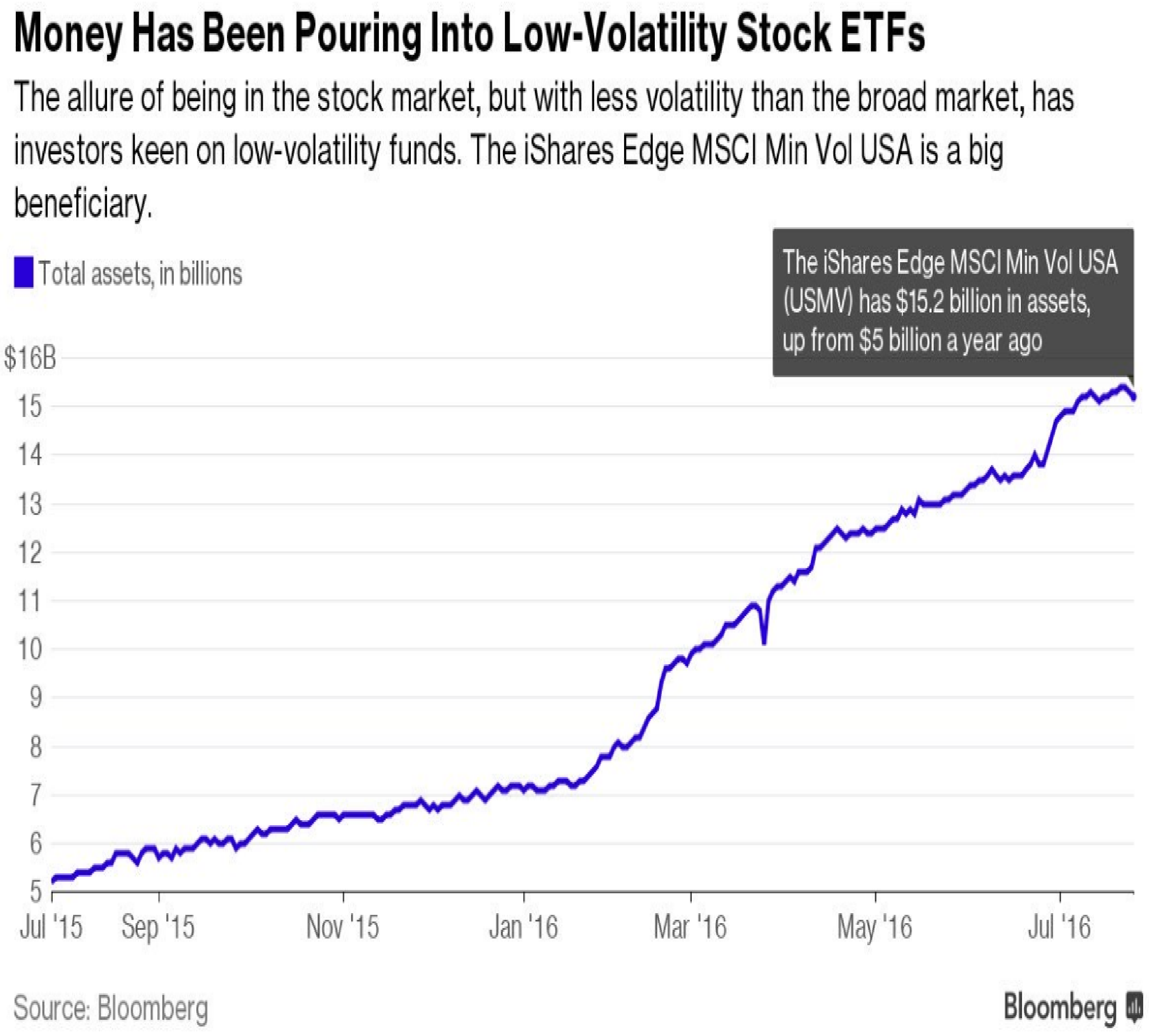


"If this is indeed the end of the credit cycle, we believe these stocks are likely to under perform."

When investors have little, or no, fear of losing money in the market they begin to seek the things with the greatest returns. **Over the last few years the chase for yield, due to the Fed?s•consistent push to suppress interest rates, has driven investors into taking on additional credit risk to increase incomes.** That same yield chase has manifested itself also in a massive outperformance of *?dividend yielding stocks?* over the broad market index as shown above. The chart shows **investors are rapidly taking on excessive credit risk which is driving down yields in bonds and pushing up valuations in traditionally mature companies** into stratospheric•valuations.•As noted recently by Jesse Felder•during historic market corrections, money has traditionally hidden in *?safe assets.?*

This time, such a rotation may be the equivalent of jumping from the ?frying pan into the fire.?•

Are Those Safe Haven Assets Safe Anymore? https://t.co/sauqge6ufl ht @TN pic.twitter.com/eWtFvp1f9H

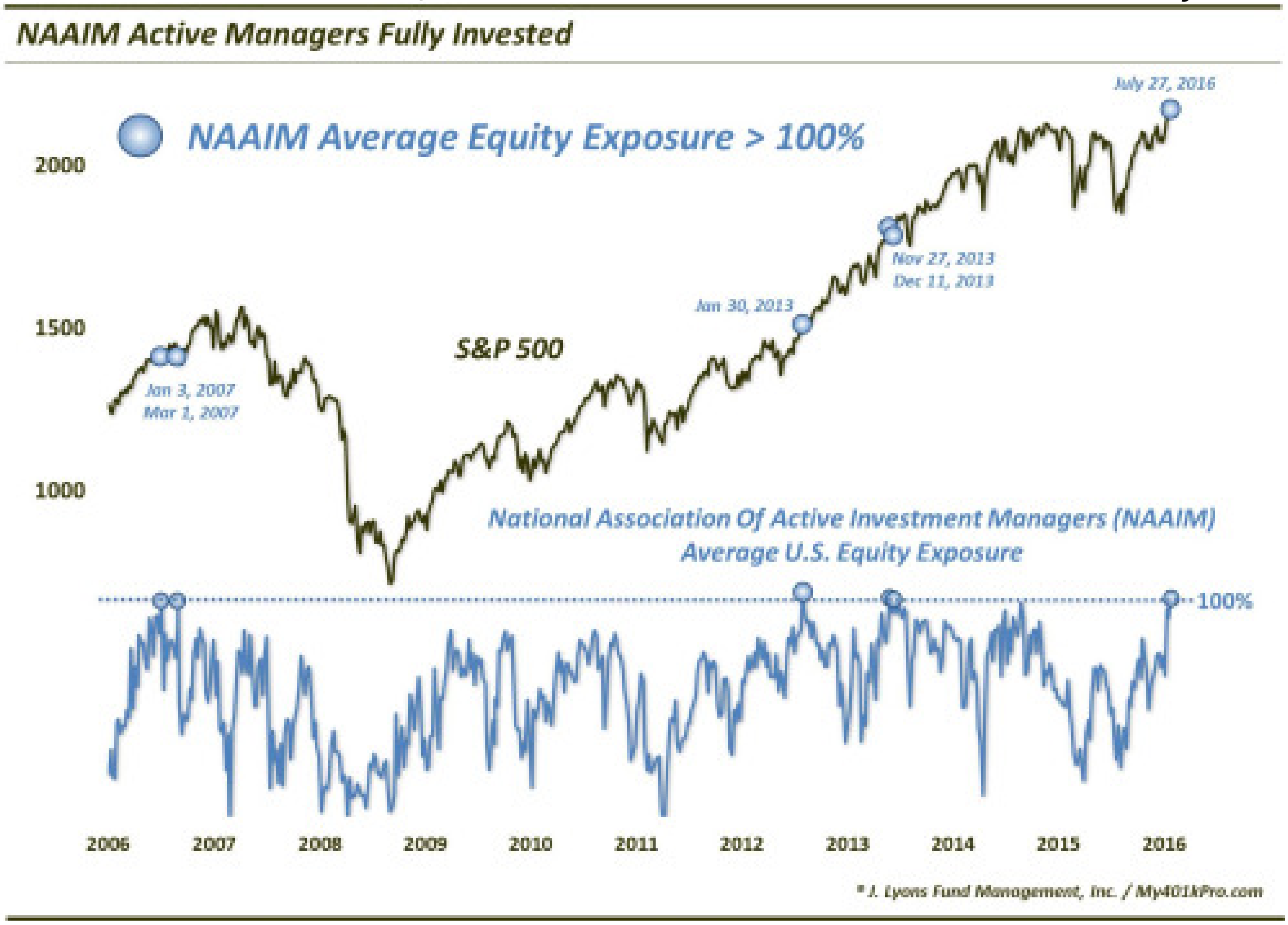


Jesse Felder @jessefelder · 23h
Are Those Safe Haven Assets Safe Anymore? bloomberg.com/news/articles/... ht @TN

Lack Of Fear

The downfall of all investors is ultimately *?greed.?*•Greed can be measured a couple of ways. The first, [as noted by Dana Lyons recently,](#)•is the allocation to equities. Historically, this has been a good measure of the *?risk appetite?*of investors.

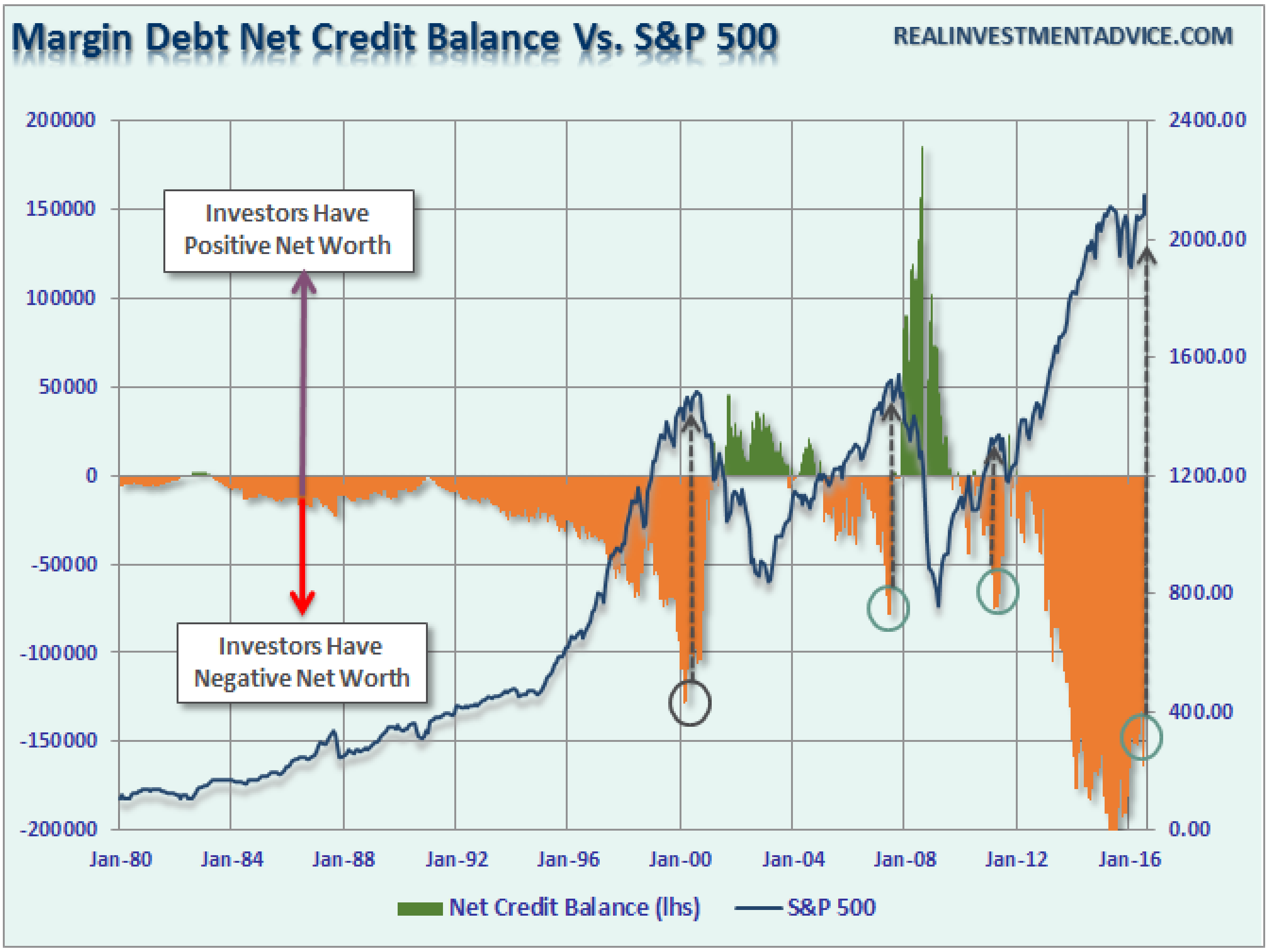
> *?That said, regardless of the investment acumen of any group (we think it is very high among NAAIM members),* ***once the collective investment opinion or posture becomes too one-sided, it can be an indication that some market action may be***



But beyond just the *"need for greed,"* investors have been lulled into a deep sense of complacency. Not surprisingly, the volume of bearish ETF's is almost non-existent. To wit:

> *"Contrary to the track record following the elevated NAAIM readings,* ***prior low levels of inverse ETF volume in the past 5 years have marked stock market drawdowns of various magnitudes.*** *Now, as the market climate has been extremely positive overall during the past 5 years, the drawdowns were not necessarily long lasting.* ***However, there was consistent weakness, at least in the months following such complacent readings."***

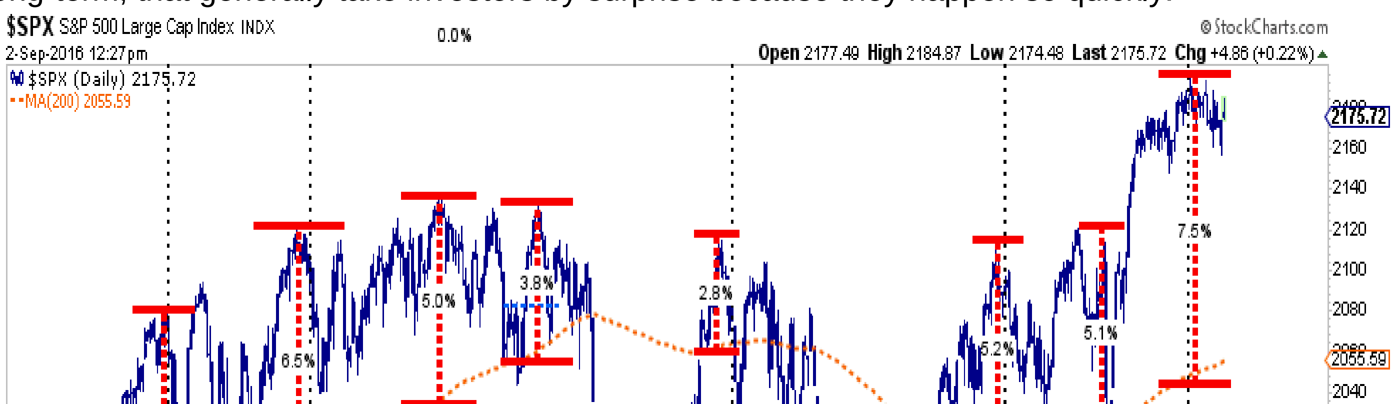
Importantly, the amount of leverage investors are taking on is further confirmation of the presence of *"greed"* and *"lack of fear."* •The chart below is the amount of investor?s relative positive or negative net credit balances as compared to the index itself.



While•margin debt and negative net credit balances have been reduced mildly since the beginning of the year, we are still at levels not seen since the peak of the last cyclical bull market cycle. This should raise some concerns about sustainability currently.•It is the unwinding of this leverage that is critically dangerous in the market as the acceleration of *?margin calls?* lead to a vicious downward spiral. While this does not mean that a massive market correction is imminent ? it does suggest that leverage, and speculative risk taking, are likely much further along than currently recognized. **Importantly, it is when *"greed"* turns back into *"fear"* that margin debt really matters.**

Pushing Extremes

Prices are ultimately affected by physics. Moving averages, trend lines, etc. all exert a gravitational pull on prices in both the short and long-term. **Like a rubber-band, when prices are stretched too far in one direction, they tend to snap back quickly.** It is these reversions, both short and long-term, that generally take investors by surprise because they happen so quickly.



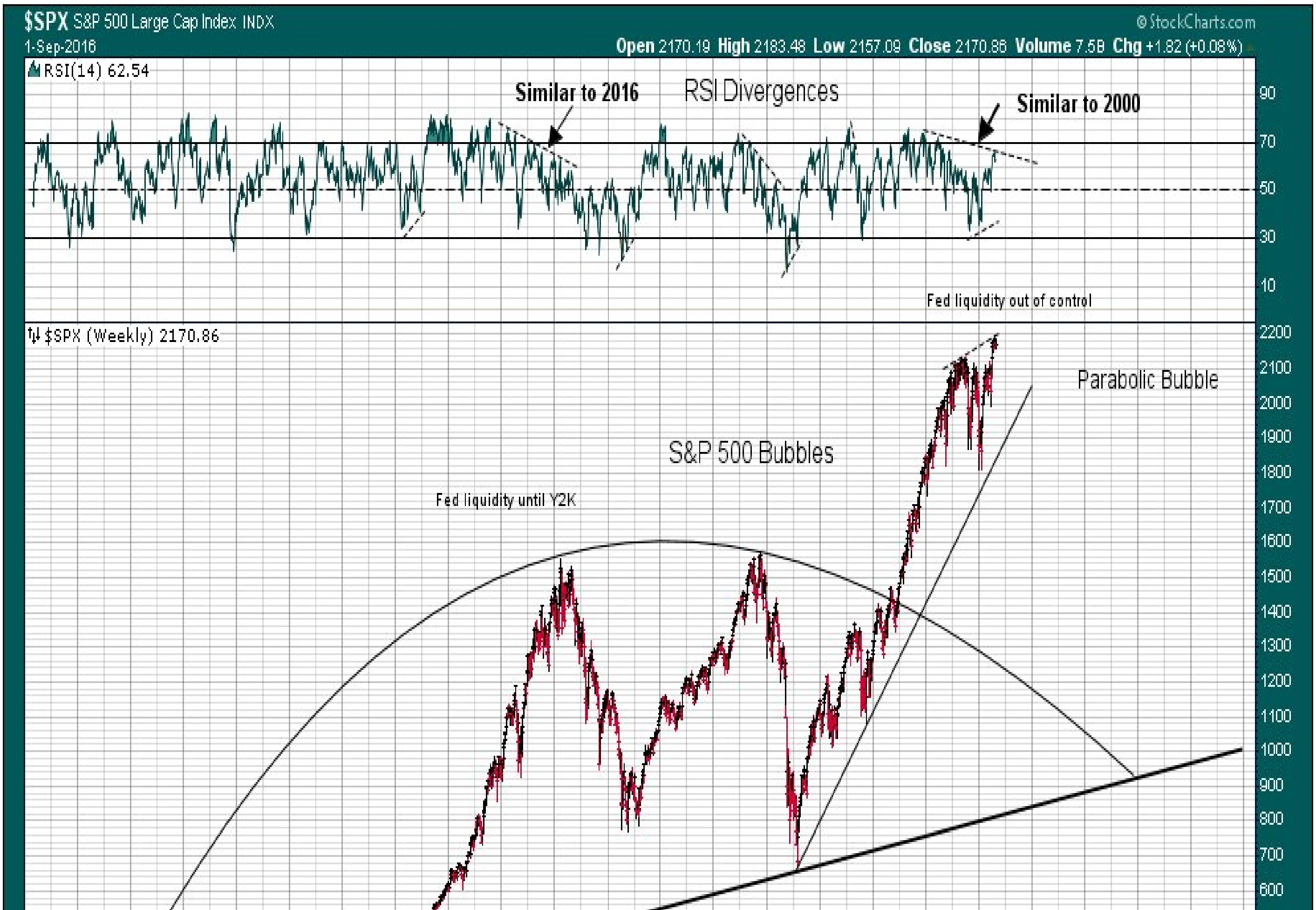
The current deviation of over 7.5% from the long-term trend line is one of the larger in recent history. **This deviation also comes at a time when long-term MACD and Momentum measures are on important?*sell signals.?*** Such a combination has not turned out well for investors in the past. *But this time could be different? Right?*

> ***As hinted at above, the ongoing monetary actions by global Central banks has created a ?Pavlovian?•response in the markets.*** *When Central Banks ring the proverbial ?bell,? investors have rushed to buy in some of the most speculative areas of the market under the assumption they will always be bailed out.* ***However, such is unlikely to always be the case and the massive increase in speculative risks, combined with excess leverage, leave the markets vulnerable to a sizable correction at some point in the future.***

The only missing ingredient for such a correction currently is simply a catalyst to put *?fear?* into an overly complacent marketplace. **There is currently no shortage of catalysts to pick from an economic disruption, another Eurozone related crisis, or an unexpected shock from an area yet to be on our radar such as the recent bankruptcy of Hanjin Shipping last week.**•From the WSJ:

> *"U.S. retailers, bracing for a blow as they stock up for the crucial holiday sales season, asked the government to step in and help resolve a growing crisis caused by the near-collapse of South Korea?s•Hanjin ShippingCo., one of the world?s largest container shipping companies.* ***Hanjin handles about 7.8% of the trans-Pacific trade volume for the U.S. market,*** *Ms. Kennedy?s letter said. Since the shipping company filed for bankruptcy protection in a Seoul court Wednesday, terminal operators, ports, cargo handlers, truckers and others have refused to handle its cargo, for fear they won?t get paid. That is causing turmoil at U.S. ports and beyond, said shippers, importers, and freight forwarders."*

And there's your next reason for faltering retail sales and weak corporate profits.•One more chart from David:



In the long term, it will ultimately be the fundamentals that drive the markets. Currently, the deterioration in the growth rate of earnings, and economic strength, are not supportive of the speculative rise in asset prices or leverage.•The chart below is simply a quarterly chart of the S&P overlaid against valuations and technical extremes. See the problem here?

The idea of whether, or not, the Federal Reserve, along with virtually every other central bank in the world, are inflating **the next asset bubble is of significant importance to investors who can ill afford to once again lose a large chunk of their net worth.** It is all reminiscent of the market peak of 1929 when Dr. Irving Fisher uttered his now famous words:

> *?Stocks have now reached a permanently high plateau.?*

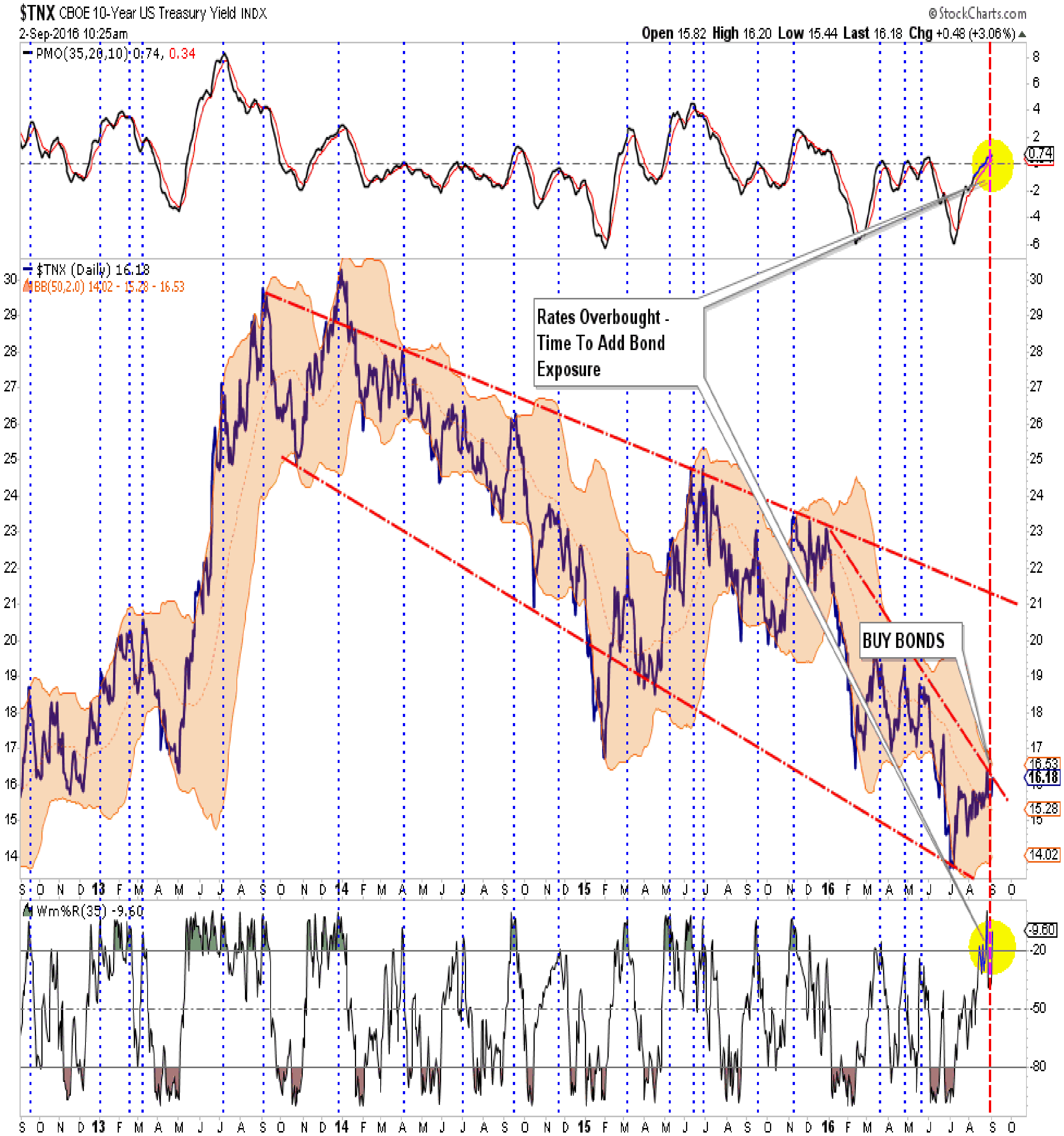
They weren't and it wasn't.

THE MONDAY MORNING CALL

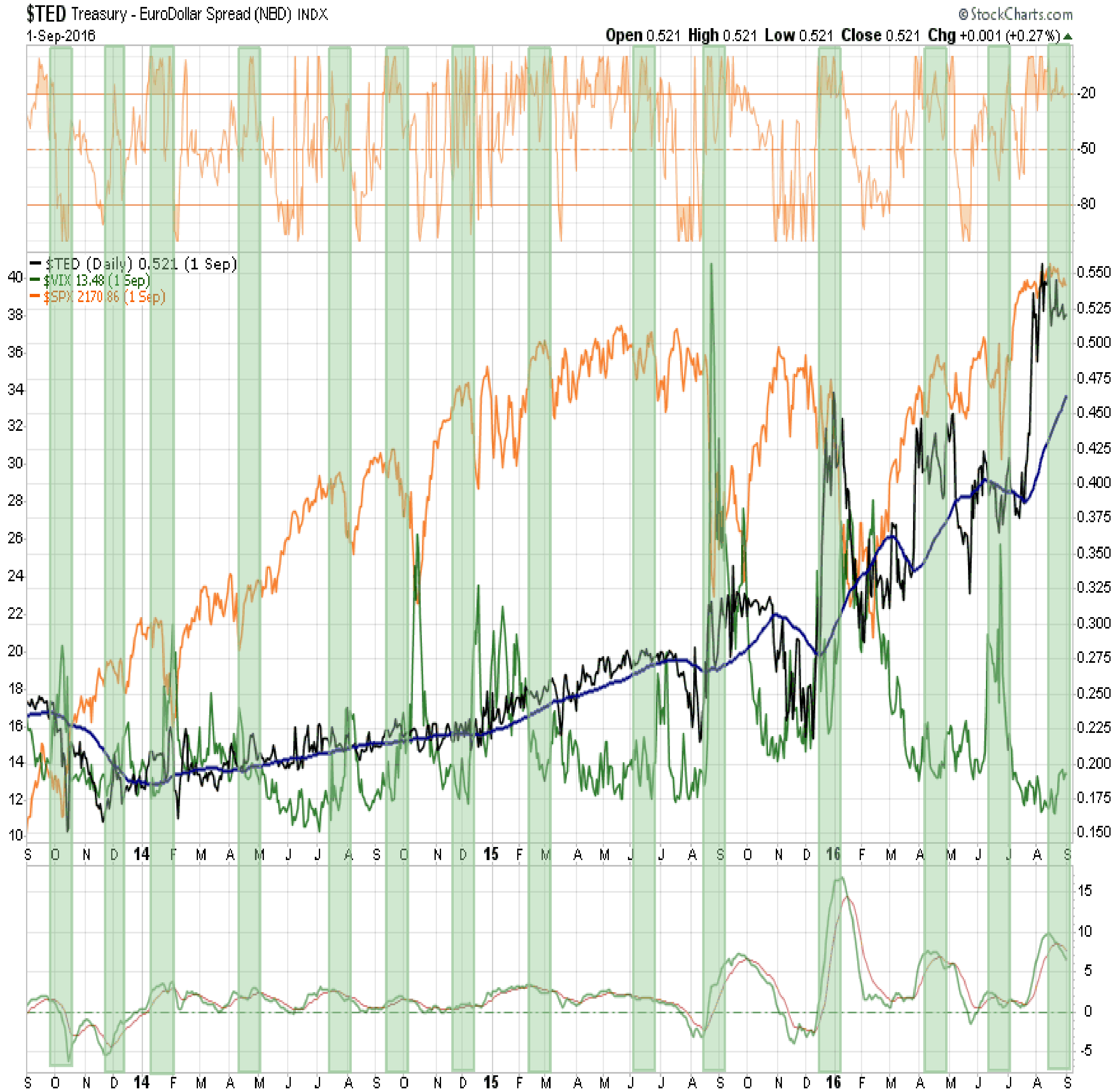
Since we are going into a long holiday weekend, I thought it would be worth•reviewing and updating a couple of my recommendations from the end of July.

Interest Rates/Bonds

I discussed previously that interest rates had gotten so oversold *(bonds overbought)* due to the *?Brexit?* that a reversal was very possible. **As I noted previously, the rotation from bonds to stocks confirmed•the push higher in the markets.**That rotation is now complete.



With 10-year rates now back to an overbought condition *(bonds now oversold),*•and pushing the accelerated downtrend line that began with the conclusion of QE3, **the most likely movement will be down in conjunction with a *"risk-off"* move in the markets.**•As discussed above, the suppressed levels of volatility, extremely confined trading range and the deterioration of momentum all suggest a short-term correction of the market is most likely. I have been buying bonds fairly aggressively this past week for this reason. **Furthermore, the Treasury to Eurodollar (TED) Spread has recently peaked as well which has historically signaled short to intermediate term corrective moves.** By the way, notice the massive increase in volatility in the TED Spread since the end of QE3.



If I am correct, and the markets do experience a short-term correction, or worse, interest rates will likely retest recent lows. One thing is for sure?

> *?Rates ain?t going significantly higher anytime soon.?•*

Oil & The Dollar

At the beginning of July I wrote:

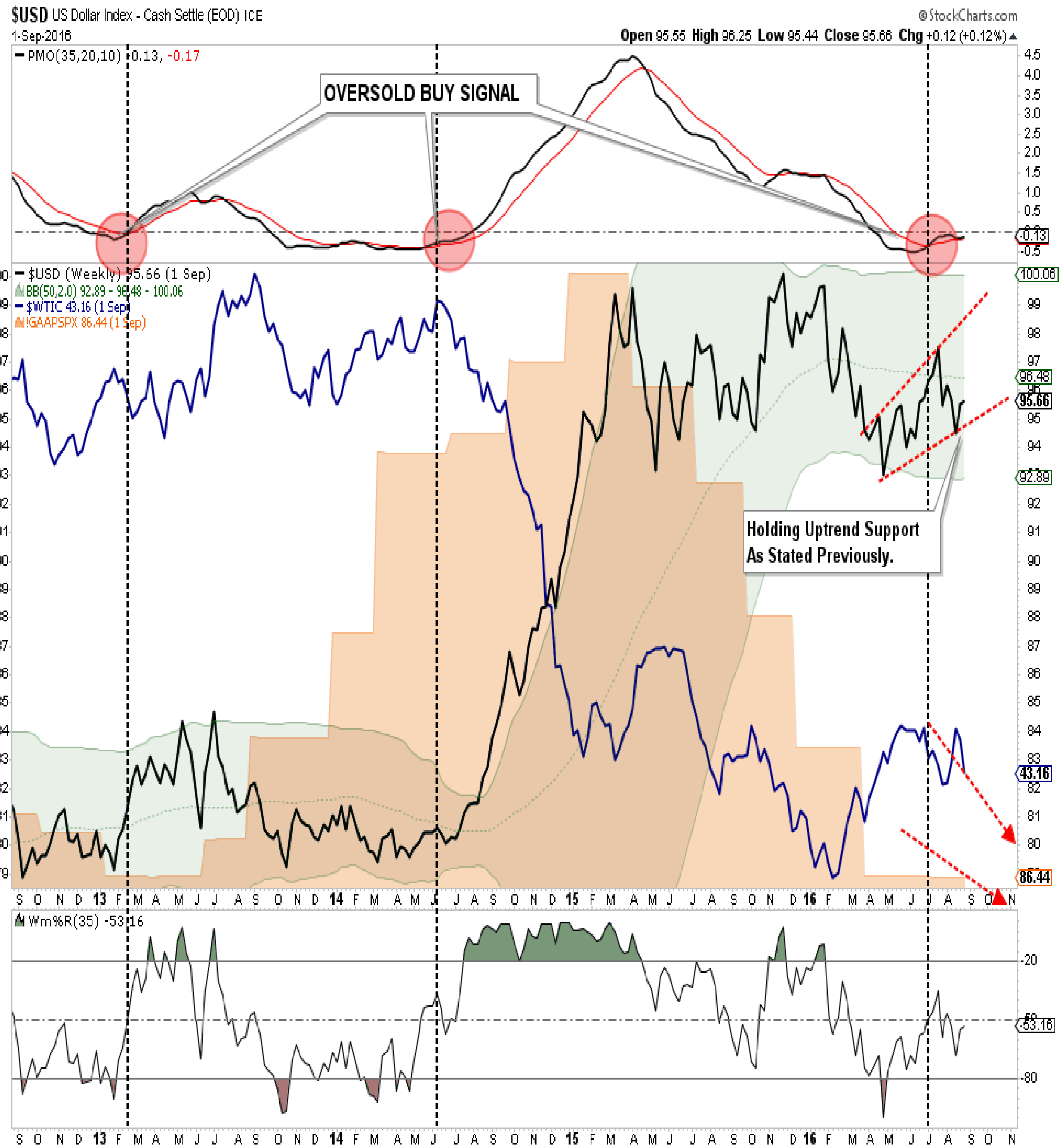
> *?As shown in the longer term oil chart below, there is little to suggest a recovery back to old levels is in the offing anytime soon.* ***With oil prices back to extreme overbought***

conditions, a retracement to $35 or $40/bbl would not be surprising particularly if, and when, the US Dollar strengthens. *Remain underweight this sector as valuations for energy stocks have entered into ?moon shot?•territory.?*

That call was quite prescient as shown. Not only did we retrace back to almost $40 once, we are likely in the process of doing it again. **With oil prices at extreme overbought levels *(green dots on top and bottom),* a triggering of a longer term sell-signal will likely see a push back towards the $35/bbl range.** Importantly, oil prices broke back below the downtrend line and must hold support at the intermediate-term moving average.

Furthermore, the rise in the dollar is likely to continue, particularly if the Fed raises interest rates in September *(higher yields attract inflows)* which will continue to suppress both oil prices AND earnings. [As noted:](#)

?While Central Banks have gone all in, including the BOJ with additional QE measures to bail out financial markets and banks following the 'Brexit' referendum, it could backfire badly if the US dollar rises from foreign inflows. *As shown below, a•stronger dollar will provide another headwind to already weak earnings* *and oil prices in the months ahead which **could put a damper on the expected year-end 'hockey stick' recovery currently expected. ?***

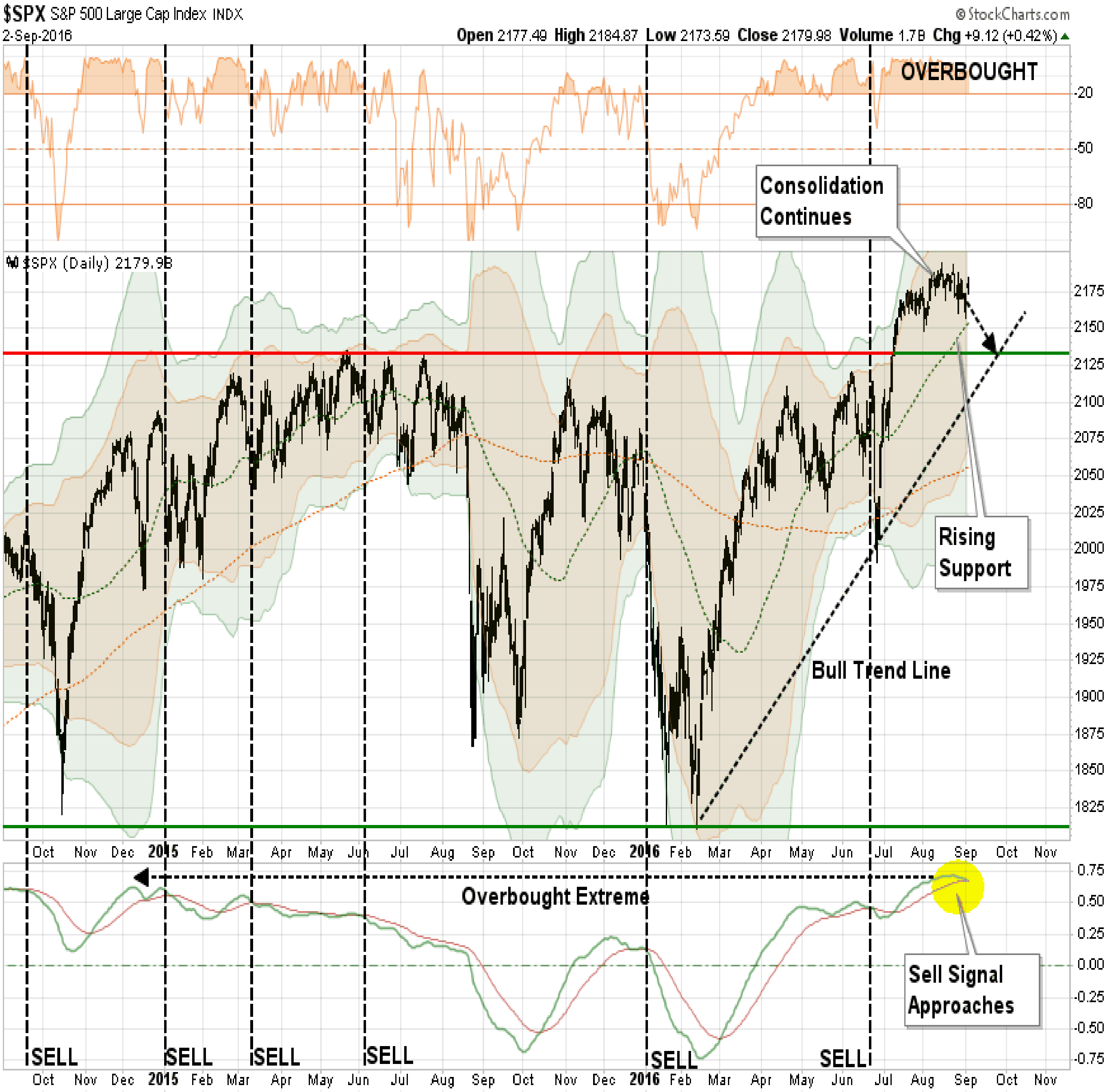


[Read the review of Q2-earnings here.](#) **Unlike the stock market which is pushing extreme overbought levels, the dollar is at an extreme oversold condition and has only started a potential move higher.** This is something to pay very close attention to in the months ahead. **As noted, with interest rates negative in many areas of the world, the push of capital into the U.S. for a higher return on reserves remains•likely for now.**

Model Update

S.A.R.M. Sector Analysis & Weighting

As I have been repeatedly stating over the last few weeks, as boring as it has been, there has not been enough of a correction of the **current overbought condition** to justify increasing equity allocations in portfolios yet. This is despite the fact the model has been adjusted higher to represent the target levels of equity exposure we want to migrate toward.



While actual portfolio equity risk weightings remain below our target of 75% again this week, the odds of a further correction, as noted above, continue to increase. However, the continued consolidation of the market has improved conditions in recent weeks and has reduced the potential for a deeper downside correction at this point.

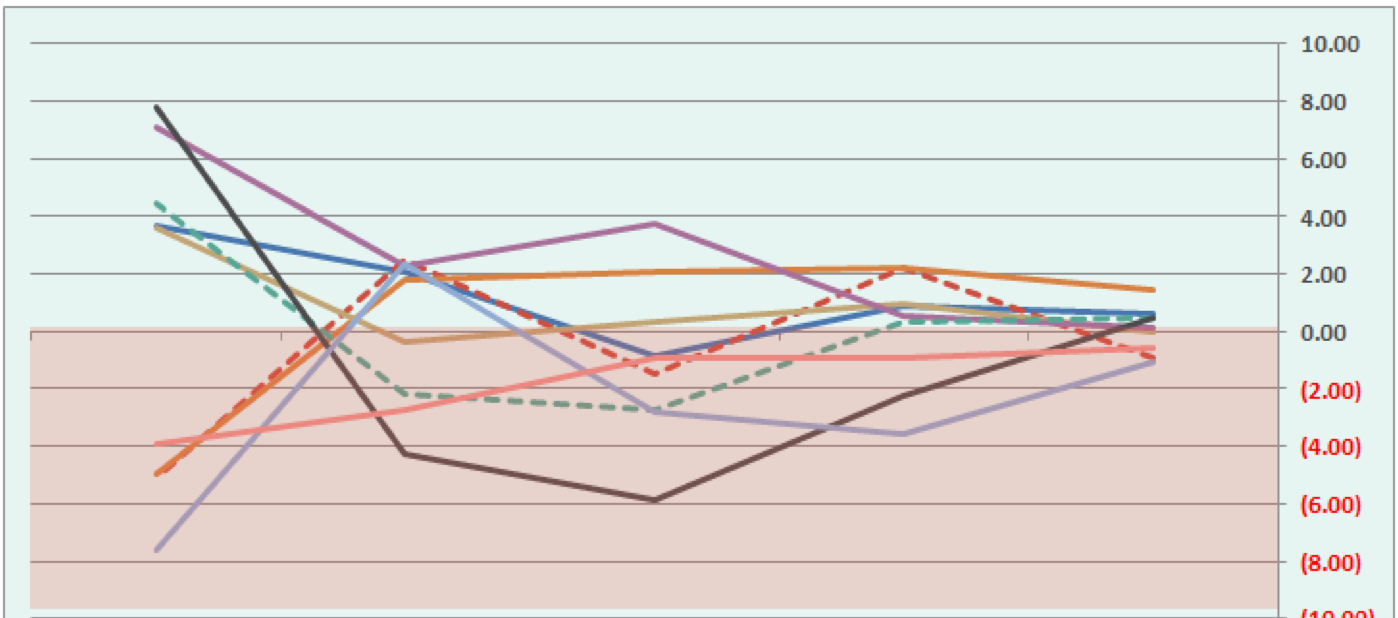
*(**Note:** This is an equally weighted model example and may differ from discussions of overweighting/underweighting specific sectors or holdings.)*

MODEL ALLOCATION		Ticker	ETF NAME	FULL ETF NAME/IDENTIFICATION	Current Price	Model Weight	Portfolio Weight	% Adj Recom	Div Yield
	BENCHMARK	IVV	ISHARS-SP500	ISHARES CORE SP 500 ETF	219.63	100%	100%	0%	1.63%
		XLB	SPDR-MATLS SELS	SPDR MATERIALS SELECT SECTOR SPDR FUND	49.25	3.64%	2.73%	-0.91%	1.93%
		XLE	SPDR-EGY SELS	SPDR ENERGY SELECT SECTOR SPDR FUND	69.08	3.64%	2.73%	-0.91%	2.76%
		XLF	SPDR-FINL SELS	SPDR FINANCIAL SELECT SECTOR SPDR FUND	24.57	3.64%	2.73%	-0.91%	1.57%

Relative performance of each sector of the model as compared to the S&P 500 is shown below. **The table•compares each position in the model relative to the benchmark over a 1, 4, 12, 24 and 52-week basis.** Historically speaking, sectors that are leading the markets higher continue to do so in the short-term and vice-versa. **The•relative improvement or weakness of each sector relative to index over time can show where money is flowing into and out of.**•Normally, these performance changes signal a change that last several weeks. As noted above, **the recent spike in interest rates has now reached the top of the long-term downtrend and suggests that staples, utilities, and bonds will continue to improve in performance over the next couple of weeks.** Such improvement will most likely coincide with an ongoing market•consolidation or correction.

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
	BENCHMARK	IVV	ISHARS-SP500	219.63	0.49	0.10	4.00	6.32	13.41	215.14	206.61	2.09%	6.30%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	49.25	0.58	0.88	(0.83)	2.11	3.71	47.99	45.25	2.63%	8.83%	BUY
		XLE	SPDR-EGY SELS	69.08	(0.92)	2.19	(1.46)	2.48	(5.12)	68.17	63.85	1.34%	8.18%	BUY
		XLF	SPDR-FINL SELS	24.57	1.42	2.18	2.09	1.77	(4.93)	23.44	22.72	4.83%	8.14%	BUY
		XLI	SPDR-INDU SELS	58.93	(0.03)	0.96	0.36	(0.39)	3.61	57.50	55.01	2.48%	7.13%	BUY
		XLK	SPDR-TECH SELS	47.35	0.15	0.53	3.72	2.30	7.07	45.26	43.38	4.61%	9.16%	BUY
		XLP	SPDR-CONS STPL	54.82	0.45	0.32	(2.72)	(2.20)	4.43	54.62	52.86	0.37%	3.71%	BUY
		XLU	SPDR-UTIL SELS	49.63	0.49	(2.27)	(5.86)	(4.27)	7.76	51.06	48.80	-2.79%	1.69%	BUY
		XLV	SPDR-HLTH CR	72.65	(1.06)	(3.56)	(2.78)	2.37	(7.63)	73.18	70.14	-0.72%	3.58%	BUY
		XLY	SPDR-CONS DISCR	80.88	(0.56)	(0.95)	(0.95)	(2.75)	(3.89)	80.17	77.82	0.89%	3.93%	BUY
	SIZE	MGK	VANGD-MG CAP GR	87.57	(0.20)	(0.46)	0.15	(0.07)	(1.80)	85.83	82.65	2.03%	5.95%	BUY
		IJR	ISHARS-SP SC600	125.27	0.94	2.06	2.91	5.88	1.97	119.88	112.65	4.50%	11.20%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	84.21	(0.06)	0.47	0.47	1.20	(0.15)	82.28	78.39	2.34%	7.43%	BUY
	Dividend	VIG	VANGD-DIV APPRC	85.65	0.11	(0.08)	(0.57)	(0.69)	2.44	84.28	80.90	1.63%	5.87%	BUY
	Real Estate	VNQ	VIPERS-REIT	89.52	1.03	(1.00)	1.69	1.51	10.58	88.69	83.44	0.94%	7.29%	BUY
	International	IDV	ISHARS-INTL SD	30.29	0.95	2.96	0.49	(3.78)	(6.83)	29.22	28.61	3.66%	5.89%	BUY
		VWO	VANGD-FTSE EM	38.10	1.19	1.52	7.41	4.43	2.82	36.27	33.97	5.06%	12.17%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	138.63	(0.29)	0.35	(1.14)	1.09	(0.41)	138.45	132.87	0.13%	4.34%	BUY
	International	BNDX	VANGD-TTL INT B	55.88	(0.78)	0.06	(2.45)	(3.51)	(7.78)	55.72	54.73	0.29%	2.09%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.90	(0.10)	1.49	(0.33)	(0.86)	(12.32)	85.20	82.53	2.00%	5.30%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.72										

Notice in the next to last column to the right, the majority of sectors and indices are pushing extreme levels of deviation from their long-term moving average. Such deviations can not, and do not, last long historically. **A resolution of those deviations has been occurring with the recent consolidation of the marketwhich providing the necessary risk/reward rebalancing to increase model allocations in the future.** The two charts below graphically show the relationship of each position's performance relative to the S&P 500 Index. **If we are trying to *"beat the index"* over time, we want to overweight sectors/asset classes that are either improving in performance or outperforming the index, and underweight or exclude everything else.•**



Sectors Currently Outperforming by >1%

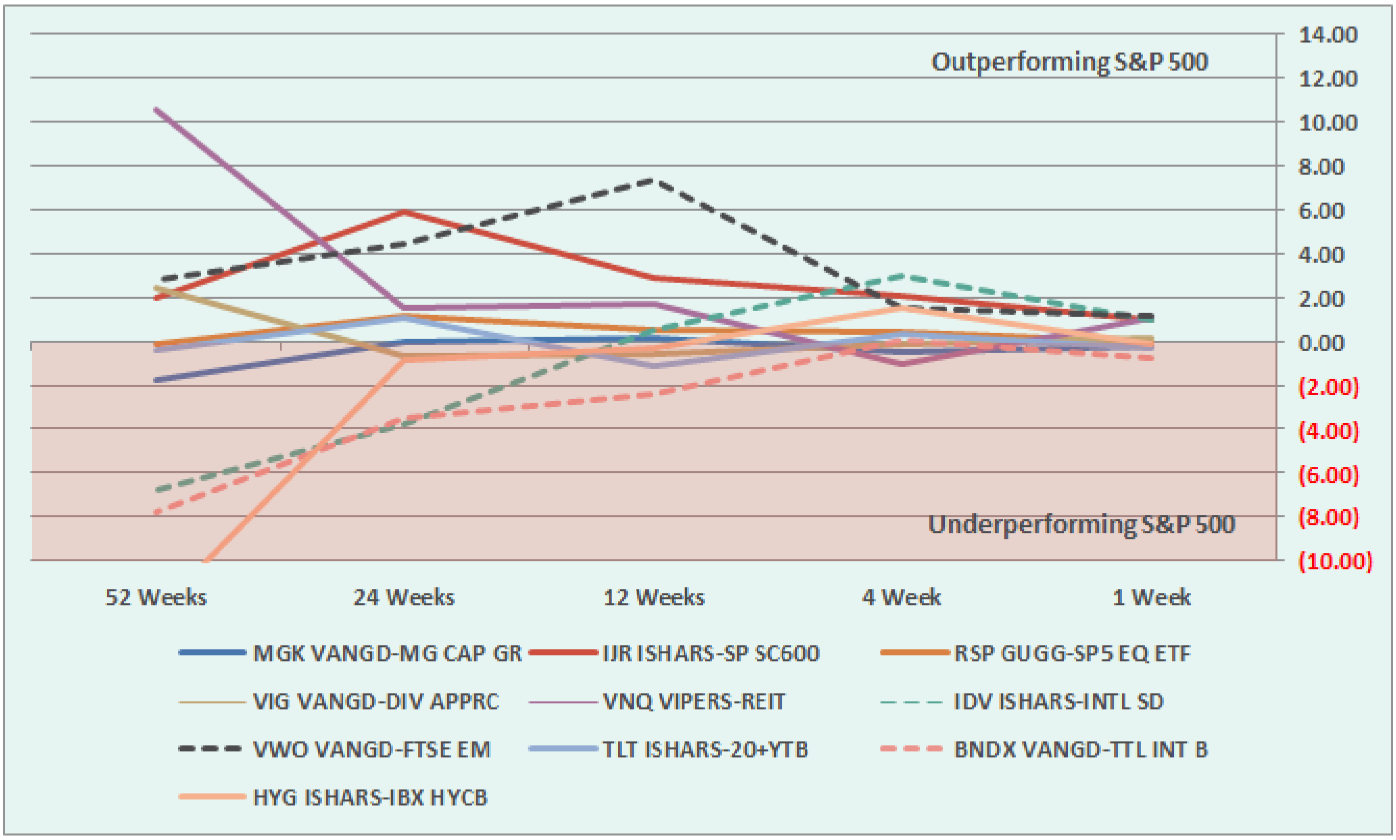
- *Financials (Improved last week)*

Sectors Currently Performing In Line <>1%

- *Industrials•(weakening)*
- *Materials•*
- *Energy•(weakening)*
- *Staples (improving)*
- *Technology (weakening)*
- *Utilities (improving)*
- *Discretionary (improving)*

Sectors Currently Under Performing By >1%

- *Healthcare (improving)*



Index/Other Asset Classes Out Performing S&P 500 By >1%

- *REIT's (improving)*
- *Emerging Markets (weakening)*

Index/Other Asset Classes Performing In-Line With S&P 500 <>1%

- *Mid-Caps•*
- *Equal-Weight S&P 500•(weakening)*
- *Small-Caps (weakening)*
- *International Bonds•(weakening)*
- *High-Yield Bonds•(weakening)*
- *Dividend Stocks (improving)*

- *International Stocks (weakening)*
- *Domestic Bonds*

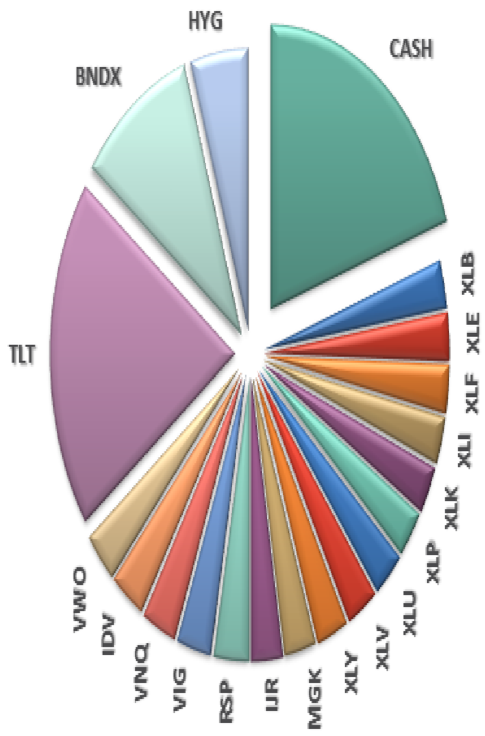
Index/Other Asset Classes Under Performing S&P 500 By >1%

- *None*

The **risk-adjusted equally weighted model** has been increased to 75%. **However, as stated above, further consolidation in the markets is needed before making any changes.**

Sample 100,000 Portfolio (Equally Weighted Based On 401k Plan Manager) $ 100,000

Symbol	Name	Description	Price	Weight
CASH	Cash/Money Market		1.00	$ 20,000
XLB	SPDR-MATLS SELS	SPDR MATERIALS SELECT SECTOR SPDR FUND	48.73	$ 2,727
XLE	SPDR-EGY SELS	SPDR ENERGY SELECT SECTOR SPDR FUND	69.38	$ 2,727
XLF	SPDR-FINL SELS	SPDR FINANCIAL SELECT SECTOR SPDR FUND	24.11	$ 2,727
XLI	SPDR-INDU SELS	SPDR INDUSTRIAL SELECT SECTOR SPDR FUND	58.66	$ 2,727
XLK	SPDR-TECH SELS	SPDR TECHNOLOGY SELECT SECTOR SPDR FUND	47.05	$ 2,727
XLP	SPDR-CONS STPL	SPDR CONSUMER STAPLES SELECT SECTOR SPDR	54.31	$ 2,727
XLU	SPDR-UTIL SELS	SPDR UTILITIES SELECT SECTOR SPDR FUND	49.15	$ 2,727
XLV	SPDR-HLTH CR	SPDR HEALTH CARE SELECT SECTOR SPDR FUND	73.07	$ 2,727
XLY	SPDR-CONS DISCR	SPDR CONS DISCR SELECT SECTOR SPDR FUND	80.94	$ 2,727
MGK	VANGD-MG CAP GR	VANGUARD MEGA CAP GROWTH ETF	87.32	$ 2,727
IJR	ISHARS-SP SC600	ISHARES CORE SP SMALL-CAP ETF	123.51	$ 2,727
RSP	GUGG-SP5 EQ ETF	GUGGENHEIM SP 500 EQUAL WEIGHT ETF	83.85	$ 3,000
VIG	VANGD-DIV APPRC	VANGUARD DIVIDEND APPREC ETF	85.14	$ 3,000
VNQ	VIPERS-REIT	VANGUARD REIT ETF	88.18	$ 3,000
IDV	ISHARS-INTL SD	ISHARES INTERNATIONAL SELECT DIV ETF	29.86	$ 3,000
VWO	VANGD-FTSE EM	VANGUARD FTSE EMERGING MARKETS ETF	37.47	$ 3,000
TLT	ISHARS-20+YTB	ISHARES 20+ YEAR TREASURY BOND ETF	138.36	$ 20,000
BNDX	VANGD-TTL INT B	VANGUARD TOTAL INTERNATIONAL BOND ETF	56.04	$ 10,000
HYG	ISHARS-IBX HYCB	ISHARES IBOXX $ HIGH YIELD CORP BOND	86.56	$ 5,000



Such an increase will change model allocations to:

- *20% Cash*
- *35% Bonds*
- *45% in Equities.*

> *As always, this is just a guide, not a recommendation.* ***It is completely OKAY if your current allocation to cash is different based on your personal risk tolerance, time frames, and goals. For longer-term investors, we still need to see improvement in the fundamental and economic backdrop to support the resumption of a long-term bullish trend.*** *Currently, there is no evidence of that occurring.*

THE REAL 401k PLAN MANAGER

The Real 401k Plan Manager - A Conservative Strategy For Long-Term Investors

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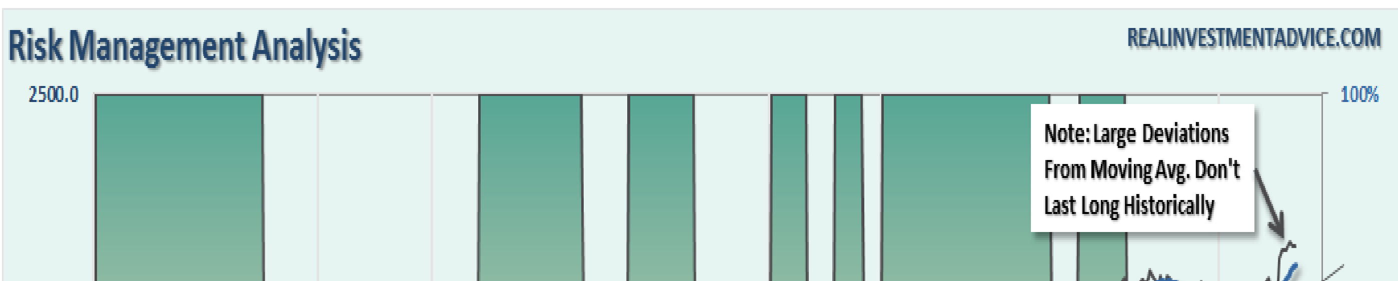
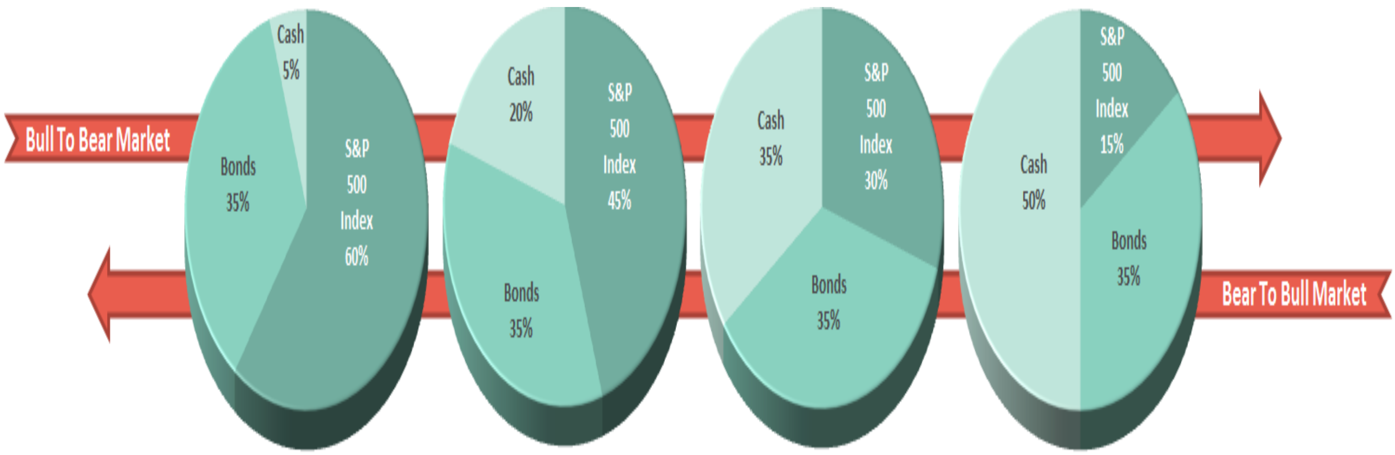


NOTE: I have redesigned the 401k plan manager to accurately reflect the changes in the allocation model over time. I have overlaid the actual model changes on top of the indicators to reflect the timing of the changes relative to the signals.

> ***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.***



Waiting For Godot

Sometimes it feels as if we are waiting for something that will never come - a reasonable entry point to increase our equity exposure. **As I have been repeating over the last several weeks, sometimes it is better to *"nothing"* rather than to do *"something"* that turns out to be wrong.•**

This weekend, take some time to review portfolios and make a plan for what happens next.•I have often equated portfolio management to tending a garden in the past. In order to have a successful and bountiful garden we must:

1. **Prepare the soil** *(accumulate enough cash to build a properly diversified allocation)*
2. **Plant according to the season** *(build the allocation given the right ?season?)*
3. **Water and fertilize** *(add cash regularly to the portfolio for buying opportunities)*
4. **Weed** *(sell loser and laggards, weeds will eventually ?choke? off the other plants)*
5. **Harvest** *(take profits regularly otherwise ?the bounty rots on the vine?)*
6. **Plant again according to the season** *(add new investments at the right time)*

So, with this analogy in mind, here are the actions to continue taking to prepare portfolios for the next set of actions:

Step 1) Clean Up Your Portfolio

1. *Tighten up stop-loss levels to current support levels for each position.*
2. *Hedge portfolios against major market declines.*
3. *Take profits in positions that have been big winners*
4. *Sell laggards and losers*
5. *Raise cash and rebalance portfolios to target weightings.*

Step 2) Compare Your Portfolio Allocation To The Model Allocation.

1. *Determine areas requiring new or increased exposure.*
2. *Determine how many shares need to be purchased to fill allocation requirements.*
3. *Determine cash requirements to make purchases.*
4. *Re-examine portfolio to rebalance and raise sufficient cash for requirements.*
5. *Determine entry price levels for each new position.*
6. *Determine ?stop loss? levels for each position.*
7. *Determine ?sell/profit taking? levels for each position.*

*(**Note: the primary rule of investing that should NEVER be broken is:** ?Never invest money without knowing where you are going to sell if you are wrong, and if you are right.?)*

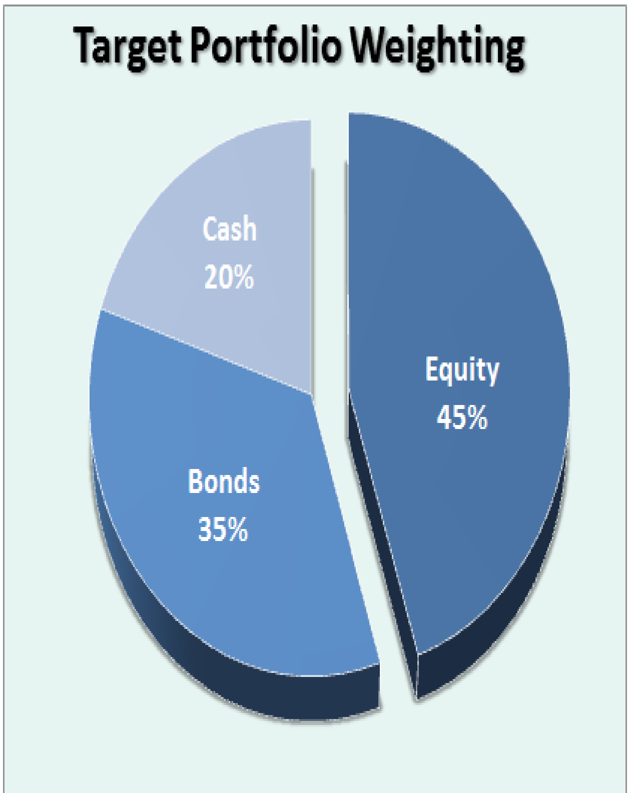
Step 3) Have positions ready to execute accordingly given the proper market set up. In this case, we are looking for a pullback to reduce the extreme•overbought condition of the market without violating any major levels of support. **IMPORTANT NOTE:** Taking these actions has **TWO specific benefits** depending on what happens in the market next.

1. **If the market pulls back to support and confirms the recent breakout** is indeed a continuation of the bullish long-term trend, the actions have cleared out the *?weeds?* and allowed for *?new planting?* to benefit from the next advance.
2. **If the recent breakout turns out to be a *?head fake,?*** then the reduction of *?risk?* protects the portfolio against any substantial decline.

No one knows for sure where markets are headed in the next week, much less the next month, quarter, year, or five years. **What we do know is that not managing risk in portfolios to hedge against something going wrong is far more detrimental to the achievement of long-term investment goals due to the inability to recover the *?time?* lost getting back to even.**
If you need help after reading the alert; don?t hesitate to contact me.

Current 401-k Allocation Model

The 401k plan allocation plan below follows the K.I.S.S. principal. By keeping the allocation extremely simplified it allows for better control of the allocation and a closer tracking to the benchmark objective over time. *(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 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
25% Intermediate Duration Bonds
10% International Bonds
0% High Yield

45.00% **Equity (Stocks)**
Select ONE fund from each category - Keep It Simple.
15% Equity Income/Balanced/Conservative Growth
25% Large Cap Growth (S&P 500 Index)
5% Mid-Cap Growth
0% International Large Cap Value

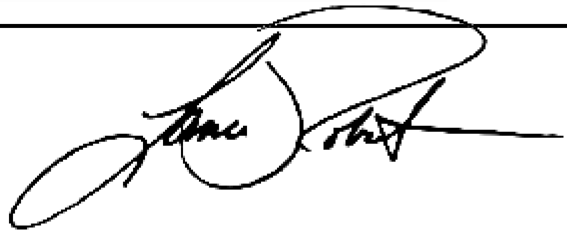
401k Choice Matching List

The list below shows sample 401k plan funds for each major category. In reality, the majority of funds all track their indices fairly closely. Therefore, if you don't see your exact fund listed, look for a fund that is similar in nature.

Common 401K Plan Holdings By Class

Cash	Stable Value	**Equity**	
	Money Market	**Large Cap**	Vanguard Total Stock Market
	Retirement Savings Trust		Vanguard S&P 500 Index
	Fidelity MIP Fund		Vanguard Capital Opportunities
	G-Fund		Vanguard PrimeCap
	Short Term Bond		Vanguard Growth Index
			Fidelity Magellan
Fixed Income	Pimco Total Return		Fidelity Large Cap Growth
	Pimco Real Return		Fidelity Blue Chip
	Pimco Investment Grade Bond		Fidelity Capital Appreciation
	Vanguard Intermediate Bond		Dodge & Cox Stock
	Vanguard Total Bond Market		Hartford Capital Appreciation
	Babson Bond Fund		American Funds AMCAP
	Lord Abbett Income		American Funds Growth Fund Of America
	Fidelity Corporate Bond		Oakmark Growth Fund
	Western Asset Mortgage Backed Bond		C-Fund (Common Assets)
	Blackrock Total Return		ALL TARGET DATE FUNDS 2020 or Later
	Blackrock Intermediate Bond		
	American Funds Bond Fund Of America	**Balanced Funds**	Vanguard Balanced Index
	Dodge & Cox Income Fund		Vanguard Wellington Fund
	Doubleline Total Return		Vanguard Windsor Fund
	F-Fund		Vanguard Asset Allocation
			Fidelity Balanced Fund
International	American Funds Capital World G&I		Fidelity Equity Income
	Vanguard Total International Index		Fidelity Growth & Income
	Blackrock Global Allocation Fund		American Funds Balanced
	Fidelity International Growth Fund		American Funds Income Fund
	Dodge & Cox International		ALL TARGET DATE FUNDS 2020 or Sooner
	Invesco International Core Equity		
	Goldman Sachs International Growth Opp.	**Small/Mid Cap**	Vanguard Mid Cap Growth
			Fidelity Mid Cap Growth
			Artisan Mid Cap
			Goldman Sachs Growth Opportunities
			Harbor Mid Cap Growth
			Goldman Sachs Small/Mid Cap Opp.
			Fidelity Low Price Stock Fund
			Columbia Acorn US
			Federated Kaufman Small Cap
			Invesco Small Cap

The above represents a selection of some of the most common funds found in 401k plans. ***If you do not see your SPECIFIC fund listed simply choose one that closely resembles the examples herein.*** All funds perform relatively similarly within their respective fund classes.



Lance Roberts

Lance Roberts is a Chief Portfolio Strategist/Economist for Clarity Financial. He is also the host of ?The Lance Roberts Show? and Chief Editor of the ?Real Investment Advice? website and author of ?Real Investment Daily? blog and ?Real Investment Report?. Follow Lance on Facebook, Twitter and Linked-In