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- **The 2017 Economic & Investment Summit•**
- **April 1st, 2017** at the Royal Sonesta Hotel,•Houston, Texas
- ***Featuring:***•*Danielle DiMartino-Booth, Greg Morris, Dave Collum, Michael Lebowitz•& Lance Roberts*

(Seating Is Very Limited)

- ***Our Job As Investors***
- ***Why The Market Looks A Lot Like 1999***
- ***Market & Sector Analysis***
- ***401k Plan Manager***

Our Job As Investors

Last week•I reviewed**10-cautionary signs in the market** which suggested that upside opportunity remains outweighed currently by shorter-term downside risk. While the market got a boost on Wednesday following Trump's speech to the joint session of Congress, not much changed in regards to the risk/reward equation. As I stated:

> ***"IMPORTANTLY,*** *I am temporarily holding off adding new equity positions to portfolios currently until the risk/reward opportunity becomes a bit more favorable.* ***With portfolios nearly fully allocated at this juncture, my bigger concern is focused on the numerator of the risk/reward equation."***

That remained the case this past week. I reiterate this point to be clear that while I am currently monitoring the risk in the market, such•**DOES NOT mean I am *"bearish"* •and sitting in cash on the sidelines.•**However, given the action this past week, **I did rebalance portfolios a little bit to bring in some of the gains in larger equity-based holdings.** With that said, a quick bit of history. I have now been in the financial markets in some capacity since **prior to the crash of 1987.** Yes, I am that old. During that time I have watched investors repeat the same mistakes over and over again. **From exuberance to fear, buying high to selling low, chasing returns, and always believing this time is different, only to once again be reminded it's not.**•As the old saying goes:

> *"The more things change, the more they remain the same."*•

If you have been around the markets for any length of time, you can quickly spot the ***"pigeons at the poker table."***•These are the ones that continually rationalize why prices can only go higher, why this time is different than the last, and only focus on the bullish supports. **Trying to *"draw to an inside straight"* is not impossible, it just leads to losses more often than not.**•But therein lies an important point. As investors, **our job is NOT making the case for why markets will go up.** Read that again. Making the case for why markets will rise **is a pointless endeavor because we are already invested.** If the markets rise, terrific. We all made money, and we are the better for it. However, that is not our job.

> ***Our job, is to analyze, understand, measure, and prepare for what will reduce the value of our invested capital.***•

Period. If we are to accumulate capital over the time-span that we have available, from today until we reach retirement, **the most important thing we can do to ensure our success is not suffering a large loss of capital.**•Therefore, our job as investors is actually quite simple:

- ***Capital preservation***
- *A rate of return sufficient to **keep pace with the rate of inflation.***
- ***Expectations based on realistic objectives.**• (The market does not compound at 8%, 6% or 4%)*
- ***Higher rates of return require an exponential increase in the underlying risk profile.**• This tends to not work out well.*
- ***You can replace lost capital ? but you can?t replace lost time.**•Time is a precious commodity that you cannot afford to waste.*
- ***Portfolios are time-frame specific.**•If you have a 5-years to retirement but build a portfolio with a 20-year time horizon (taking on more risk) the results will likely be disastrous*.

With forward returns likely to be lower and more volatile than what was witnessed in the 80-90?s, the need for a more conservative approach•is rising.**Controlling risk, reducing emotional investment mistakes and limiting the destruction of investment capital will likely be the real formula for investment success in the decade ahead.** This brings up some very important investment guidelines that I have learned over the last 30 years.

- ***Investing is not a competition**. There are no prizes for winning but there are severe penalties for losing.*
- ***Emotions have no place in investing.**You are generally better off doing the opposite of what you ?feel? you should be doing.*
- ***The ONLY investments that you can ?buy and hold?**•are those that provide an income stream with a return of principal function.*
- ***Market valuations**•(except at extremes) are very poor market timing devices.*
- ***Fundamentals and Economics**•drive long-term investment decisions ? ?Greed and Fear? drive short term trading. Knowing what type of investor you are determines the basis of your strategy.*
- ***?Market timing? is impossible**? managing exposure to risk is both logical and possible.*

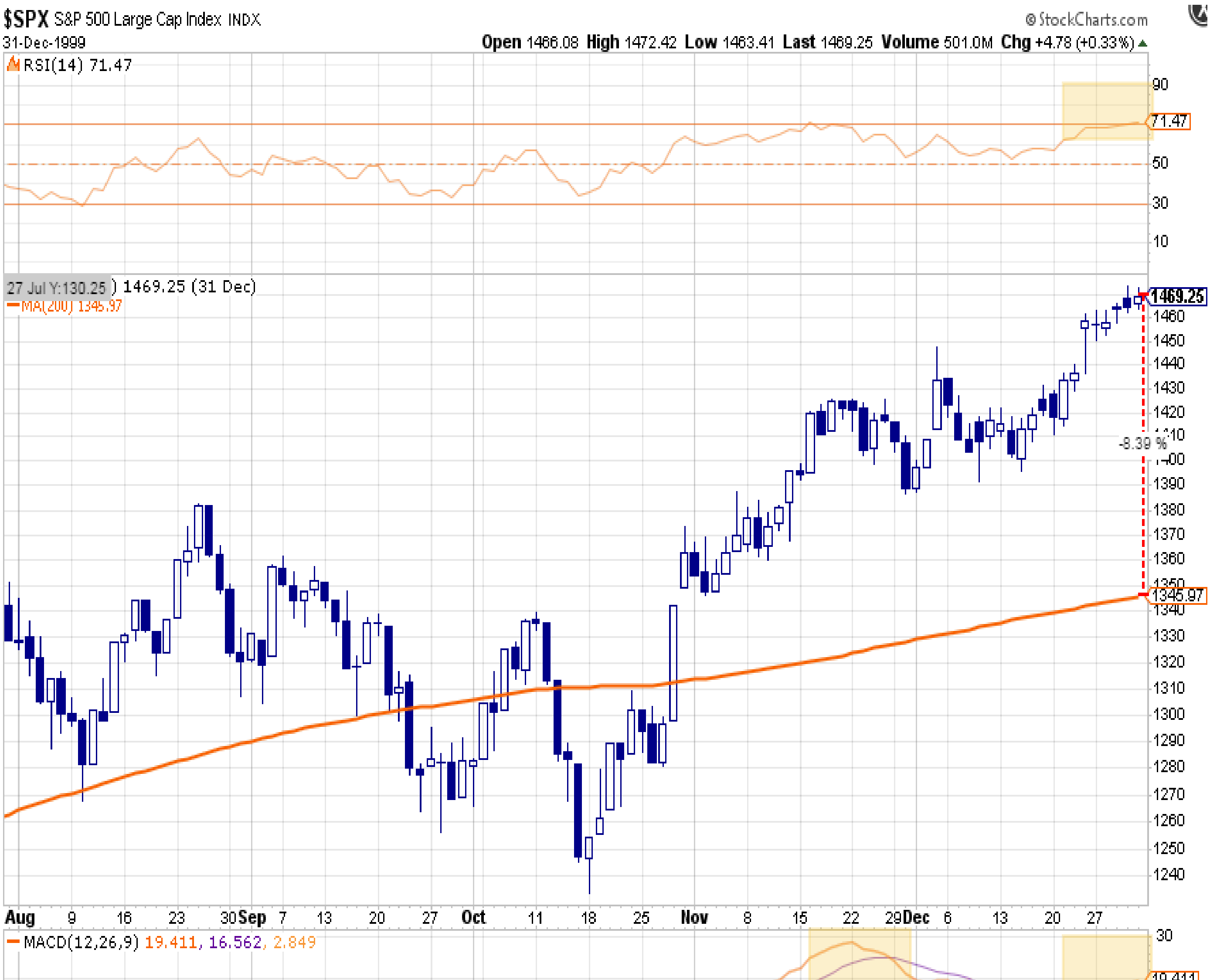
- ***Investment is about discipline and patience.*** *Lacking either one can be destructive to your investment goals.*
- ***There is no value in daily media commentary****? turn off the television and save yourself the mental capital.*
- ***Investing is no different than gambling****? both are ?guesses? about future outcomes based on probabilities.• The winner is the one who knows when to ?fold? and when to go ?all in?.*
- ***No investment strategy works all the time.*** *The trick is knowing the difference between a bad investment strategy and one that is temporarily out of favor.*

As an investment manager, **I am neither bullish or bearish.** I simply view the world through the lens of statistics and probabilities. My job is to manage the inherent risk to investment capital. **If I protect the investment capital in the short term ? the long term capital appreciation will take of itself.**

Looks A Lot Like 1999!

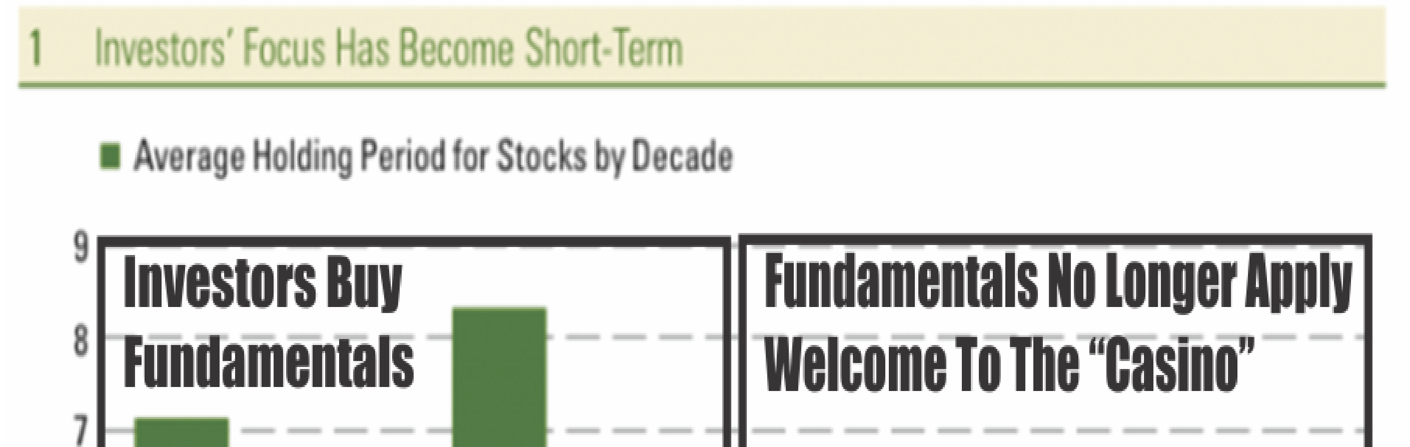
On Friday, [I penned:](#)

> ***"The question that must be answered is just how much of the benefit from these fiscal proposals have already been priced in perfection? What happens if tax reform is less than anticipated? Or infrastructure spending is cut from $1 Trillion to $500 billion? Or repatriation only brings back a fraction of the dollars anticipated?*** *Let?s zoom out for a second and look at the pre- and post-election through the end of last year for clarity."*

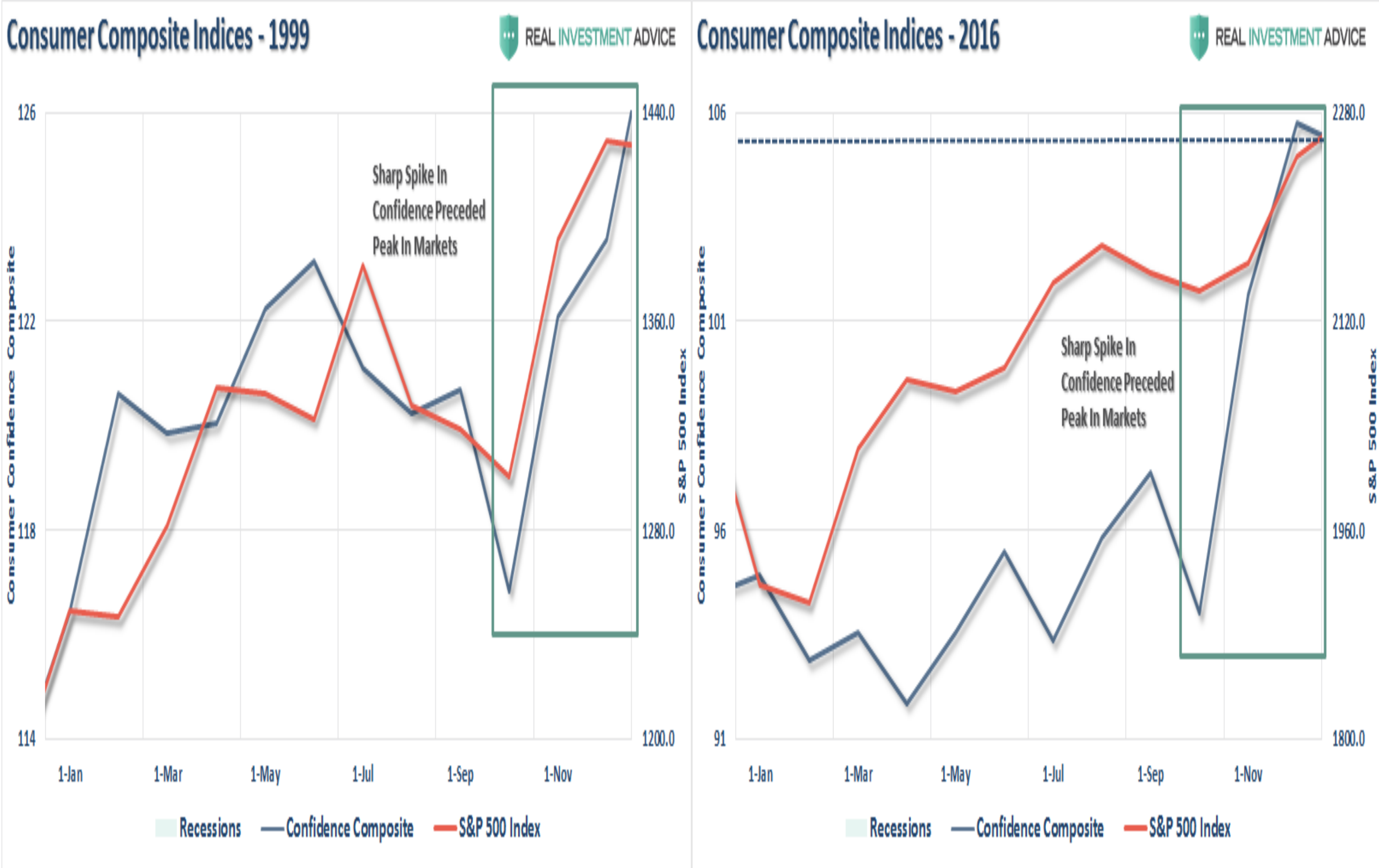


"Oh, shoot!?.Sorry, that was 1999. •Here is last year."

It did surprise how similar the two patterns were to each other, with both of them getting nearly 9% above their 200-day moving averages. **But similarities in price actions alone do not necessarily equate to problems for investors.** Today, due to the impact of technology, online investing, high-frequency trading, dark pools, hedge funds, etc., **prices are more of a reflection of short-term investor sentiment rather than a reflection of the long-term fundamental investing.**•With an average holding period of**6-months or less**, a long-term fundamental case for owning an investment **does not have the *"time frame" necessary*** for the analysis to mature.



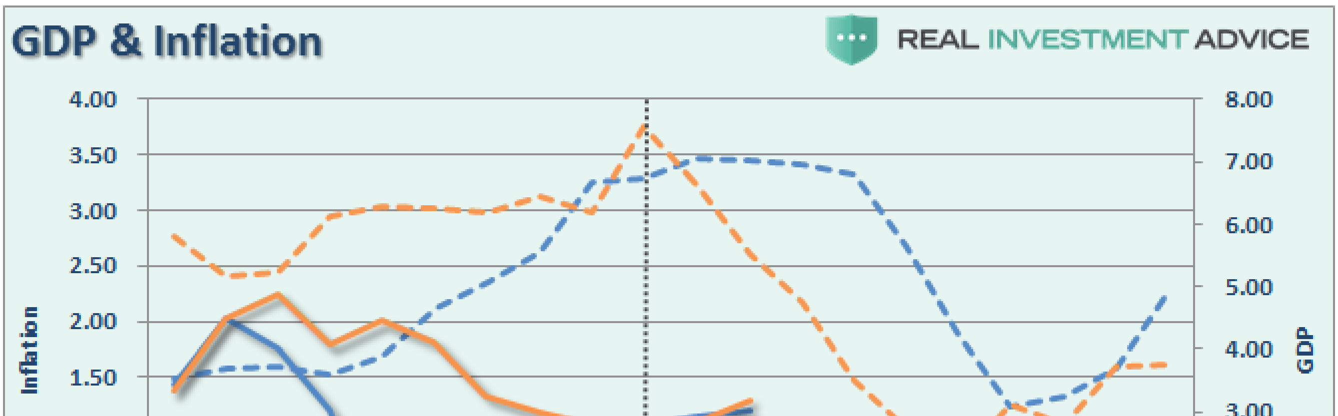
The problem with very short-term holding periods is the impact of *"psychology"* on investing outcomes. This is why the discussion of the rise of *"animal spirits"* within the markets is currently an interesting topic, **given that such a rise in *"exuberance"* is often equated to the end, rather than the beginning, of an investment cycle.**

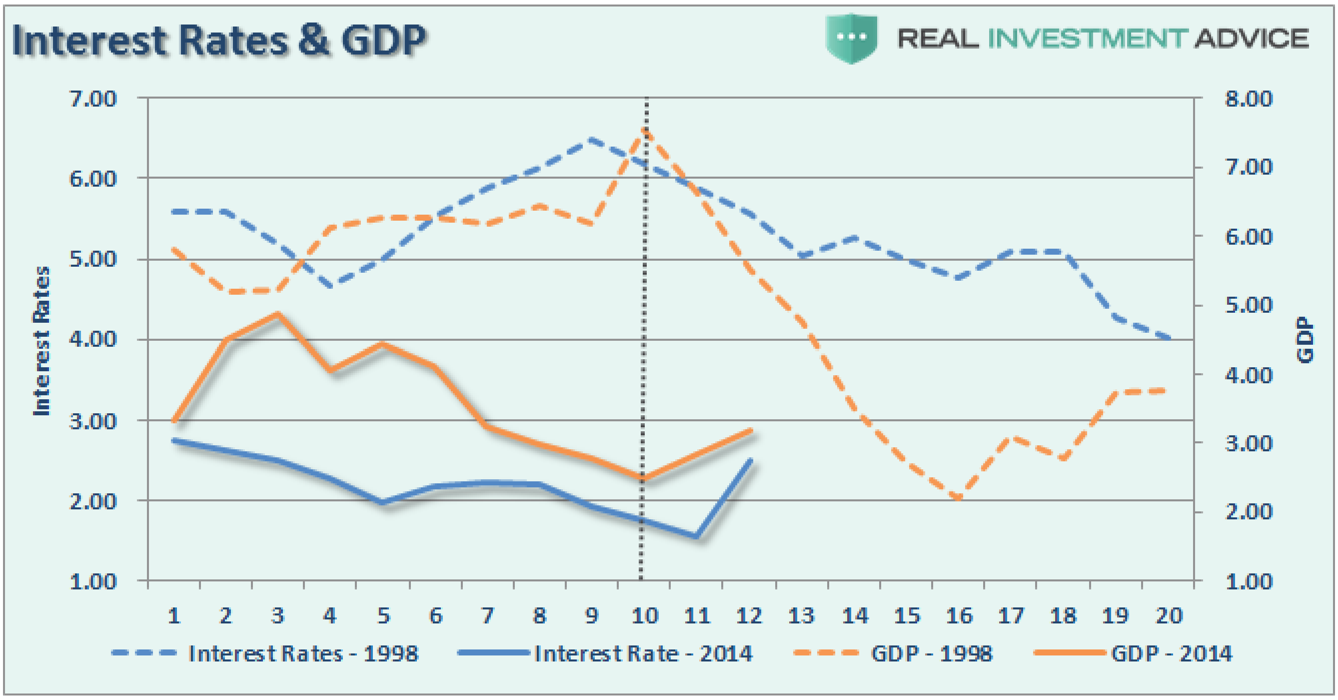


We see the same situation in the economic backdrop as well. If this market rally seems eerily familiar, it?s because it is. **If fact, the backdrop of the rally reminds me much of what was happening in 1999. 1999**

- *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.**





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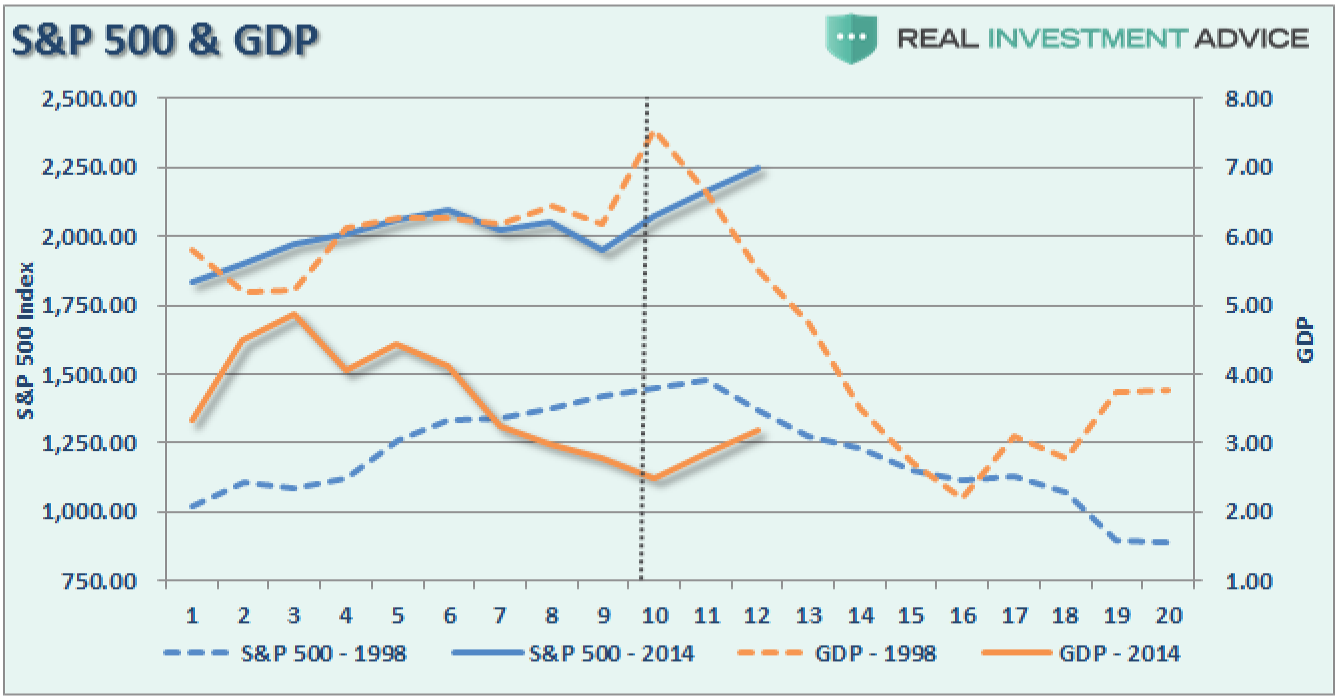


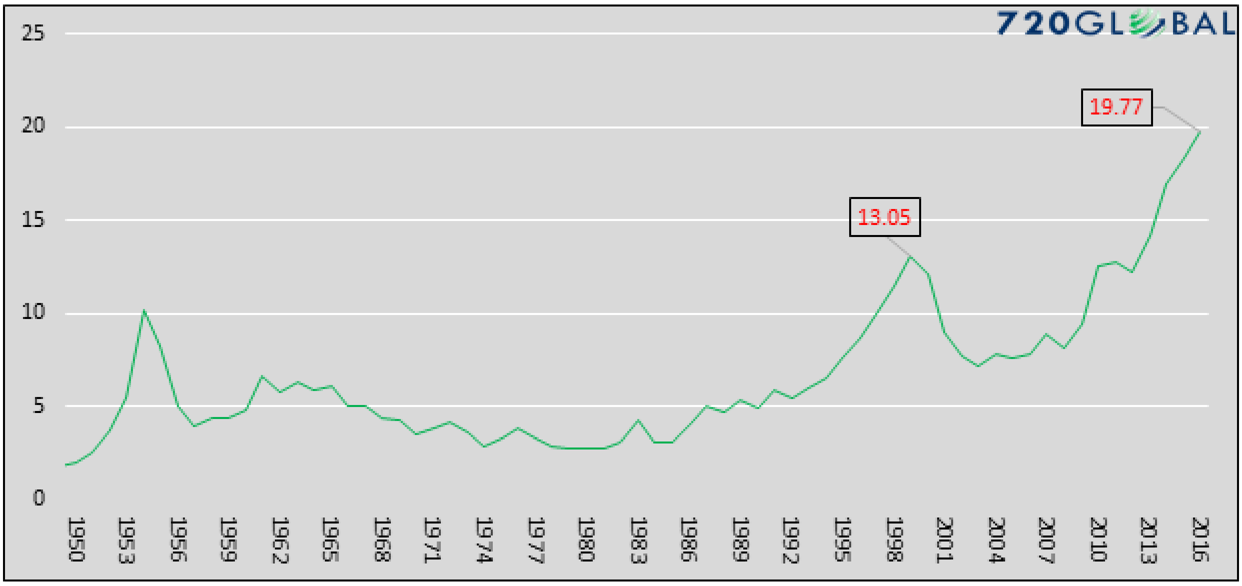
It

didn?t. As pointed out this past week by my partner Michael Lebowitz, all of the underlying fundamentals don't support valuations at current levels either. To wit:

> *"Given the declining trend of GDP and the correlation of earnings to GDP, it is fair to deduce that GDP and earnings growth trends were healthier in the late 1990?s than they are today.* ***More specifically, the following table details key economic and financial data comparing the two periods."***

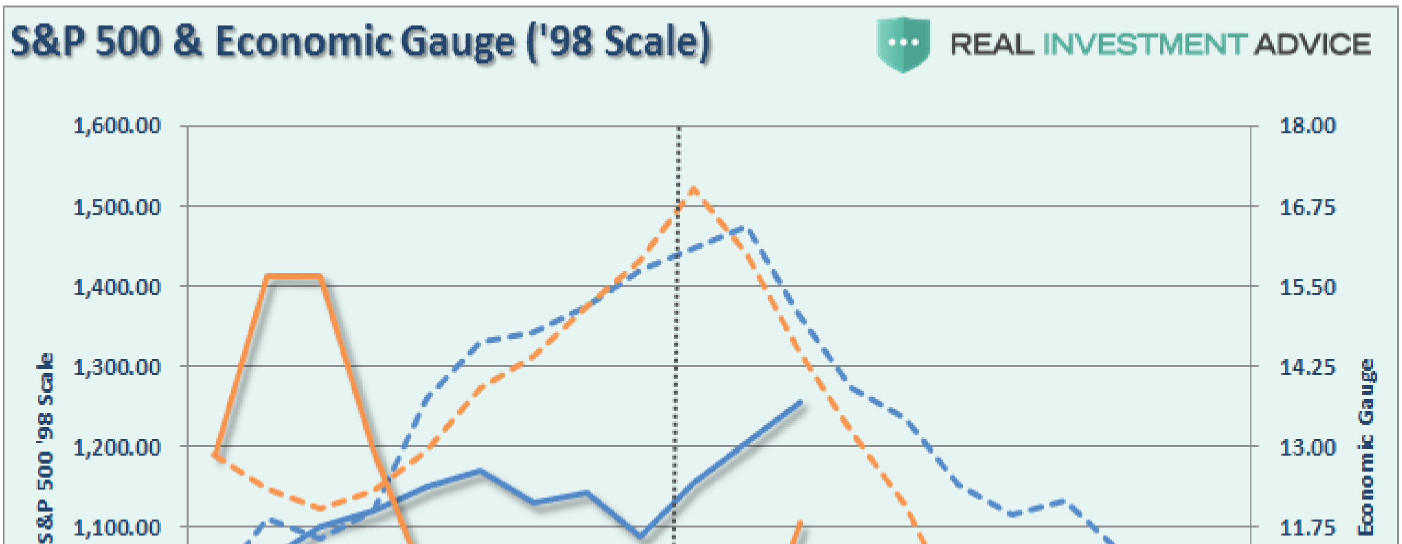
720GLOBAL	1995-1999	2012-2016
GDP Growth	4.08%	1.90%
GDP Trend	2.30%	1.80%
Productivity Growth	1.84%	0.49%
Federal Debt (Trln$)	5.36	17.47

"As shown, economic growth in the late 1990?s was more than double that of today, and the expected trend for economic growth was also more encouraging than today. Trailing three- five- and ten-year annual earnings growth rates contrast the current stagnant economic growth versus the robust growth of the 90?s. Additionally, various measures of debt have ballooned to levels that are constricting economic growth and productivity. Historically low interest rates are reflective of the current state of economic stagnation. ***The graph below charts price-to-earnings (CAPE) divided by the secular GDP growth (ten-year average), allowing for a proper comparison of valuations to fundamentals."***



"The current ratio of CAPE to GDP growth of 19.77 has far surpassed the 1999 peak and all points back to at least 1950. *At the current level, it is over three times the average for the last 66 years.• Further, based on data going back to 1900, the only time today?s ratio was eclipsed was in 1933. Due to the Great Depression, GDP at that time for the preceding ten years was close to zero. So, despite a significantly deflated P/E multiple, the ratio of CAPE to GDP was extreme.* ***Looking forward, if we assume a generous 3% GDP growth rate, CAPE needs to fall to 18.71 or 35% from current levels to reach its long term average versus GDP growth."***

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.•**

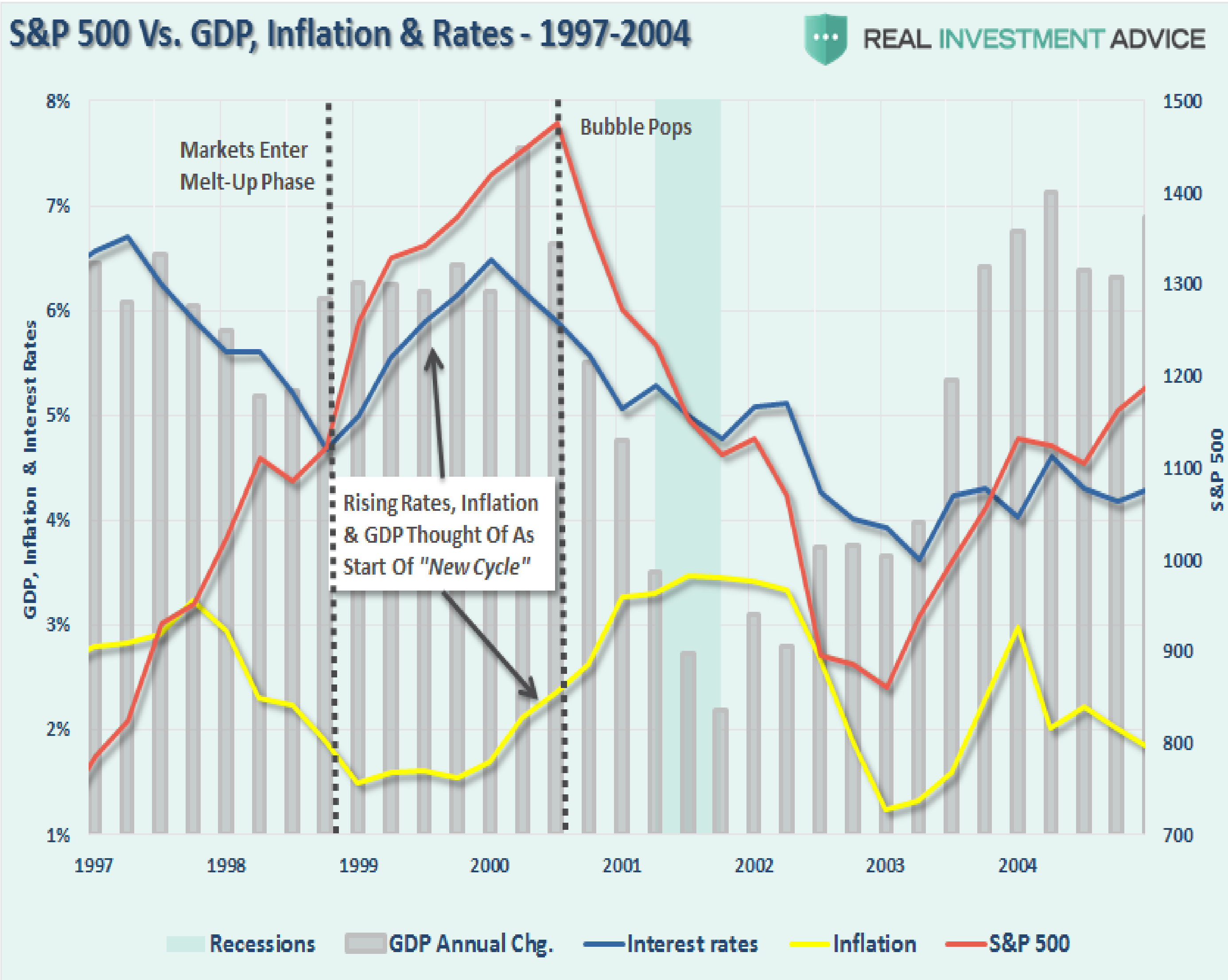


Considering we are at 2% today, the time to recession will be considerably shorter ? like 2-4 quarters kind of short. For the skeptics, here is the actual data graphed from 1997-2014. Stocks entered the melt-up phase as the *?Bullish Mantra?* changed from:

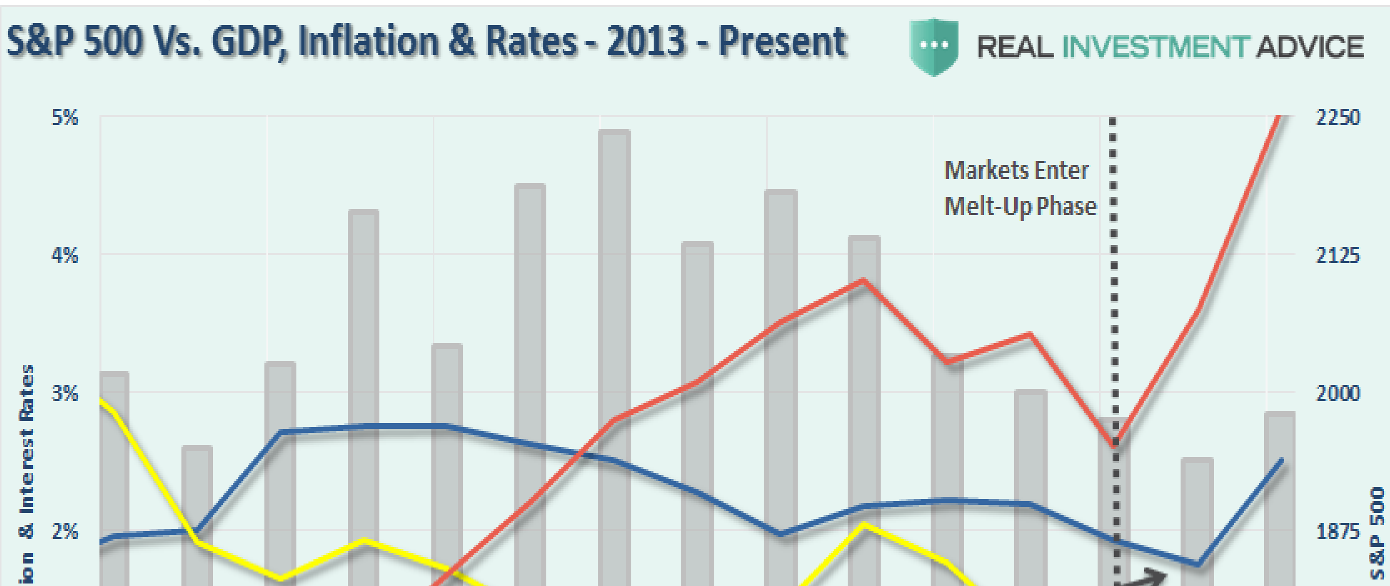
Lower rates and lower inflation is good for stocks

To:

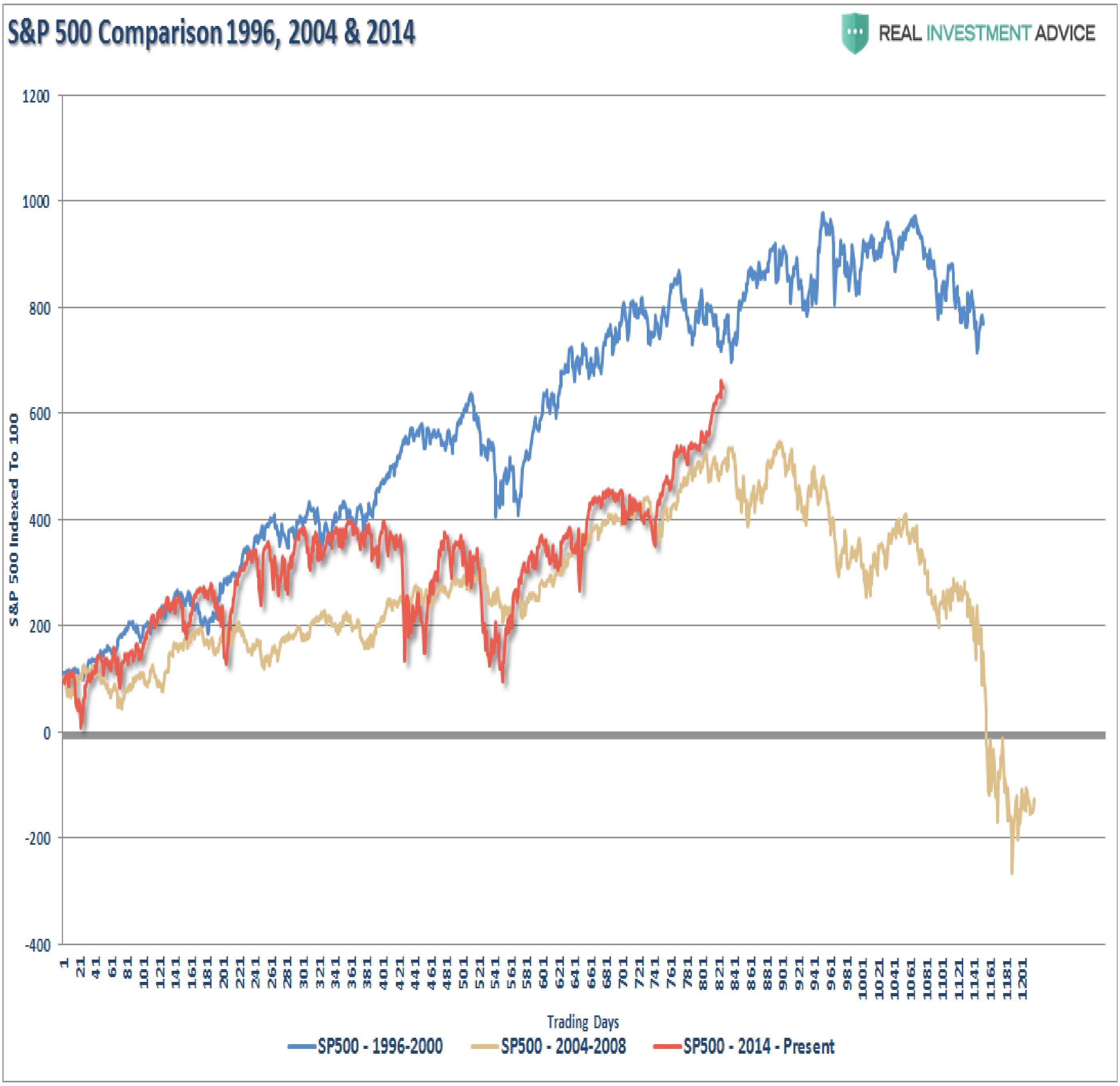
Higher rates and higher inflation is good for stocks



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. But like I said, with only a 6-month holding periods, fundamentals *"need not apply."*•**So, while I don't like chart price comparisons in general, if•you take the sum of the economic and fundamental data above and compare it to previously *"overly exuberant"* periods, you see this:



Note: S&P 500 has been indexed to 100 to compare price movement during the 1200 trading days measured.•

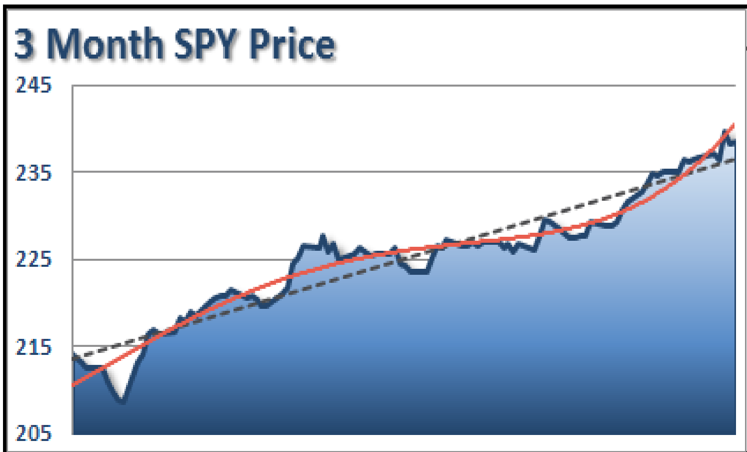
Here is the point. As I discussed above, **there is a tremendous amount of rationalization by investors who have never lived through a bear market grasping at a fading number of straws to support a bullish bias.** However, it is NOT the *"bullish bias"* we need to support. We are already invested. **We need to be paying attention to what eventually causes the *"bullish bias"* to end.•**

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

The *"Tear Sheet"* below is a *"reference sheet"* provide some historical context to markets, sectors, etc. and looking for deviations from historical extremes. If you have any suggestions or additions you would like to see, [send me an email](#).



SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	12.93%	19.34%	6.66%	(65.56%)
Max Drawdown	-15.32%	-6.53%	-1.48%	-77.39%
Sharpe	0.59	1.20	1.20	0.00
Sortino	1.10	1.42	1.42	0.00
Volatility	11.93	10.21	10.21	0.00
Daily VaR-5%	(18.05)	4.12	1.70	(0.59)
Mnthly VaR-5%	(12.47)	(4.33)	(4.33)	0.00

S&P 500 Fundamental Analysis

Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low
Dividend Yield	1.93%	2.17%	1.90%	########	2.19%	1.83%	(13.60%)	3.74%
P/E Ratio	18.46	17.05	20.47	16.69%	41.77	18.32	(51.0%)	11.73%
P/S Ratio	2.65	2.64	3.16	16.50%	3.02	1.82	4.55%	73.49%
P/B Ratio	3.15	3.01	3.65	17.36%	3.49	2.31	4.55%	57.60%
ROE	15.23%	15.58%	15.28%	(1.98%)	16.07%	15.00%	(4.88%)	1.87%
ROA	2.90%	2.93%	2.83%	(3.27%)	2.99%	2.80%	(5.25%)	1.09%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,543.1	2,480.6	(2.46%)
Sales	56,454	55,553	(1.60%)
SPS	22.2	22.4	0.89%
Earnings	7,487	7,259	(3.05%)
EPS TTM	3.4	3.5	0.57%
Dividend	1.3	1.3	4.27%

S&P 500 Asset Allocation

Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	14.98%	6.66%	1.15	128.01	156.27	11.32	(18.1%)	3.3%	2.6%	0.73%	2.08	28.52
Materials	20.13%	2.84%	1.39	20.21	54.40	11.91	(62.9%)	17.3%	2.1%	4.90%	3.87	17.59
Industrials	20.91%	10.21%	1.08	19.52	25.14	12.50	(22.3%)	17.9%	2.1%	5.17%	4.04	17.77
Discretionary	14.43%	12.04%	1.06	21.22	58.87	16.52	(64.0%)	21.3%	1.4%	4.94%	3.50	18.77
Staples	5.62%	9.34%	0.63	21.57	25.51	15.15	(15.4%)	23.1%	2.6%	4.55%	3.51	19.31
Health Care	10.80%	14.00%	0.97	17.09	28.62	11.26	(40.3%)	26.4%	1.7%	5.80%	5.28	14.73
Financials	38.67%	14.98%	1.30	16.59	22.41	9.50	(26.0%)	8.6%	1.6%	5.90%	4.19	13.87
Technology	26.95%	21.51%	1.22	22.39	74.75	16.58	(70.1%)	26.0%	1.2%	4.53%	4.02	20.12
Telecom	2.38%	2.40%	0.46	14.21	26.08	12.64	(45.5%)	19.9%	4.6%	7.07%	2.96	13.71
Utilities	11.05%	3.11%	0.33	17.77	53.95	12.54	(67.1%)	10.4%	3.5%	5.51%	3.12	17.11
Real Estate	3.85%	2.85%	0.75	18.95	26.27	15.78	(27.9%)	11.8%	3.4%	5.26%	3.75	17.48

Momentum Analysis

Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	238.42	5.63%	229.85	50	3.73%	219.23	85	8.76%	4.85%	-0.79%	22.61%	Buy

Sector Analysis

Technology, Discretionary, Industrials, Staples, Utilities, Materials, Health Care, and Financials continue to push highs. Energy continues to struggle after breaking its 50-dma BUT did find support at the 200-dma last week.•
Notably, Utilities, Healthcare, and Staples just had the 50-dma cross back above the 200-dma suggesting a much better buying opportunity on sector pullbacks in the future.•The extreme deviation from the 200-dma in Discretionary, Technology, Industrials, Materials, and Financials suggest more underperformance risk currently until that is corrected. **Overbought conditions exist unilaterally across the entire complex suggesting a higher risk/reward opportunity currently until a correction occurs. Not adding any new exposure currently for this reason.•**

From the broader index positioning: Small Caps, REIT's, Mid Caps, and Dividend Stocks, International, **are all extremely extended above their longer-term moving averages suggesting a higher degree of risk.** Like Utilities, Staples and Healthcare above, **watch REIT's where the 50-dma is just about to cross above the 200-dma** which should provide for additional support for the sector. Bonds had a rough week following the Presidential speech but are continuing to struggle with current support. **The overbought short-term condition in bonds has now been reversed so look for a money flows INTO bonds in the next couple of weeks as the market goes through a correctionary phase.•**

The table below **shows thoughts on specific actions related to the current market environment.•**

(These are not recommendations or solicitations to take any action. This is for informational purposes only related to market extremes and contrarian positioning within portfolios. Use at your own risk and peril.)

	Over Bought / Sold	50/200 DMA	Trend	Action	Notes
XLY	OB	Positive	Positive	Hold	Improving
XLK	OB	Positive	Positive	Take Profits	Extreme Overbought/Weakening
XLI	OB	Positive	Positive	Take Profits	Overbought/Weakening
XLB	OB	Positive	Positive	Take Profits	Extreme Overbought/Weakening
XLE	OS	Positive	Positive	Warning	Broke 50-dma
XLP	OB	Negative	Improving	Hold	Added To Portfolio - Hold
XLV	OB	Improving	Improving	Hold	Added To Portfolio - Hold
XLU	OB	Improving	Improving	Hold	Added To Portfolio - Hold
XLF	OB	Positive	Positive	Take Profits	Overbought/Weakening
$SML	Declining	Positive	Positive	Take Profits	Overbought/Weakening
EEM	OB	Positive	Positive	Hold	Dollar / Rate Risks
EFA	OB	Positive	Positive	Hold	Added To Portfolio - Trade Only
GLD	OB	Negative	Negative	Sell	Overbought/Target $120
IDV	OB	Positive	Positive	Reduce	Dollar/Rate Risks
MDY	OB	Positive	Positive	Hold	Added To Portfolio - Trade Only
SDY	Declining	Positive	Positive	Hold	Weakening
TLT	Declining	Negative	Negative	Hold	Added To Portfolio - Hedge
VNQ	Declining	Improving	Improving	Hold	Added To Portfolio - Hedge

Portfolio Update: After•hedging our long-equity positions 12-weeks ago with deeply out-of-favor sectors of the market *(Bonds, REIT?s, Staples, Utilities, Health Care and Staples)***we did rebalance some of our long-term CORE equity holdings back to original portfolio weightings harvesting a bit of liquidity. The short-term bullish trend is still very positive which keeps us allocated on the long-side of the market. HOWEVER, the technical setup required for an increase in equity risk in portfolios currently is NOT FAVORABLE currently.** We continue to•maintain very tight trailing stops as the mid to longer-term dynamics of the market continue to remain very unfavorable as well. **Rebalancing remains•strongly advised.**

THE REAL 401k PLAN MANAGER

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

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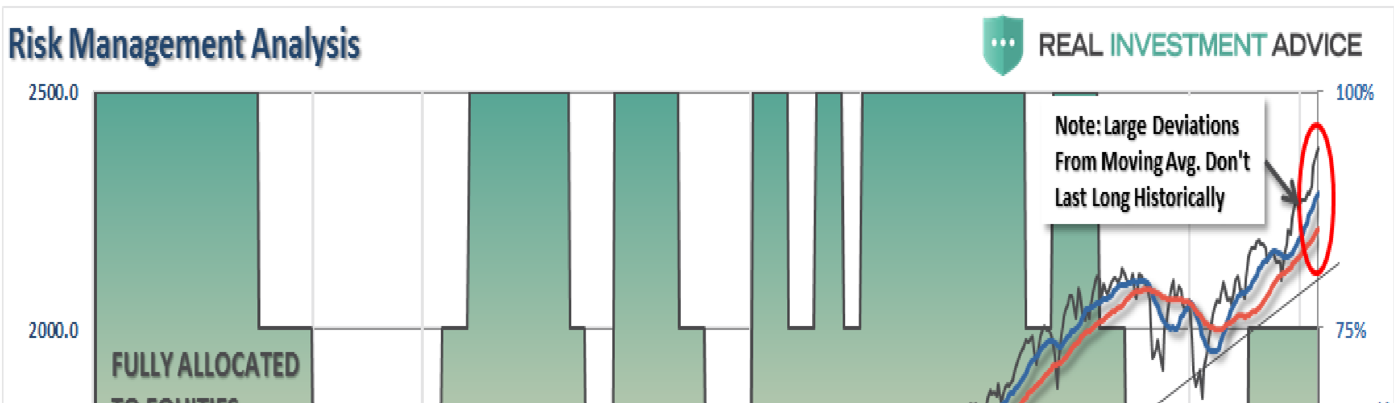
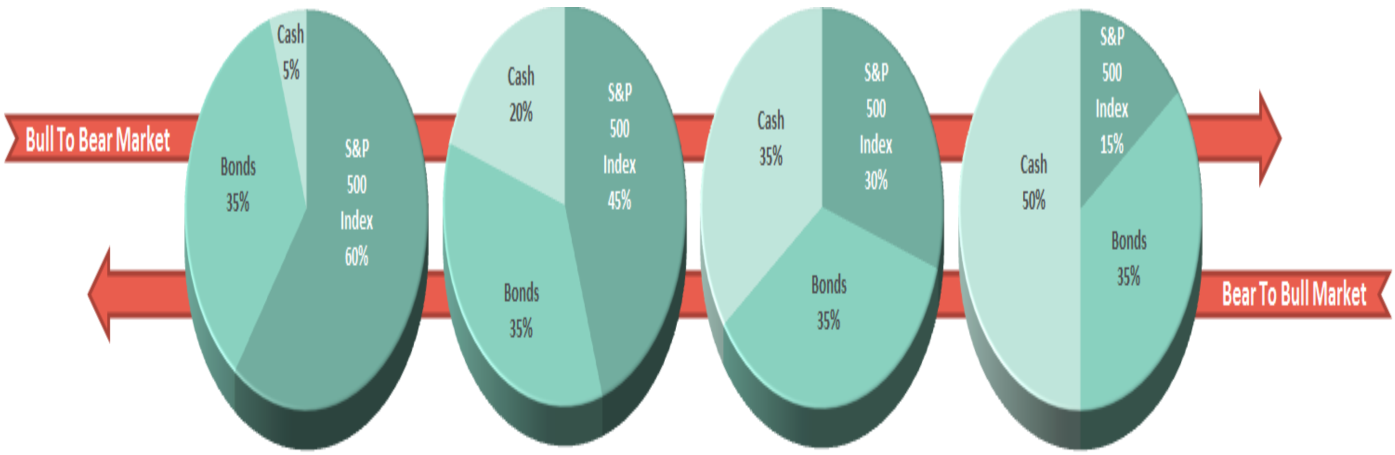


There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative to a positive trend.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



Chasing Trump

As I noted three weeks ago, in•retrospect, I should have increased the 401k model allocation to 100% at the beginning of the year, **the risk/reward setup for an incremental increase in exposure simply has not been justifiable given the limitations that exist in 401k plans.•**

However, that is an issue that will be rectified on a correction that reverses the overbought condition in the market. **Most likely, such a correction will wipe out the entirety of gains for the year, so an effective reset, allowing for an increase to 100% allocations in 401k models**, will actually be afforded at a more optimal risk/reward setup.

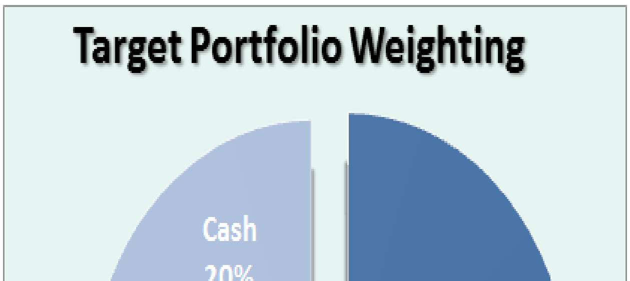
A correction back to short-term supports around •2200-2250 on the S&P 500 would likely be a *"buyable"* trading level. **As noted in the chart above, the current extension above the moving average will likely be corrected sooner rather than later.•**Such a correction will relieve some of the extreme overbought conditions that currently exist and allow for additional risk exposure in portfolios if needed.

If we can get a correction that resolves the overbought, extended and excessively bullish backdrop to the markets currently, I WILL increase the allocation model to 100%. •For now, we will wait and let the markets tell us what it wants to do next.

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

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
Money Market
Retirement Savings Trust
Fidelity MIP Fund
G-Fund
Short Term Bond

Fixed Income

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

International

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.

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.

Equity

Large Cap

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

Balanced Funds

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

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