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(Open To Everyone - Individuals, Money Managers, Consultants & Advisors)

- **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)

- ***Strange State Of The Market***
- ***Insiders Aren't Buying It***
- ***Market & Sector Analysis***
- ***401k Plan Manager***

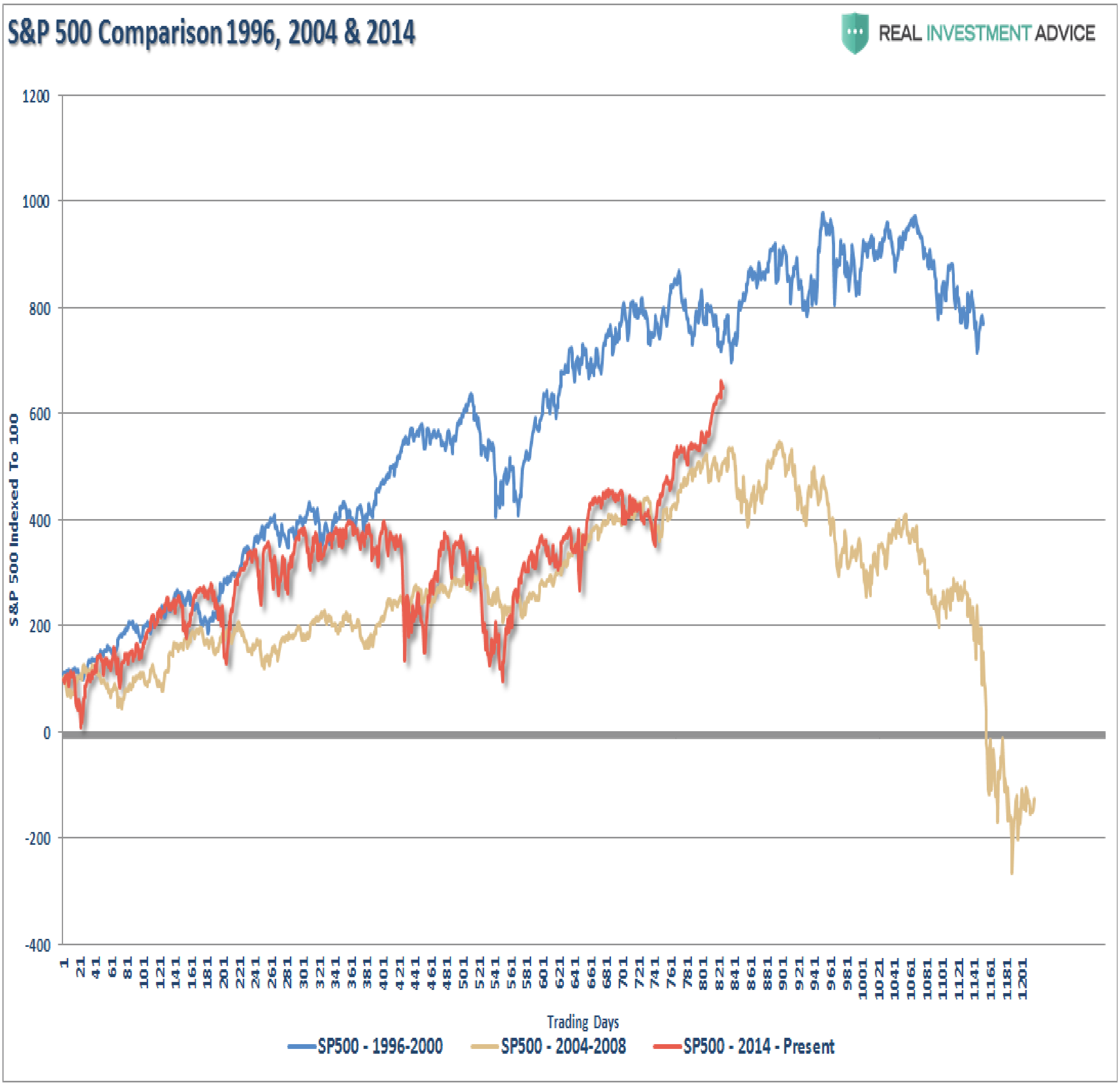
Quick Note

Tomorrow morning, I am competing in the first of three Spartan Races for the year. Every year I try and set goals for something to challenge me and push my perceived limits. For my 52nd birthday, my goal is to complete the Trifecta of the 3, 8 and 12-mile races by the end of this year. Of course, it has been raining all week, which means the obstacle course is going to be soaked, muddy, and dirty fun. **The challenge awaits.** However, since I usually spend a good chunk of my Saturday writing this missive, **this week's report will have to be a tad shorter so I can get it out to you and get to my race on time.** Pick up the **Technically Speaking** report **on Tuesday at the website** for a market update. *Wish me luck!*

The Very Strange State Of The Market

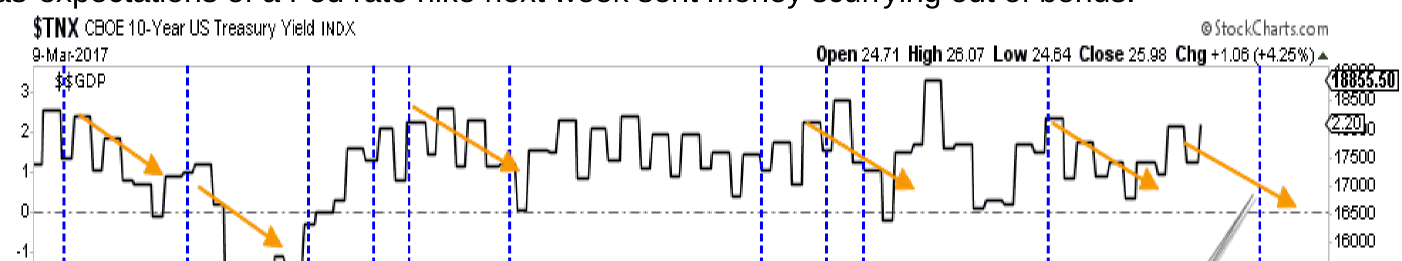
Last week I reviewed **Why This Market Reminds Me Of 1999:**

"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:"*

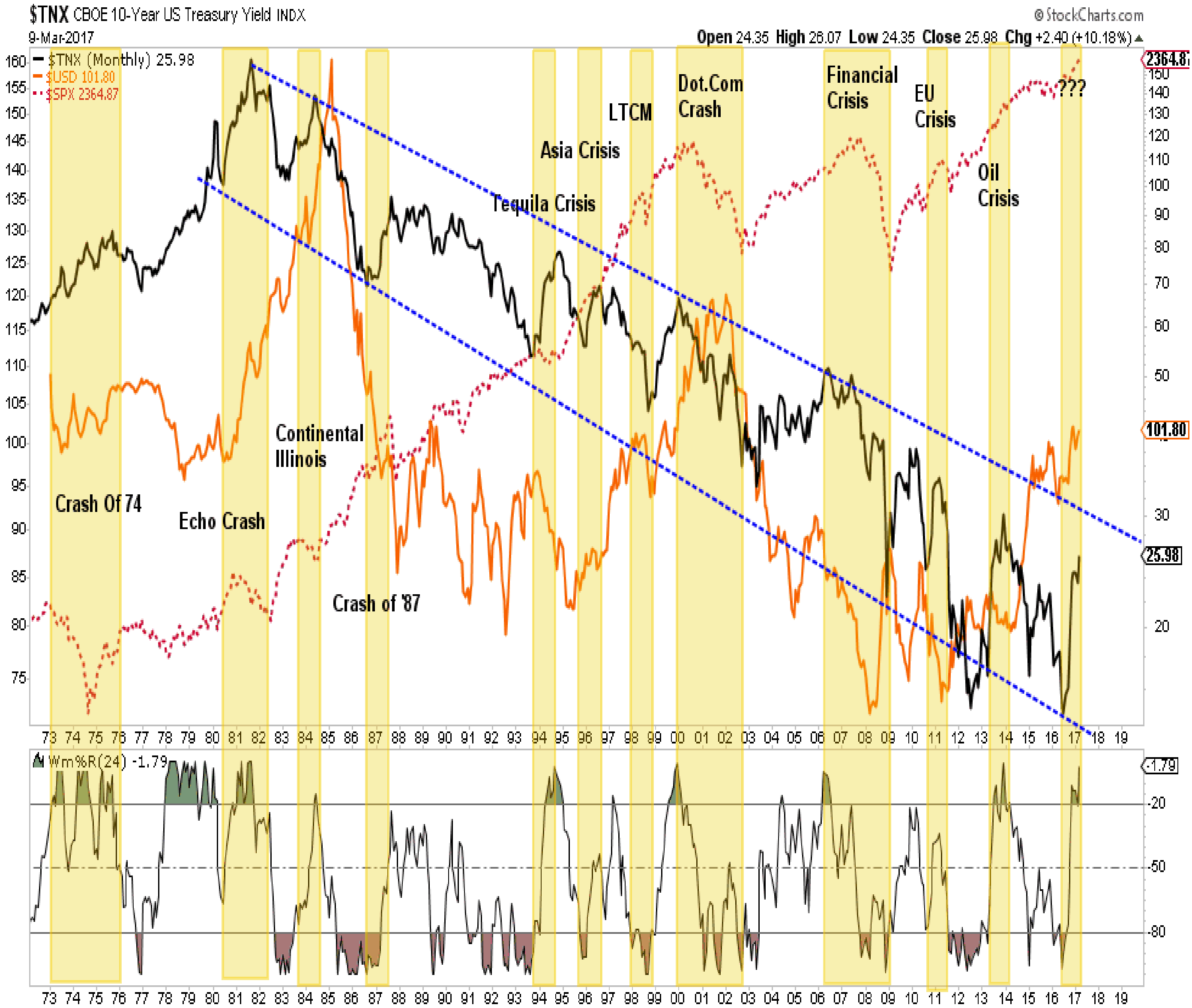


Note: S&P 500 has been indexed to 100 to compare price movement during the 1200 trading days measured.•

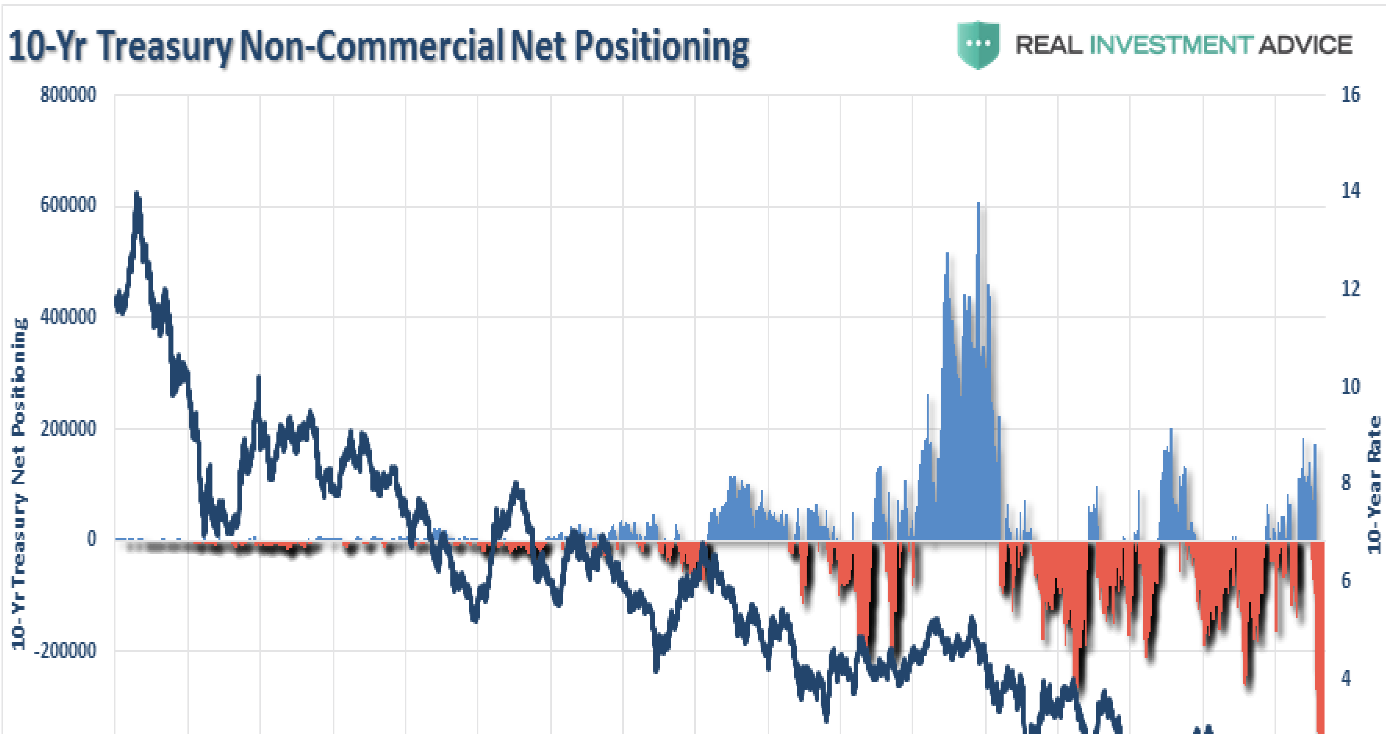
This past week, several areas of the market began to unravel. **First, the bond market** was hit hard as•expectations of a Fed rate hike next week sent money scurrying out of bonds.



However, this recent pop in rates, when combined with a stronger dollar which drags on corporate exports (roughly 40% of earnings), has historically been an excellent opportunity to add to bond exposure. As shown below, the Federal Reserve, in their eagerness to hike rates, are once again likely walking into an *"economic trap."*•



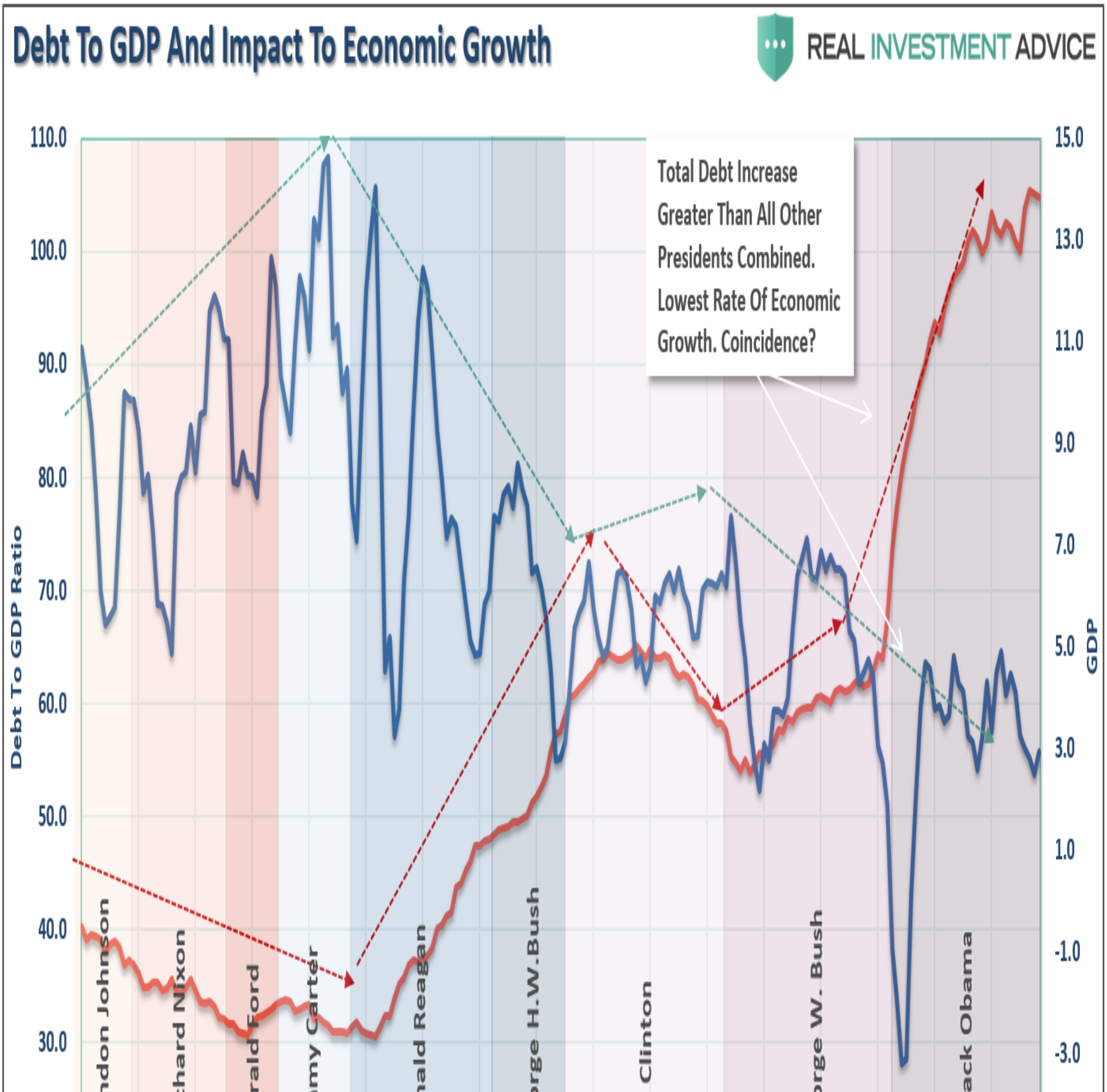
Also, whatever causes the next reversal in rates will coincide with an unwinding of the still very massive speculative net short in bonds.



I agree with [Albert Edwards](#) on his discussion of rates.

> *"Make no mistake. Unlike most in the markets, I remain a secular bond bull and do not think this 35 year long bull bond market is over.* ***I believe the US Fed has created another massive credit bubble that will, when it bursts, lay the global economy very low indeed****. Combine this with the problems of a Chinese economy dependent on increasingly ineffective injections of credit to produce increasingly pedestrian GDP growth and you have a right global mess.* ***The 2007/8 Global Financial Crisis will look like a soft-landing when the Fed blows this sucker sky high****.* ***The seeds for that debacle have already been sown with the Fed having presided over one of the biggest corporate credit bubbles in US history****. All that is needed now is for* ***the Fed to sprinkle life-giving rate hikes onto these, as yet dormant, seeds of destruction****. Accelerated Fed rate hikes will cause tremors in the Treasury bond markets, forcing rates up, most especially in the 2 year ? just like 1994.* ***But as yet another central bank-inspired global recession unfolds, I• believe US 10y bond yields will ultimately converge with Japanese and European yields well below zero*** *? in other words, buy 10y bonds on weakness!"*

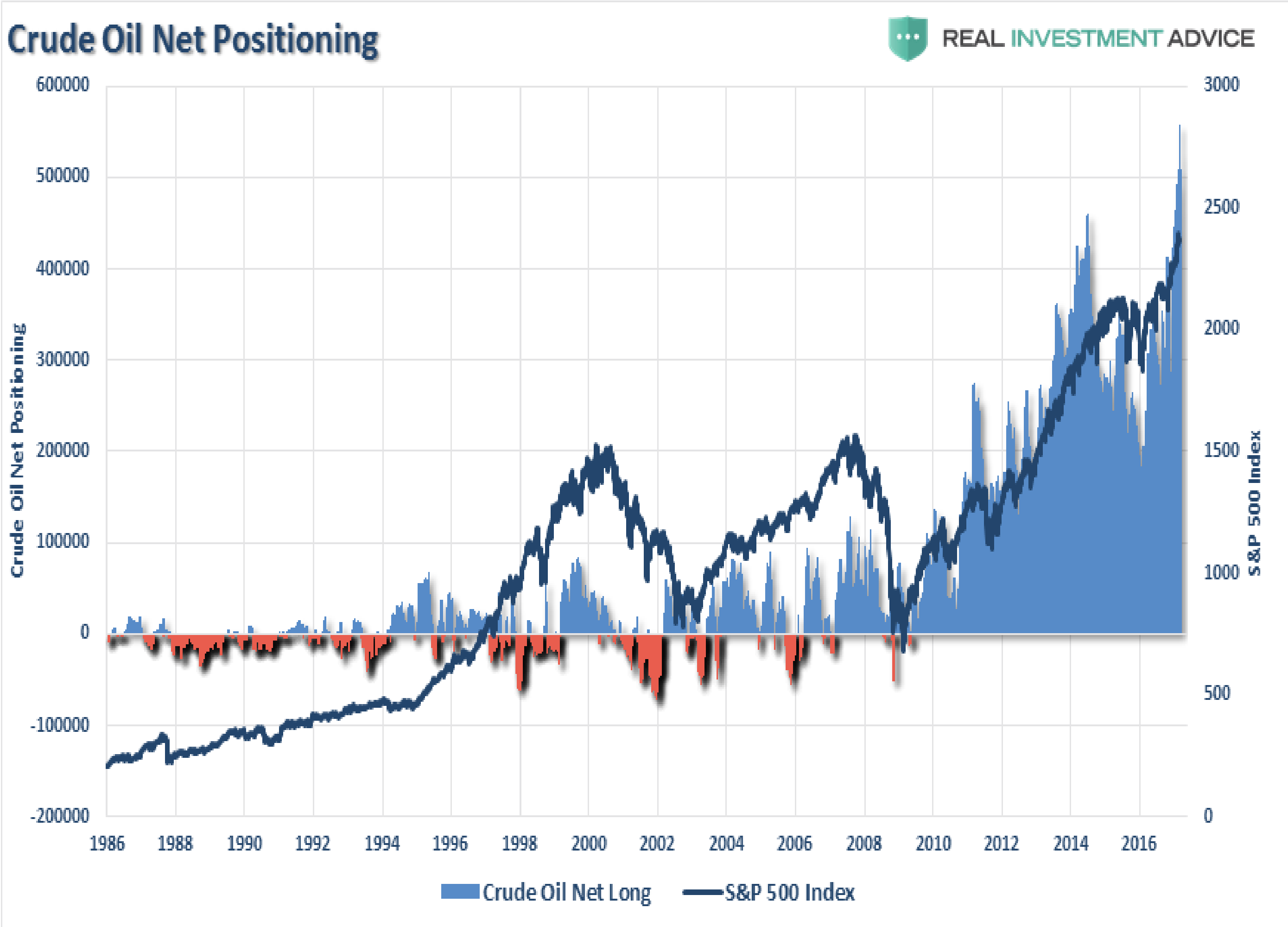
Of course, it isn't JUST the Federal Reserve hiking rates which•pose a risk to the markets.**There is also this little problem that suggests rates will remain low for a very long time to come.**



Secondly the oil market.[As I discussed a few weeks ago]:

> ***"Crude oil** positioning is also highly correlated to overall movements of the S&P 500 index. **With crude traders currently more 'long'•than at any other point in history, a reversal will likely coincide with both a reversal in the S&P 500 and oil prices being pushed back towards $40/bbl. "***

Of course, with oil companies rushing out to increase drilling following the recent pop in oil prices, it was only a function of time until someone woke up to the reality of the build in still bloated inventories. *(Also, despite President Trump's exuberance over the building of the XL Pipeline, the last thing oil companies need right now is another 800,000/bbl's a day in supply.)*

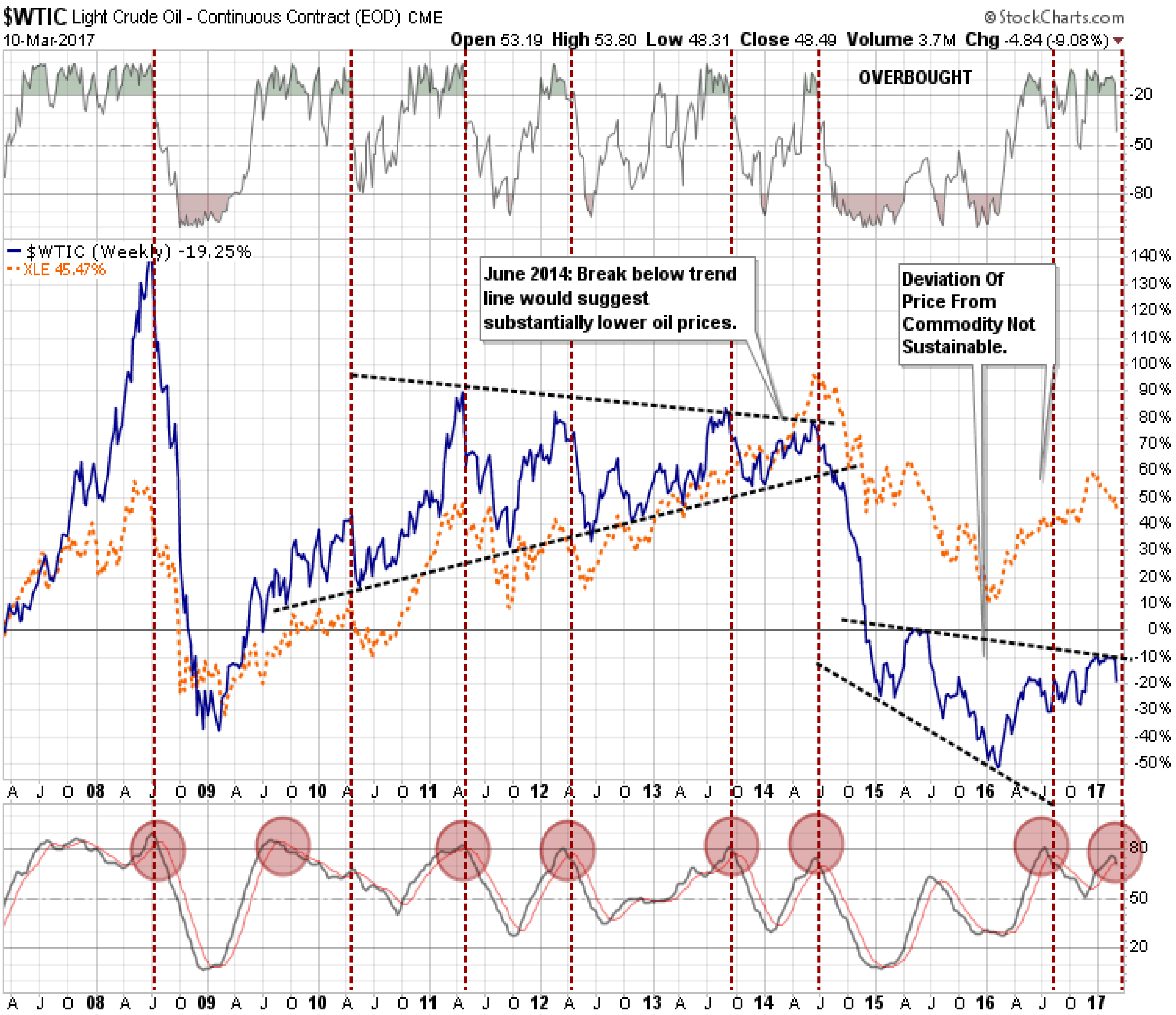


Importantly, despite the recent decline in oil, the massive net-long position in oil remains which suggests further downside in the weeks ahead. This is important because ***the rise in oil prices has been the support for:***

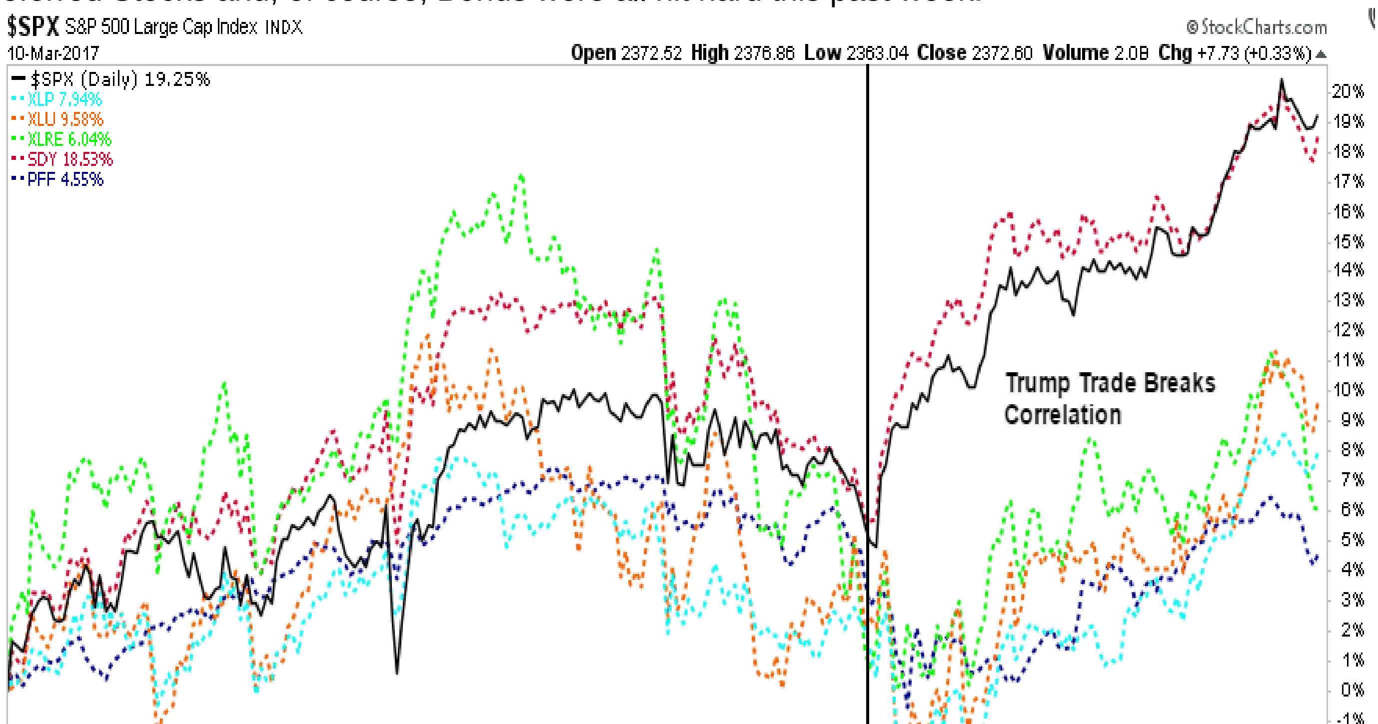
- **A big chunk of the earnings recovery.**
- **Increased rig counts have fueled employment** *(along with the unseasonably warm winter skewing the manufacturing employment data)*
- **The increases in inflationary pressures have come primarily from healthcare costs, rent and increased•energy costs.***(Which is why the Fed's rate hikes may cause a problem.)*

As I have discussed in past missives, the detachment between oil prices and the underlying fundamentals pose a significant threat to those that piled into energy-related stocks in recent months. **With everyone on the long-side of the energy trade, the reversal will likely be brutal.**

(Note: The chart below contains my June 2014 call to get out of oil/energy related stocks. With the massive long position in oil prices, the long-term correction is likely not yet complete.)



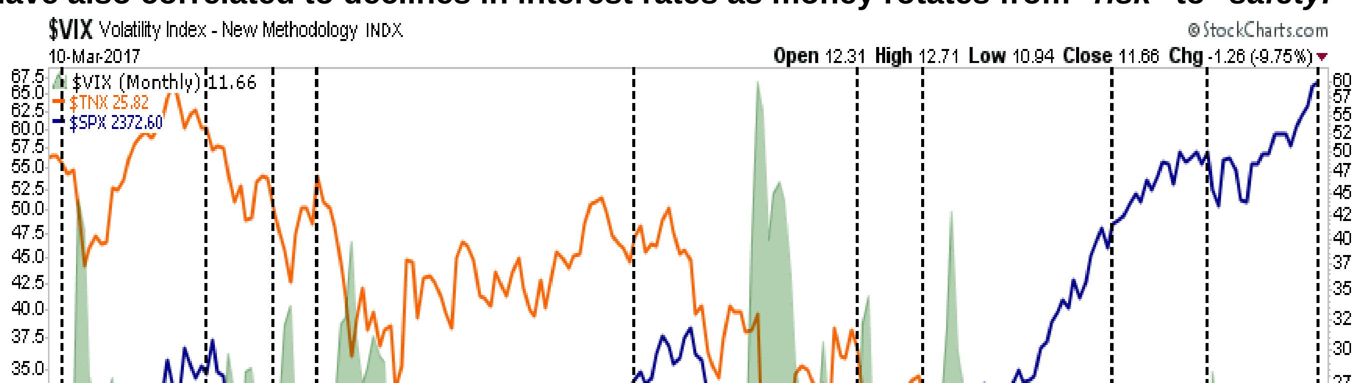
Third, the spike in rates also impacted other interest rate sensitive sectors of the market•which have been performing well since the beginning of the year. REIT's, Staples, Utilities, Preferred Stocks and, of course, Bonds were all hit hard this past week.



However, despite all of this reversions eruption of activity, the markets remained relatively unfazed•with volatility remaining suppressed. As [Mark DeCambre wrote on Thursday:]()

> *"Buoyancy. That is what this indefatigable equity market has come to be known for over a four month stretch that has failed to yield a decline of at least 1% for either the S&P 500 or the Dow Jones Industrial Average.* ***That is 102 trading sessions dating back to Oct. 11."***

While it's not a record, it is an extremely long time for volatility to remain suppressed. As shown in the chart below, such complacency does not, and has not, lasted forever. **I have included the 10-year Treasury rate as spikes in the VIX, which have corresponded with declines in stocks, have also correlated to declines in interest rates as money rotates from *"risk"* to *"safety."*•**



This is a very strange state in the market currently.•No matter what happens, seemingly there is little concern. But it is that lack of concern that historically turned out to be the problem. With the debt ceiling debate, Fed rate hike and Dutch elections all coming to fruition next week, there are plenty of potential catalysts to create a pick up in volatility. **We lifted some profits out of portfolios last week which has been helpful in lowering portfolio volatility.** However, depending on what happens this coming week, there may be more work that needs to be done.

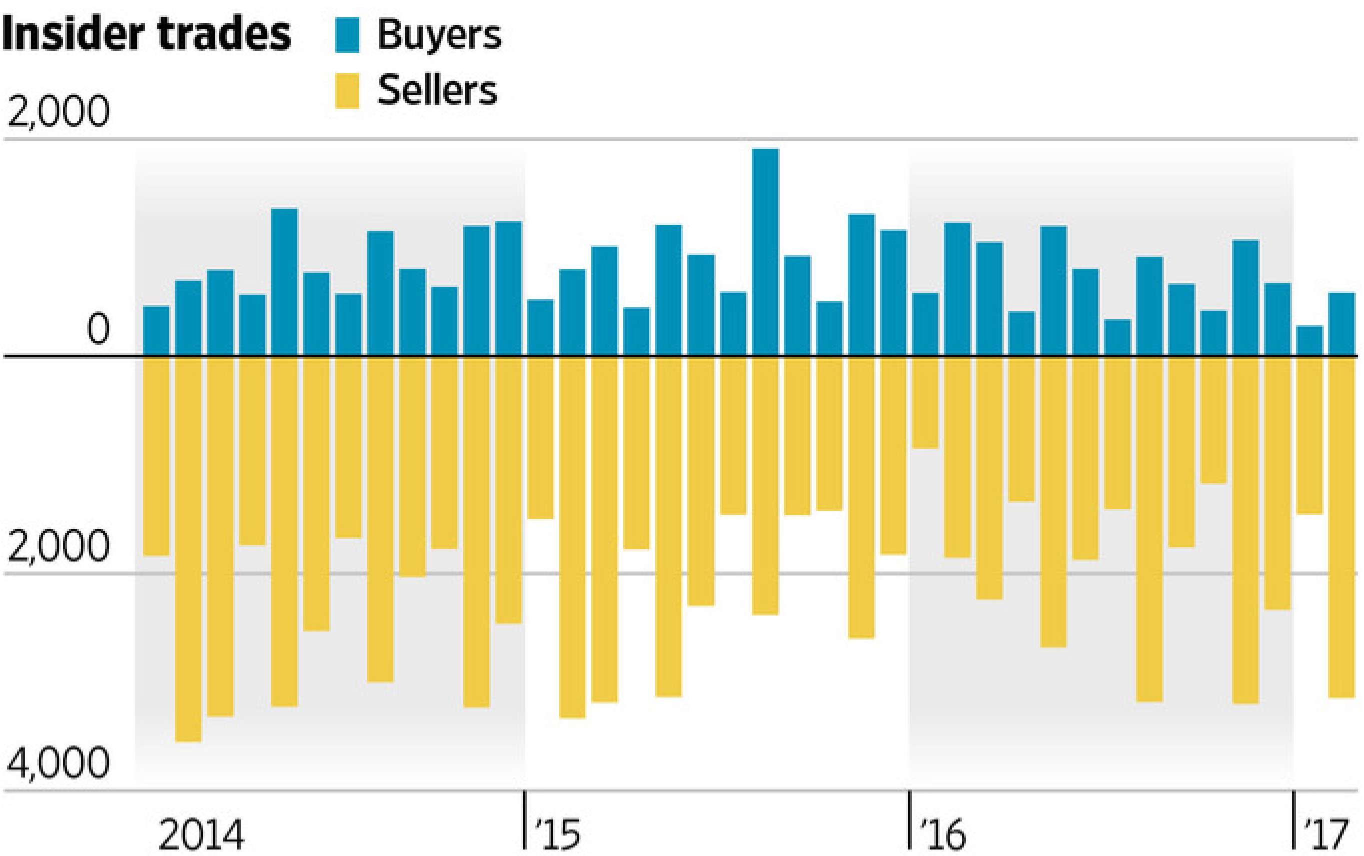
Insiders Aren't Buying•It

Chris Dieterich and Ben Eisen had a very interesting piece in the WSJ hitting on a most important issue. However, before we get into their analysis, let me remind you of something. The whole premise of the *"Trump Rally"* is that lower tax rates, lower regulations, and infrastructure spending is going to juice earnings of companies and drive asset prices higher. If that is the case then how do you explain this:

> *"Corporate executives are buying their own firms? shares at the slowest pace in at least 29 years, the latest sign of uncertainty as the bull market in U.S. stocks enters its ninth year. Share purchases and sales by executives are parsed by investors searching for signals about what insiders expect from the market. Sales can show wariness about valuations, while purchases can signal confidence that more gains lie ahead. Insider buyers have been scant. There were a total of 279 insider buyers in January, the lowest number going back to 1988, according to the Washington Service, a provider of insider-trading data and analytics."*

Low Ebb

The ratio of company executives buying shares to those selling has slumped to a 29-year low, the latest technical indicator that is giving some investors pause despite a long stock rally.

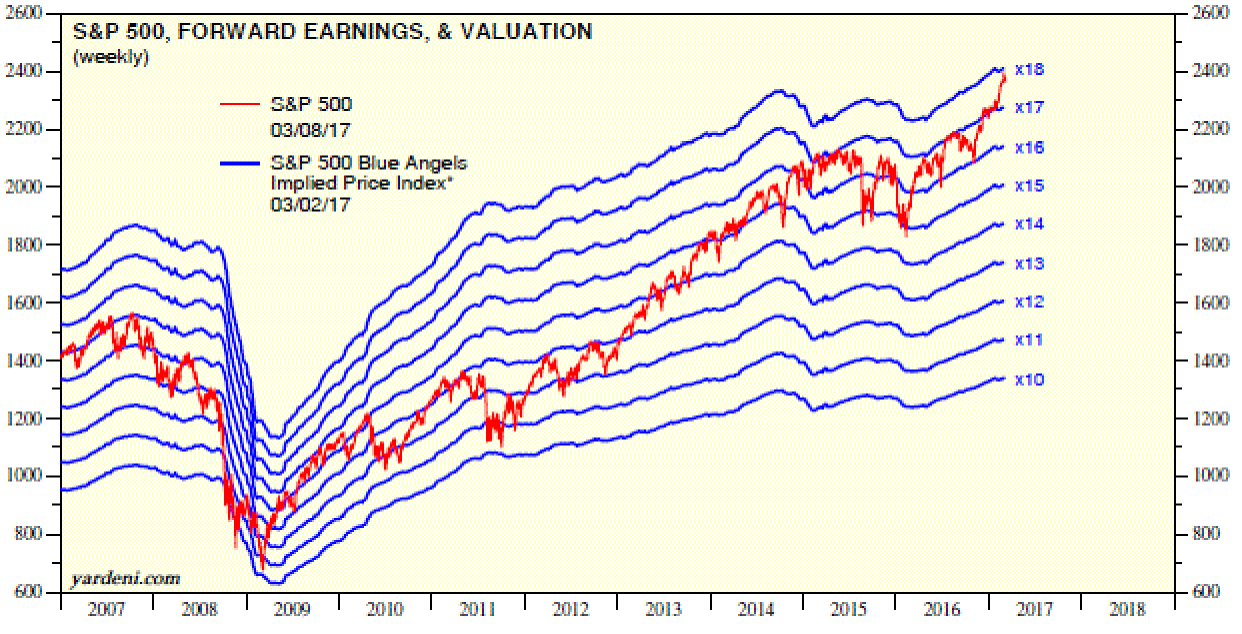


*"**Meanwhile, the number of sellers has been above average, pushing a ratio of buyers to sellers in February to its lowest since 1988.** Insider caution about buying stocks comes with the S&P 500 near a high and after the index has more than tripled since bottoming during the financial crisis on March 9, 2009. **While many investors expect corporate earnings to pick up in coming quarters, reflecting the continuing U.S. economic recovery and Trump administration tax-cut and deregulatory plans, the strong market gains mean that investors are paying more now for expected corporate earnings than at any point in over a decade.** The price-to-earnings ratio of the S&P 500 based on analyst forecasts **for the next year is near 17.7, the highest since 2004,** according to FactSet."*

Of course, valuations are a key issue going forward as:

"What you pay today, has everything about what your return on investment is tomorrow."•

As Ed Yardeni recentlv noted:



* Implied price index calculated using forward earnings times forward P/Es.
Source: Standard & Poor's and Thomson Reuters I/B/E/S.

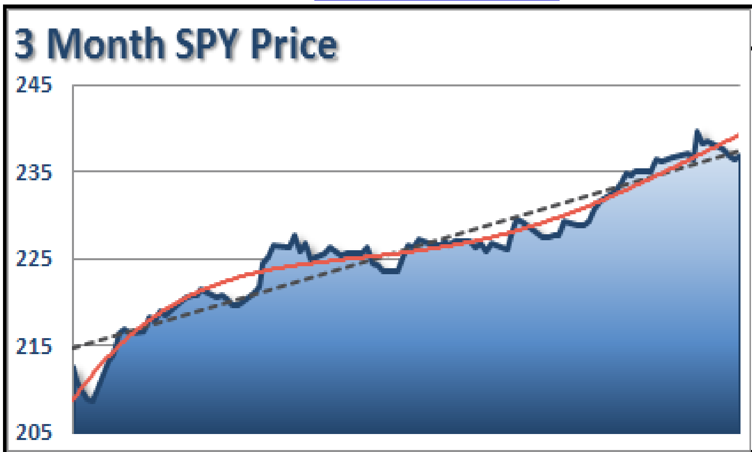
So, in other words, if they aren't buying the rally - should you be? *Just a thought.*

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	13.68%	18.80%	5.96%	(68.28%)
Max Drawdown	-15.32%	-6.53%	-1.91%	-70.80%
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%	(16.33)	3.22	0.81	(0.75)
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	1.83%	2.18%	1.92%	########	2.19%	1.83%	(12.64%)	4.89%
P/E Ratio	18.02	17.33	20.35	14.85%	40.69	18.14	(50.0%)	12.21%
P/S Ratio	2.74	2.60	3.09	15.91%	3.08	1.82	0.11%	69.41%
P/B Ratio	3.33	3.00	3.56	15.70%	3.43	2.31	3.75%	53.66%
ROE	15.23%	15.59%	15.18%	(2.70%)	16.07%	15.00%	(5.54%)	1.16%
ROA	2.91%	2.93%	2.84%	(3.15%)	3.00%	2.82%	(5.31%)	1.01%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,547.4	2,445.8	(3.99%)
Sales	56,807	55,772	(1.82%)
SPS	22.3	22.8	2.26%
Earnings	7,502	7,256	(3.28%)
EPS TTM	3.4	3.5	0.67%
Dividend	1.3	1.3	4.89%

S&P 500 Asset Allocation

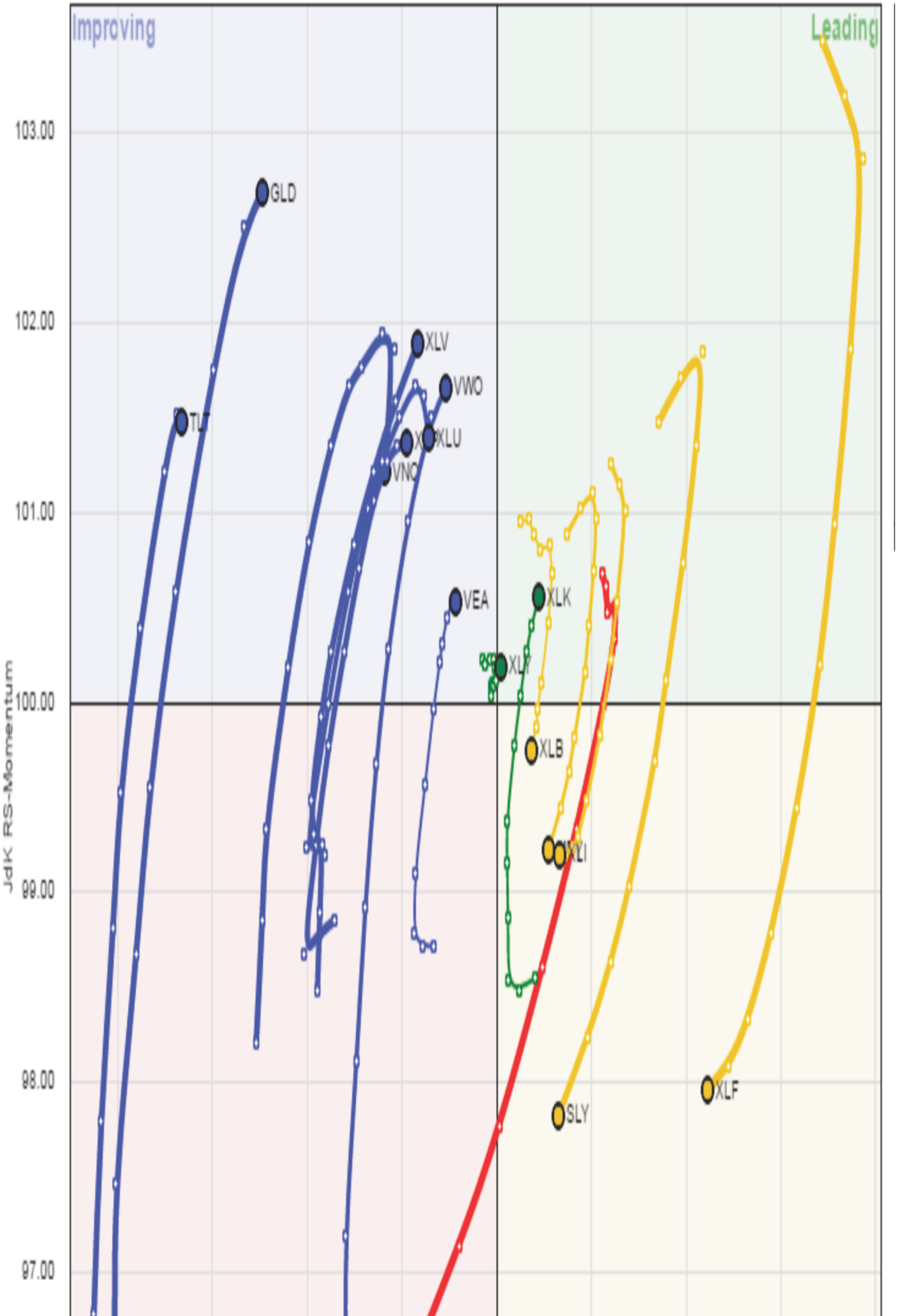
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	10.01%	6.45%	1.15	130.58	156.27	11.32	(16.4%)	3.3%	2.7%	0.77%	2.12	27.38
Materials	16.85%	2.81%	1.39	19.89	54.40	11.91	(63.4%)	17.4%	2.1%	5.01%	3.82	17.94
Industrials	19.70%	10.14%	1.08	19.28	25.20	12.55	(23.5%)	17.9%	2.2%	5.17%	4.07	18.33
Discretionary	15.45%	12.09%	1.06	21.15	59.09	16.52	(64.2%)	21.5%	1.4%	4.73%	3.51	18.99
Staples	4.01%	9.34%	0.63	21.43	25.51	15.15	(16.0%)	23.1%	2.6%	4.68%	3.49	20.28
Health Care	11.88%	14.08%	0.97	17.29	31.53	11.92	(45.2%)	25.3%	1.7%	5.81%	5.17	16.08
Financials	39.58%	14.87%	1.30	16.50	22.43	9.51	(26.4%)	8.5%	1.6%	6.06%	4.22	14.48
Technology	27.63%	21.69%	1.22	22.42	74.76	16.57	(70.0%)	26.0%	1.2%	4.46%	4.04	20.92
Telecom	1.18%	2.40%	0.46	14.07	26.08	12.64	(46.1%)	20.0%	4.7%	7.13%	2.93	13.78
Utilities	5.54%	3.10%	0.33	17.42	53.95	12.54	(67.7%)	10.7%	3.6%	5.72%	3.12	17.90
Real Estate	0.39%	2.80%	0.75	18.31	26.27	15.80	(30.3%)	11.8%	3.5%	5.39%	3.73	18.34

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	236.86	5.58%	230.80	50	2.63%	219.76	89	7.78%	5.02%	-1.44%	20.00%	Buy
Mid Cap	310.02	2.35%	309.86	50	0.05%	290.06	200	6.88%	6.83%	-3.26%	24.36%	Buy
Small Cap	119.15	(1.62%)	121.41	21	-1.86%	113.91	90	4.60%	6.59%	-6.18%	24.13%	Buy

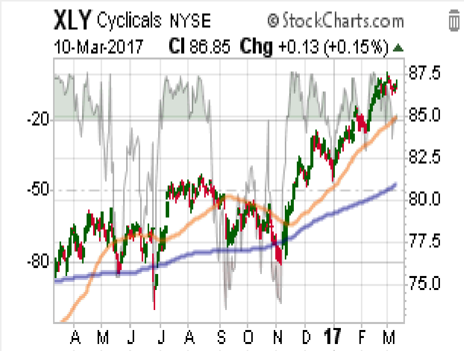
Sector Analysis

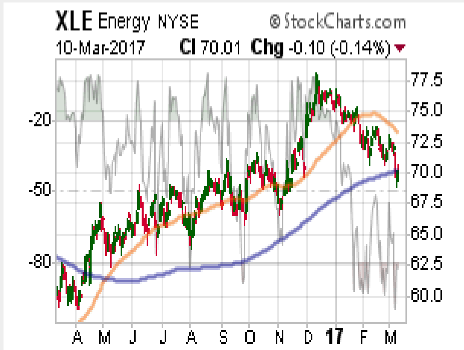
Despite the rout in interest rate sensitive sectors of the market last week, the sector rotation continues currently with only a couple of exceptions.

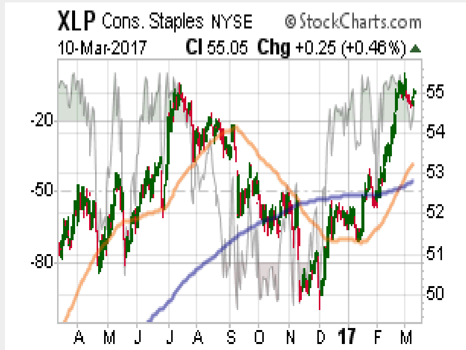


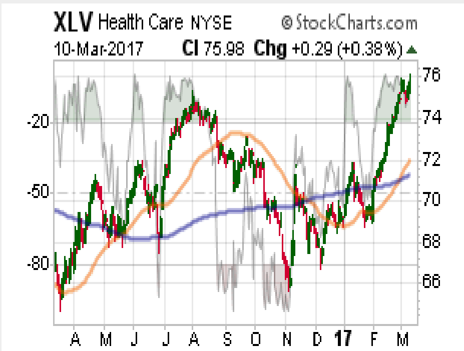
Technology and Discretionary picked up steam last week moving from weakening back into leading for the moment. **Industrials, Materials, Financials, Small and Mid-Cap stocks** continued to weaken in terms of relative performance. **Energy** continued to struggle after breaking its 50-dma BUT did is now flirting with breaking its 200-dma. Energy needs to rally next week, or there will be more trouble ahead. Heavily reduce this sector, or eliminate, if a failure occurs. •

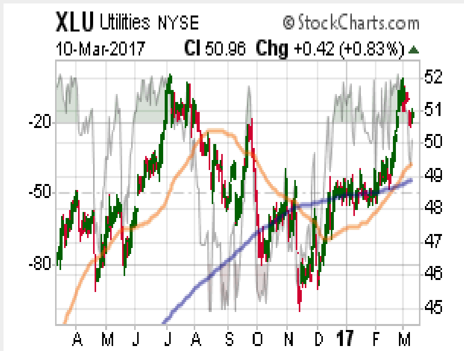
Utilities, Healthcare, and Staples just had the 50-dma cross back above the 200-dma suggesting a much better buying opportunity on sector pullbacks in the future. **We will be looking to add to our current holdings on such an opportunity.•**

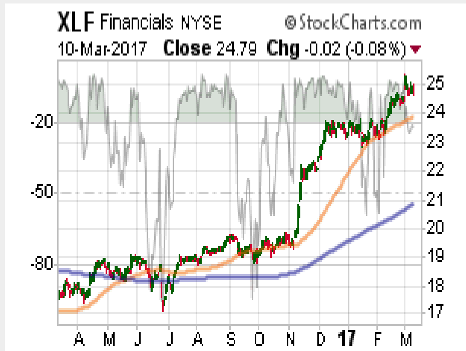


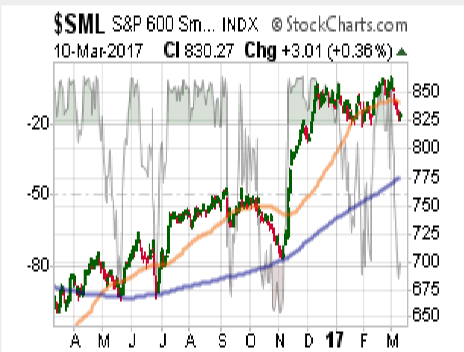


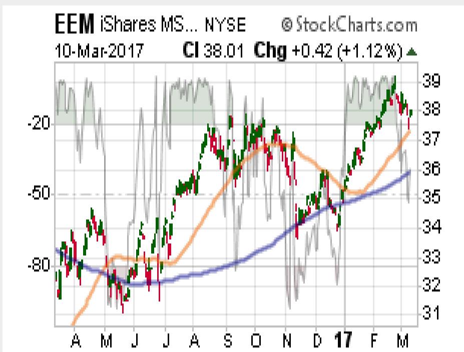


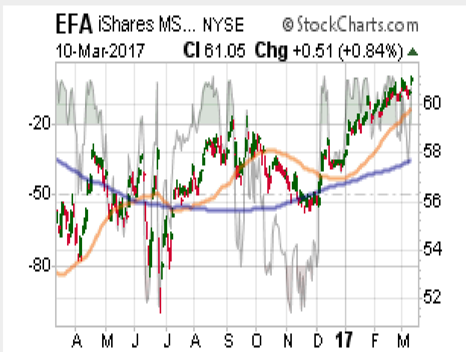


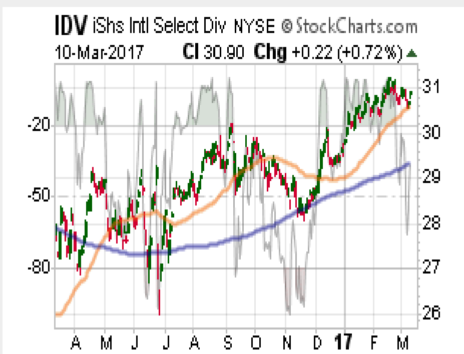












Overbought conditions exist almost unilaterally across the entire complex suggesting a higher risk/reward condition•currently until a correction occurs.**Due to this condition, we did rebalance portfolio weightings last week to raise some cash and are not adding any new equity exposure currently for this reason. We are, however, actively buying individual bonds for portfolios.** 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.)

REAL INVESTMENT ADVICE

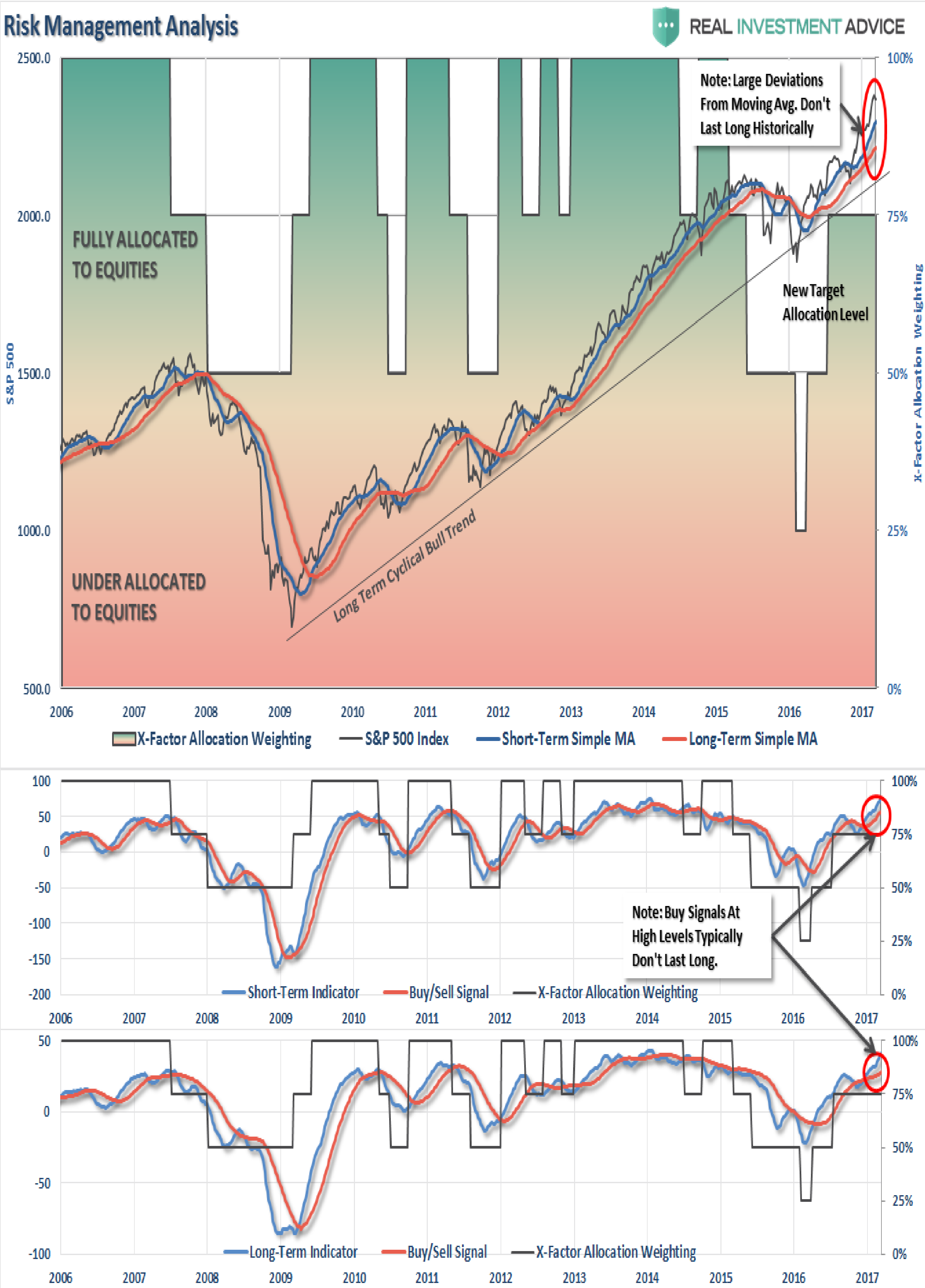
	Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	OB	Positive	Positive	Take Profits				X		Extreme Overbought/Weakening
XLK	OB	Positive	Positive	Take Profits				X		Extreme Overbought/Weakening
XLI	Declining	Positive	Positive	Take Profits				X		Extreme Overbought/Weakening
XLB	Declining	Positive	Positive	Take Profits				X		Overbought/Weakening
XLE	OS	Positive	Positive	Warning				X		Broke 50-dma
XLP	OB	Positive	Positive	Take Profits				X		Overbought/Improving
XLV	OB	Positive	Positive	Take Profits				X		Overbought/Improving
XLU	Declining	Positive	Positive	Take Profits				X		Overbought/Improving
XLF	OB	Positive	Positive	Take Profits				X		Overbought/Weakening
$SML	OS	Positive	Positive	Take Profits				X		Weakening/Broke 50-dma
EEM	Declining	Positive	Positive	Take Profits				X		Dollar / Rate Risks
EFA	OB	Positive	Positive	Hold			X	<=		Hold / Overbought
GLD	Declining	Negative	Negative	Sell					X	Broke 50-dma/Target $120 Reached
IDV	Declining	Positive	Positive	Hold			X	<=		Dollar/Rate Risks
MDY	Declining	Positive	Positive	Hold			X	<=		Hold
SDY	Declining	Positive	Positive	Hold			X	<=		Hold
TLT	OS	Negative	Negative	Hold		X	<=			Added To Portfolio - Hedge
VNQ	OS	Positive	Warning	Alert			X			Oversold / Evaluating

LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING

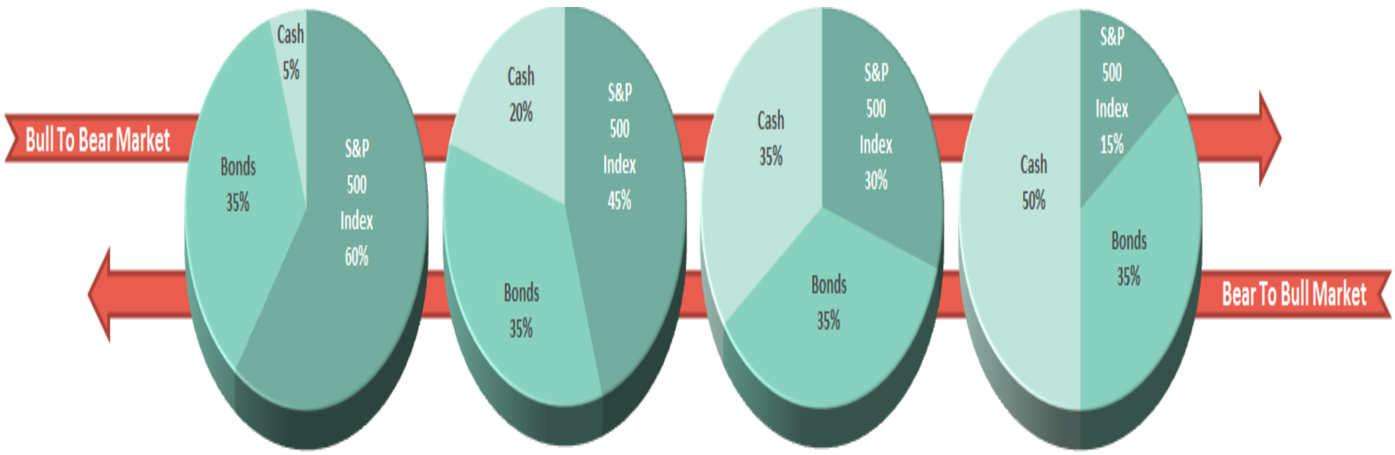
Portfolio Update: After•hedging our long-equity positions 13-weeks ago with deeply out-of-favor sectors of the market *(Bonds, REIT?s, Staples, Utilities, Health Care and Staples)***we did rebalance some of our long-term CORE equity holdings back to original portfolio weightings harvesting a bit of liquidity. 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



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.



All Eyes On The Fed

I wrote almost a month ago, that 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.•**

The current correction, if it continues, may give me the opportunity to get the model realigned with the underlying signals. Such an increase will require a correction back to moving average support around 2250-2300.

As noted in the chart above, the current extension above the moving average must be corrected to justify an increase in equity risk currently.•

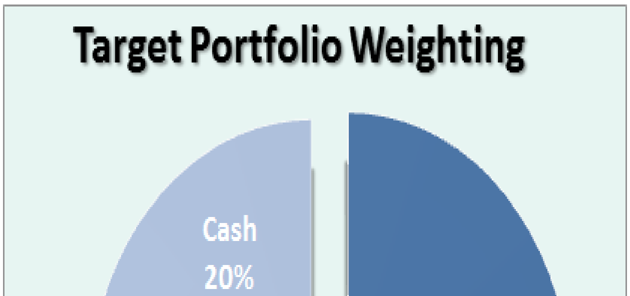
However, the run up in interest rates last week HAS put bonds into a favorable position to add exposure in portfolios. If you are underweight the current targeted allocation weight in bonds, exposure an be increased to target levels.

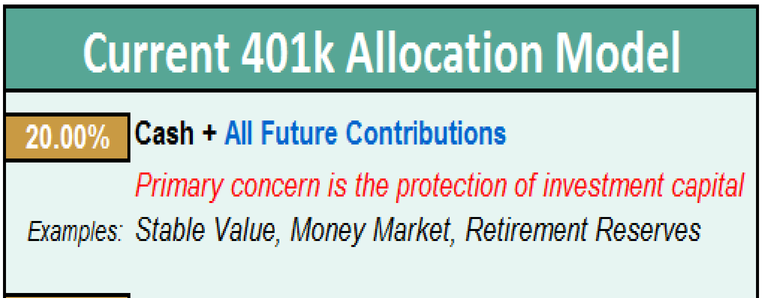
As stated, if we can get a correction that resolves the overbought, extended and excessively bullish backdrop to the markets currently, I WILL increase the allocation model to 100%. •For now, we will wait and let the markets tell us what it wants to do next.

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.)*





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