



Get • Daily Updates [Twitter](#), [Facebook](#), [Linked-In](#), [Sound Cloud](#)

MISS THE LATEST WEBINAR? [See All Our Previous Web/Seminars Here](#)

MARKET TRAPPED As Recession Risk Rises

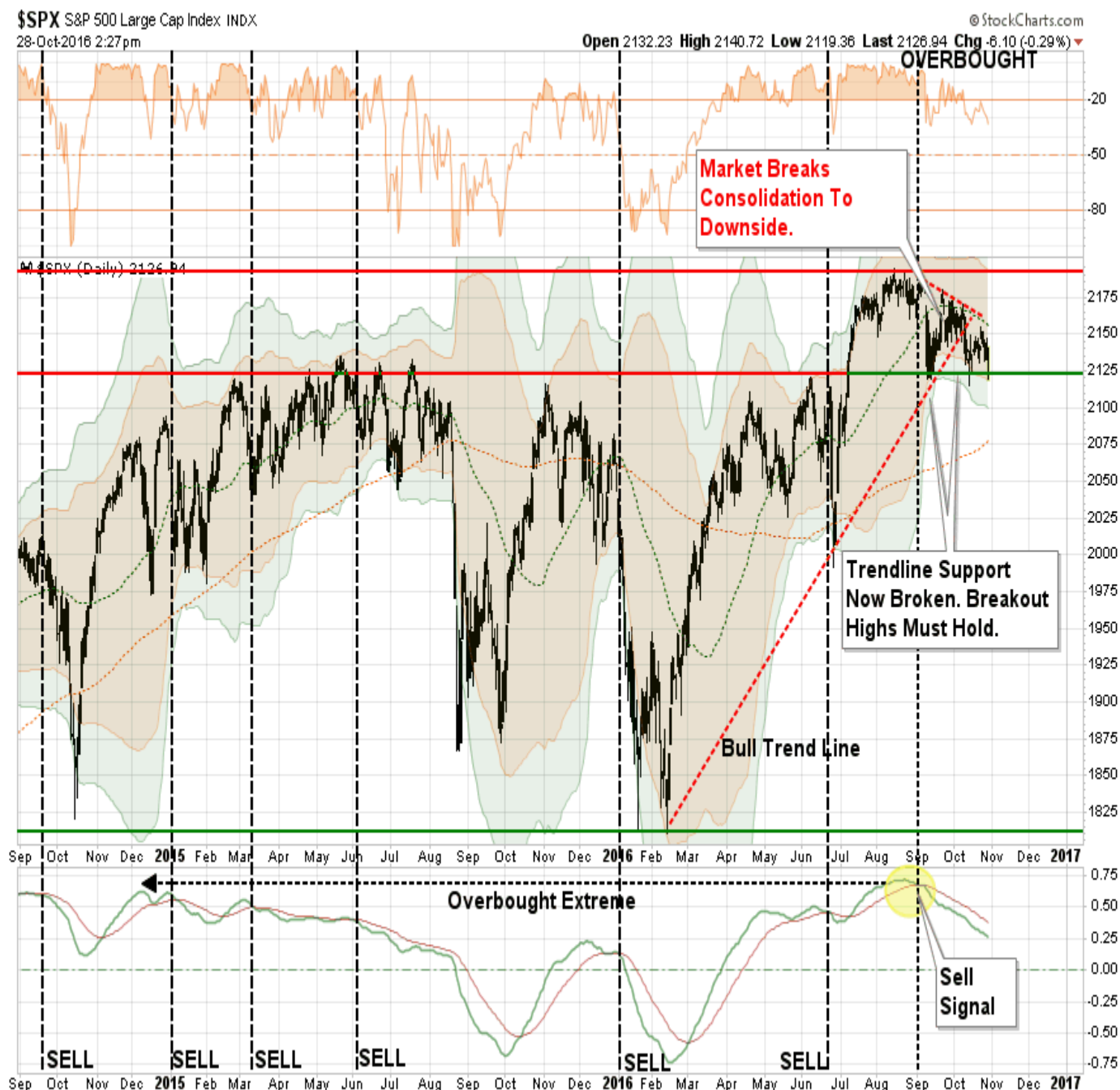
Real Investment Report

This week I want to discuss several risks I am currently watching starting to manifest "behind the scenes" so to speak. But first, let's take a quick review of the markets which currently are flashing some very troubling signs. [Last week](#), I discussed the ongoing consolidation and struggle as the markets remain • "trapped" between downtrend resistance and the crucial support levels of the previous breakout to new highs. The charts below have been updated through Friday afternoon.

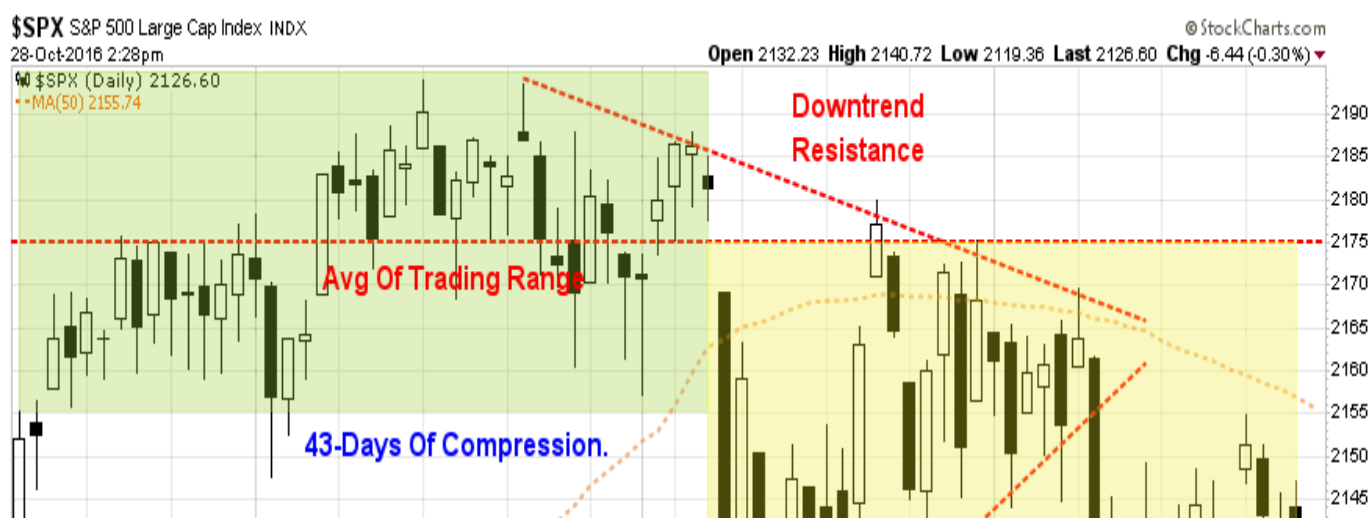
(Note: as I am writing this Jason Chaffetz just confirmed the FBI was reopening the investigation into Hillary Clinton's emails based on new evidence. This has caused the market to panic a bit and the battle to hold support is being waged as I write this.)

FBI Dir just informed me, "The FBI has learned of the existence of emails that appear to be pertinent to the investigation." Case reopened

? Jason Chaffetz (@jasoninthehouse) [October 28, 2016](#)



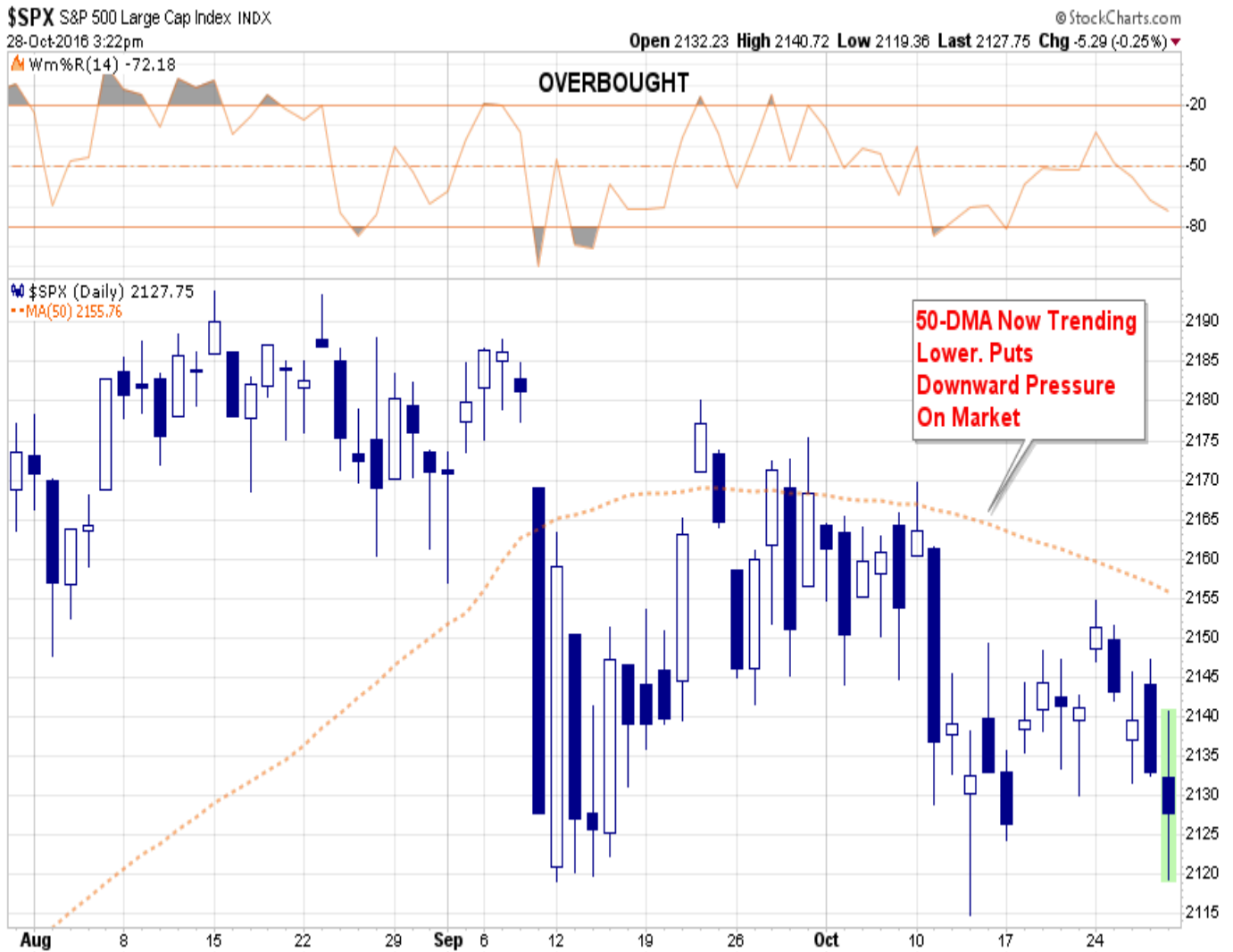
"If we zoom in we can get a little clearer picture about the breakdown."



The two dashed red lines show the tightening consolidation pattern more clearly. Importantly, while the market has remained in suspended animation over the past three months, the deterioration of the market is quite evident. **However, despite the ongoing political circus, weak corporate earnings (*considering the massive reductions in expectations since the beginning of the year*), Apple (AAPL) and Amazon (AMZN) both missing expectations (*which really goes to the heart of the consumer,*) and consumer sentiment waning, it is surprising the markets are still holding up as well as they are.** As long as the markets can maintain support about 2125, the bull market is still in play, but at this point, not by much. More importantly though, despite the ongoing defense of support at current levels, **the deterioration in momentum and price action has now triggered intermediate and longer-term "sell signals" as shown below.**



Importantly, notice that both of the previous bullish trend lines (*depending on how you measure them*) have now been violated. **Previously, when both "sell signals" have been triggered, particularly with the market overbought as it is now, the subsequent decline has been rather sharp.**



Lastly, as stated above, the 50-dma moving average has begun to trend lower, the downtrend resistance from the previous market highs remains present and the "sell signal" occurring at high levels suggests the risk of a further correction has not currently been eliminated. As stated last week, and remains this week:

"It is important, as an investor, is not to 'panic' and make emotionally driven decisions in the short-term. All that has happened currently is a 'warning' you should start paying attention to your investments."

Just be cautious for the moment.

Economy About To Hit The Dollar "Wall"

Since early May, I have continued to maintain an outlook for a stronger dollar as higher U.S. interest rates continue to attract foreign inflows. As I wrote several weeks ago:

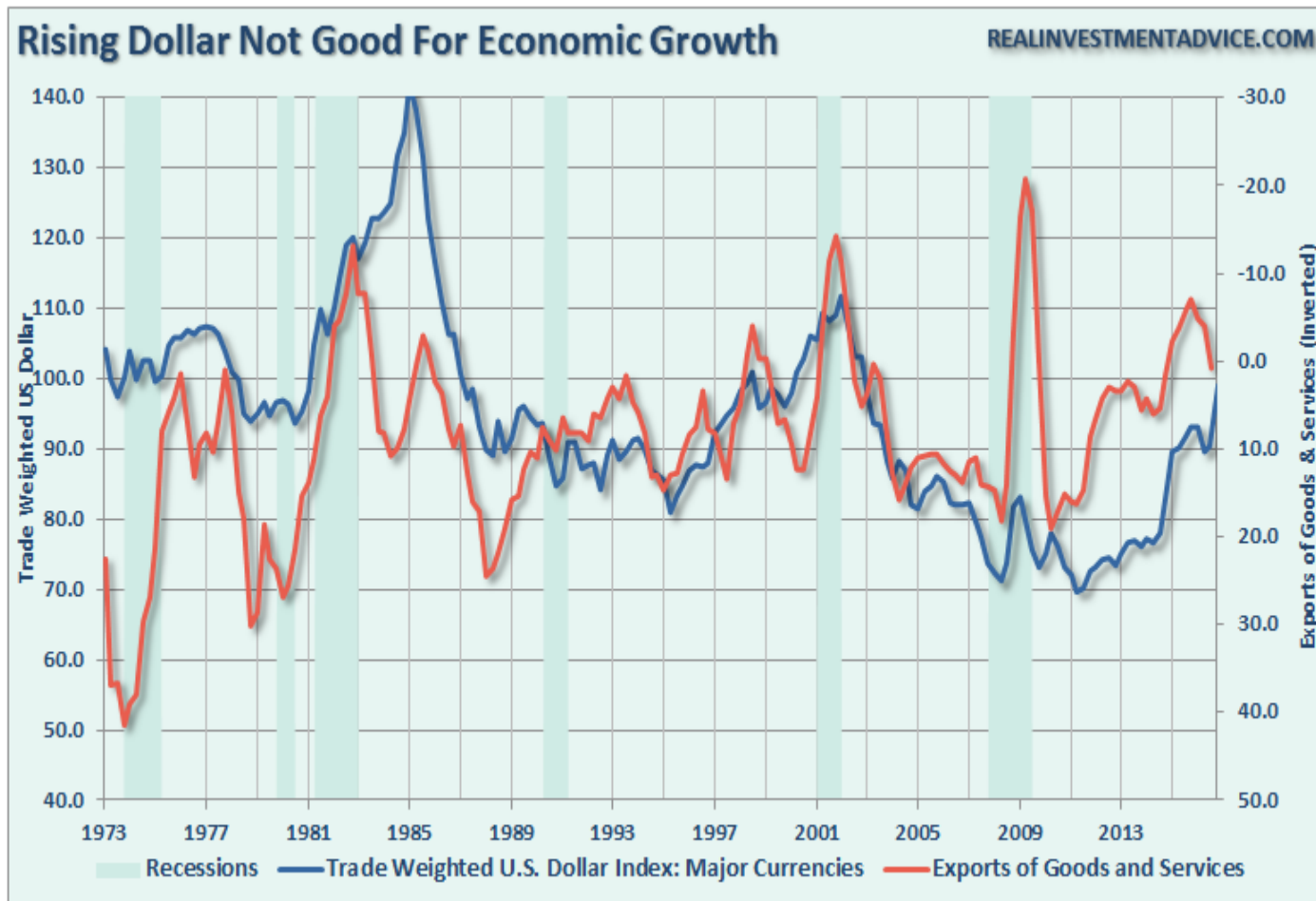
*"As shown below, a stronger dollar will provide another headwind to already weak earnings and oil prices in the months ahead which **could put a damper on the expected year-end 'hockey stick' recovery currently expected.**"*



Of course, the real problem of a stronger dollar at this juncture is that it weighs on exports which comprise about 40% of corporate earnings. As I stated last week:

"The dollar rally could be a real problem with respect to the earnings recovery story going into the end of the year. With an already weak economy, a stronger dollar means weaker exports for companies and a drag on corporate profitability."

The chart below shows the relationship between exports and the dollar.



Of course, despite the "whooping and hollering" over the advance print of GDP at 2.9% on Friday, such exuberance may be a tad premature as the next chart shows the relationship between the dollar and the economy itself.



This is particularly interesting given the recent number of companies trying to lay off weak earnings reports on the election. As [Paul La Monica wrote this past week](#):

"This contentious and seemingly never-ending presidential election campaign makes me want to eat more comfort food to boost my spirits. But maybe I'm alone. Executives from several food companies -- as well as other big consumer brands -- have warned in recent weeks that the Donald Trump versus Hillary Clinton battle for the White House is actually hurting their results."

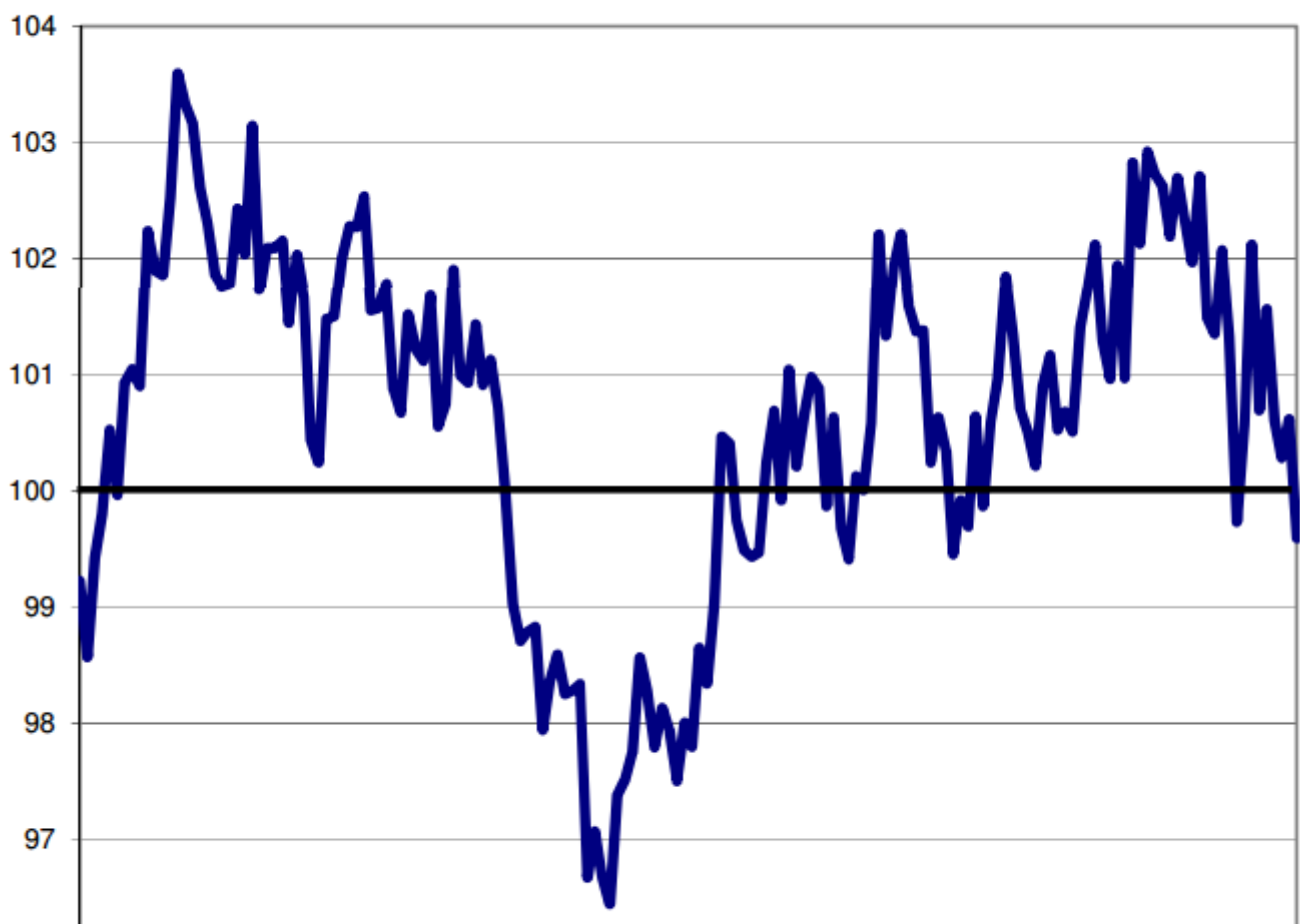
Whether it was the CEO of Dunkin' Brands (DNKN), which owns both Dunkin' Donuts and ice cream chain Baskin-Robbins, McDonald's (MCD), YUM! Brands (YUM) or Popeye's Louisiana Chicken (PLKI), they all pulled the excuse the election was hurting their results. As Paul goes on to state:

"Really? It seems hard to imagine that people are passing up the opportunity to have an iced coffee and a cronut or some fried chicken and cheeseburgers just because they are scared of what either a President Trump or Clinton would do to the economy."

Paul is absolutely right. **The poor results from restaurants or consumer good related companies like Apple and Amazon aren't missing results due to the election, but rather these are early signs of a consumer that is being impacted by they triple whammy of rising borrowing costs, weak wage growth and spiraling health care costs thanks to the "Un-Affordable Care Act."** Of course, this is clearly seen in the report from the National Restaurant Association as consumers are forced to choose between eating out or paying for health care costs.

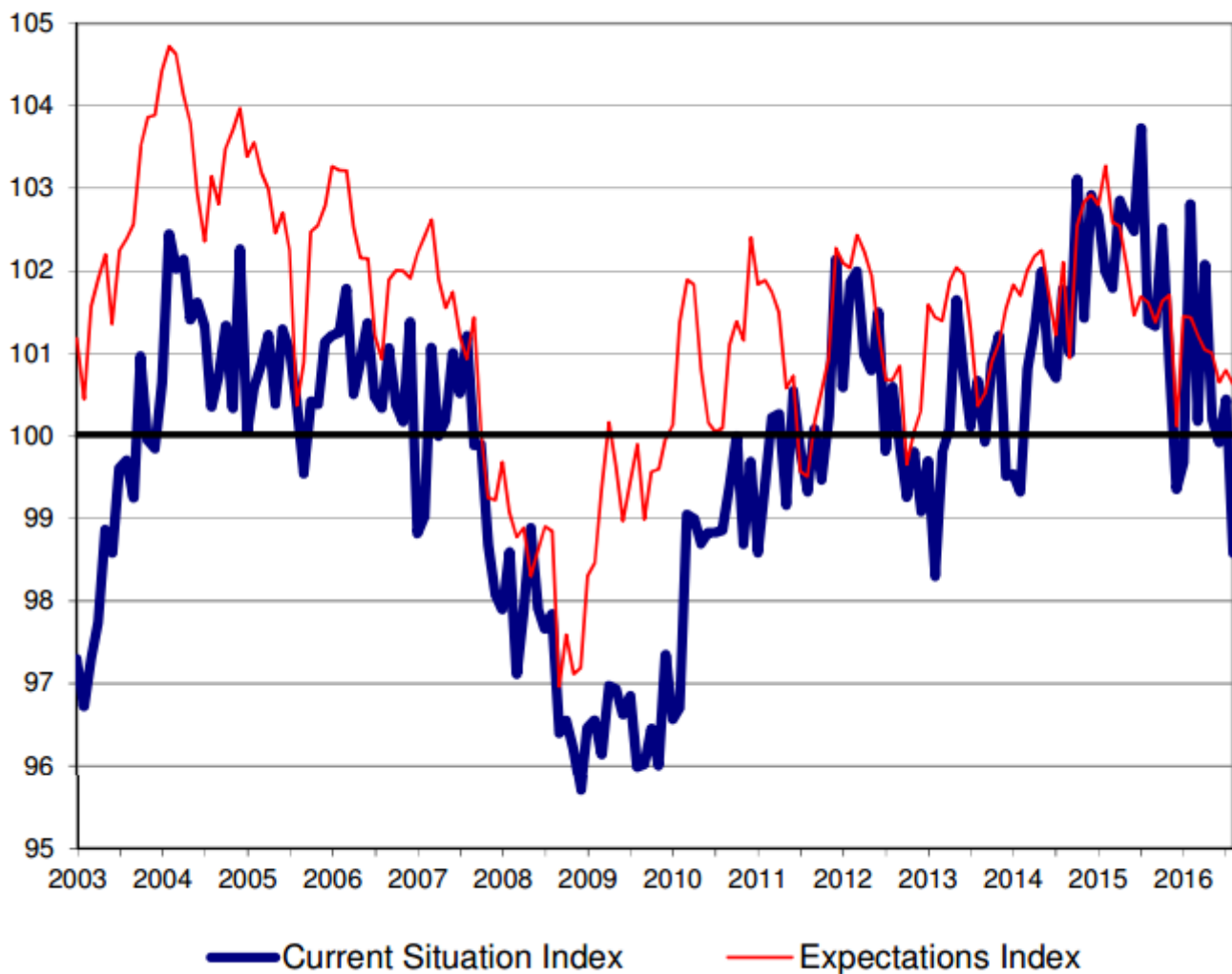
"Due in large part to declines in both same-store sales and customer traffic, the National Restaurant Association's Restaurant Performance Index (RPI) fell below 100 in August."

Restaurant Performance Index



*"The RPI fell below 100 for the first time in eight months, as a result of broad-based declines in the current situation indicators. Restaurant operators reported net declines in both same-store sales and customer traffic in August, along with corresponding dips in the labor indicators. The RPI is constructed so that the health of the restaurant industry is measured in relation to a steady-state level of 100. The Restaurant Performance Index consists of two components ? the **Current Situation Index** and the **Expectations Index**. **Current Situation Index Fell 1.9 Percent in August to a Level of 98.6; Expectations Index Edged Down 0.2 Percent to a Level of 100.6.**"*

Current Situation & Expectations Indices



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

While no one is watching or worrying about the dollar right now, I can assure you they will be soon if the rise continues.

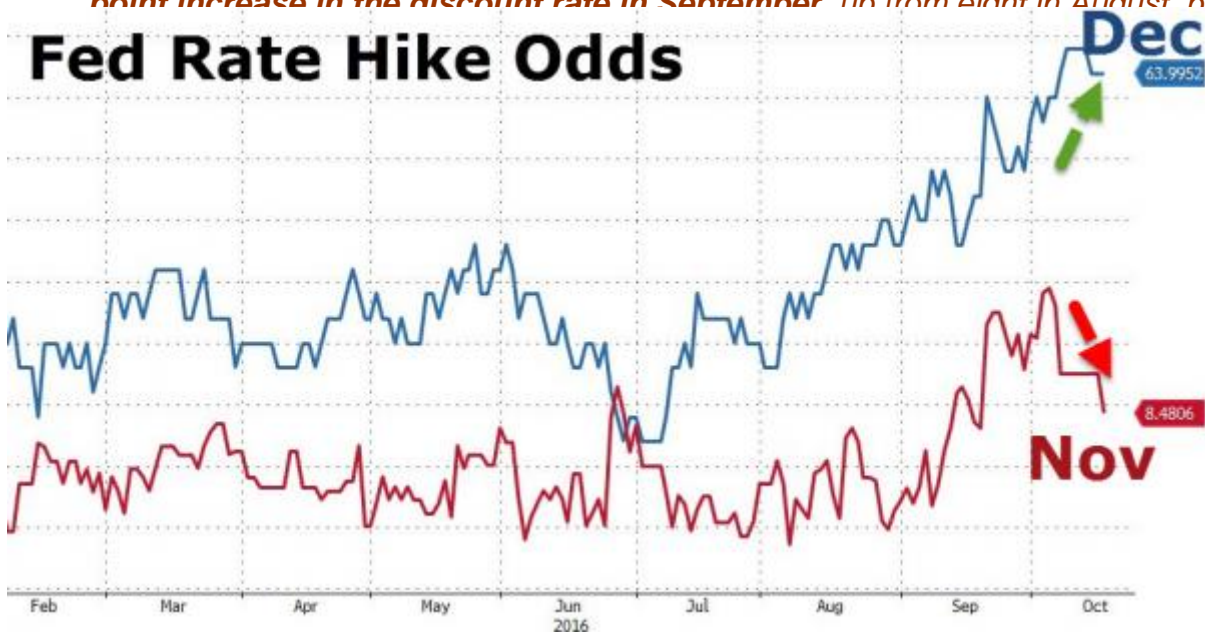
10-Year Treasury Beats Yellen To The Punch

Wall Street has put pretty high odds on Janet Yellen hiking rates come December. [To wit:](#)

"While the probability of a November rate-hike has collapsed to just 8.5% (as Dec holds around 65%) it appears regional Federal Reserves have a very different perspective of

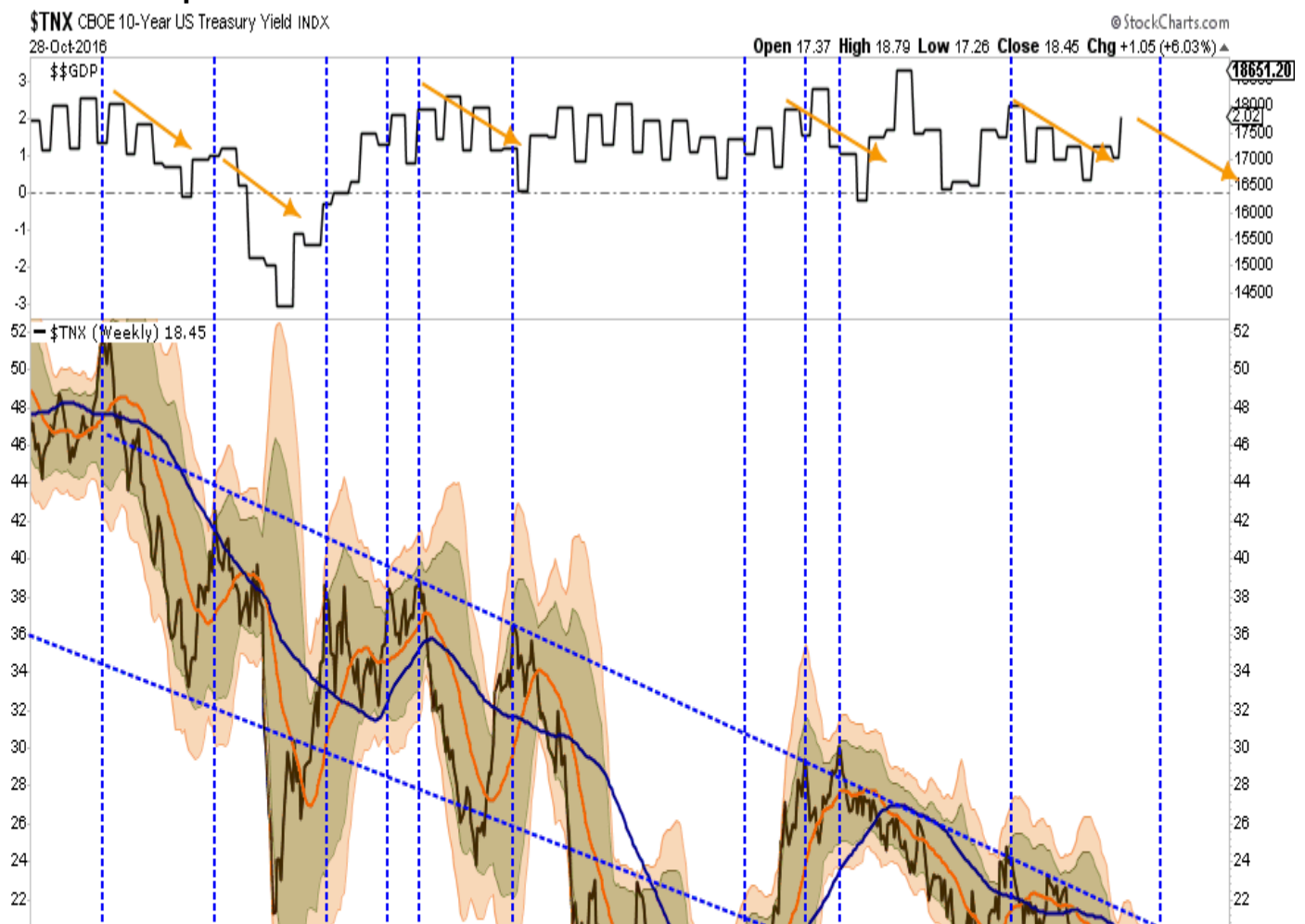
when Janet should hike. **Nine of the Fed's 12 regional banks sought a quarter-point increase in the discount rate in September** up from eight in August based on **Dec** right

Fed Rate Hike Odds



The

problem, however, is that every time the Federal Reserve has tried to hike rates over the last couple of years some form of **"global instability"** has cropped up that has kept them on hold. The problem, this time, is the **"instability"** may be domestic as the recent surge in the 10-year interest rate has front-ran the Fed in tightening monetary policy and putting the brakes on economic growth. As shown in the chart below, while rates remain in a very defined downtrend, each push to higher levels resulted in an economic slowdown with a bit of a lagged effect. With rates now as overbought as at any prior point, it is likely the **"brakes"** are already being applied and will show up in weaker retail sales, consumer spending, and capital investment reports in the not so distant future.



As I pointed out in this past week's report ["Better Hope Rates Don't Rise,"](#)•there are a litany of problems with higher rates:

1) **Sharply rising rates will immediately curtail that growth as rising borrowing costs slows consumption.** 2) **The Federal Reserve currently runs the world's largest hedge fund with over \$4 Trillion in assets.**•3) **People buy payments, not houses, and rising rates mean higher payments.** 4) **An increase in interest rates means higher borrowing costs which lead to lower profit margins for corporations.**•5) **One of the main arguments of stock bulls over the last 8 years has been the stocks are cheap based on low interest rates.**•6) **The massive derivatives market will be negatively impacted.** 7) **As rates increase so does the variable rate interest payments on credit cards.**•8) **Rising defaults on debt service.** 9) **Commodities, which are very sensitive to the direction and strength of the global economy.** 10) **The deficit/GDP ratio will begin to soar as borrowing costs rise sharply.**•

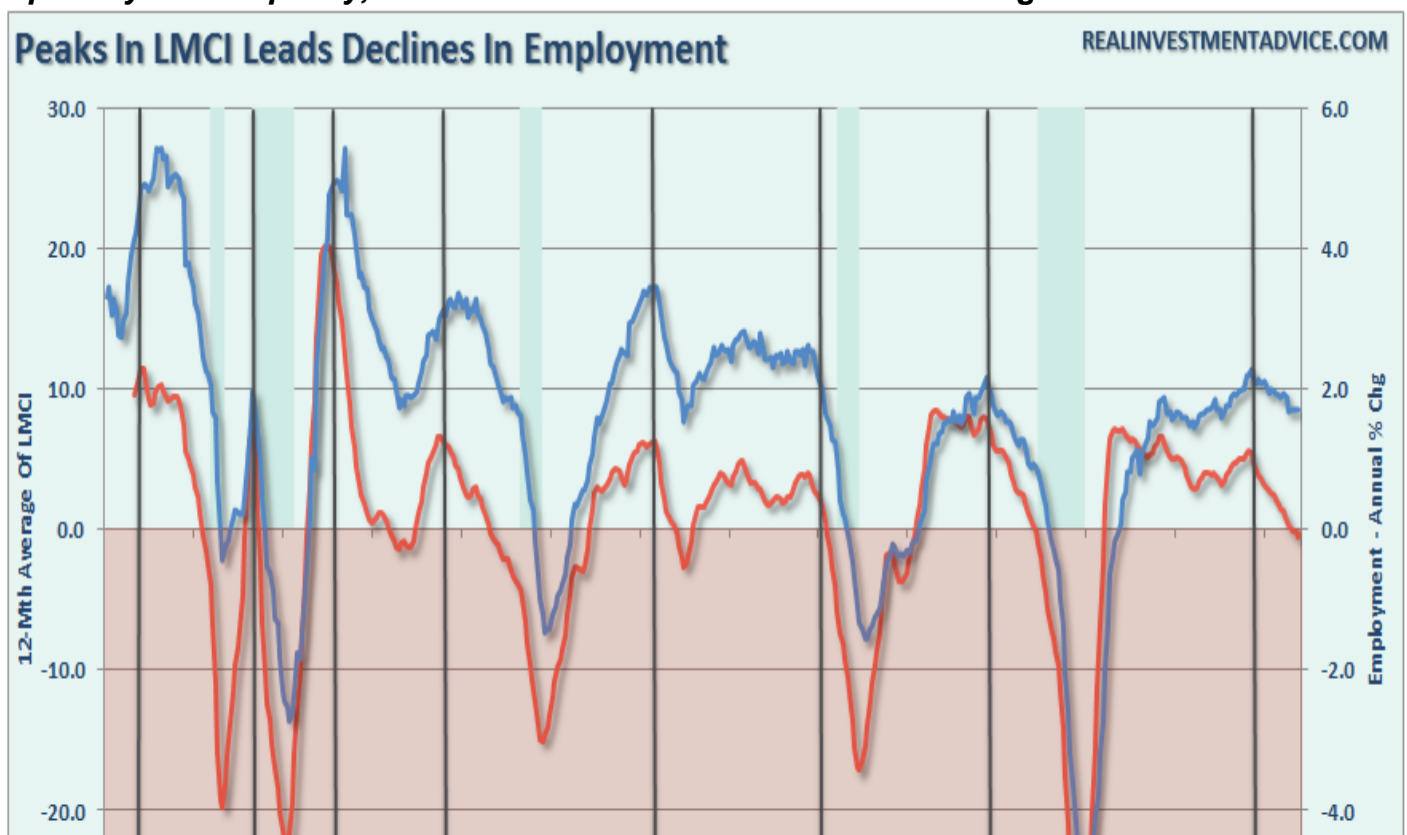
You get the idea. •The problem is that with economic growth already running at extremely weak levels, it won't take much of a rise to put the overall economic underpinnings at risk.

Recession Risk On The Rise

Just recently, Deutsche Bank Chief U.S. Economist Joseph LaVorgna, [wrote](#):

*"That's only•the eighth time in nearly 40 years the index was down on a year-over-year basis. Of the seven previous occasions, four were soon followed by recession.•(In the three other cases, two were false alarms, in 1986-87 and 1995-96, and in 1981 the recession began shortly before the annual change in the LMCI turned negative.) **The weakness in the LMCI indicates a rising possibility of recession.**The upshot is that the economic outlook remains fragile despite the ostensible robustness of the labor market."*

I take a little different look at the LMCI by using a 12-month average of the monthly changes. **What is notable is despite all of the cheering over monthly labor reports, which has been "quantity" over "quality," what has been overlooked is the declining trend in the data.**



It's not just Deutsche bank that is warning about the fact we are very late in the current economic cycle, but also by former raging bull David Rosenberg in [a recent Financial Post article](#):

"The yield curve is flattening. Leading economic indicators are sputtering. Ultra-tight credit spreads and ultra-low cap rates in real estate serve as confirmations of late-cycle pricing. Traditional valuation metrics for equities are every bit as high if not higher than they were in the Fall of 2007. We are well past the peak in autos and just passed the peak of the housing cycle. Not just that but the broad measures of unemployment have stopped going down as well. And the mega 'Merger Mania' we are seeing invariably takes place at or near cycle peaks, as companies realize that they can no longer grow their earnings organically. We have just witnessed five multi-billion dollar deals this past week alone ? \$207 billion globally (AT&T/Time Warner; TD Ameritrade/Scottrade) in what has been the most active announcement list since 1999 ? what do you know, near the tail end of that tech bull market too. We also were at the receiving end of a really disappointing consumer confidence report out of The Conference Board ? sliding to a three-month low of 98.6 in October from 103.5 in September, the sharpest slide of the year. And it wasn't just the politics or gas prices ? just a general malaise. Assessments of business conditions now and perceptions for the next six months deteriorated significantly, as they did for the jobs market and spending intentions for homes and appliances. This sentiment index generally peaks between 60% and 70% of the way through the cycle and so if that traditional pattern holds for this one, it would mean bracing for a recession to start any time from October 2017 to May 2018. Forewarned is forearmed."

This analysis confirms my previous suggestions we are approaching a recession sometime next year. With rising labor costs, interest rates and a stronger dollar, the Fed is on a collision course with a recession. **This was noted by ECRI's Lakshman Achuthan just recently:**

"In a recent interview with Financial Sense, Achuthan, explains how demographics and slowing productivity are key to understanding long-term trend growth, something that monetary and fiscal policy may do little to change. 'We've been in a growth rate cycle slowdown for almost two years now, where the broad measures of current economic activity, which define the business cycle or the economic cycle...are in a slowdown,'?"

As I have [repeatedly stated](#), you can not support higher interest rates, or have an inflationary pickup, without underlying economic growth.

"As you can see there is a very high correlation, not surprisingly, between the three major components (inflation, economic and wage growth) and the level of interest rates. Interest rates are not just a function of the investment market, but rather the level of ?demand? for capital in the economy. When the economy is expanding organically, the demand for capital rises as businesses expand production to meet rising demand. Increased production leads to higher wages which in turn fosters more aggregate demand. As consumption increases, so does the ability for producers to charge higher prices (inflation) and for lenders to increase borrowing costs. (Currently, we do not have the type of inflation that leads to stronger economic growth, just inflation in the costs of living that sap consumer spending ? Rent, Insurance, Health Care)"

Interest Rates Are A Function Of Economic Growth, Wages & Inflation

REALINVESTMENTADVICE.COM

15.0

200.00

Interest rates trending lower as economic productivity growth weakens. Current trends of economic growth, wages and

"However, in the current economic environment, this is not the case."

While many are predicting "no recession" in sight, the economic data currently does not support that call. **Why do we care?** Because **during recessions stocks have historically lost about 1/3rd of their value.** After two previous bear markets since the turn of the century, you really can't afford the risk of going through a third one. As David said, "forewarned is forearmed."•

THE MONDAY MORNING CALL

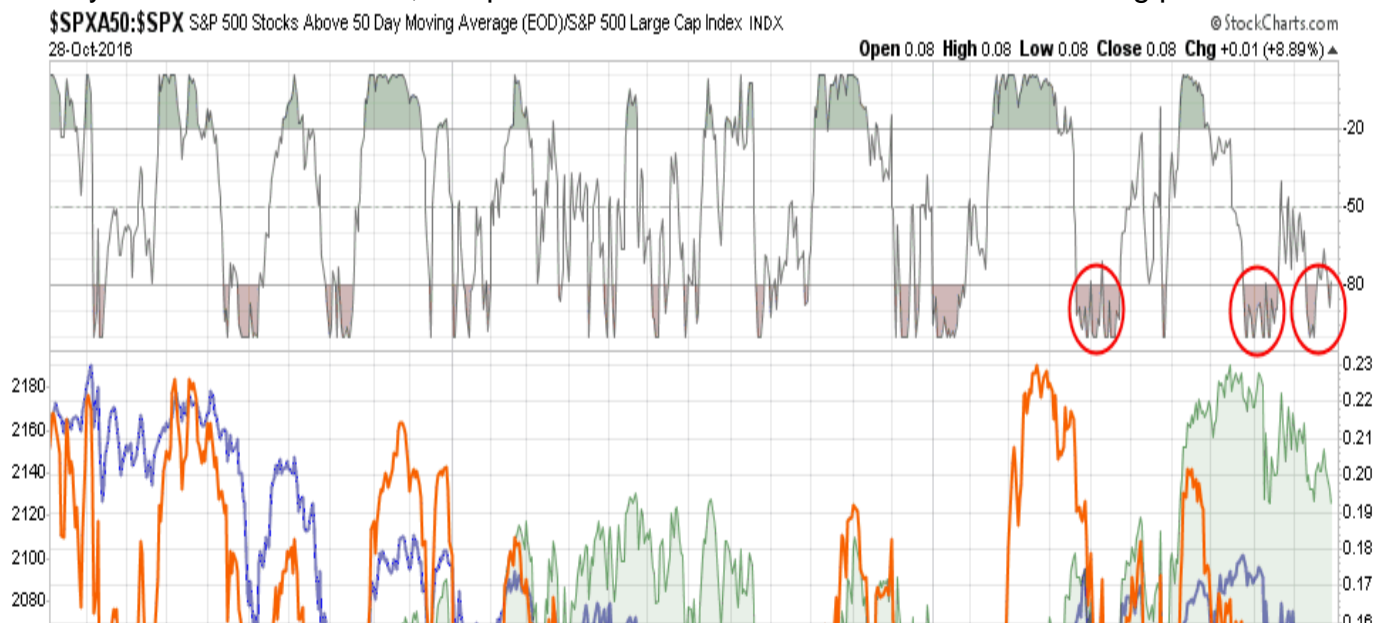
The Monday Morning Call• Analysis For Active Traders

Market Needs Traction•

[Michael Sincere](#) had a very interesting post this past week in which he looked at the deterioration of the market. •He noted:

*"Here?s something else to consider: For the past two years, the market has been in a sideways pattern, i.e., it?s eked out a small gain. **Investors are getting anxious to generate any return on their money, just one of the many reasons they are dumping managed funds, and the reason they are desperately seeking yield.** In my opinion, this is the time to be patient while waiting for the right opportunity. **Anyone trying to force the market to give them money is going to be sorely disappointed in the near future.** Because Halloween and the election are drawing near, I don?t want to scare you. **Nevertheless, the warning signs are everywhere. Once again, the strongest case for the bulls is the ?invisible hand,? the entity that frequently spikes the indexes higher whenever the market starts to sell off.** As I?ve said before, fear will overwhelm the invisible hand one day, but until then we can expect to get this drip-drip-drip type of selloff on low volatility. Bottom line: **The odds favor the bears in the near future.** Keep your eye out for 2,130 on the S&P 500. If we drop below that level and the 200-day moving averages on the S&P 500, it could get nasty. Raise cash as we move closer to a correction. The biggest surprise is that we haven?t had one yet."*

I couldn't agree more, and the market needs to get some traction quickly as crucial support is currently being tested. •As shown in the chart below, bullishness remains high despite the recent sideways action of the market, this provides fuel for a correction should something panic investors.



Furthermore, the deterioration in the breadth of the market is also concerning as shown above and below. **With relative strength, momentum and breadth all on the decline, Michael is correct in stating the short-term outlook favors the bears momentarily, so caution is advised.**



With multiple sell signals in place, as shown throughout the entirety of this week's newsletter, the call for next week remains higher cash levels and reduce levels of equity risk for now. When market dynamics change to a more constructive backdrop there will be plenty of time to increase allocations to equities with a more favorable risk/reward potential. That is not the case right now.

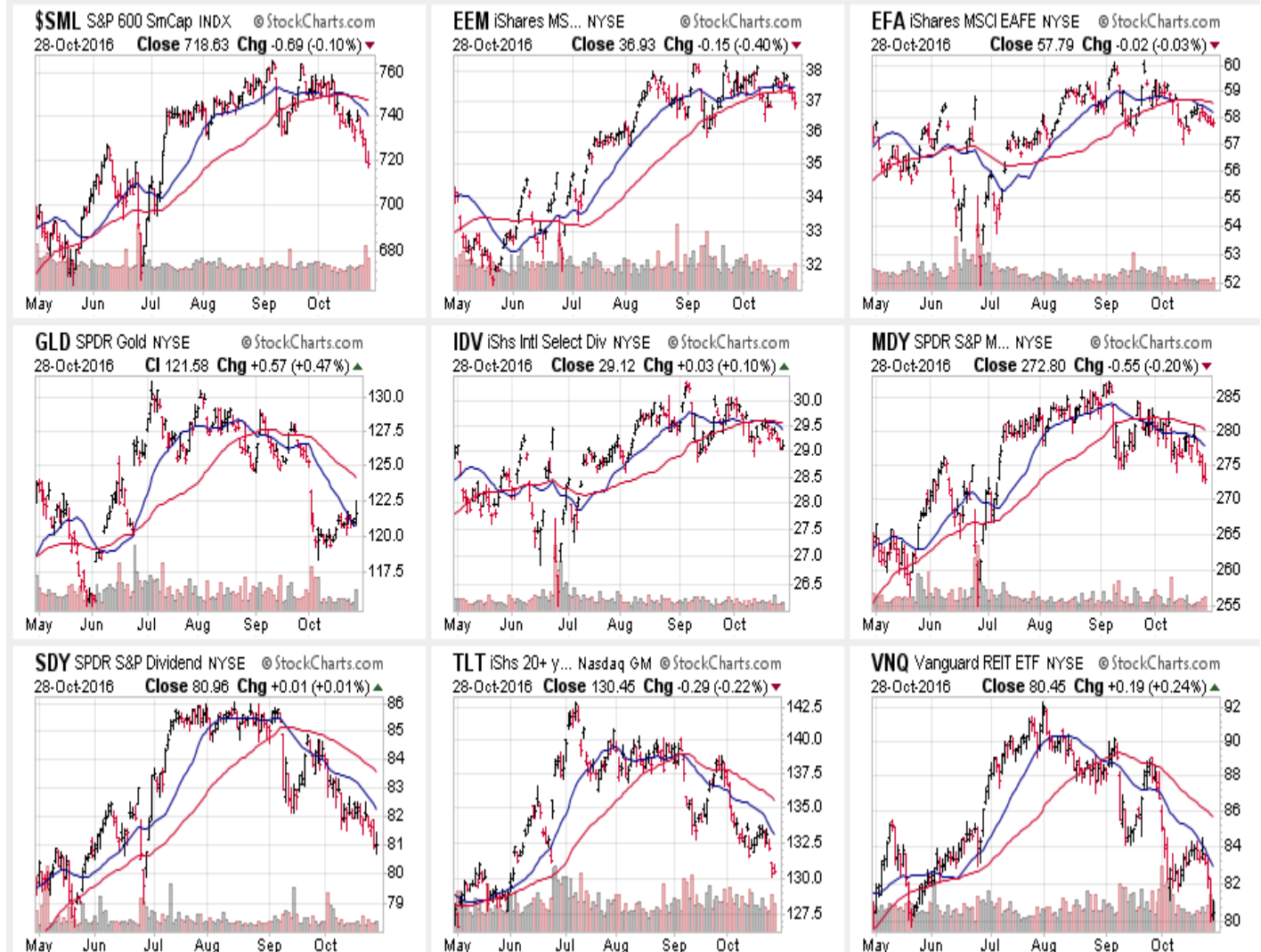
Model Update

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

Taking a look at individual sectors of the market **the deterioration of momentum and breadth becomes much more evident.** The first chart below are the major sectors of the S&P 500 index.



As you will notice 6-out-of-9 sectors have registered short term sell signals with the short-term moving average crossing below the long-term moving average. Furthermore, the majority of the leadership for the current market has come from the technology sector where the momentum of the advance has slowed sharply. **However, Financials have picked up some leadership as of late in anticipation of higher interest rates from the Fed and well as the issues of both Wells Fargo (WFC) and Deutsche Bank (DB) issues being dismissed.** Staples and Utilities have also started showing some improvement last week as the "chase for yield" continues. Moving on to other major sectors we find some similar patterns emerging.



Once again we find the majority of major indices (8-out-of-9) registering sell signals and seeing deterioration among the previous leadership. Small Cap, •Gold, Mid-Cap, Dividend Stocks, Bonds, and REITs•were all hit the hardest as of late.**However, as I previously warned, the strengthening of the Dollar is now weighing on the performance of international and emerging market sectors.** Caution is advised as the run in Emerging Markets is extremely long in the tooth and is directly impacted by weakness from industrialized economies. As I stated last week:

"With the dollar strengthening, interest rates remaining elevated and labor costs on the rise, the risk to corporate profitability is elevated. If earnings season comes in weaker than expected, the recent ability of the market to hold support at bullish levels may fail."

We are seeing that happen as earnings season progresses. Caution remains a prudent investment stance currently.

I will update this analysis in Tuesday's Technically Speaking post ([click here for free e-delivery](#))

Let's take a look at the equal weighted portfolio model.

(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	213.75	100%	100%	0%	1.68%
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	SPDR MATERIALS SELECT SECTOR SPDR FUND	46.73	3.64%	2.73%	-0.91%	2.05%
		XLE	SPDR-EGY SELS	SPDR ENERGY SELECT SECTOR SPDR FUND	69.37	3.64%	2.73%	-0.91%	2.65%
		XLF	SPDR-FINL SELS	SPDR FINANCIAL SELECT SECTOR SPDR FUND	19.77	3.64%	2.73%	-0.91%	1.96%
		XLI	SPDR-INDU SELS	SPDR INDUSTRIAL SELECT SECTOR SPDR FUND	57.10	3.64%	2.73%	-0.91%	2.14%
		XLK	SPDR-TECH SELS	SPDR TECHNOLOGY SELECT SECTOR SPDR FUND	47.44	3.64%	2.73%	-0.91%	1.78%
		XLP	SPDR-CONS STPL	SPDR CONSUMER STAPLES SELECT SECTOR SPDR	52.67	3.64%	2.73%	-0.91%	2.45%
		XLU	SPDR-UTIL SELS	SPDR UTILITIES SELECT SECTOR SPDR FUND	48.46	3.64%	2.73%	-0.91%	3.39%
		XLV	SPDR-HLTH CR	SPDR HEALTH CARE SELECT SECTOR SPDR FUND	67.78	3.64%	2.73%	-0.91%	1.63%
		XLY	SPDR-CONS DISCR	SPDR CONS DISCR SELECT SECTOR SPDR FUND	78.04	3.64%	2.73%	-0.91%	1.57%
	SIZE	MGK	VANGD-MG CAP GR	VANGUARD MEGA CAP GROWTH ETF	85.65	3.64%	2.73%	-0.91%	1.49%
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	GUGGENHEIM SP 500 EQUAL WEIGHT ETF	81.42	4.00%	3.00%	-1.00%	1.51%
	Dividend	VIG	VANGD-DIV APPRC	VANGUARD DIVIDEND APPREC ETF	82.13	4.00%	3.00%	-1.00%	2.10%
	Real Estate	VNQ	VIPERS-REIT	VANGUARD REIT ETF	80.45	4.00%	3.00%	-1.00%	4.20%
	International	IDV	ISHARS-INTL SD	ISHARES INTERNATIONAL SELECT DIV ETF	29.12	4.00%	3.00%	-1.00%	5.58%
		VWO	VANGD-FTSE EM	VANGUARD FTSE EMERGING MARKETS ETF	37.45	4.00%	3.00%	-1.00%	2.37%
FI	Intermediate Duration	TLT	ISHARS-20+YTB	ISHARES 20+ YEAR TREASURY BOND ETF	130.45	20.00%	20.00%		2.36%
	International	BNDX	VANGD-TTL INT B	VANGUARD TOTAL INTERNATIONAL BOND ETF	55.23	10.00%	10.00%		1.73%
	High Yield	HYG	ISHARS-IBX HYCB	ISHARES IBOX \$ HIGH YIELD CORP BOND	86.28	5.00%	5.00%		5.48%
	Cash	BSV	CASH	CASH	1.00	5.00%	20.00%		
75%	= X-FACTOR ADJUSTMENT (APPLIED TO TARGET WEIGHTINGS)				Total Equity Exposure		60.00%	45.00%	
EQUITY 60%		45.00%		Total Fixed Income Exposure		35.00%	35.00%		
FIXED INCOME / CASH 40%		55.00%		% Portfolio Allocated		95.00%	80.00%		

The overall model still remains underweight target allocations. **This is due to the inability of the markets to generate a reasonable risk/reward setup to take on more aggressive equity exposure at this time.**•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.

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
BENCHMARK		IVV	ISHARS-SP500	213.75	(0.66)	(1.75)	(2.58)	3.89	2.25	217.39	212.36	-1.67%	0.66%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	46.73	(0.05)	(0.38)	(1.61)	(2.19)	0.95	47.84	46.99	-2.33%	-0.55%	BUY
		XLE	SPDR-EGY SELS	69.37	(0.51)	(0.00)	5.30	2.85	(0.28)	69.21	67.04	0.23%	3.47%	BUY
		XLF	SPDR-FINL SELS	19.77	1.27	4.19	(15.12)	(17.48)	(20.15)	21.95	22.59	-9.94%	-12.49%	SELL
		XLI	SPDR-INDU SELS	57.10	0.85	(0.44)	0.50	(0.16)	2.97	57.96	56.73	-1.48%	0.66%	BUY
		XLK	SPDR-TECH SELS	47.44	0.47	1.04	3.40	8.50	6.43	47.26	45.05	0.37%	5.31%	BUY
		XLP	SPDR-CONS STPL	52.67	1.50	0.74	(0.94)	(4.96)	3.35	53.58	53.52	-1.70%	-1.59%	BUY
		XLU	SPDR-UTIL SELS	48.46	1.61	0.67	(1.90)	(5.77)	8.52	49.42	49.62	-1.94%	-2.34%	SELL
		XLV	SPDR-HLTH CR	67.78	(2.11)	(4.25)	(7.35)	(5.86)	(7.24)	72.45	71.32	-6.45%	-4.97%	BUY
		XLY	SPDR-CONS DISCR	78.04	(1.29)	(0.75)	(1.75)	(3.98)	(5.87)	80.09	79.36	-2.56%	-1.66%	BUY
	SIZE	MGK	VANGD-MG CAP GR	85.65	(0.69)	(0.34)	0.04	0.31	(1.94)	87.18	84.94	-1.75%	0.84%	BUY
		IJR	ISHARS-SP SC600	118.00	(1.38)	(3.20)	(1.18)	2.31	2.13	122.63	117.59	-3.78%	0.34%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	81.42	(0.25)	(0.84)	(0.18)	0.28	1.21	83.13	81.02	-2.06%	0.49%	BUY
	Dividend	VIG	VANGD-DIV APPRC	82.13	0.45	(0.38)	(1.51)	(2.21)	2.10	84.07	82.84	-2.34%	-0.82%	BUY

Notice in the next to the last column to the right, the majority of sectors which **have previously been pushing extreme levels of deviation from their long-term moving average, have corrected much of those extremes.** Financials and Utilities have now registered, as shown in the last column, a *"weekly sell signal."* **Importantly, by the time a "sell signal" is registered, the related sector is typically very oversold and will bounce.** This tends to be a good opportunity to reduce exposure to that related sector before a continued decline. There is a broad deterioration across sector performance which suggests overall weakness in the markets will likely continue in the near-term. Some caution is currently advised. The chart below is the *"spaghetti"* chart, via StockCharts, showing the relative strength/performance rotation of sectors relative to the S&P 500. **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.**

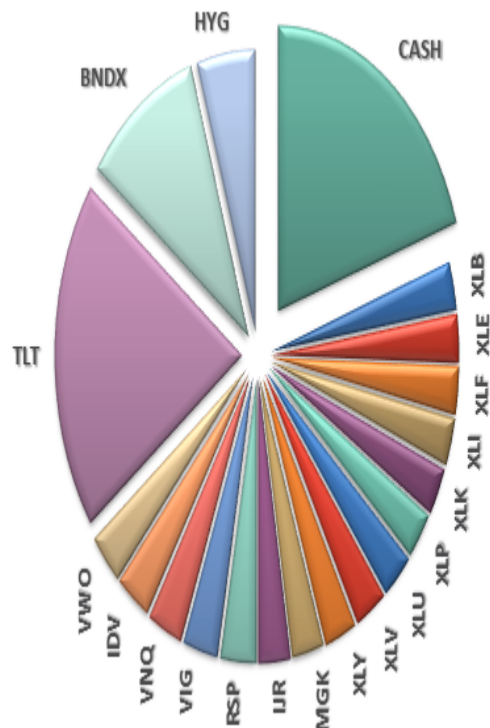


chart	visible	tail	symbol	name	sector	industry	price	%chg
📊	☑	■	XLK	Technology Select Sector SPDR Fund			47.44	1.3
📊	☑	■	XLF	Financial Select Sector SPDR Fund			19.77	2.0
📊	☑	■	XLE	Energy Select Sector SPDR Fund			69.37	-0.9
📊	☑	■	IDV	iShares International Select Dividend ETF			29.12	-1.9

Utilities, REIT's, Staples, Discretionary, Materials, Bonds, Gold, and Healthcare have remained under pressure this past week. While still underperforming the broad market Utilities, Industrials, Materials, Staples, and Discretionary have begun showing signs of improvement. **With therise in rates largely done, sectors with the most benefit from falling rates look reasonable.** The opposite holds true for those sectors that are adversely affected by a stronger dollar and weaker oil prices. **With dollar tailwind still intact, and oil prices grossly extended, profit taking in Small-Cap, Mid-Cap, Emerging Markets, International and Energy stocks seems logical.**•This recommendation remains from the last couple of weeks and remains salient.•Most importantly,•given that a bulk of the sectors remain either in weakening or lagging sectors, this suggests the current advance in the market remains on relatively weak footing. Over the last couple of weeks I have recommended taking profits in the **Technology** sector. **This was due to the extreme levels of outperformance of that sector which has begun to fade. The rotation out of technology is likely not complete yet and brings into focus extremely oversold sectors such as Health Care, Utilities and Staples as potential candidates.** The **risk-adjusted equally weighted model** has been increased to 75%. **However, the markets need to break above the previous consolidation range to remove resistance to a further advance.**•

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

Symbol	Name	Description	Price	Weight
CASH	Cash/Money Market		1.00	\$ 20,000
XLB	SPDR-MATLS SELS	SPDR MATERIALS SELECT SECTOR SPDR FUND	46.73	\$ 2,727
XLE	SPDR-EGY SELS	SPDR ENERGY SELECT SECTOR SPDR FUND	69.37	\$ 2,727
XLF	SPDR-FINL SELS	SPDR FINANCIAL SELECT SECTOR SPDR FUND	19.77	\$ 2,727
XLI	SPDR-INDU SELS	SPDR INDUSTRIAL SELECT SECTOR SPDR FUND	57.10	\$ 2,727
XLK	SPDR-TECH SELS	SPDR TECHNOLOGY SELECT SECTOR SPDR FUND	47.44	\$ 2,727
XLP	SPDR-CONS STPL	SPDR CONSUMER STAPLES SELECT SECTOR SPDR	52.67	\$ 2,727
XLU	SPDR-UTIL SELS	SPDR UTILITIES SELECT SECTOR SPDR FUND	48.46	\$ 2,727
XLV	SPDR-HLTH CR	SPDR HEALTH CARE SELECT SECTOR SPDR FUND	67.78	\$ 2,727
XLY	SPDR-CONS DISCR	SPDR CONS DISCR SELECT SECTOR SPDR FUND	78.04	\$ 2,727
MGK	VANGD-MG CAP GR	VANGUARD MEGA CAP GROWTH ETF	85.65	\$ 2,727
IJR	ISHARS-SP SC600	ISHARES CORE SP SMALL-CAP ETF	118.00	\$ 2,727
RSP	GUGG-SP5 EQ ETF	GUGGENHEIM SP 500 EQUAL WEIGHT ETF	81.42	\$ 3,000
VIG	VANGD-DIV APPRC	VANGUARD DIVIDEND APPREC ETF	82.13	\$ 3,000
VNQ	VIPERS-REIT	VANGUARD REIT ETF	80.45	\$ 3,000
IDV	ISHARS-INTL SD	ISHARES INTERNATIONAL SELECT DIV ETF	29.12	\$ 3,000
VVO	VANGD-FTSE EM	VANGUARD FTSE EMERGING MARKETS ETF	37.45	\$ 3,000
TLT	ISHARS-20+YTB	ISHARES 20+ YEAR TREASURY BOND ETF	130.45	\$ 20,000
BNDX	VANGD-TTL INT B	VANGUARD TOTAL INTERNATIONAL BOND ETF	55.23	\$ 10,000
HYG	ISHARS-IBX HYCB	ISHARES IBOX \$ HIGH YIELD CORP BOND	86.28	\$ 5,000



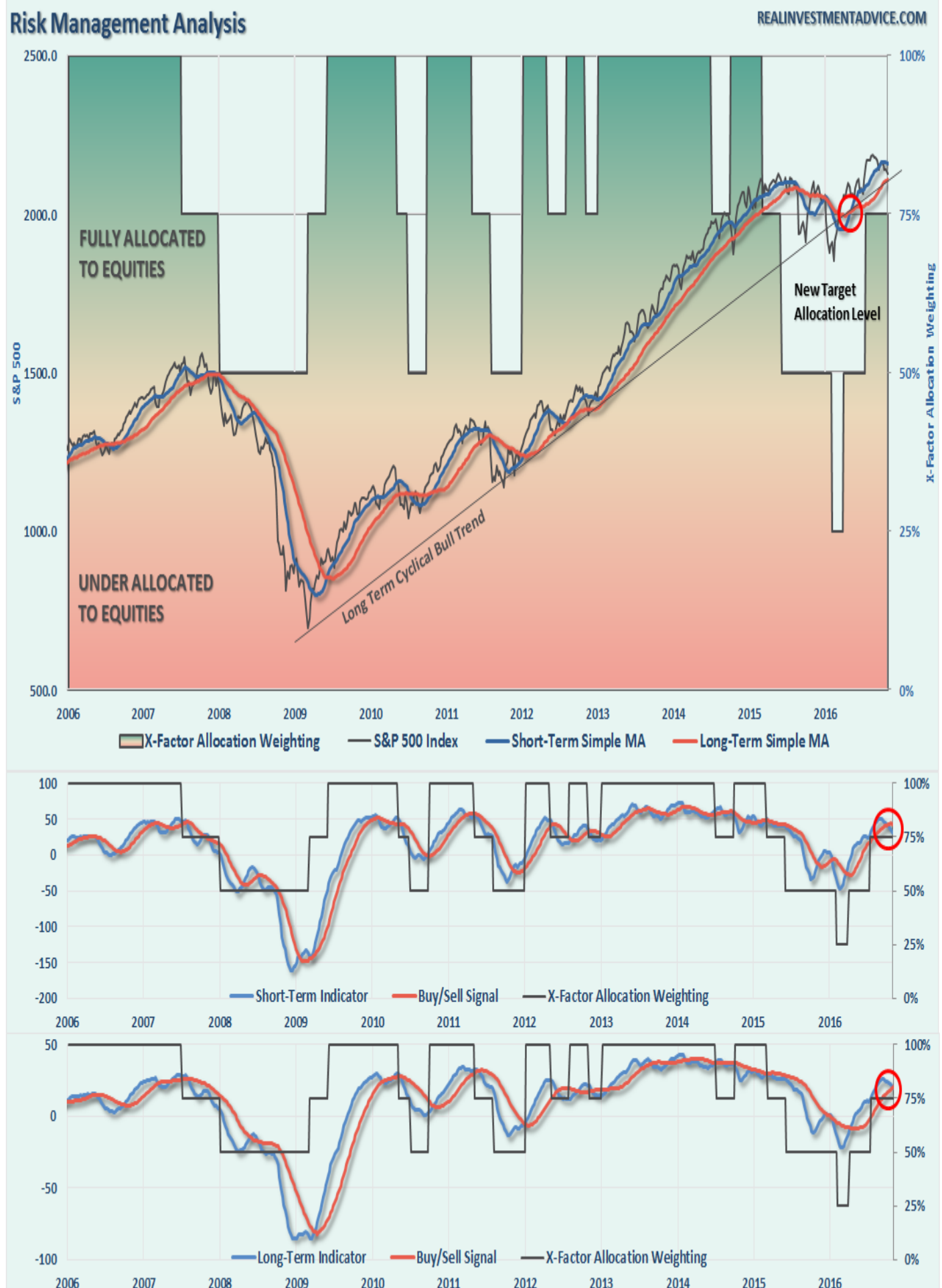
Such an increase will change model allocations to:

- 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.

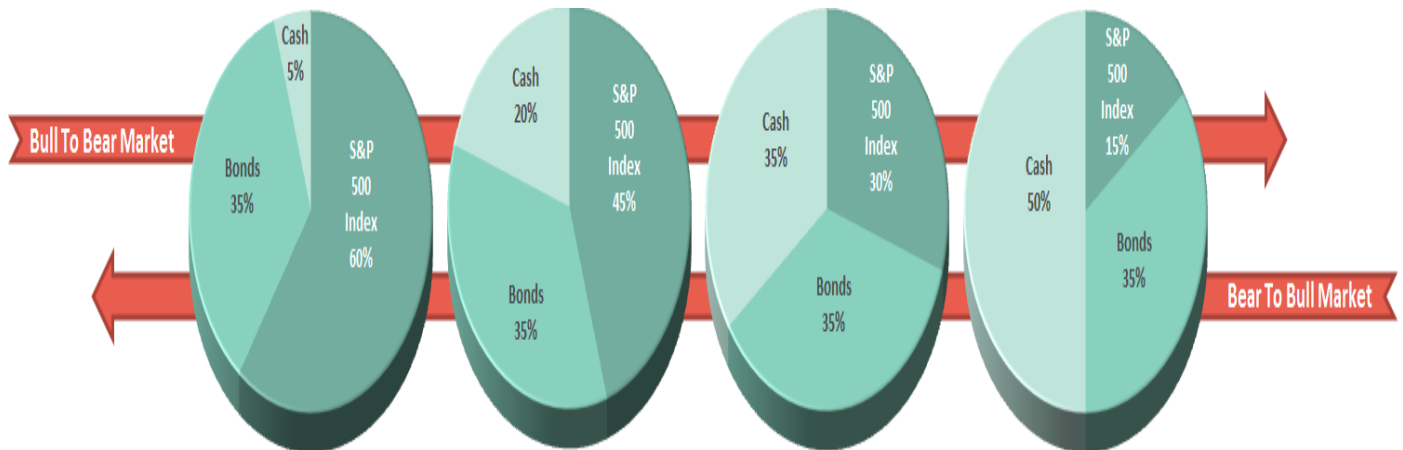
THE REAL 401k PLAN MANAGER

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



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.



On The Ledge

The good news is the market was able to hold 2125 last week keeping support in place, but just barely. **Following the revelation of more investigations into Hillary Clinton, stocks made a "run for the border" and it wasn't to get a bag full of tacos.**

However, the markets DID hold support which keeps allocation models stable this week, but mind you we are standing on a proverbial ledge.

The bad news is a more important correction may have just started, however, it is too early to know for certain. We remain on high alert with our initial "sell signals" in place as shown in the chart above.

It is advised, as boring as it has been, to remain cautious in 401k allocations. While it certainly has not been as fun as watching "paint dry," it has kept volatility low and principal safe. However, we will make changes accordingly depending on what the market decides to do next.

As noted two weeks ago:

"We are dangerously close to triggering a second sell signal, the bottom part of the chart, which will likely coincide with a failed rally attempt over the next week or two. Such an outcome would suggest a weaker market environment in the intermediate term with a high degree of caution required."

Again, with early warning signals are suggesting the correction has more room to go, so let's be patient once again this coming week.

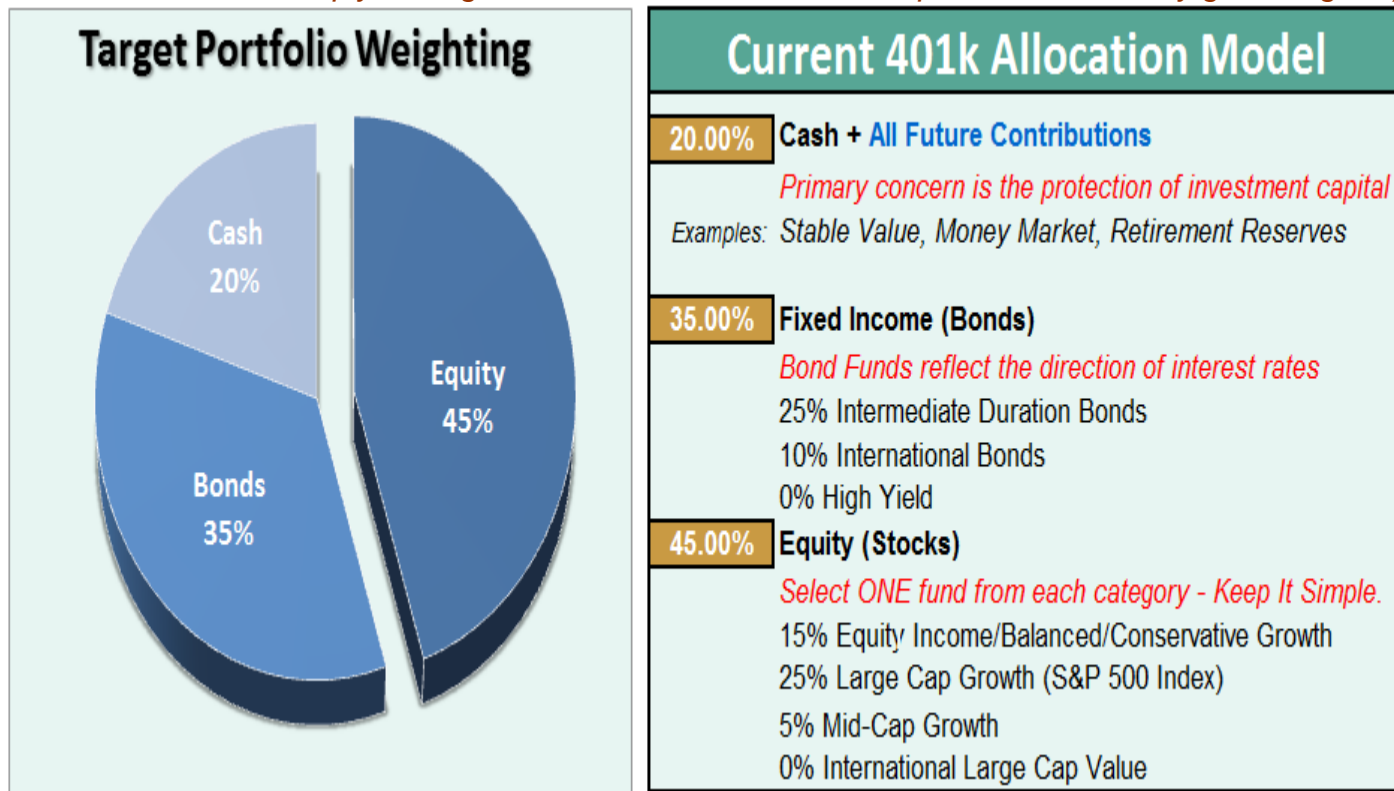
Thank goodness, there is only one more week to go before the election. Once we have that behind us, assuming we don't have another Democratic contest of results as we saw in 2000 with "dangling chads," we should have better clarity on market direction headed into the end of the year.

Sit tight for now and I will update you on Tuesday.

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.)*



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

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.