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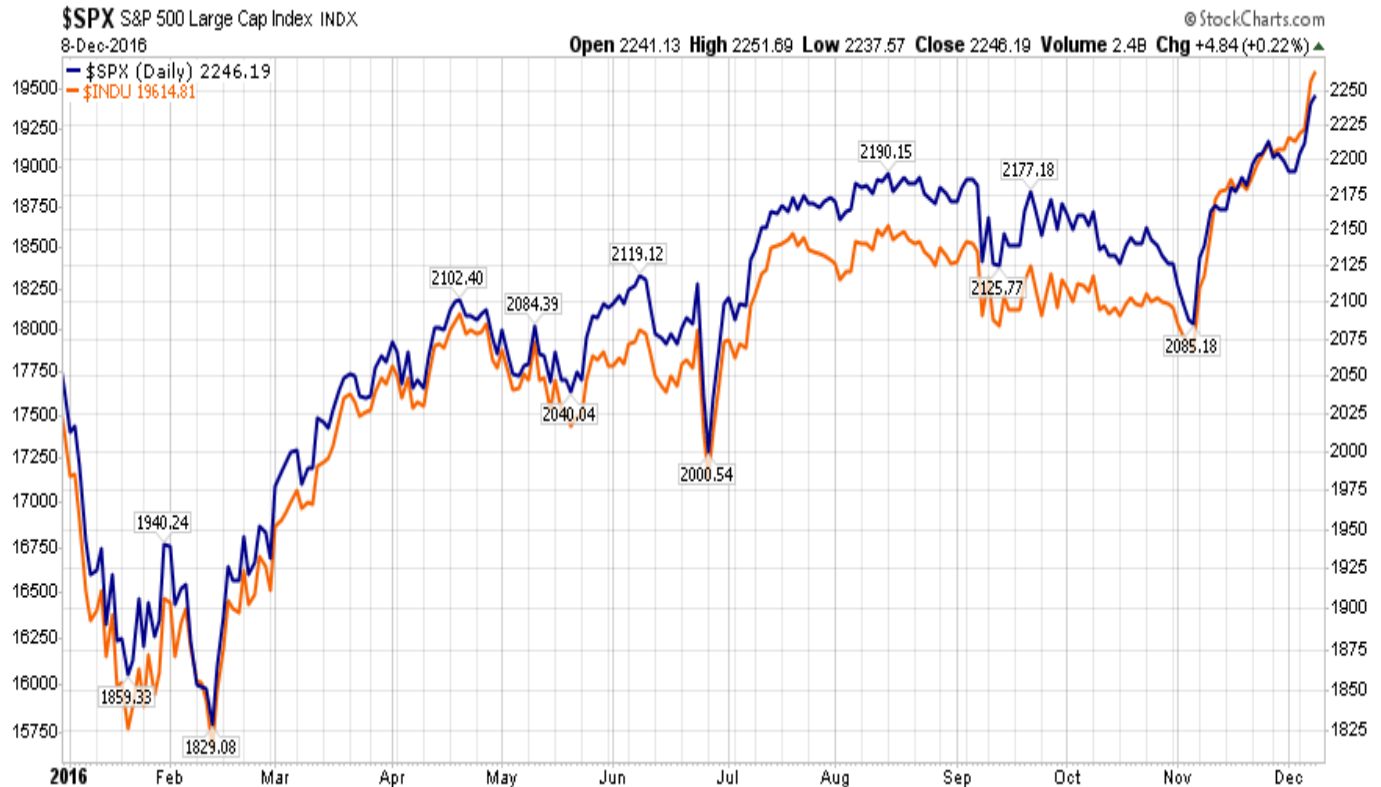
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- *Review & Thoughts On "Dow 20,000"*
- *This Looks A Lot Like 1999*
- *Last One Out Turns Off The Lights*
- *Sector Analysis*
- *401k Plan Manager*

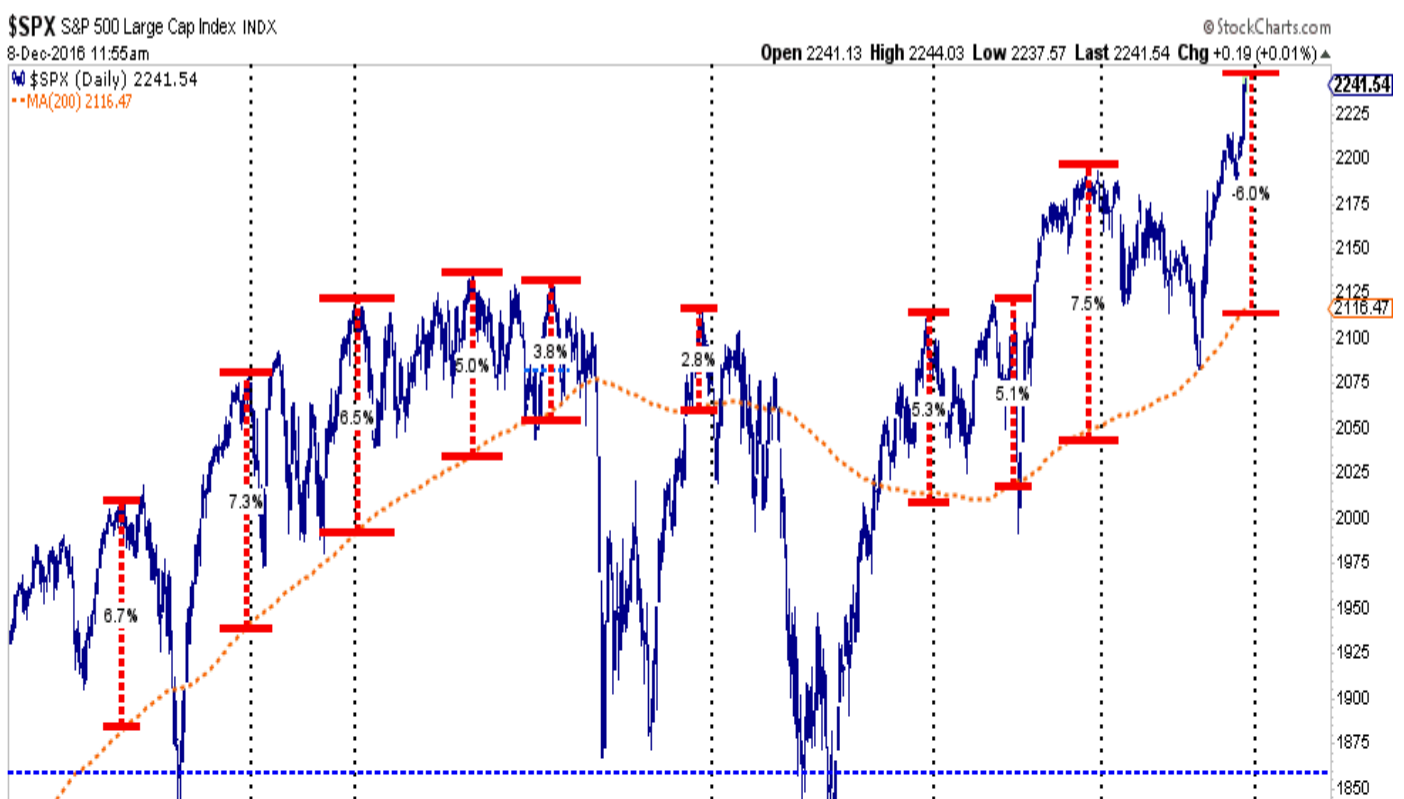
Review & Dow 20,000

This past week, the market advanced 3% heading towards my target of 2400. **The Dow broke above 19700 and is within striking distance of the "psychological" summit of 20,000.**

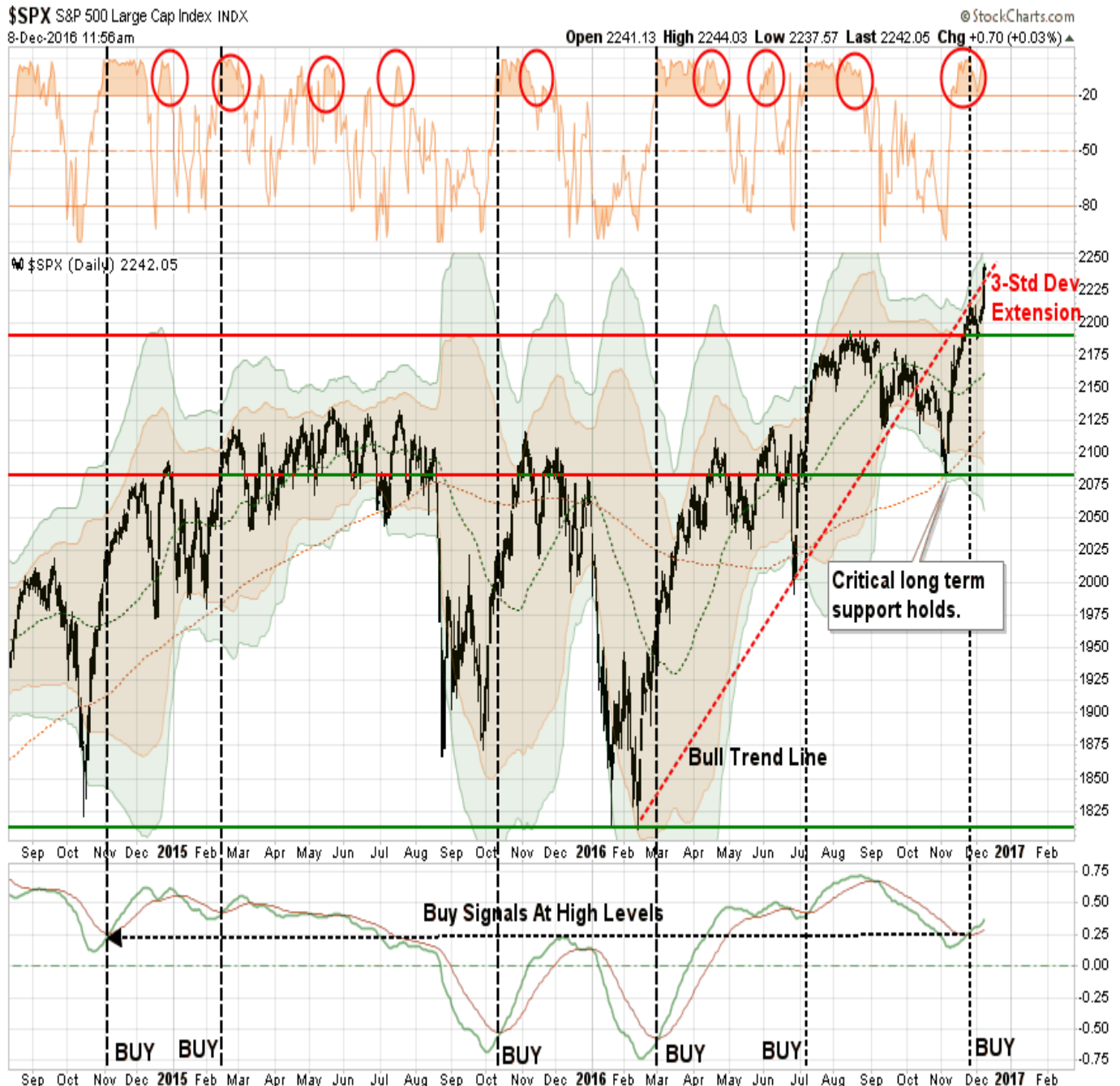


With just 250•points to go, it is extremely likely traders will try and push stocks to that level by Christmas.•Woo Hoo!**Caveat Emptor!** Before you go printing up your "Dow 20,000" hats, there is a dark side to the advance. If you go outside and throw a ball into the air, it will travel until the momentum of the ball is overtaken by gravity. There is, just for a very brief moment, a point where the ball is stationary. However, eventually, gravity wins. The same is true for market prices. As I discussed [on Friday](#):

?The importance of understanding the nature of reversions is critical for investors. Markets rarely move in one direction for very long, notwithstanding overall trends, without a correction process along the way. While the chart below shows this clearly for the overall market, it applies to individual sectors of the market as well.?



?Importantly, notice the bottom two part of the chart above. When there is a simultaneous culmination of overbought conditions combined with a more extreme deviation, corrections usually occur back to the underlying trend. This can also be seen in the next chart as well. While the 'Trump Rally' has pushed asset prices higher and triggered a corresponding 'buy signal,' that signal has been triggered at very high levels combined with a very overbought condition. Historically, rallies following such a combination have not been extremely fruitful.?



While the ?exuberance? of the Trump rally has certainly awakened the ?animal spirits,? the sustainability of the advance from such egregiously overbought conditions is questionable. David Rosenberg weighed in on this point via [The Globe & Mail](#):

*?Okay, so the president-elect is now at 3 percent, again skewed by two or three sectors. Big deal. Ronald Reagan, who was the original ?Make America Great Again? advocate (as opposed to a copycat), saw the equity market soar 6 percent in his first month in office. **Guess what? The market peaked less than four weeks into his term and for the next two years we had an economic downturn and a 25-percent***

slide in the stock market. The combination of rising bond yields, Fed tightening and a stronger dollar took care of that honeymoon. After all, we all know what happens when the honeymoon is over. The hard work begins. That slump we just saw in October export volumes and widening in the trade deficit is surely just an early sign of what is to come. Before The Donald does anything on his first hundred days, something tells me the lagged impact of the tightening in financial conditions associated with the recent bounce in interest rates and appreciation of the U.S. dollar is going to come back and bite the economy in the tush, as was the case heading into 2016.?

It's Beginning To Look A Lot Like...1999!

It is interesting to watch the excitement build around the market once again as we head into the New Year. There is an optimism rising the "new bull market" has finally arrived and we are set to start an unprecedented advance as the calendar turns. Take a look:

- [Dow 20,000 And Beyond](#) - Mark DeCambre
- [3-Reasons The Trump Rally Will Continue](#) - Stephen Gandel
- [Reasons Why Stocks Are In "Melt-Up" Mode](#) - Adam Shell
- [Rising Rates Good For Stocks](#) - Lee Jackson
- [Rising Yields Signal Economic Growth](#) - Peter Ireland
- [Rising Yields A Bullish Signal](#) - James Picerno

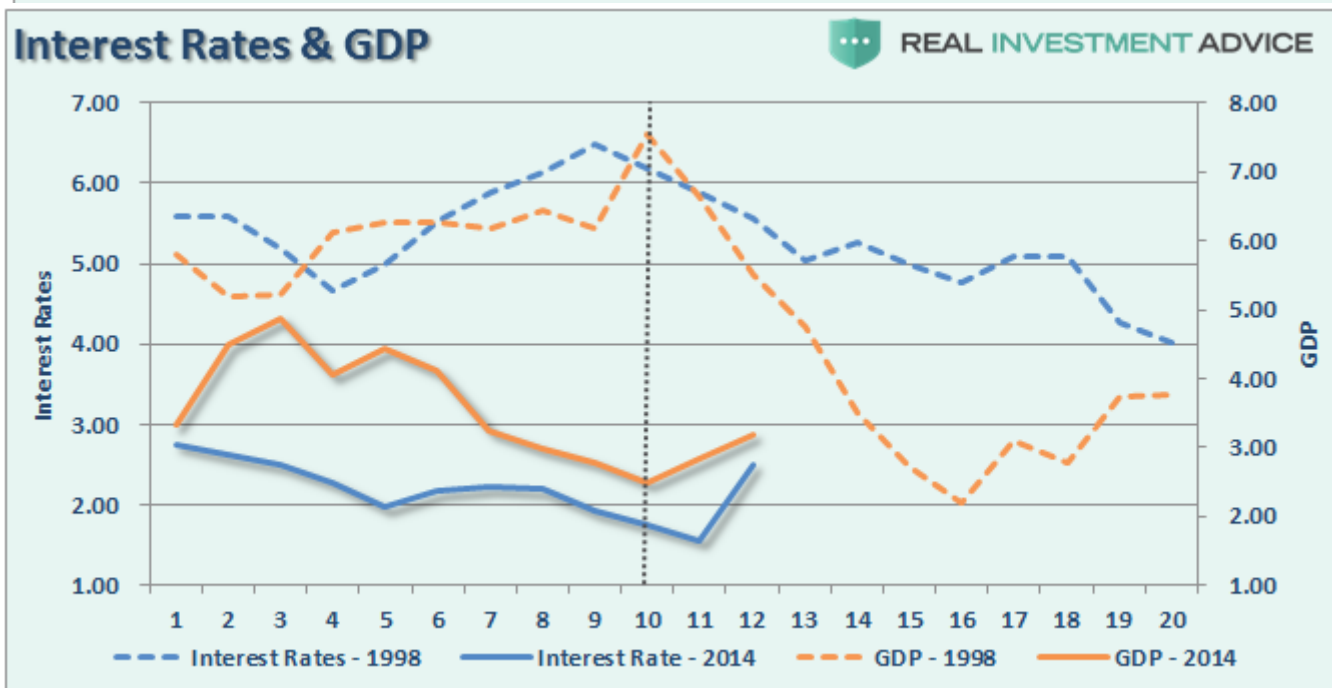
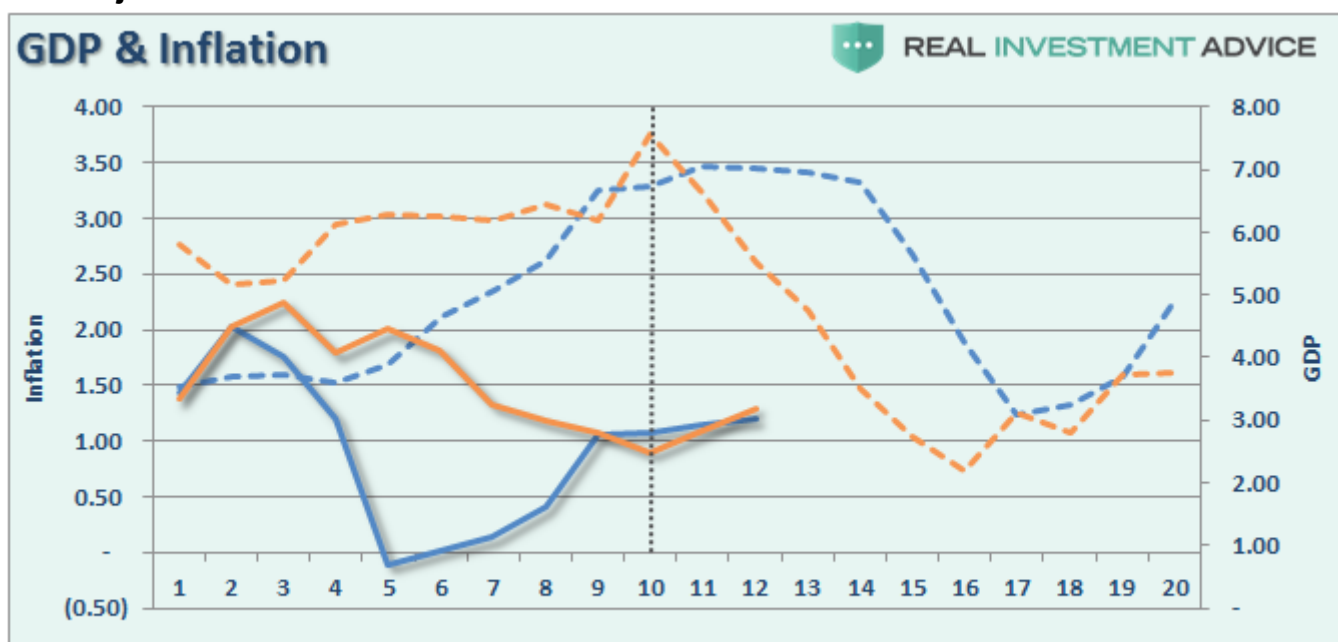
You get the idea. And, as I [showed last weekend](#), investor confidence is extremely high levels as well. But here is the latest from NAAIM which shows managers at a net 101% exposure.

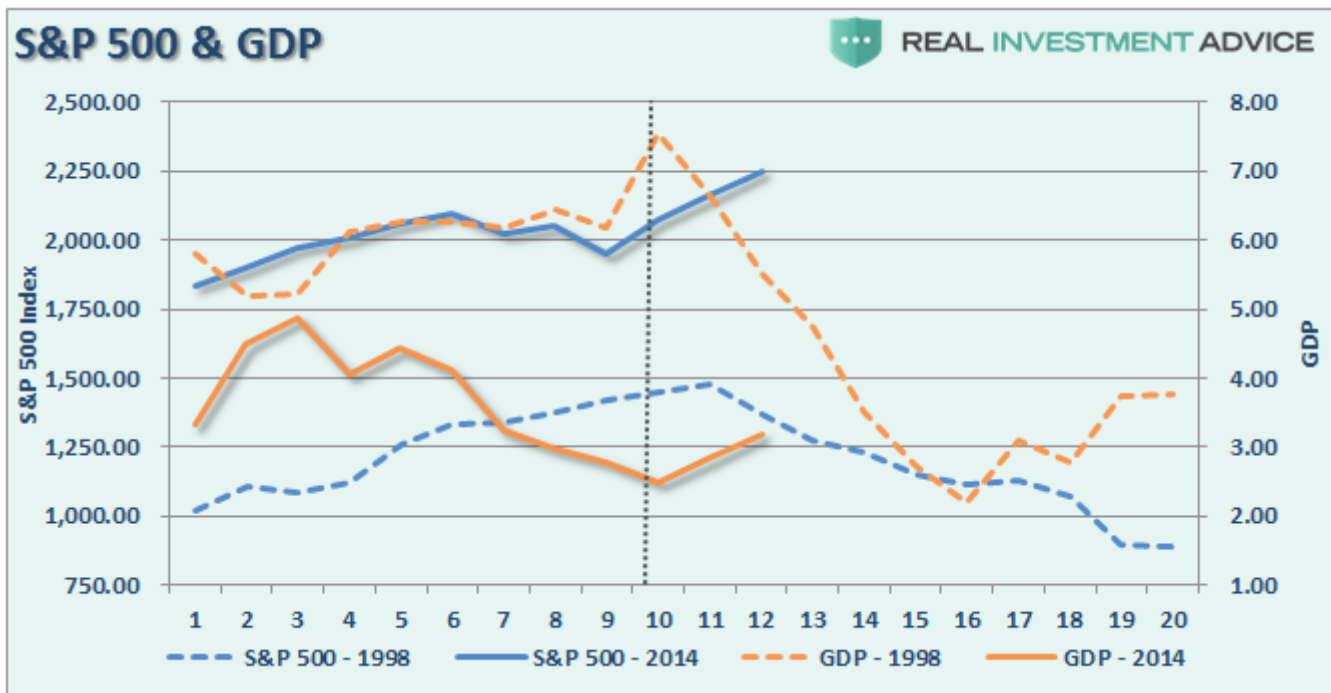


See, it's all good....for now. If this market rally seems eerily familiar, it's because it is. **If fact, the backdrop of the rally reminds me much of what was happening in 1999. 1999**

- *Fed was hiking rates as worries about inflationary pressures were present.*
- *Economic growth was improving•*
- *Interest and inflation were rising*
- *Earnings were rising through the use of "new metrics," share buybacks and an M&A spree. (Who can forget the market greats of Enron, Worldcom & Global Crossing)*
- *Stock market was beginning to go parabolic as exuberance exploded in a "can't lose market."*

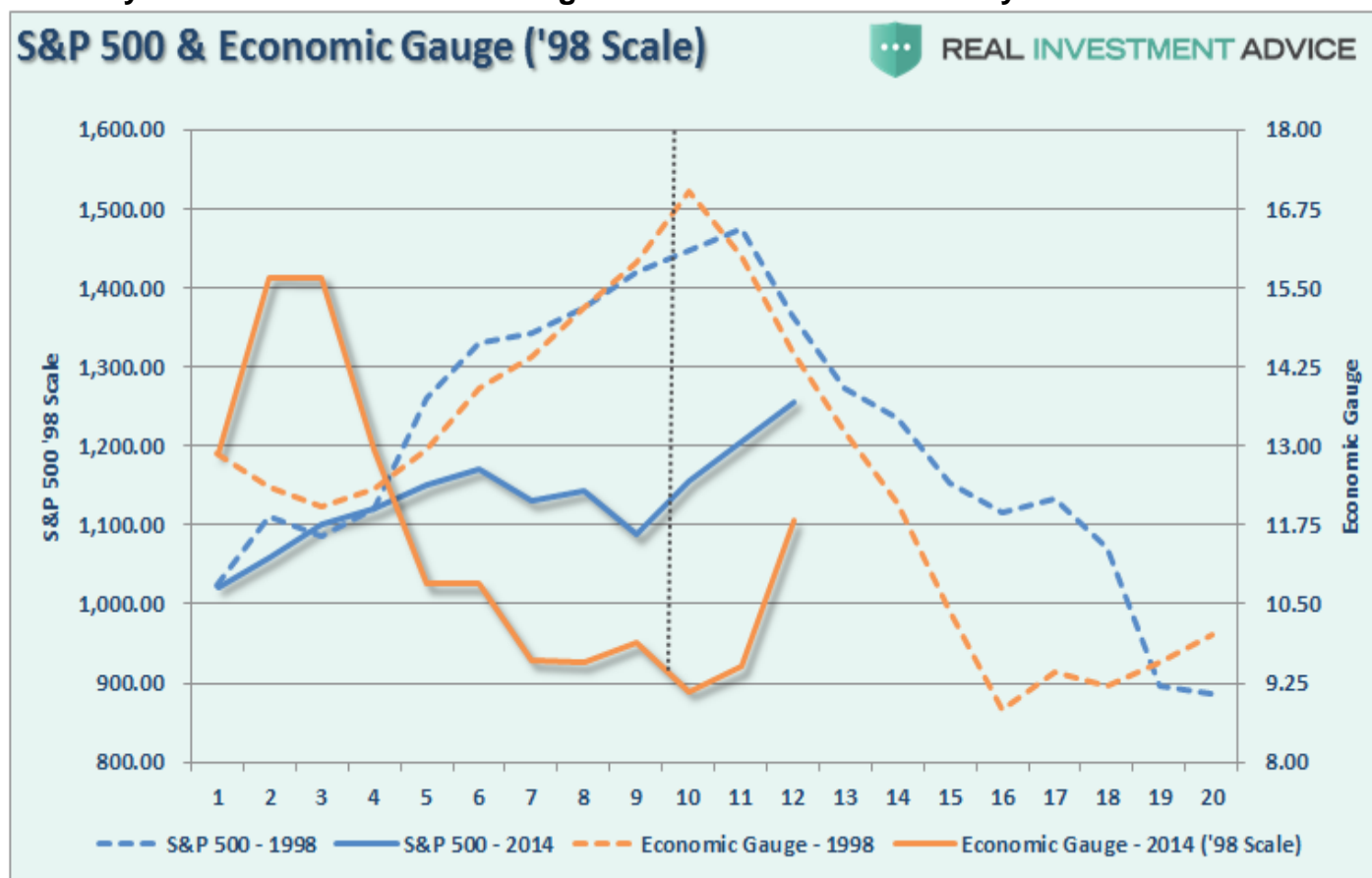
If you were around then, you will remember. The charts below show a comparison of GDP, Inflation, Interest Rates (10-year) and the S&P 500 between 1998-2002 (*dashed lines*) and 2014-Present (*solid lines*). **The data is nominal and quarterly.** While inflation rates and GDP growth are substantially weaker than in 1998, the recent turn higher is similar to what we saw during that previous period. **Notice in 2000, there was a spike higher in GDP which got the bulls all excited just before the recession took hold.**





It

didn't. The last chart gives a better comparison. I have combined interest rates, GDP, and inflation into a single "*economic index*" for both the 5-year period beginning in 1998 and 2014 to present. **I then recalibrated the 2014 index and market to 1998 levels.**• This is where it gets interesting. If you look at the chart you would quickly make the argument that we have 8-10 quarters ahead of us before a problem occurs. **However, because we are running at HALF of the previous rate, there is substantially less room to fall before a recession sets in. In other words, in 1998, the economy had to decline from a 7.5% growth rate to hit recessionary levels.**•



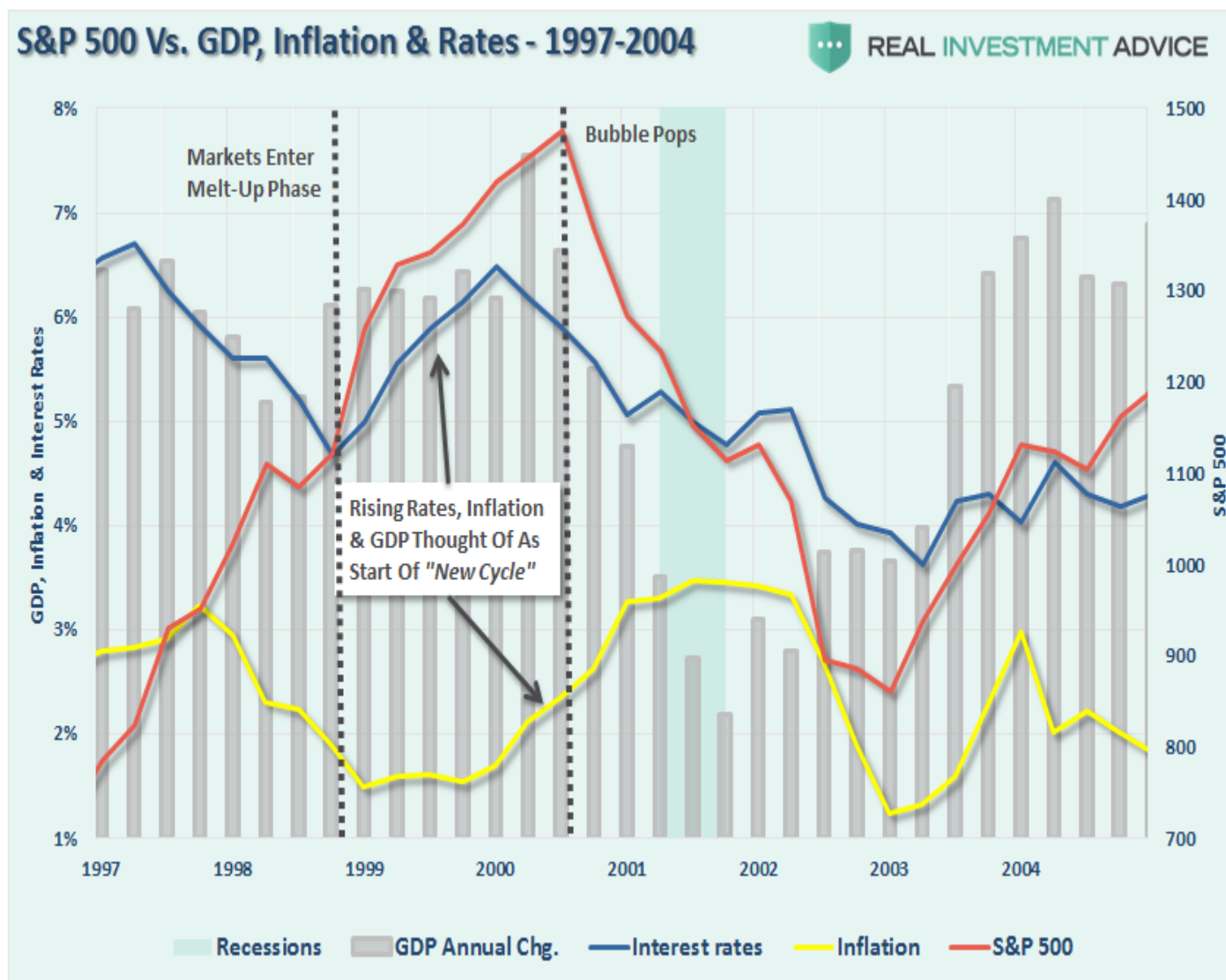
Considering we are at 2% today, the time to recession will be considerably shorter - like 2-4

quarters kind of short. For the skeptics, here is the actual data graphed from 1997-2014. Stocks entered the melt-up phase as the "Bullish Mantra" changed from:

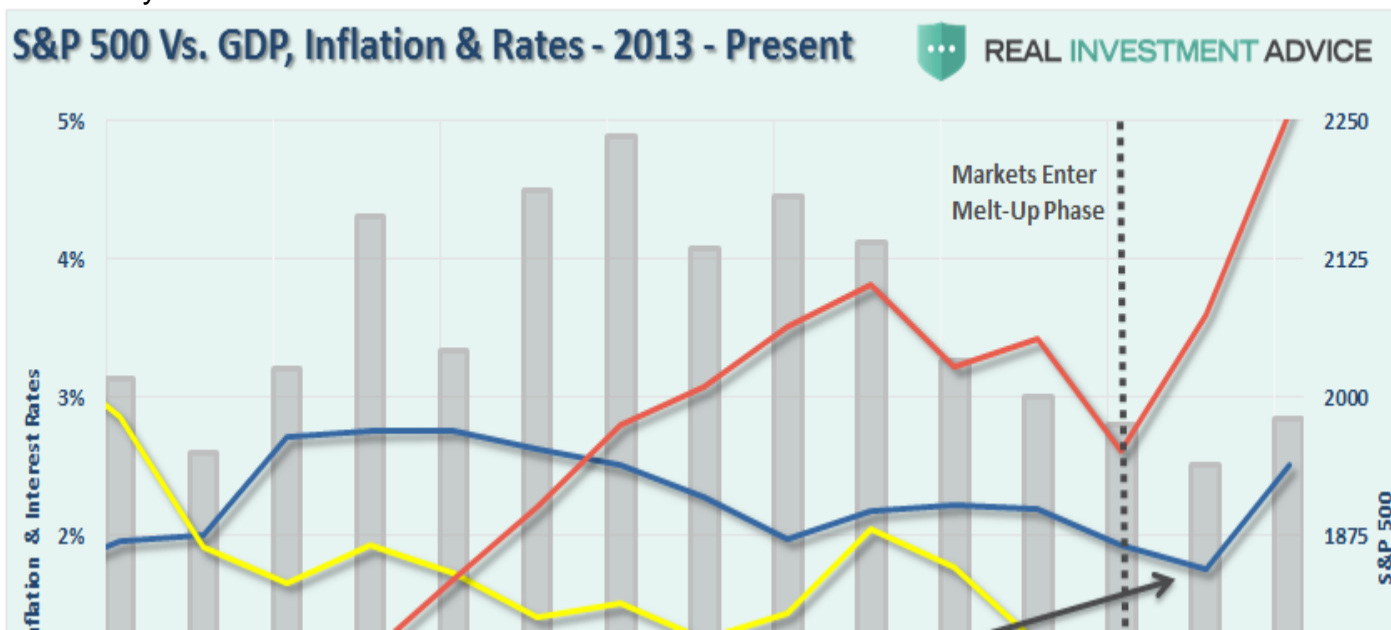
Lower rates and lower inflation is good for stocks

To:

Higher rates and higher inflation is good for stocks



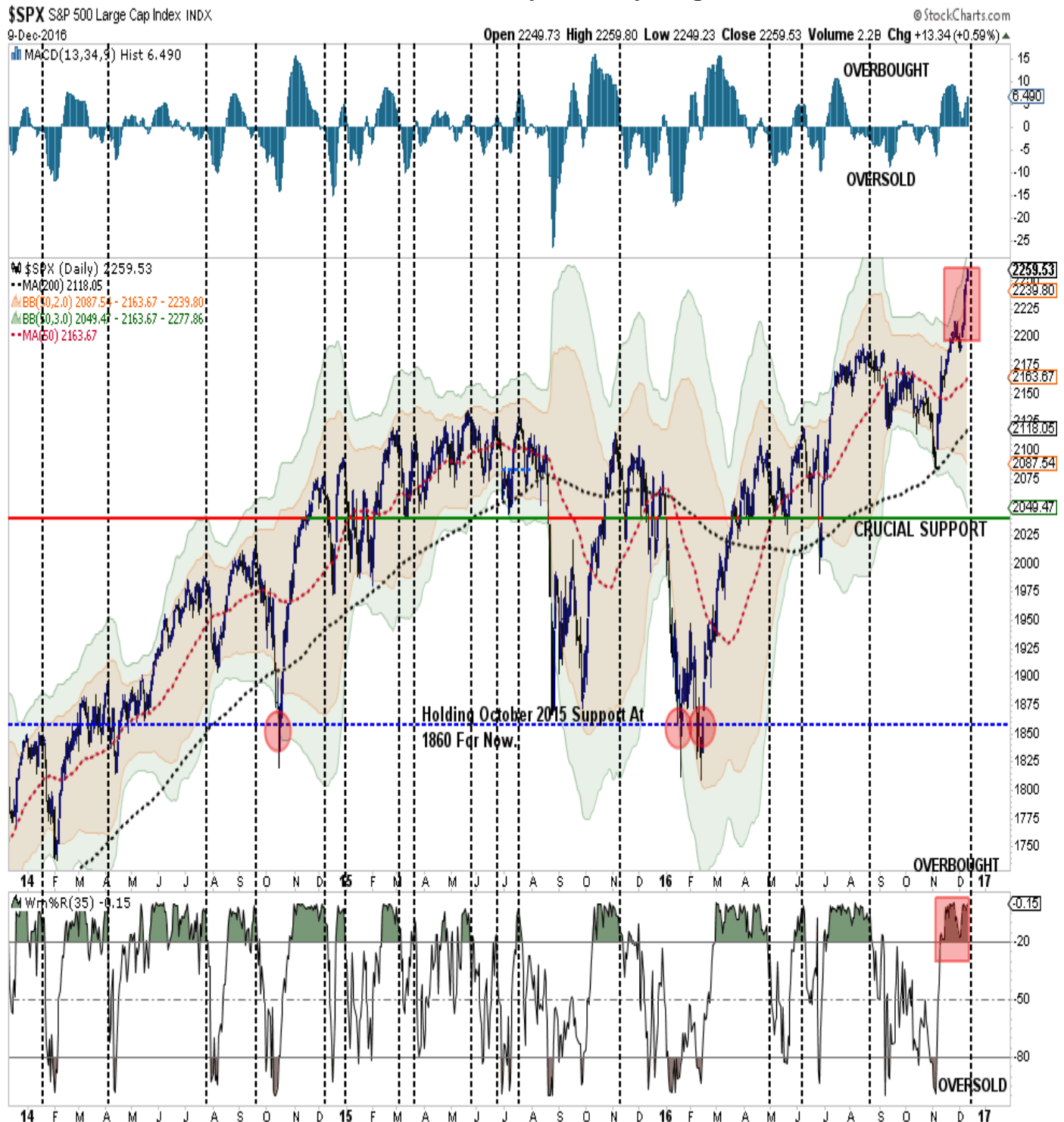
The mantra of higher inflation and higher rates is good for stocks has once again returned as stocks enter their "melt-up" phase of the advance. As shown above, it wasn't the case then and it likely won't be the case now.



While there is much hope the new President, and his newly minted cabinet, will "Make America Great Again," there can be a huge difference between expectations and reality. **And, like in 1999, there is just the simple realization that eventually excesses will mean revert.**

Last One Out, Turns Off The Lights

I know, lot's of charts, but "bear" with me. (*pun intended*) As shown below, the market is currently pushing well into 3-standard deviations above the 50-day moving average. **As discussed above, such extensions are rare and do not historically last very long.**



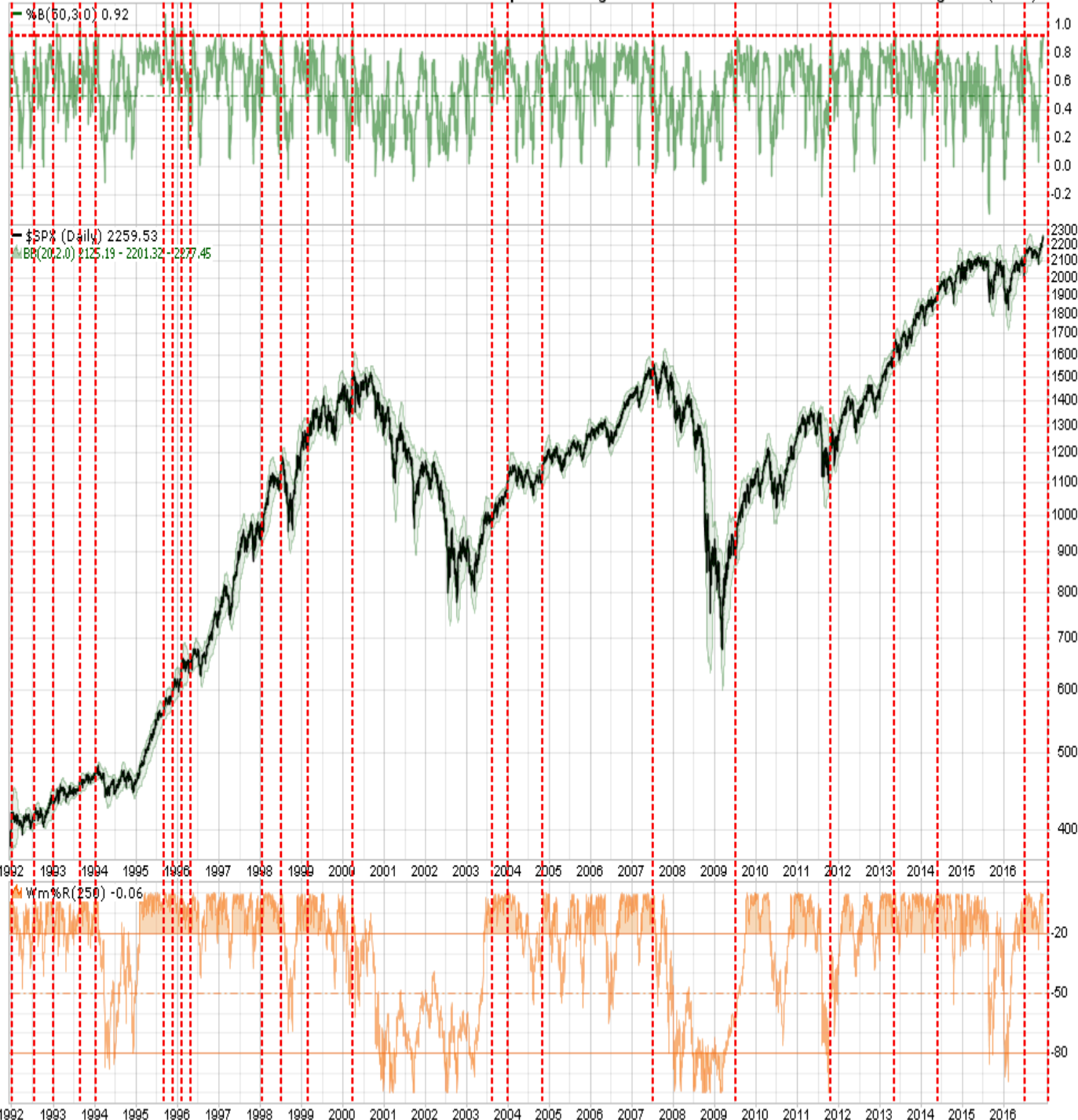
As shown at the top of the next chart, the market is currently at 92% of a full 3-standard deviation extreme. The horizontal dashed red line shows all the previous times the market hit such extreme levels going back to 1992. **Short and intermediate-term corrections are common along with more major crashes.**

\$SPX S&P 500 Large Cap Index INDX

9-Dec-2016

© StockCharts.com

Open 2249.73 High 2259.80 Low 2249.23 Close 2259.53 Volume 2.2B Chg +13.34 (+0.59%)▲



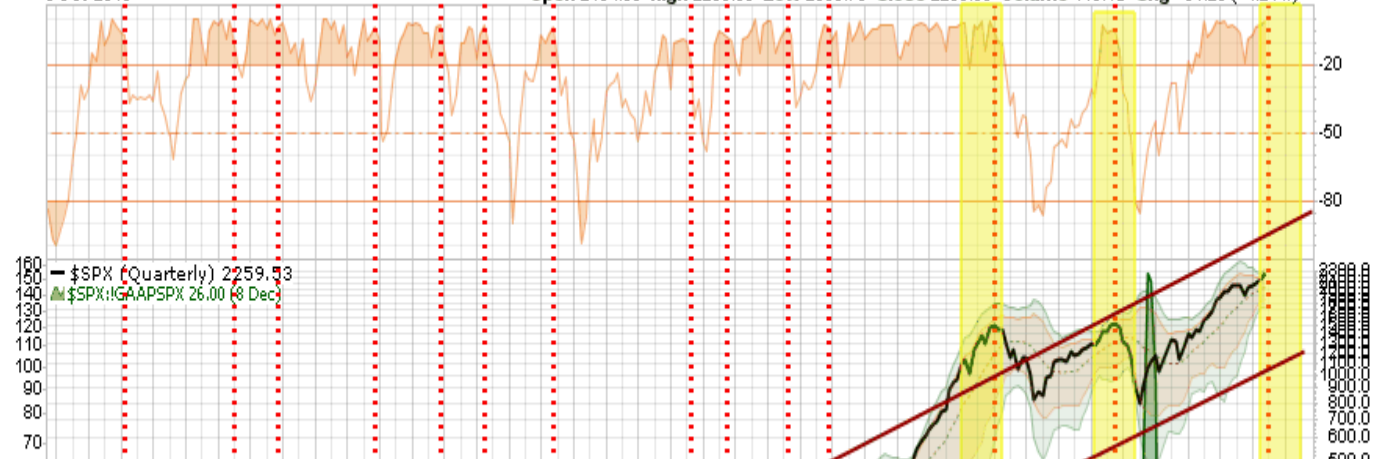
This last chart shows a longer-term picture of quarterly data back to 1942. With valuations high and the markets extremely overbought, as shown by the vertical red dashed lines, corrections have been common. **The highlighted areas show where extreme deviations have collided with really bad outcomes....like now.**

\$SPX S&P 500 Large Cap Index INDX

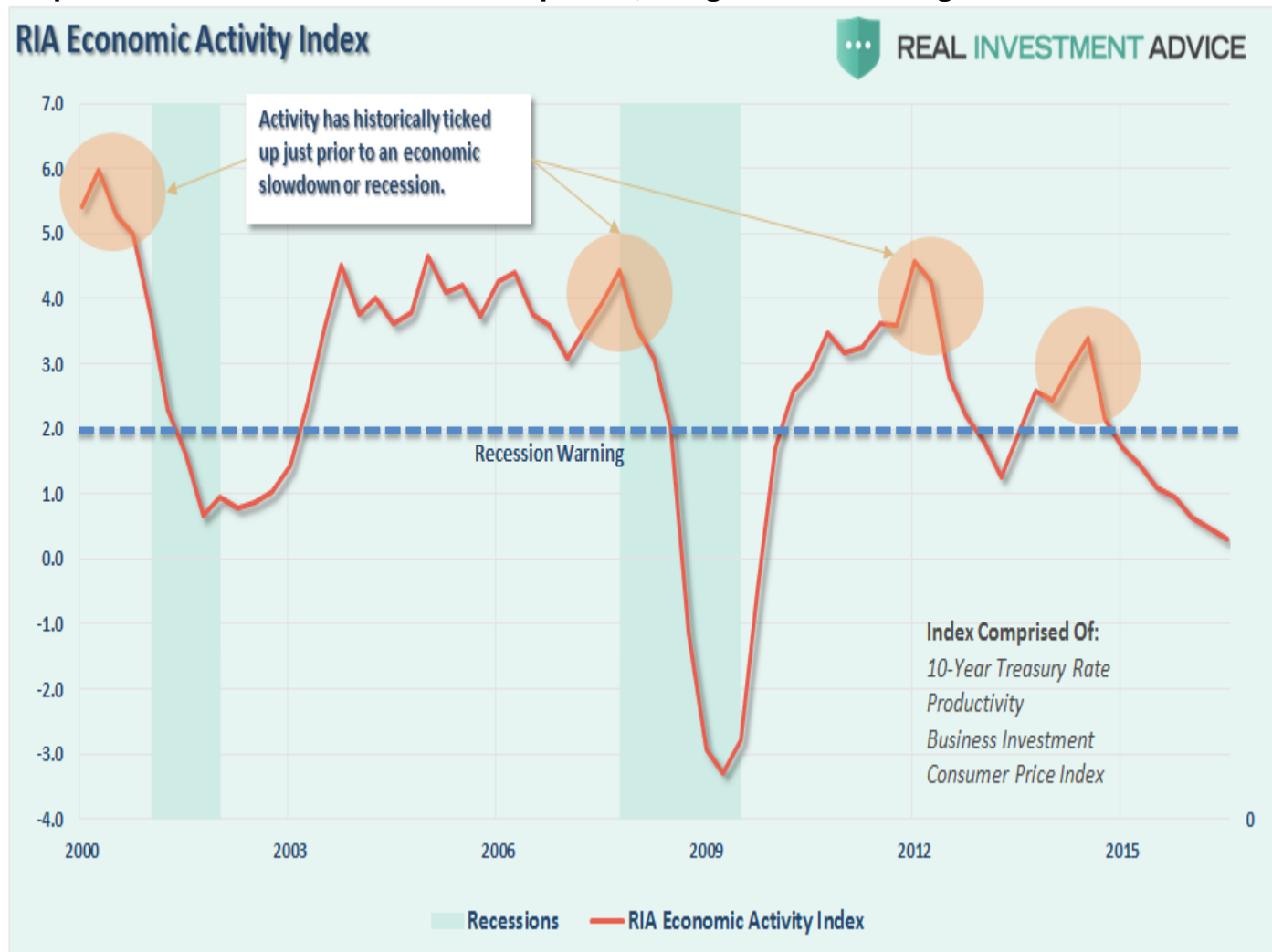
9-Dec-2016

© StockCharts.com

Open 2164.33 High 2259.80 Low 2083.79 Close 2259.53 Volume 115.1B Chg +91.26 (+4.21%)▲



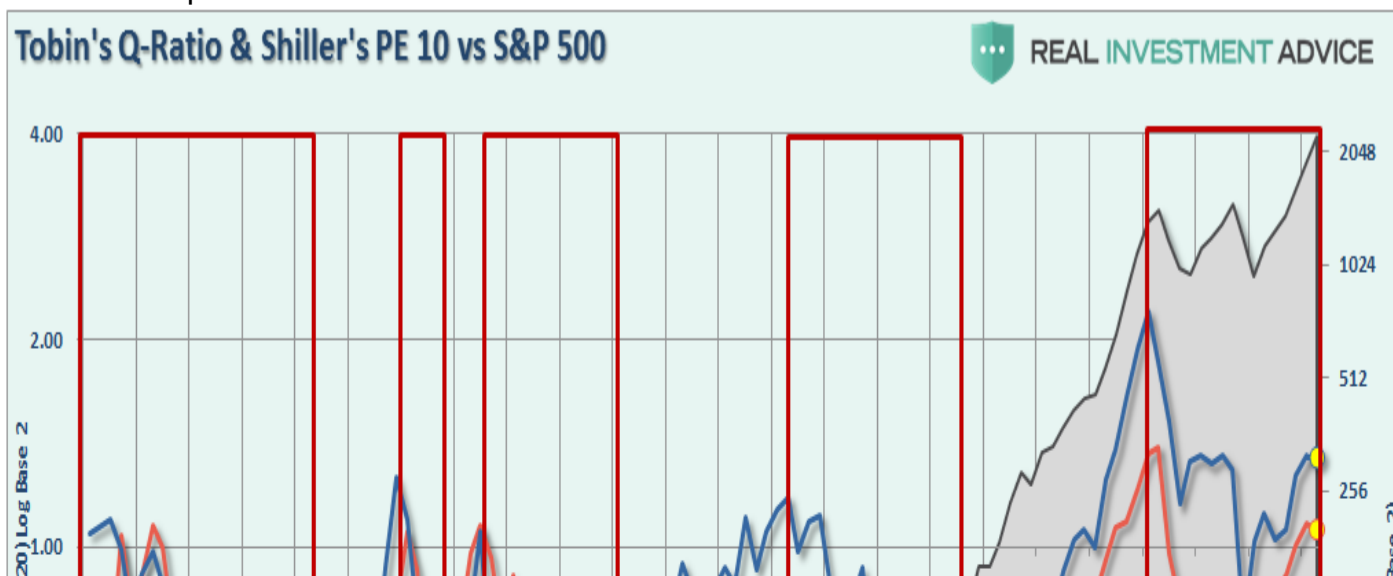
Here is the point. Despite the rampant optimism running through "Main Street" and "Wall Street" since the election there is little changed economically speaking. The economy remains weak, labor costs have surged, monetary policy has tightened, and a stronger dollar negatively impacts corporate earnings. Wages haven't increased much for the average worker and employment is still trending lower. In fact looking at the primary indicators of things that affect the production side of the economic equation, things don't look so good.



However, the markets rally on expectations. Therefore, here is the question you must answer:

"After a 200% increase from the financial crisis lows, trillions of dollars injected into the financial markets and the economy, and 8-years of economic growth - exactly what is not already priced into the financial markets?"

Valuations are also a problem (both P/E and Tobin Q-ratios) with investors currently on the wrong side of the equation.




For those long energy-related equities, **this is likely a good time to take in profits and rebalance exposure during short-term corrections.** However, the bigger picture is that while long-exposure remains recommended currently, it is also critically important not become overly complacent. **Just because the lights are still on and the music "still a pumpin'", smarter investors tend to quietly exit before the cops show up.** Just don't forget to turn off the lights if you are the last to leave.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

Thank you for your recent suggestions, while not all requests are possible to fulfill due to data limitations, I do appreciate the input. **We are working on adding some momentum indicators to the tear sheet.** If you have any suggestions or additions you would like to see, [send me an email](#).

3 Month SPY Price							SPY RISK INFO						
							Item	T 2-Yr		T 1-Yr.	YTD	% Current	
							Price Return		9.71%	10.31%	11.11%	7.71%	
							Max Drawdown		20.09%	20.09%	20.09%	0.00%	
							Sharpe		0.49	0.77	1.03	0.33	
							Sortino		0.89	1.14	1.27	0.11	
							Volatility		11.89	10.47	10.64	0.02	
							Daily VaR-5%		(22.85)	(12.97)	(11.26)	(0.13)	
							Mnthly VaR-5%		(13.62)	(8.89)	(6.30)	(0.29)	
S&P 500 Fundamental Analysis									S&P 500 Market Cap Analysis				
Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low	Item	12-M Ago	Current	% Chg	
Dividend Yield	1.83%	2.01%	1.96%	(2.57%)	2.20%	1.83%	(10.78%)	7.22%	Shares	2,541.0	2,427.0	(4.49%)	
P/E Ratio	18.12	17.62	19.82	11.11%	40.26	18.04	(50.8%)	9.85%	Sales	56,201	55,376	(1.47%)	
P/S Ratio	2.71	2.83	2.97	4.77%	2.89	1.71	2.78%	74.02%	SPS	22.1	22.8	3.16%	
P/B Ratio	3.21	3.21	3.35	4.14%	3.32	2.24	0.99%	49.46%	Earnings	7,581.0	7,191.2	(5.14%)	
ROE	15.01%	15.76%	15.04%	(4.78%)	16.12%	15.01%	(6.69%)	0.23%	EPS TTM	3.5	3.4	(2.27%)	
ROA	2.87%	2.95%	2.82%	(4.53%)	2.99%	2.76%	(5.78%)	2.04%	Dividend	1.3	1.3	4.50%	
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	20.31%	7.48%	1.18	143.79	150.73	11.39	(4.6%)	3.0%	2.5%	0.70	1.92	31.70	
Materials	9.03%	2.90%	1.44	20.04	49.13	11.74	(59.2%)	16.8%	2.1%	4.98	3.83	17.20	
Industrials	19.09%	10.50%	1.09	18.79	24.77	12.35	(24.1%)	17.9%	2.1%	5.35	3.96	17.88	
Discretionary	5.94%	12.38%	1.11	20.76	60.49	14.55	(65.7%)	23.5%	1.5%	4.82	3.66	18.23	
Staples	5.08%	9.24%	0.60	20.90	25.23	14.90	(17.1%)	22.9%	2.7%	4.83	3.51	18.74	
Health Care	(3.44%)	13.32%	0.95	15.83	28.50	11.13	(44.5%)	25.2%	1.8%	6.36	5.24	14.50	
Financials	20.53%	14.95%	1.35	16.42	24.76	9.32	(33.7%)	8.3%	1.6%	6.10	4.05	13.84	
Technology	11.28%	20.61%	1.20	21.17	73.90	16.16	(71.4%)	26.0%	1.3%	4.75	3.91	19.55	
Telecom	15.25%	2.54%	0.45	14.05	26.07	12.63	(46.1%)	20.0%	4.6%	7.15	2.98	13.04	
Utilities	13.76%	3.04%	0.27	16.79	53.93	12.32	(68.9%)	10.6%	3.7%	6.02	3.08	16.35	
Real Estate	0.56%	2.84%	0.75	18.24	26.36	15.75	(30.8%)	11.1%	3.4%	5.47	3.71	16.98	

Sector Analysis

Comments While the markets seemed to rally broadly last week, such was really not the case when we looking at individual areas. **Financials continued to lead the charge the last week, and are extremely overbought. Profit taking is highly recommended.** Small and Mid-cap stocks, Energy (on oil cut deal from OPEC) and Industrials outperformed the index as well. **The problem, as stated above, is that a stronger dollar and higher interest rates will likely hamper this optimism sooner rather than later.** This is particularly the case with Small and Mid-Cap companies that are the most susceptible to monetary tightening.

(Note: I have changed the sector and major market analysis charts to a 50/200 DMA crossover signal and embedded an overbought/sold indicator.)





	Over Bought / Sold	50/200 DMA	Trend	Action	Notes
XLY	OB	Positive	Positive	Take Profits	
XLK	Weakening	Positive	Positive	Hold	
XLI	OB	Positive	Positive	Take Profits	Extreme Overbought
XLB	OB	Positive	Positive	Take Profits	Extreme Overbought
XLE	OB	Positive	Positive	Take Profits	Extreme Overbought
XLP	Improving	Negative	Negative	Hold	Improving Look To Add
XLV	Improving	Negative	Negative	Hold	Risks From ACA Changes
XLU	Improving	Negative	Negative	Hold	Improving Look To Add
XLF	OB	Positive	Positive	Take Profits	Extreme Overbought
\$SML	OB	Positive	Positive	Take Profits	Extreme Overbought
EEM	OS	Positive	Negative	Sell	Dollar / Rate Risks
EFA	OS	Positive	Negative	Reduce	Dollar / Rate Risks
GLD	OS	Negative	Negative	Sell	Loss Of Momentum
IDV	OB	Positive	Negative	Reduce	Dollar/Rate Risks
MDY	OB	Positive	Positive	Take Profits	Extreme Overbought
SDY	OB	Positive	Positive	Take Profits	Very Overbought
TLT	OS	Negative	Negative	Add	Extreme Oversold
VNQ	Improving	Negative	Negative	Add	Extreme Oversold

The

table below shows the **relative performance of each sector as compared to the S&P 500 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 lasts several weeks.

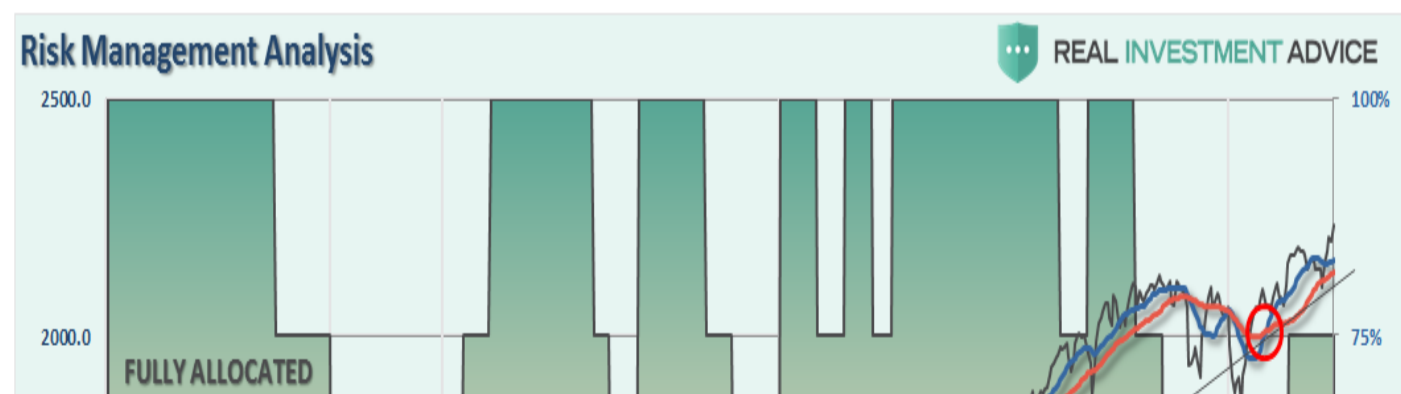
RELATIVE PERFORMANCE		TICKER ETF NAME		Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
		BENCHMARK		IVV	ISHARS-SP500	227.85	3.14	4.65	5.67	11.42	12.30	217.47	214.83	4.77%
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	51.50	(0.10)	2.31	4.46	0.48	4.90	47.84	47.71	7.64%	7.95%	BUY
		XLE	SPDR-EGY SELS	76.60	(0.78)	5.63	7.89	3.28	14.39	70.56	68.76	8.55%	11.40%	BUY
		XLF	SPDR-FINL SELS	23.75	1.71	4.95	(5.12)	(3.86)	(11.02)	20.89	22.48	13.71%	5.65%	SELL
		XLI	SPDR-INDU SELS	63.98	(1.28)	0.15	7.35	6.23	9.31	59.06	57.79	8.33%	10.71%	BUY
		XLK	SPDR-TECH SELS	48.65	1.06	(0.54)	(2.62)	3.64	1.37	47.40	45.69	2.64%	6.47%	BUY
		XLP	SPDR-CONS STPL	52.04	(0.23)	(1.68)	(7.09)	(13.42)	(7.13)	52.03	53.25	0.02%	-2.27%	SELL
		XLU	SPDR-UTIL SELS	47.96	(0.66)	(0.46)	(8.31)	(16.66)	2.46	48.04	49.37	-0.16%	-2.85%	SELL
		XLV	SPDR-HLTH CR	68.85	(2.50)	(6.97)	(10.19)	(12.06)	(14.36)	70.11	71.44	-1.80%	-3.63%	SELL
		XLY	SPDR-CONS DISCR	84.31	0.38	1.11	1.72	(0.71)	(4.30)	79.95	79.86	5.45%	5.57%	BUY
	SIZE	MGK	VANGD-MG CAP GR	88.15	(0.07)	(1.71)	(4.05)	(2.73)	(5.58)	86.44	85.60	1.98%	2.98%	BUY
IJR	ISHARS-SP SC600	140.99	2.75	5.15	10.15	12.84	16.30	125.58	120.95	12.27%	16.57%	BUY		
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	88.51	0.28	1.14	2.31	1.79	4.74	83.44	82.22	6.08%	7.65%	BUY
	Dividend	VIG	VANGD-DIV APPRC	86.78	(0.69)	(0.87)	(0.78)	(3.66)	0.36	83.48	83.44	3.95%	4.00%	BUY
	Real Estate	VNQ	VIPERS-REIT	83.21	0.87	1.30	(7.74)	(13.38)	(5.16)	82.47	85.26	0.90%	-2.40%	SELL
	International	IDV	ISHARS-INTL SD	29.91	0.10	(0.47)	(3.83)	(1.58)	(5.82)	29.26	29.29	2.22%	2.12%	SELL
		VWO	VANGD-FTSE EM	36.70	(0.54)	(0.53)	(5.94)	(1.81)	3.98	37.00	36.13	-0.82%	1.57%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	117.50	(4.90)	(8.37)	(18.47)	(24.89)	(17.36)	129.25	133.20	-9.09%	-11.79%	SELL
	International	BNDX	VANGD-TTL INT B	54.18	(3.51)	(5.24)	(8.16)	(12.99)	(10.21)	55.16	55.27	-1.77%	-1.97%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	86.49	(1.84)	(1.03)	(5.00)	(7.53)	(3.54)	86.10	85.18	0.46%	1.54%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.57										

(Note: The buy/sell signal at the far right is a binary result based on the crossover of the short and long-term moving averages and is not a specific recommendation.)

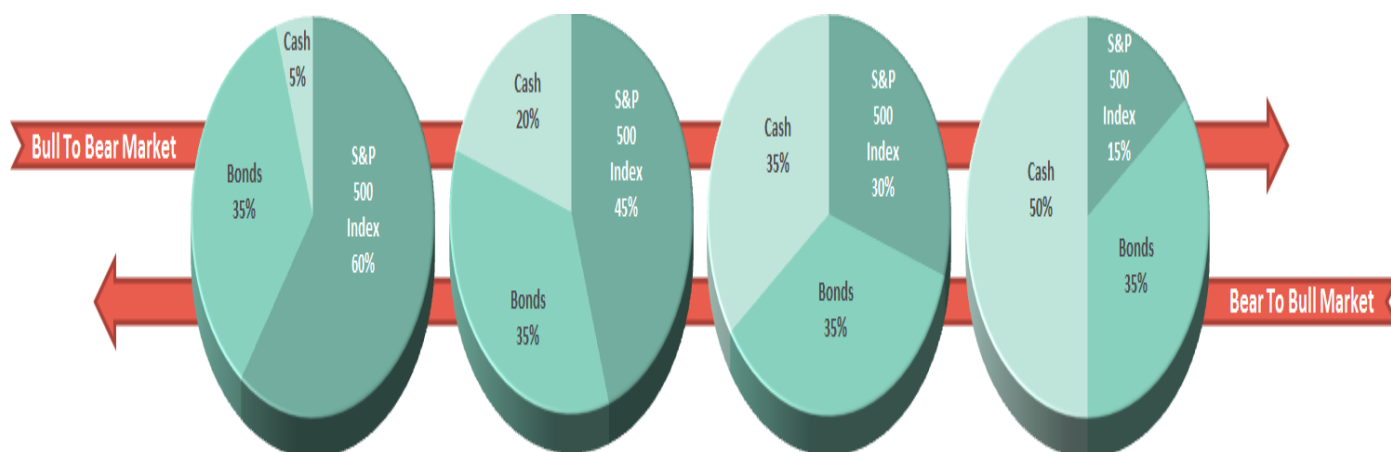
The numbers of sectors on SELL signals is INCREASING despite the market melt-up suggesting a much narrower overall advance than major indices would suggest. This is typical of a late-stage melt-up rally so caution is advised. Utilities, REIT's, Staples, Bonds, Gold, and Healthcare have remained under pressure this past week. While Basic Materials, Financials, Industrials and Energy are beginning to push extremes. Importantly, notice the cluster of assets that are grossly underperforming the S&P 500 currently. **THIS DOES NOT LAST LONG and tends to historically lead to rather swift reversions in the trade. Everything is currently pointing to this being the case so profit taking and rebalancing is strongly advised.**

THE REAL 401k PLAN MANAGER

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



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



Pushing Extremes

From last week:

"As discussed over the last couple of weeks, the markets not only reversed the breakdown, and rallied to new highs, as expected previously, investor confidence has exploded since the election.

That's the good news.

However, this rally is likely done for the moment and we need to wait for a bit of rebalancing before increasing target exposures heading into the new year."

I was clearly wrong on the second point as the market continued to rally this past week, but, as discussed in the main body of this week's newsletter, **it is a narrow advance and reminiscent of previous market melt-ups.**

I continue to suggest using the current rally to clean up portfolios as detailed in [November 4th missive](#). Here are the important points.

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.?)

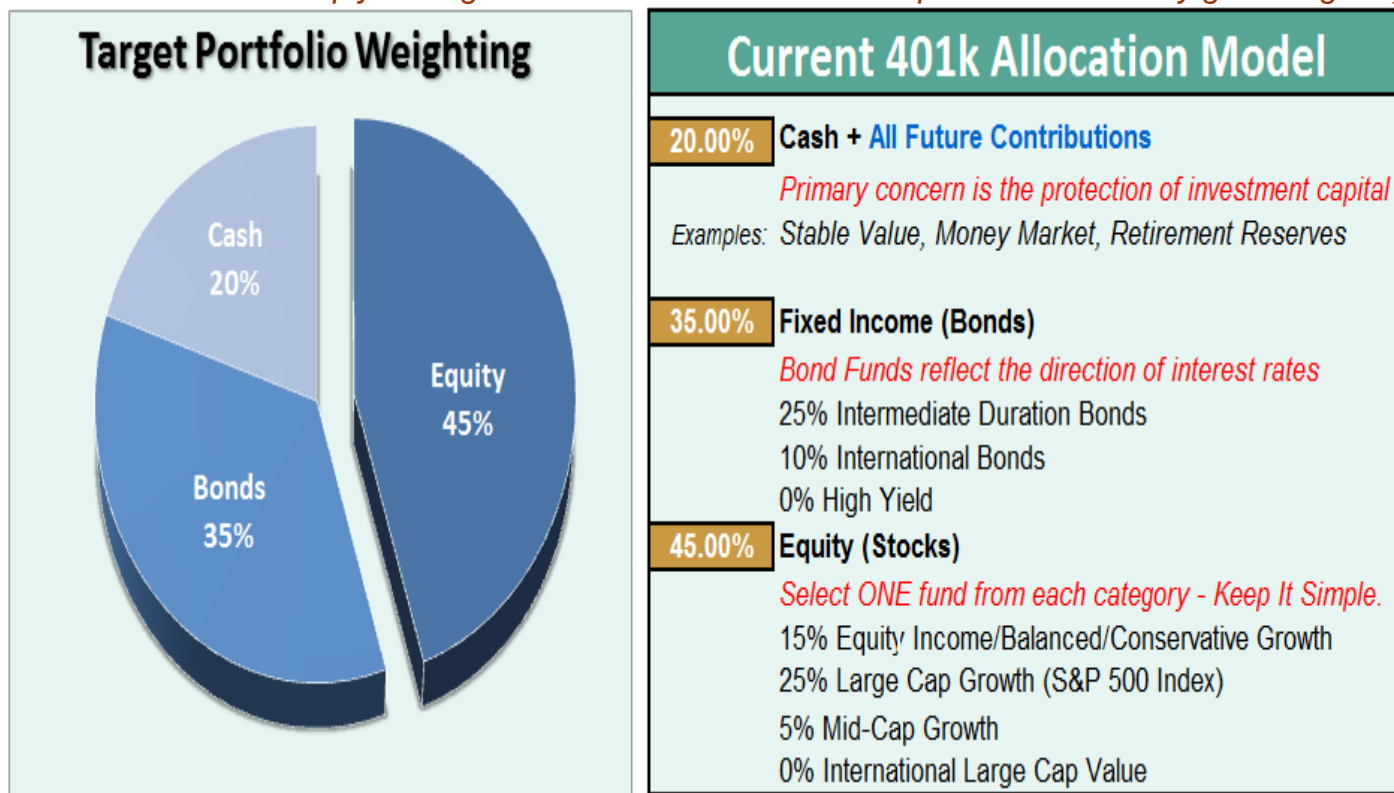
Step 3) Have positions ready to execute accordingly given the proper market set up. In this case, we are looking for a rally which will reduce the short-term oversold condition of the market and allow for a better opportunity to reduce overall portfolio risk.

The big risk in the near-term is when the markets come to grips with the rise in rates, simultaneously with a stronger dollar, which will quickly erode earnings in an already over-valued market. **IF the Fed hikes rates in December, we could well see another January swoon as we saw this year as much of the backdrop is still extremely weak.**

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	Large Cap <i>Vanguard Total Stock Market Vanguard S&P 500 Index Vanguard Capital Opportunities Vanguard PrimeCap Vanguard Growth Index Fidelity Magellan 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>
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>	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>	
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>	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.

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