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- ***Market Update***
- ***Some Charts & Stuff***
- ***Market & Sector Analysis***
- ***401k Plan Manager***

Note

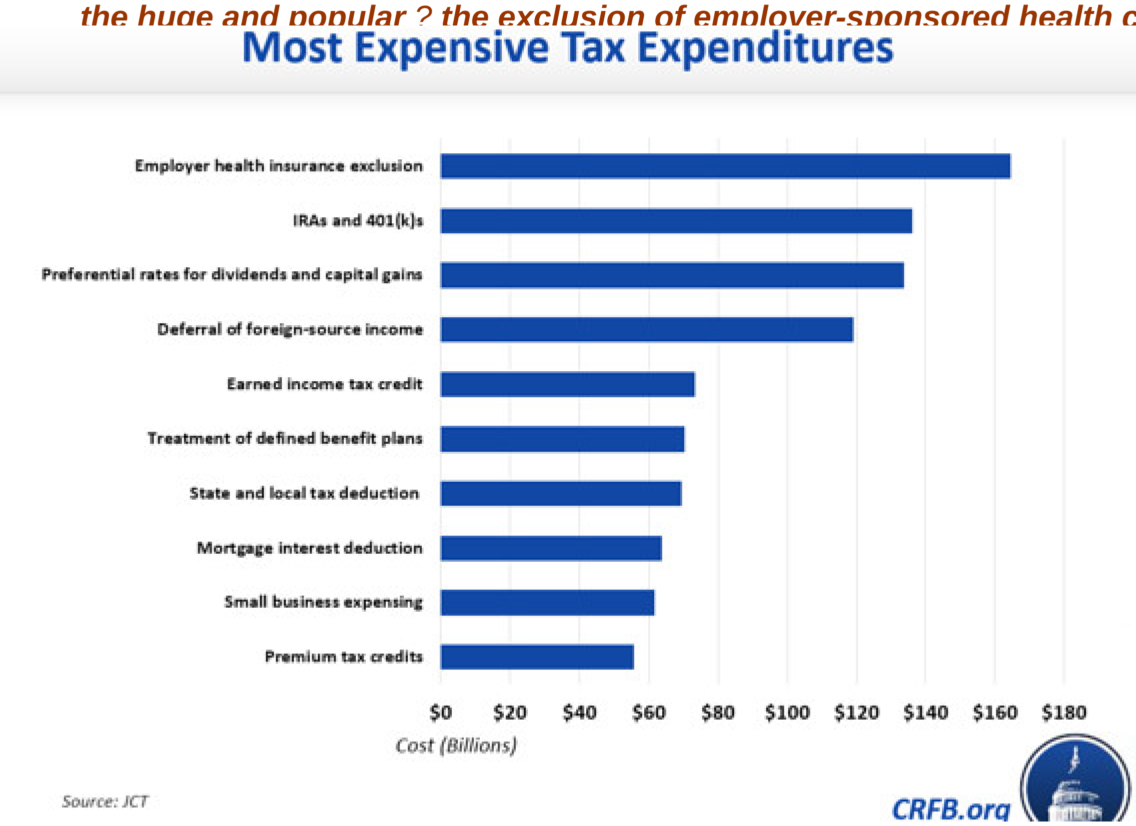
This week's newsletter is just going to be brief update as I am making the last minute preparations for the 2017 Economic & Investment Summit tomorrow morning. **With the event oversubscribed, and if you are unable to attend, we will be streaming the event live tomorrow on our Facebook page *(www.facebook.com/realinvestmentadvice)* as well as posting video**

presentations to the website over the next couple of weeks.•I am really looking forward to some great presentations from Danielle DiMartino-Booth, Michael Lebowitz, Dave Collum and Greg Morris. So, with that said, let's do a quick broad market review.

Market Update - Resumption Of The Trump Trade?

As I discussed last week, the failure to obtain a vote on the repeal and replacement of the Affordable Care Act has now drawn into question that ability, and the magnitude, of other fiscal policy changes which have been the foundation of the rally since the election. •However, Wall Street was quick to spin the failure into a positive by suggesting a quick turn to *"tax reform."* Of course, as my good friend Caroline Baum wrote this past week:

> ***"There are major party differences in the approach to tax reform.*** *For example, Republican supply-siders want to cut top tax rates to incentivize work while Democrats favor a more progressive tax code to reduce the burden on low and middle-income Americans.* ***There are intra-party differences as well, including whether tax reform must be revenue neutral and the advisability of enacting a border-adjustment tax, which would tax imports and exempt exports.*** *Then there are the constraints imposed by using budget reconciliation, an expedited process for tax-and-spending legislation that doesn?t allow for Senate filibuster. But the real impediment to tax reform isn?t procedural, left versus right, or which industries benefit from a BAT. The real issue is my tax break versus yours." Everyone wants tax reform until it comes to sacrificing his or her deduction, exclusion or exemption. Therein lies the problem.* ***The only way to lower tax rates without widening the deficit is to close every last loophole, from the huge and popular ? the exclusion of employer-sponsored health care and*** ***rtgage*** *academy*

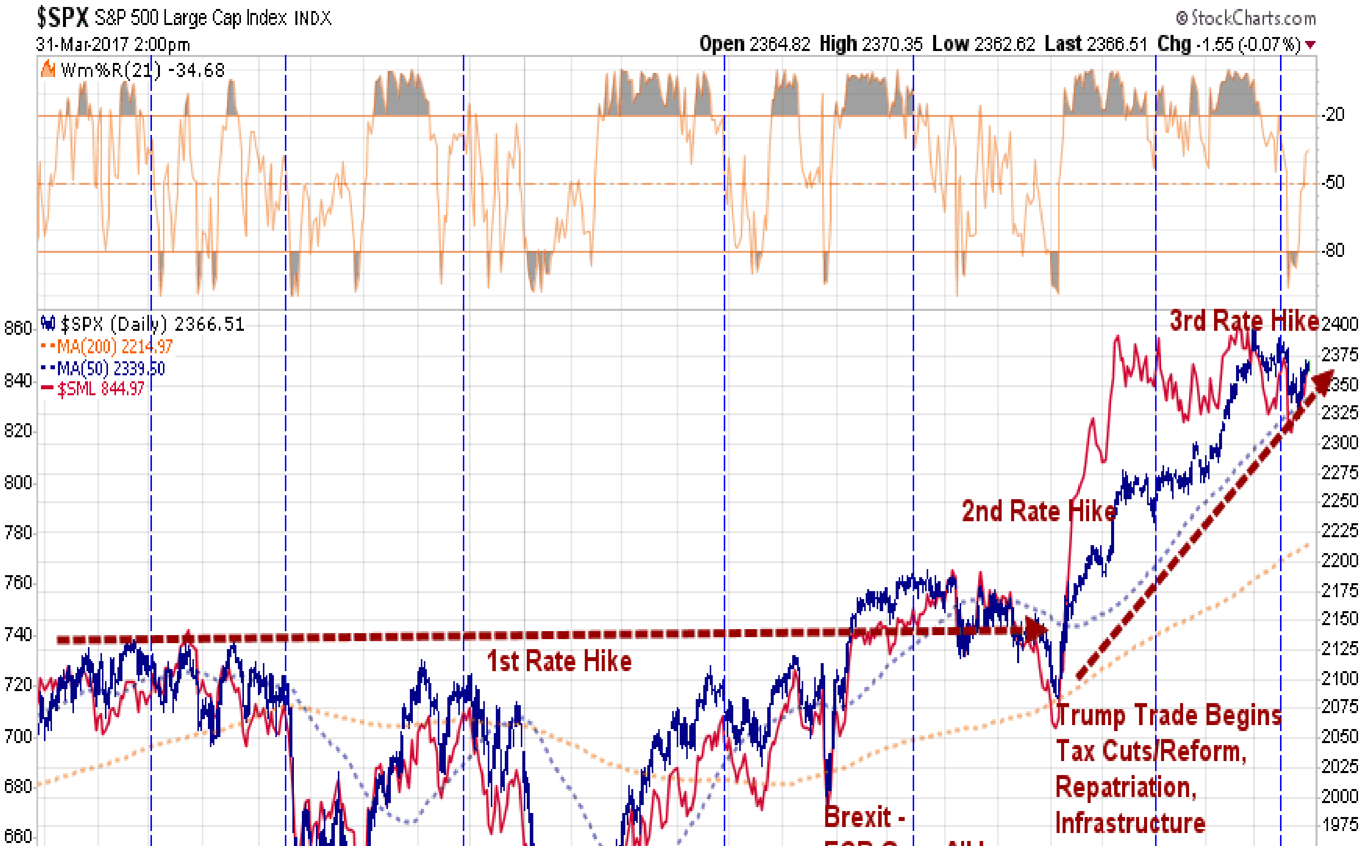


Good luck with that. If lawmakers think rewriting the nation's health care laws were hard, just wait until you try and take away the tax breaks that lower the average corporate tax rate of•12-16% versus the much hyped 35% statutory rate *(not to mention the howls from the middle class.)* As [Howard Gleckman] laid out recently:

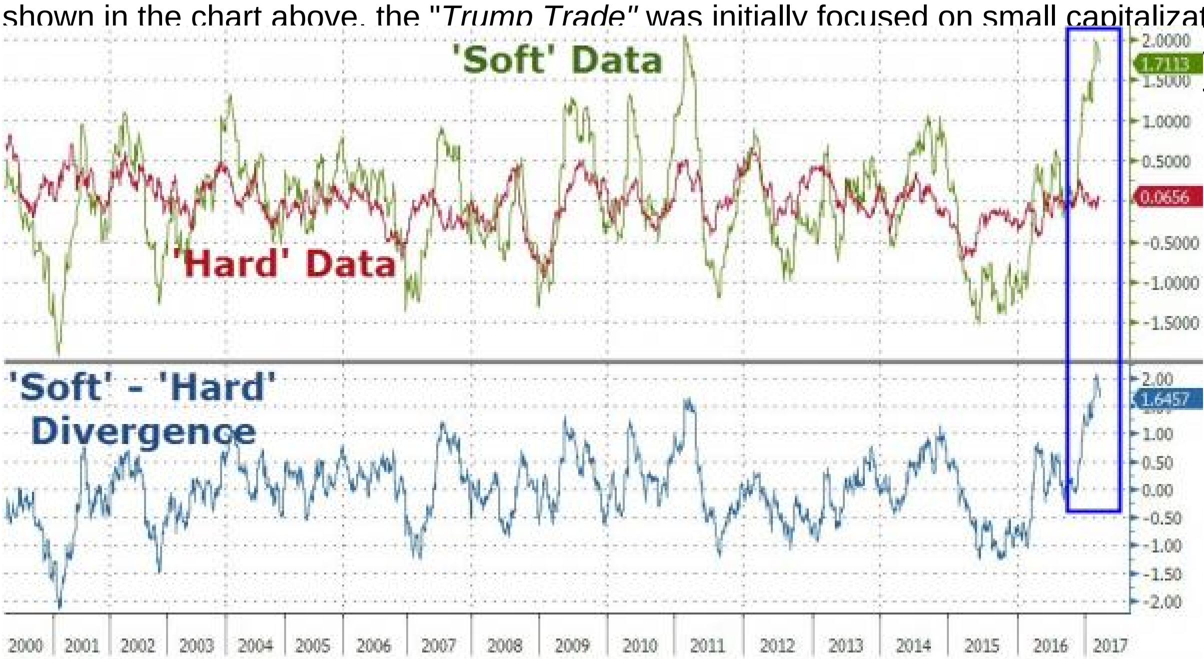
> ***"There is a good reason why a major rewrite of the tax code has not happened for more than three decades.*** *And here are eight reasons why true tax reform will be an even tougher climb than a health care redesign."*

1. **The revenue problem.** If lawmakers can?t agree on how much money they want their new tax code to raise, any initiative is doomed.
2. **The winners and losers problem.**•It helped sink the American Health Care Act, where younger, healthier, and higher-income people would have come out ahead on average, while older, sicker, and lower-income people would have been worse off. **Revenue-neutral tax reform will have a similar winners-and-losers problem-- on steroids.**
3. **Who wants to slash tax breaks?** This is the nitty-gritty of the winners-and-losers problem.
4. **The baseline problem**. As many have written, Trump and Ryan wanted to pass a health bill first because it would have made the job of passing a revenue-neutral tax reform about $1 trillion easier. **Now, without that $1 trillion, it will be much tougher to pass a bill that the Congressional Budget Office and the Joint Committee on taxation certify is revenue neutral over the long run.**
5. **Corporate taxes, individual taxes, or both?** Some believe that doing only corporate reform would be easier than tackling individual taxes.
6. **The number of people affected.** For all the controversy over AHCA, most Americans would have been largely exempt from the bill. **By contrast, every one of the 324 million Americans and every business is directly affected by the tax laws.**
7. **Congressional politics.** The AHCA was a case study in how deeply Congress was divided over a big complicated issue. The divisions were mostly partisan and partially ideological. When it comes to taxes, the splits are even more complex.
8. **Trump?s depreciating political capital**. Every new president comes to Washington with a supply of clout, but it has something of a half-life. Trump started off with less capital?and a lower public approval rating--than any president in modern history. He?s used up quite a bit in the failed AHCA effort.

So, why is this important? Simple.



The entire rally that began following the election has been based on the Trump Administration pushing through fiscal policy reforms to offset the tightening of monetary policy by the Fed. As shown in the chart above, the *"Trump Trade"* was initially focused on small capitalization stocks



nsumer

itially stronger

While this

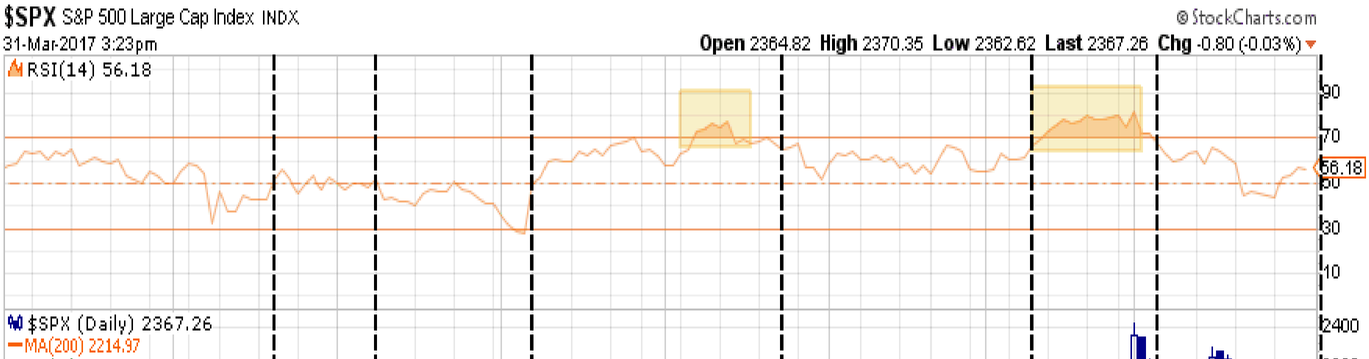
time could certainly be *"different,"*•the last 5-times the gap between perceived and actual economic reality was near current levels, **the S&P 500 struggled for a few weeks/months afterward:**

- JUL 2007 -12%
- JUN 2009 -9%
- APR 2010 -17%
- MAR 2011 -19%
- NOV 2014 -6%

The point to be made here is that while there is much *"hope"* the Trump administration will get its *"act together"* and move legislative agenda forward, **the markets are not going to wait forever. There is a rising risk the *"Trump Trade"* may be nearing its end and, for investors, there is a much greater risk of *"disappointment"* than there is of *"positive surprises"* at this juncture.**

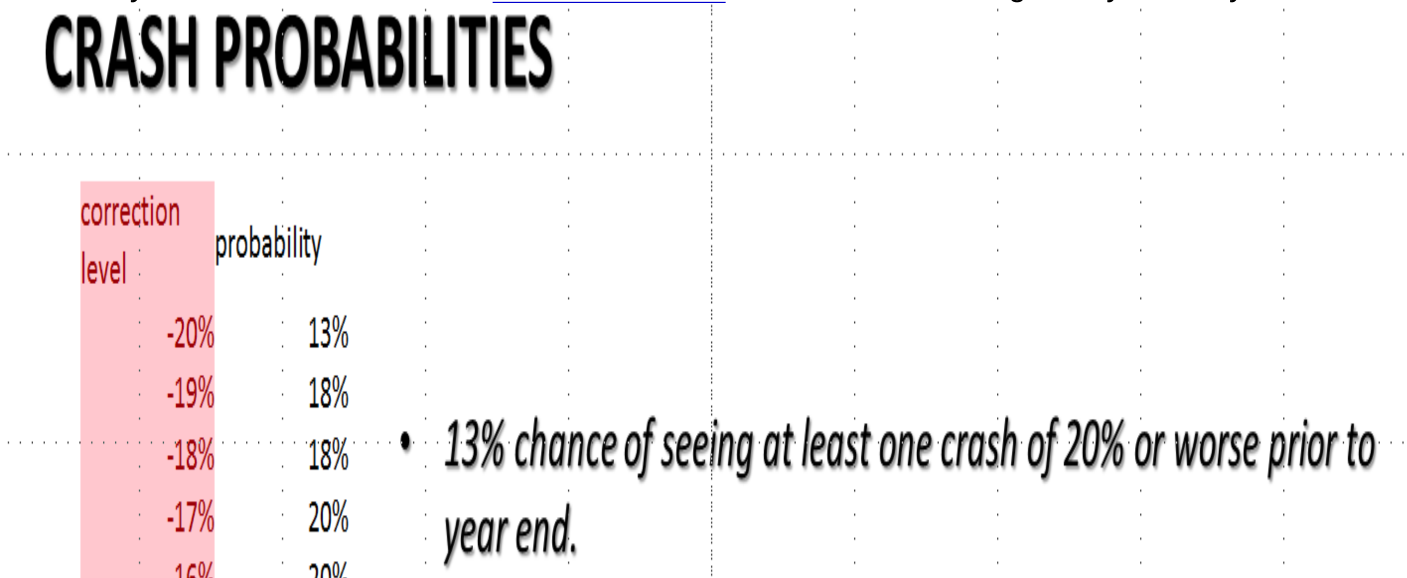
Some Charts & Stuff

Short-Term I noted at the beginning of the month that we had lifted some profits out of portfolios and rebalanced risk. I also stated that we were not adding any NEW positions at that time. Such has remained our stance since then. However, as noted in the chart below, on a short-term basis the market is approaching a buy signal after finding support at the 50-day moving average. With there still begin a couple of months left in the seasonally strong period of the year, and confidence in the *"Trump Trade"* still high, if a "buy signal" is issued we will add short-term risk related exposure *(tactical holdings)* back into portfolios.



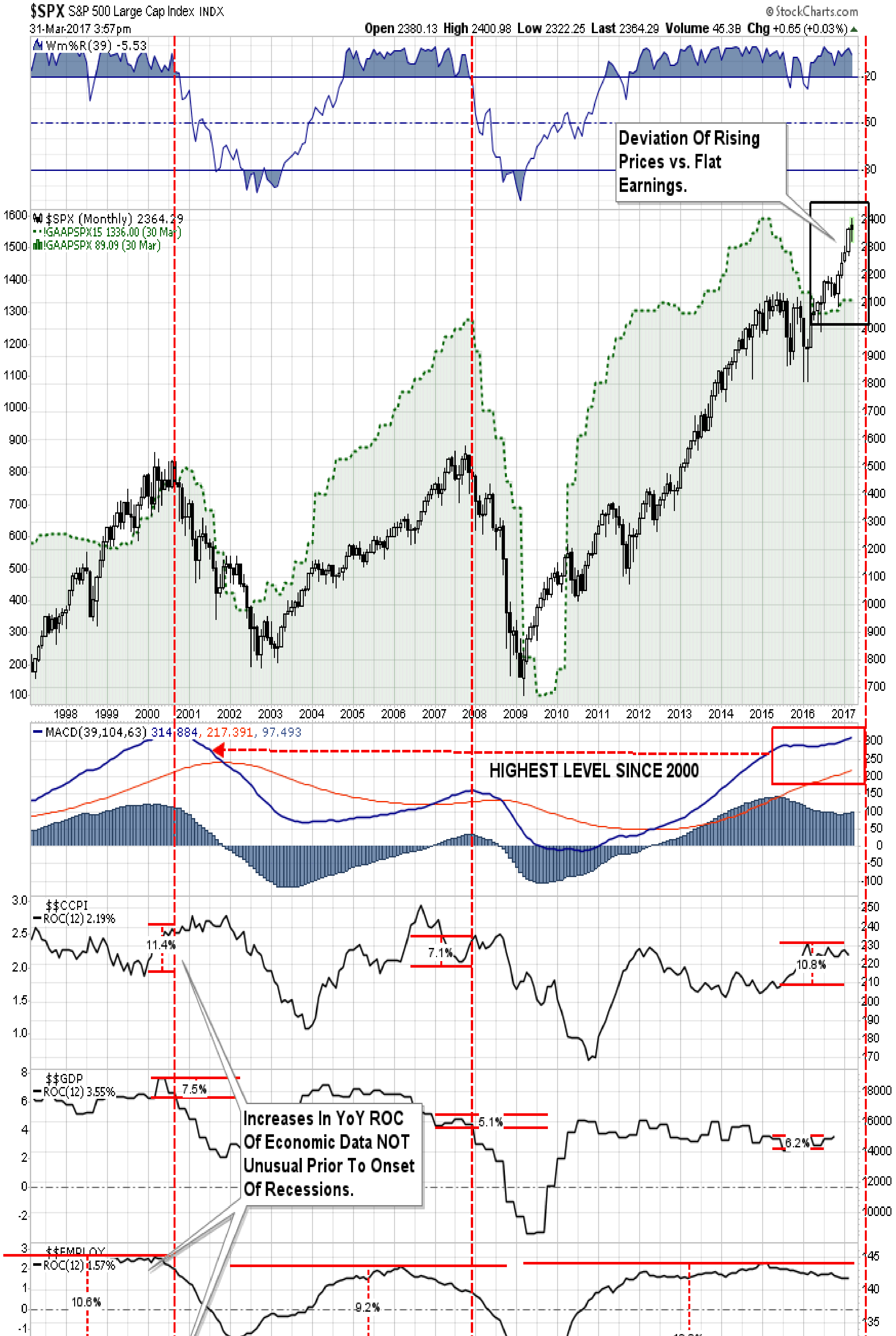
Intermediate-Term However, do not confuse a short-term tactical positioning in the market with an intermediate holding period•in portfolios. Currently, portfolios remain nearly fully allocated to the markets and as noted above we are simply adjusted portfolio weightings for short-term tactical positioning. **However, on an intermediate-term basis, the markets remain grossly overbought and very extended. As such, the possibility of a correction has risen markedly.**

In fact, my friend, Salil Mehta from [Statistical Ideas](#)sent me the following note yesterday.



correction level	probability
-20%	13%
-19%	18%
-18%	18%
-17%	20%

Long-Term In the long-term, the picture worsens substantially. **From extreme overbought conditions, to similar economic growth rate backdrops, this isn't a market that currently suggests long-term returns will remain favorable for investors.**



Too Bullish? My friend Dana Lyon's had a great post on Friday relating to investor confidence•in University Of Michigan consumer confidence survey. To wit:

> *"Specifically, they are asked to guess as to the•'Probability of Increase in Stock Market in Next Year'. Respondents? answers are broken down into ranges of probability percentages, e.g., '1%-24%', '25%-49%', etc. One of the answer options is '100%' probability of a stock market increase over the next year. We like to track this statistic as a measure of public sentiment towards stocks. And based on the most recent survey, as of February, the public is relatively quite certain about the prospects of a stock market rally."*

> *"With most sentiment-related statistics, extreme readings are contrary in nature. That is, the market typically moves contrary to the consensus opinion. That dynamic generally holds true here. Here are the 12-month returns in the S&P 500 following the above readings:*
>
> - ***February 2004 (+5.12%)***
> - ***November 2007 (-39.49%)***
> - ***January 2015 (-2.74%)***
> - ***June 2015 (+1.73%)***
>
> *While 2 of the 4 precedents saw positive 12-month returns, they still paled in comparison to the median (-10.35%) and average (-8.02%) 12-month returns over the sample period. Plus the 2004 incident saw negative returns out to 8 months, and the June 2015 incident out to 9 months. So, in all 4 cases, the longer-term performance of the stock market was sub-par, at best."*

Final Point As I noted last week:

> *"Over the last couple of weeks, the market has begun a corrective process. Currently, the market is oversold enough on a daily basis, **and holding support at the 50-dma, which suggests a rally attempt is likely next week."***

That rally occurred as expected due to end of the quarter *"window dressing"* and portfolio rebalancing. **However, as noted above, on an intermediate-term basis be cautious.** As noted by RBC on Friday:

> *"**Quick note of warning** as we transition into the new quarter, with potential for major thematic / sector / factor reversals in stocks.•**The following observation regarding April seeing a seasonal ?momentum? factor market-neutral strategy unwind is ?equities wonk-ish,? but with real potential cross-asset impact. As we know, the Fed watches equities because there are potential implications with regards to broad US ?financial conditions? on consumer and economic confidence.**•Thus, the scale of potential equities volatility does matter across macro, especially in light **of general buyside portfolio ?crowding? / ?high beta? exposure (into ?growth? right now especially) which could exacerbate the dynamic."***

Translation: *"Watch your ASSets."*

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	13.46%	14.69%	5.71%	(61.15%)
Max Drawdown	-15.32%	-6.53%	-3.62%	-44.47%
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%	(15.57)	(1.21)	(0.66)	(0.45)
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%	2.17%	1.91%	########	2.19%	1.82%	(12.50%)	5.08%
P/E Ratio	18.10	18.00	20.40	11.73%	40.84	18.16	(50.1%)	12.32%
P/S Ratio	2.80	2.62	3.09	15.26%	3.09	1.81	0.24%	71.32%
P/B Ratio	3.33	3.00	3.57	15.96%	3.43	2.32	3.91%	54.04%
ROE	15.24%	15.59%	15.18%	(2.68%)	16.07%	15.01%	(5.54%)	1.19%
ROA	2.90%	2.93%	2.84%	(3.09%)	2.99%	2.80%	(5.06%)	1.26%

S&P 500 Market Cap Analysis			
Item	12-M Ago	Current	% Chg
Shares	2,546.3	2,444.5	(4.00%)
Sales	56,268	55,785	(0.86%)
SPS	22.1	22.8	3.27%
Earnings	7,503	7,257	(3.28%)
EPS TTM	3.4	3.5	0.74%
Dividend	1.3	1.3	4.86%

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	8.69%	6.59%	1.15	131.97	156.27	11.32	(15.6%)	3.4%	2.7%	0.76%	2.17	26.81
Materials	13.11%	2.84%	1.39	20.13	54.40	11.91	(63.0%)	17.4%	2.1%	4.97%	3.83	17.86

Sector Analysis

As stated above, the short-term corrective process over the last few weeks has reversed **SOME•**of the overbought conditions•*(see short-term chart above)*. **However, longer-term dynamics still suggest maintaining a more cautious approach to risk-based allocations.** As suggested last week, the conditions present suggested a rally attempt over the last several days. While the rally did occur, it was very weak, to say the least. Therefore, I continue to suggest that any rally attempt continuing over the first few days of April**should be faded.•**

Remain cautious currently as the *"risk off"* trade has continued to advance over the last week.

Technology, Industrial, Materials, and Discretionary sectors•regained some momentum this past week as hopes of a quick turn from the Health Care failure to Tax Reform took shape. While there is a high degree of disappointment in this view, as discussed above, the group did hold important supports keeping the bullish trend alive. **Energy** continues to struggle after breaking its 50-dma and broke its 200-dma last week. While energy had a bit of a bounce this week, the trend is materially weakening. While oil prices did hold the critical support level of $48, supplies are continuing to build which suggest the bounce may be transient. **Caution in this sector remains highly advised until the technical backdrop improves.•Financials** have broken their 50-dma and are testing the underside of that average. A failure next week will suggest a bigger correction coming for the sector that led the *"Trump Trade"* previously. **Underweight the sector for now.** As I stated a month ago:

*"**Utilities, Healthcare, and Staples** had their respective 50-dma cross back above the 200-dma suggesting a much better buying opportunity on sector pullbacks in the future."*

We are now looking to add to our current holdings if a short-term "buy signal" is registered for the broader market.•

Small and Mid-Cap stocks continued to weaken in terms of relative performance and continue to wrestle with their 50-dma. As expected last week, they did indeed get a bounce this past week, however, they have not yet recovered their relative strength which suggests caution. **Emerging Markets, International, and Dividend Yield Stocks** are again very overbought. The bull trend is still intact but some profit taking and rebalancing is advised.

Bonds and REIT's got oversold two•weeks ago and performance has continued to improve this past week. If the broad markets run into further trouble look for a continued rotation in the *"safety trade."*•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	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OB	Positive	Positive	Take Profits			X	<=		Very Overbought
XLK	Technology	OB	Positive	Positive	Take Profits				X		Very Overbought
XLI	Industrials	Declining	Positive	Positive	Take Profits				X		Weakening
XLB	Materials	Declining	Positive	Positive	Take Profits				X		Weakening
XLE	Energy	OS	Positive	Warning	Warning				=>	X	Broke 200-dma
XLP	Staples	OB	Positive	Positive	Take Profits			X	<=		Weakening
XLV	Health Care	OB	Positive	Positive	Take Profits			X	<=		Weakening
XLU	Utilities	OB	Positive	Positive	Take Profits			X	<=		Overbought/Improving
XLF	Financials	Declining	Positive	Positive	Warning				X		Broke 50-dma
$SML	Small Caps	OS	Positive	Positive	Warning				X		Broke 50-dma
EEM	Emerging Mkt	OB	Positive	Positive	Take Profits				X		Hold / Overbought
EFA	International	OB	Positive	Positive	Take Profits			X	<=		Hold / Overbought
GLD	Gold	Improving	Negative	Negative	Sell					X	Retesting - Target $120
IDV	Int'l Dividend	OB	Positive	Positive	Hold			X	<=		Hold / Overbought
MDY	Mid Cap	Declining	Positive	Positive	Alert			X	<=		Weakening
SDY	SP500 Divideno	Declining	Positive	Positive	Hold			X	<=		Hold
TLT	20+ Yr. Bond	Improving	Negative	Negative	Hold		X	<=			Added To Portfolio - Hedge
VNQ	REIT's	Improving	Warning	Warning	Alert			X			Oversold / Evaluating

LEGENE X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING

Portfolio Update: After•hedging our long-equity positions 15-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 is IMPROVING on a TACTICAL (very short-term) BASIS.** • If a buy signal is registered in the next week, I will increase equity allocations in portfolios accordingly. **However, we continue to•maintain very tight trailing stops as the mid to longer-term dynamics of the market continue to remain very unfavorable.**

THE REAL 401k PLAN MANAGER

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

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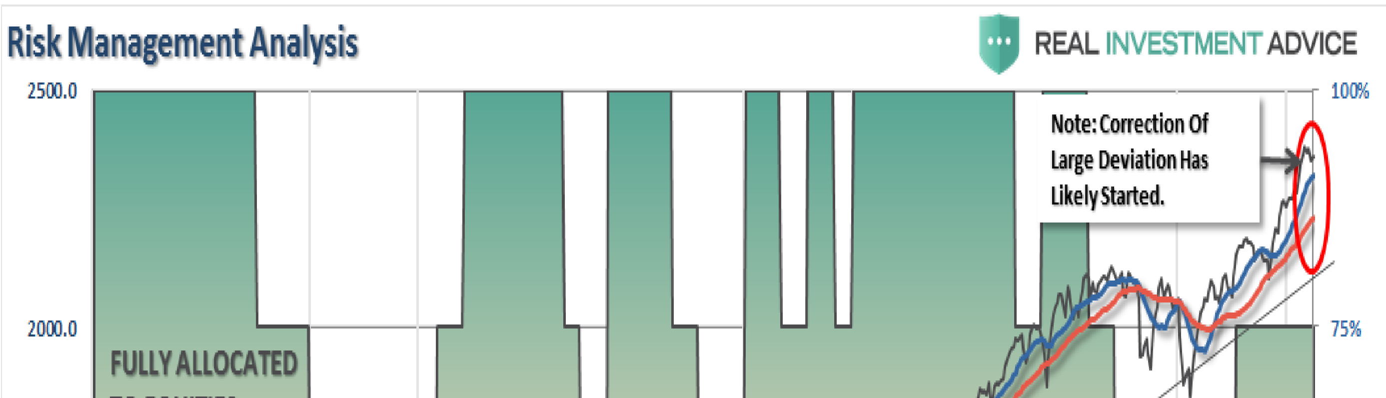
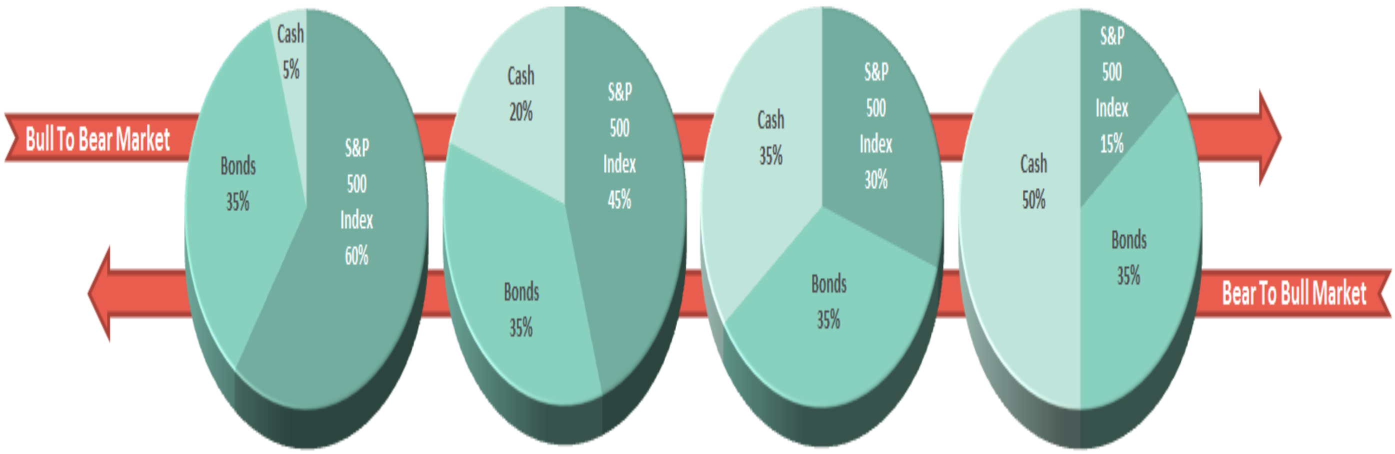


There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative to a positive trend.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



Resuming The Trump Trade?

As I have been writing over the last few weeks, the 401k model needs to be adjusted up to 100% equity allocation. We still have a couple of the seasonally strong months of the year left ahead of us, and as noted above, the bullish trend remains intact.

Given the current consolidation in the market over the last couple of weeks, and the current **risk/reward setup as noted above,** the incremental increase in exposure simply has not been justifiable given the limitations that exist in 401k plans. However, we may be nearing an opportunity to get the allocation realigned with the underlying signals soon.

As noted in the 401k-chart above, the current extension above the moving average has started to correct. The buy signals are beginning to contract and the deviation above the long-term average is being reduced. **As long as the correction process is confined to a bullish trend, a short-term buy signal will allow for an increase in the model exposure.•**

> ***WARNING:*** *If you do not pay close attention to your 401-k plan, or are just more conservative, there is a substantial possibility that any increase in the model allocation could be reversed within a fairly short time frame.•*

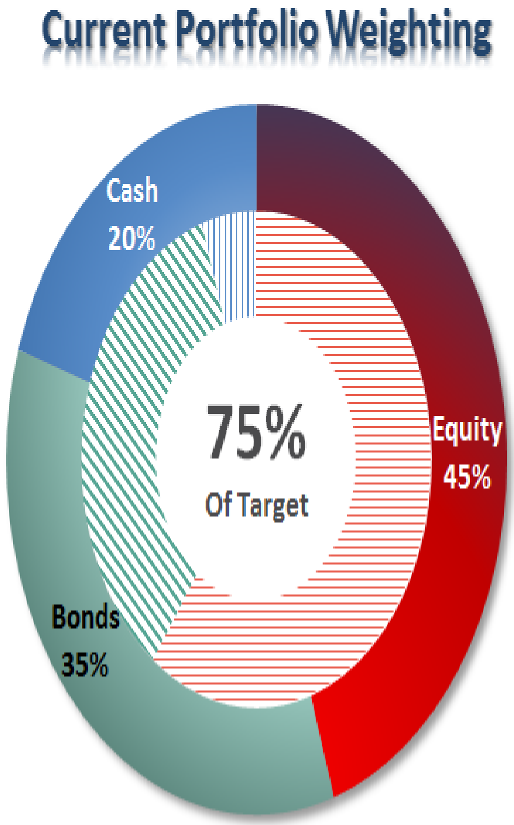
As I noted last week, the bounce did occur on the pivot of Wall Street assuming the failure to pass healthcare reform is now a *"good thing."*•The instruction remains this week to reduce any underperforming assets in your portfolio.

I did note two•weeks ago, the run-up in interest rates HAD put bonds into a favorable position to add exposure in portfolios.•That suggestion played out very favorably but with rates now back to short-term overbought condition, **refrain from adding further fixed income holdings until the market bounces.**

If you need help after reading the alert; don?t hesitate to contact me.

Current 401-k Allocation Model

The 401k plan allocation plan below follows the K.I.S.S. principal. By keeping the allocation extremely simplified it allows for better control of the allocation and a closer tracking to the benchmark objective over time. *(If you want to make it more complicated you can, however, statistics show that simply adding more funds does not increase performance to any great degree.)*



Current 401k Allocation Model

20.00% **Cash + All Future Contributions**

Primary concern is the protection of investment capital

Examples: *Stable Value, Money Market, Retirement Reserves*

35.00% **Fixed Income (Bonds)**

Bond Funds reflect the direction of interest rates

Examples: *Short Duration, Total Return and Real Return Funds*

45.00% **Equity (Stocks)**

The vast majority of funds track an index.
Therefore, select on ONE fund from each category.
Keep it Simple.

15% Equity Income, Balanced or Conservative Allocation
25% Large Cap Growth (S&P 500 Index)
0% International Large Cap Value
5% Mid Cap Growth

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