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Short-Term Sell Signal Deepens

As [noted last week](#):

"The weakness in the market previously, combined with the threats between the U.S. and North Korea, led to a fairly sharp unwinding in equities on Thursday which in turn triggered a short-term sell signal. That sell-off has remained confined to the current bullish trend line but has threatened to violate the 50-dma. If the market is unable to regain the 50-dma on Monday, and remain above it for the balance of the coming week, the most likely move in the markets will be lower."



I have updated the chart above through Friday afternoon. I followed that analysis up on [Tuesday](#) stating:

"On Monday, the market surged out of the gate as headlines suggested 'geopolitical risk' had subsided. I find this particular explanation hard to digest, given the rising rhetoric of a potential trade war with China, violence in Charlottesville over the weekend, no resolution with North Korea, etc., so forth, and so on. I find little evidence of a global turn in geopolitical stresses currently. Monday's 'buy the dip' frenzy was no different. The question will be whether the market can both reverse the short-term 'sell signal' and climb above the previous resistance of the old highs? Such a

reversal would end the current consolidation process and allow for additional capital to be invested."

That was so last Tuesday...

The reversal, at least to this point, was not to be the case. Exactly one week after last week's sell off, the market dumped again. This time it was the news of the complete dismemberment of President Trump's "economic council" of CEO's along with the rumor that Gary Cohn would be exiting his position at the White House as well. While the latter turned out to be #FakeNews, the damage had already been done as market participants began to question the ability of the Administration to get its promised legislative action advanced. **Given the run up in the markets since the election, which was based on tax cuts/reform, infrastructure spending, repatriation and repeal of the Affordable Care Act, the lack of progress on that agenda has left the markets pushing higher on "hope" and "promises."**•The disbanding of the economic council has led to some disruption of that confidence. Importantly, with the market currently on a weekly sell signal, it also compounded the bulls problems by breaking the bullish trend line that begins in February of last year.



This is not a *"panic and sell everything"* signal....yet. It is, however, a potentially important change to the bullish backdrop of the market in the short-term particularly given the ongoing deterioration in the internal participation in the market. Note that when sell signals have been triggered from similarly high levels (*vertical red dashed lines*), subsequent corrections have been fairly brutal.



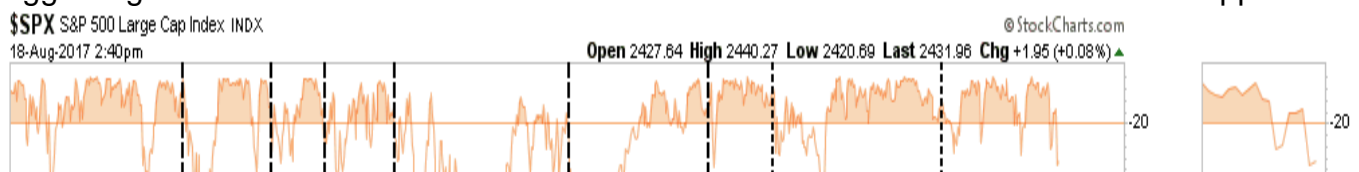
Previously, I questioned whether, or not, to *"buy the dip?"*

"My best guess currently is - probably. But not yet."

I also stated the following two reasons for that sentiment:

1. *Bull markets don't typically end when the mainstream media is "peeing down both legs" over the 1.5% drop on Thursday.*
2. *The bullish uptrend remains intact and "fear" gauges remain confined to a downtrend.*

This remains this week as well. **The sell-off, so far, remains contained above the previous bullish breakout to new highs and remains above current price support levels.** Furthermore, while volatility did pick up a bit on Thursday, it has not exceeded last week's volatility spike suggesting traders are less worried about a correction than media headlines makes it appear.



As noted last week, I still believe this to be the case currently:

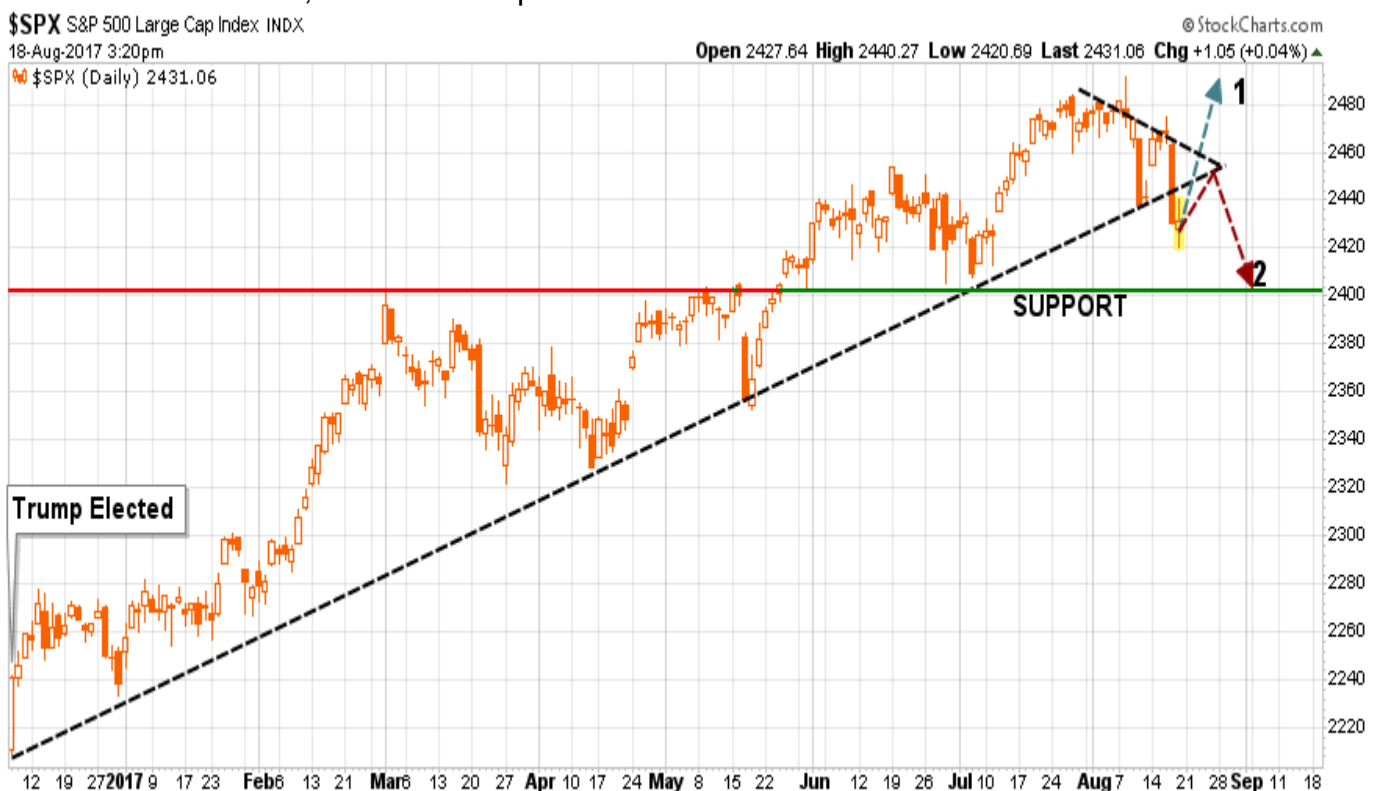
*"The market remains confined within its overall bullish trend while volatility remains confined to downtrend. **Given this backdrop, I would suspect that current weakness will result in an internal rotation of sector participation as 'bulls' continue to ignore the mounting risk of deteriorating of reported EPS growth, weak revenue growth, slowing economic growth and fading realities of positive legislative agenda coming to fruition.**"*

Prepping For Action

Last week, I stated that in our core portfolios, **we would wait for confirmation the current sell-off has abated before adding additional risk exposure to portfolios.**

*"In recent years, such market tantrums have been very short-lived and have provided opportunistic entry points for increasing equity-related exposure. **However, EVERY TIME is DIFFERENT, so it is always important to NEVER ASSUME the outcome will be the same as the last. That is how you wind up losing a lot of money.**"*

From a technical basis, there are two potential outcomes as shown below:



Scenario 1:•The market regains its footing next week and rallies strongly enough to break above the downward trending levels of previous rally attempts. **Such action would confirm the bullish trend remains intact and would provide the opportunity to rebalance equity exposure to model weights accordingly.**•**Scenario 2:** The market rallies to the upwardly sloping "bullish trend line" that began with the election of President Trump. The rally fails at resistance and turns lower. **Such a failure would confirm the current short-term bullish trend has likely concluded leading to a reduction of equity exposure, increases in cash positions and fixed income, and a reduction in overall portfolio equity risk.**•**What To Do Now** I made a mistake following Monday's rally by adding mildly to underweight positions in portfolios. Those positions are now under direct threat of being stopped out with the current action. That is part of the investing process, not everything always works out as we plan. However, we are now actively reviewing all

of our portfolios, and positions, in order to be prepared to take action depending on what happens given our two scenarios above. **As I have addressed previously, managing a portfolio is very much like managing a garden. It isn't about taking drastic action to be "all in," or "all out," but rather planting and harvesting according to the season.**

1. **Prepare the soil** *(accumulate enough cash to build a properly diversified allocation)*
2. **Plant according to the season** *(build the allocation given the right ?season?)*
3. **Water and fertilize** *(add cash regularly to the portfolio for buying opportunities)*
4. **Weed** *(sell loser and laggards, weeds will eventually ?choke? off the other plants)*
5. **Harvest** *(take profits regularly otherwise ?the bounty rots on the vine?)*
6. **Plant again according to the season** *(add new investments at the right time)*

So, with this analogy in mind, here are the actions to continue taking to prepare portfolios for the next set of actions:

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 your 'sell points' when you are both wrong AND right.*?)

Step 3) Have positions ready to execute accordingly given the proper market set up.•In this case, we are looking for a failure at the bullish uptrend to begin to execute Step (1) above.

IMPORTANT NOTE:•Taking these actions has **TWO specific benefits**•depending on what happens in the market next.

1. **If the market pulls back above resistance and confirms the bullish trend,**the actions have cleared out the *weeds?*•and allowed for *new planting?*•to benefit from the next advance.
2. **If the market fails and suggests further declines to come,**then the reduction of *risk?*•protects the portfolio against any substantial decline.

No one knows for sure where markets are headed in the next week, much less the next month, quarter, year, or five years. **What we do know is that not managing risk in portfolios to hedge against something going wrong is far more detrimental to the achievement of long-term investment goals due to the inability to recover the *time?*•lost getting back to even.**See you next week.

NEW! Commonly Asked Questions

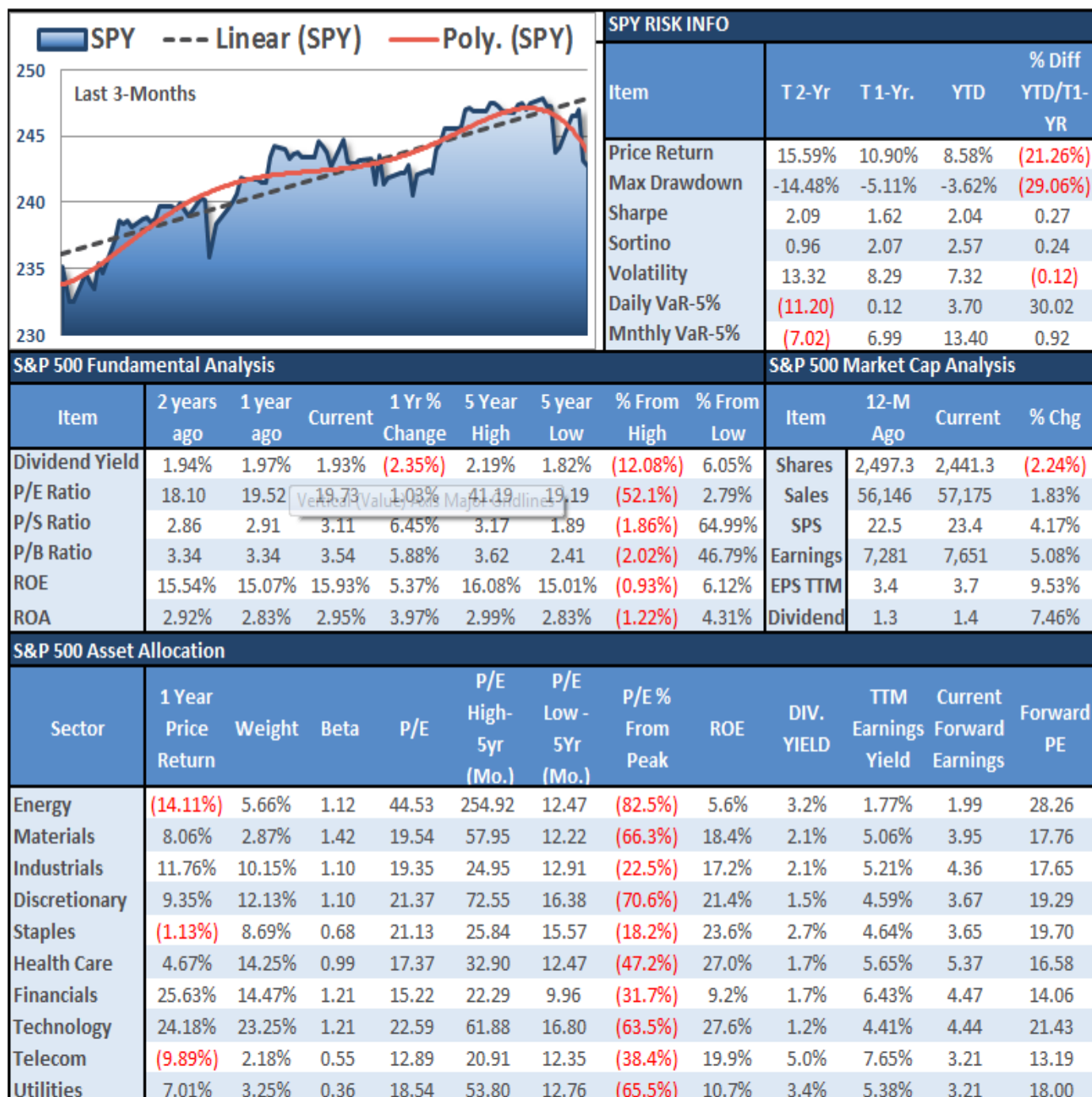
Each week I receive a tremendous amount of emails from our readers asking questions on various topics. Often, depending on what is happening in the market, I will receive several versions of the same question. Our new venture of **Real Investment News** is now working with us to provide short video presentations answering these "*commonly asked questions*." I hope you find these beneficial.

GOT A QUESTION YOU WANT ANSWERED: [Send Me An Email](#)

Market & Sector Analysis

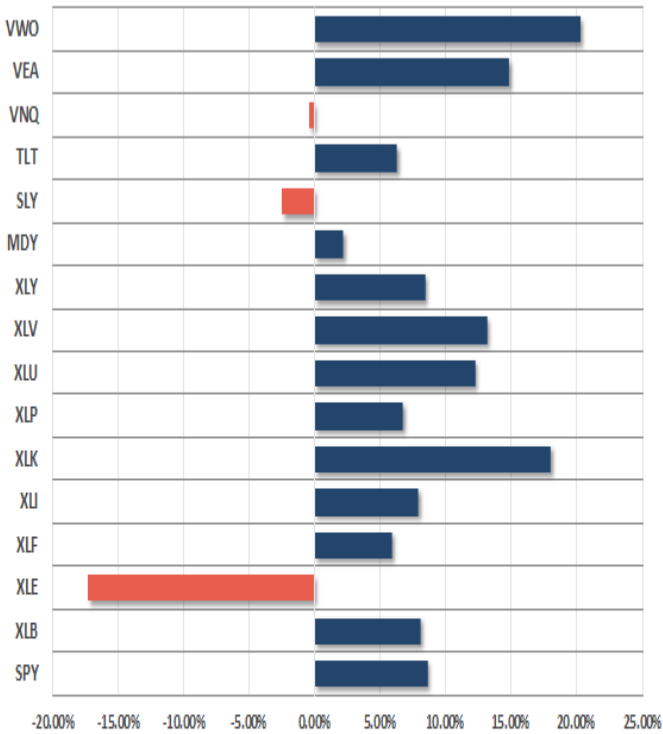
Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

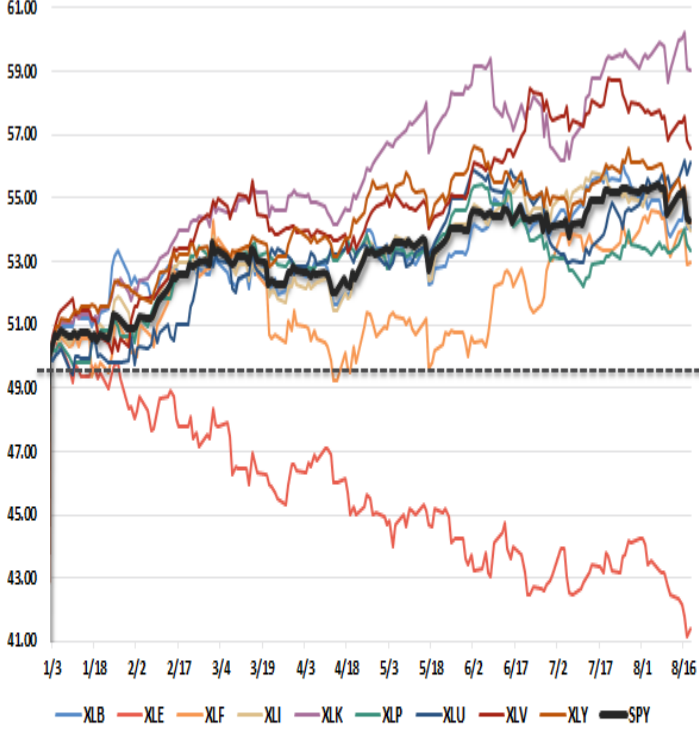


Performance Analysis

Year To Date Performance



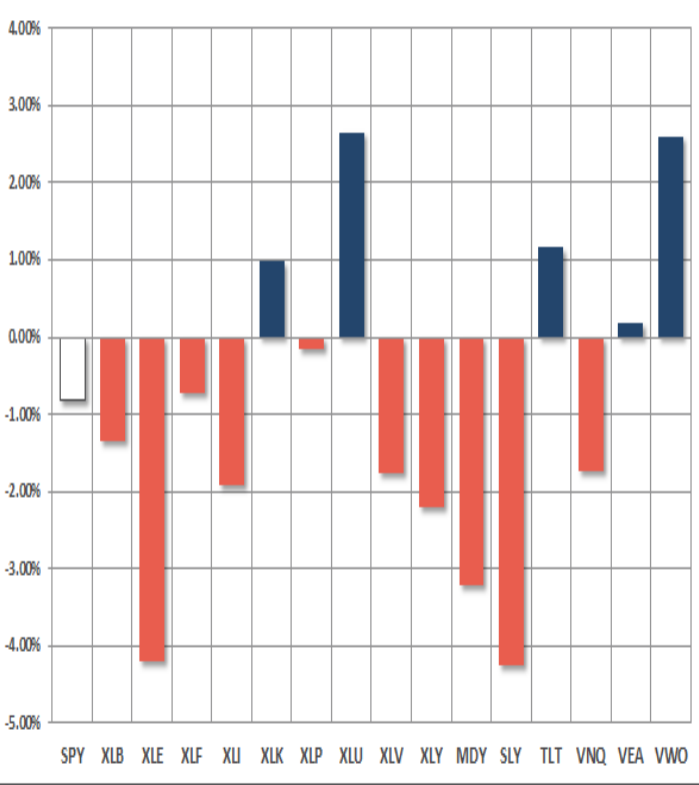
YTD Price - S&P Sectors Recalibrated To \$50/share



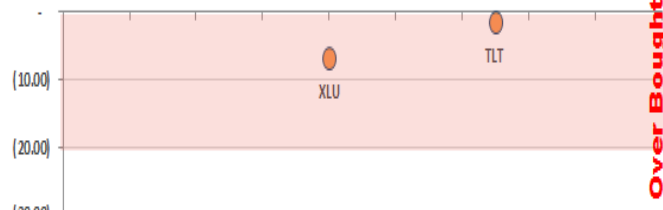
Year To Date Performance Relative To S&P 500



Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



ETF Model Relative Performance Analysis

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	244.25	(0.60)	(1.73)	0.42	1.78	11.11	245.86	239.11	
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	53.71	1.03	(1.07)	1.05	0.21	(1.48)	54.19	52.85	#VALUE!	#VALUE!	BUY
		XLE	SPDR-EGY SELS	62.32	(1.94)	(2.56)	(6.86)	(15.22)	(22.60)	65.32	68.99	#VALUE!	#VALUE!	SELL
		XLF	SPDR-FINL SELS	24.62	0.15	1.00	3.86	(3.19)	(8.57)	24.52	24.06	#VALUE!	#VALUE!	BUY
		XLI	SPDR-INDU SELS	67.15	(0.45)	(0.64)	(0.81)	(0.53)	2.66	68.24	66.16	#VALUE!	#VALUE!	BUY
		XLK	SPDR-TECH SELS	57.07	0.55	1.03	0.80	6.18	10.26	56.53	53.86	#VALUE!	#VALUE!	BUY
		XLP	SPDR-CONS STPL	55.20	0.74	1.95	(2.72)	(1.67)	(10.60)	55.60	54.64	#VALUE!	#VALUE!	BUY
		XLU	SPDR-UTIL SELS	54.50	2.01	4.00	1.64	4.00	(2.70)	53.20	51.49	#VALUE!	#VALUE!	BUY
		XLV	SPDR-HLTH CR	78.00	(0.17)	(1.96)	2.36	1.12	(6.22)	78.71	75.37	#VALUE!	#VALUE!	BUY
	XLY	SPDR-CONS DISCR	88.25	(1.19)	(1.43)	(3.16)	(0.35)	(2.83)	90.38	87.98	#VALUE!	#VALUE!	BUY	
	SIZE	MGK	VANGD-MG CAP GR	101.39	0.23	(0.06)	0.14	4.46	4.09	101.62	96.89	#VALUE!	#VALUE!	BUY
IJR		ISHARS-SP SC600	67.17	(0.91)	(4.00)	(2.75)	(5.51)	(1.88)	69.92	69.30	#VALUE!	#VALUE!	BUY	
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	91.58	(0.16)	(1.16)	(0.89)	(1.87)	(2.66)	93.02	91.13	#VALUE!	#VALUE!	BUY
	Dividend	VIG	VANGD-DIV APPRC	92.03	(0.18)	(0.05)	(0.94)	(0.62)	(3.81)	93.13	90.61	#VALUE!	#VALUE!	BUY
	Real Estate	VNQ	VIPERS-REIT	82.19	0.71	(0.13)	(0.99)	(4.18)	(18.26)	83.46	83.15	#VALUE!	#VALUE!	BUY
	International	IDV	ISHARS-INTL SD	33.23	1.36	0.98	(0.27)	5.51	(0.42)	33.16	31.88	#VALUE!	#VALUE!	BUY
		VWO	VANGD-FTSE EM	43.03	2.06	2.74	4.25	8.72	1.12	41.72	40.01	#VALUE!	#VALUE!	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	126.62	0.75	2.47	2.12	4.31	(19.83)	124.92	122.28	#VALUE!	#VALUE!	BUY
	International	BNDX	VANGD-TTL INT B	54.74	0.51	2.19	(0.27)	(0.47)	(13.36)	54.54	54.26	#VALUE!	#VALUE!	BUY
	High Yield	HYG	ISHARS-IBX HYCB	87.47	0.76	0.31	(1.66)	(2.37)	(10.10)	88.28	87.75	#VALUE!	#VALUE!	BUY
	Cash	BSV	VANGD-SHT TRM B	80.04										

Sector & Market Analysis:

This past week, as noted above, the markets lost ground as concerns over legislative agenda arose. With the S&P 500 having broken its election uptrend, and the 50-dma, concerns over the stability of the current bull market are rising.



Staples, Utilities, and Technology continued to perform better this week relative to the S&P 500 index itself and its other sector brethren. However, that outperformance is beginning to show signs of deterioration. **Industrials, Materials, Health Care, Financials, and Discretionary** were weaker on a relative basis and broke their respective 50-day moving averages putting each sector on *"alert"* status. While bullish trends remain intact, those trends are coming under attack so it is important to tighten up stop levels, watch sector rotation and leadership changes. **Energy ? That Didn't Last Long.** As I noted two weeks ago:

*"Wait?WHAT IS THAT? Over the last few months, I have been discussing the declining trend of energy stocks due to the weakness in oil prices. **With both extremely oversold, we finally saw a rash of short-covering this past week pushing both the commodity and energy sector higher. It is still TOO early to institute positions in oil as we need to see oil prices stabilize above \$48/bbl.** Also, estimates for energy companies are being rapidly slashed for the rest of the year so we need to see stabilization there as well. **However, with that said, energy is back on the radar for a potential entry point. Let's give it another week and reassess our positioning next week.**"*

Not only did oil prices not hold \$48/bbl, energy stocks blasted to new lows. **We continue to remain out of the sector entirely.**



Small and Mid-Cap stocks both cratered this week. With these sectors now deeply oversold, we are looking for a failed bounce to exit positions and raise cash. The violation of monthly support suggests more trouble ahead, but we will opportunistically look for a reasonable exit.

Emerging Markets and International Stocks

as I noted several weeks ago:

"The•bullish 'buy point'•occurred which allowed us to add international exposure to portfolios. However, the subsequent explosion of these sectors higher reduces the opportunity somewhat until there is some correction to work off the excessive overbought condition."

The sell-off this week pulled these sectors back to support, however, they are not oversold on a short-term basis to maximize an entry point. We will watch next week for an opportunity to increase/add exposure to international markets to portfolios.

Gold•? is once again trying to muster a rally from extremely oversold conditions. There is a good bit of work to do before this sector becomes interesting, but the move last week above the 200-dma does put the commodity back onto our radar for now. Gold is currently very overbought and trapped within a consolidation range marked by previous failures. We will watch for further developments next week. **S&P Dividend Stocks**, after adding some additional exposure recently we are holding our positions for now with stops moved up to recent lows. The sell-off last week pushed the sector below its 50-dma but is currently holding support while having become oversold. We may be afforded an entry opportunity next week if the market firms up. **Bonds and REIT**?s I noted previously:

*"With inflationary pressures declining on every front, the most likely path for rates is lower. **The drop in bond prices back to support can allow for adding bond exposure to portfolios if needed.**•Any push back towards 2.4% continues to be an ideal zone to add bonds and REIT?s to portfolios."*

The push higher in rates did allow us to add bond exposure to portfolios. REIT's, however, have not provided a good opportunity to add exposure despite holding onto support. **We did take profits in bonds last week as they have become VERY overbought so we are looking for a reversal in rates soon, which will be subsequent with a short-term market rally, to add additional exposure to bonds and rebalance equity exposures accordingly.**•

Sector Recommendations:

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.)

						OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
		Over Bought / Sold	50/200 DMA	Trend	Action						
XLV	Discretionary	OS	Positive	Positive	Warning			X			Warning - 50 dma Broken
XLK	Technology	Declining	Positive	Positive	Hold			X			Hold
XLI	Industrials	OS	Positive	Positive	Warning			X			Warning - 50 dma Broken
XLB	Materials	OS	Positive	Positive	Warning			X			Warning - 50 dma Broken
XLE	Energy	OS	Negative	Negative	No Position					X	No Position/Watching
XLP	Staples	OB	Positive	Positive	Warning			X			Warning - 50 dma Broken
XLV	Health Care	OS	Positive	Positive	Warning			X			Warning - 50 dma Broken
XLU	Utilities	OB	Positive	Positive	Take Profits			X			Take Profits
XLF	Financials	OS	Positive	Positive	Hold			X			Warning - 50 dma Broken
\$SML	Small Caps	OS	Positive	Positive	ALERT			X			Warning - 50 & 200 dma Broken
EEM	Emerging Mkt	Declining	Positive	Positive	Hold			X			Take Profits
EFA	International	Declining	Positive	Positive	Hold			X			Take Profits
GLD	Gold	OB	Positive	Negative	Improving					X	No Position/Watching
IDV	Int'l Dividend	Declining	Positive	Positive	Warning			X			Take Profits
MDY	Mid Cap	OS	Positive	Positive	ALERT			X			Warning - 50 & 200 dma Broken
SDY	SP500 Dividend	OS	Positive	Positive	Warning			X			Warning - 50 dma Broken
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Take Profits
VNQ	REIT's	Declining	Positive	Positive	Warning			X			Warning - 50 dma Broken

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

Portfolio Update: I have noted over the last few weeks that:

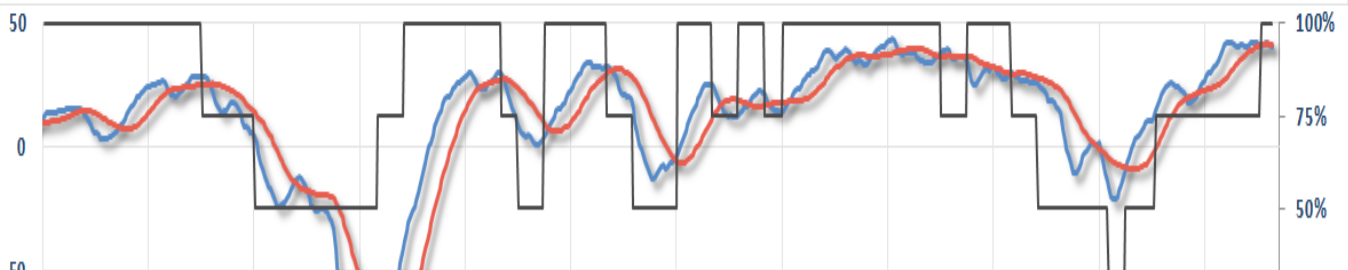
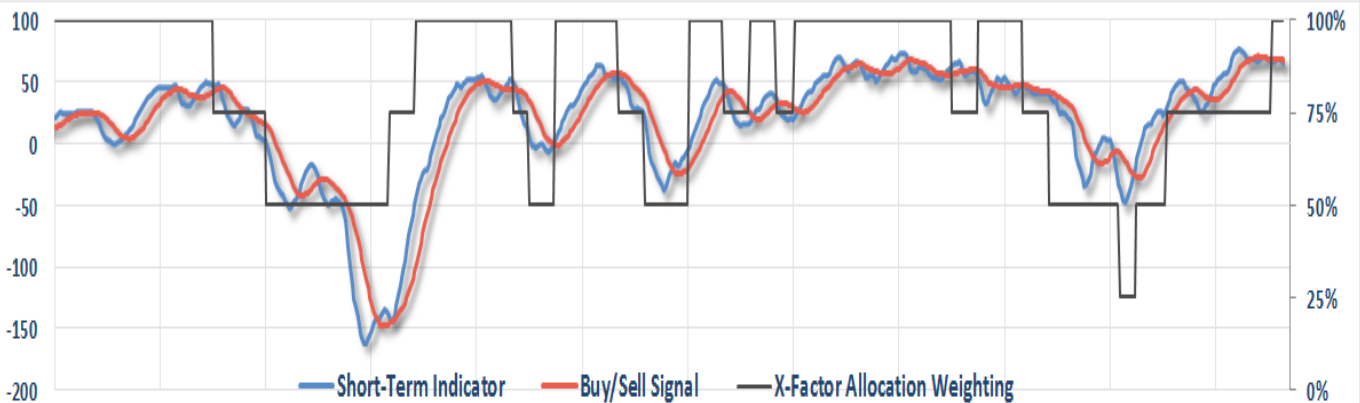
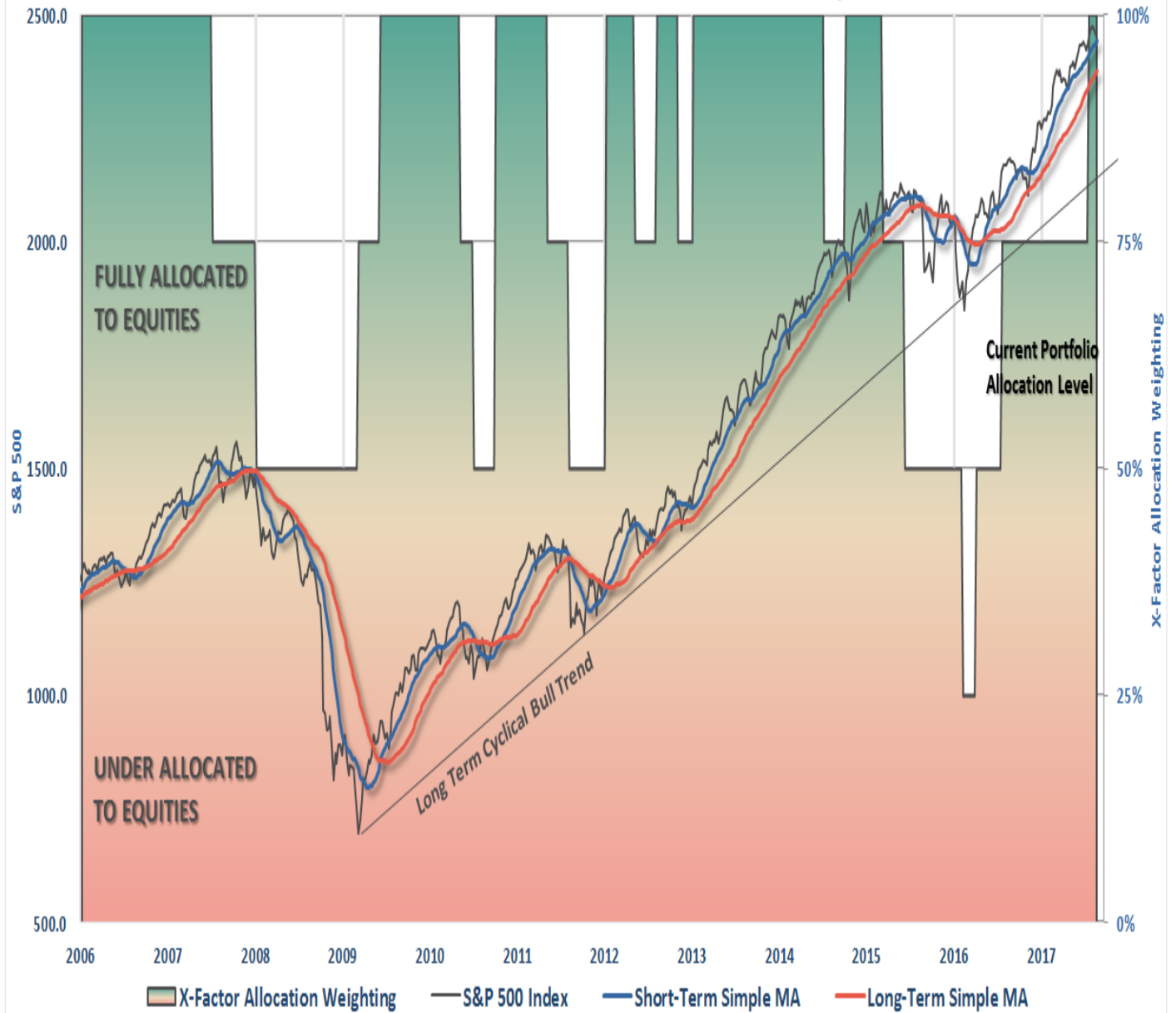
*"The bullish trend remains positive, which keeps us allocated on the long side of the market for now. However, **more and more 'red flags' are rising**, as noted above with **WARNINGS popping up across sectors and markets**. While warnings are just that, a warning, it does suggest a bigger correction may be in the works over the next couple of months. Let's pay close attention."*

Those warnings are beginning to weigh on broader market performance which now has our portfolio monitoring on *"full alert."* It is critically important for the market to regain their footing next week and return back to the bullish trend. **Any attempt that fails will lead to a reduction in equity allocation models and a further rebalancing of risk. Last week, we took some profits in both bond related assets and in Utilities as overbought conditions became rather extreme due to the drop in interest rates.** A bounce in the markets from current short-term oversold conditions should push rates marginally higher where we can look for our next opportunities on the fixed income side. **Stops have been raised to trailing support levels** and we continue to look for ways to *"de-risk"* portfolios at this late stage of a bull market advance. **We remain invested but are becoming highly concerned about the underlying risk.**

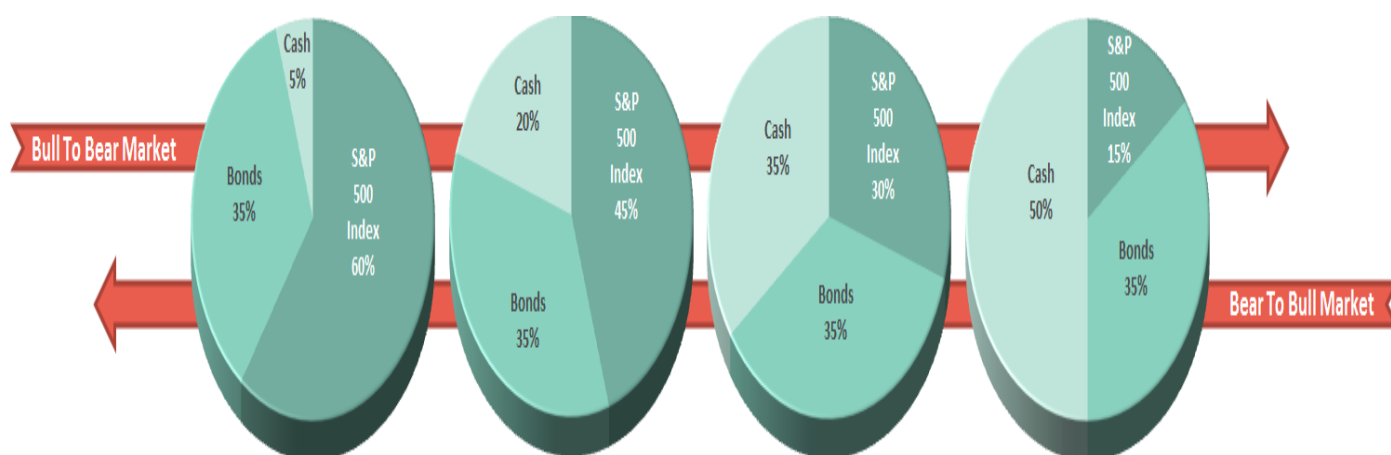
THE REAL 401k PLAN MANAGER

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

Risk Management Analysis



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.



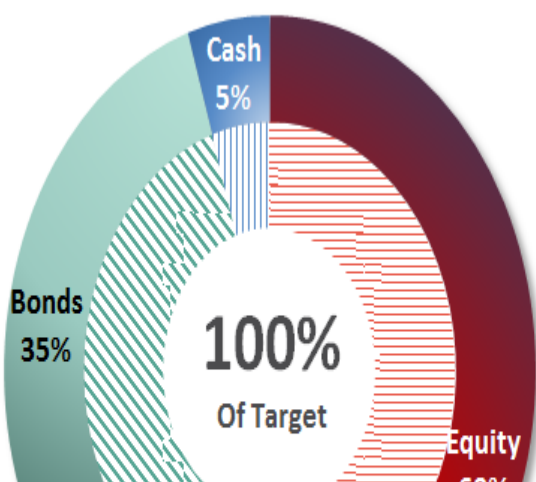
Alert Signals Across The Board

Last week, the markets tripped up on worries over rising geopolitical tensions, and rhetoric, with North Korea. This week, it was disruption and mayhem in Charlottesville, VA. **The bullish trends are now under direct assault which has triggered "alerts" across the board.** Currently, longer-term bullish trends remain intact, but the underlying deterioration in the markets and price momentum continues to increase. **This is not a market currently to be trifled with as the overbought and overly bullish conditions remain at extremes.**•The time for complacency within portfolio allocations and risk management may be coming to an end. Importantly, there continues to be a high degree of correlation between all asset classes. This is particularly disturbing as such a degree of correlation suggests that diversification will not shield investors against losses. This is why we continue to reiterate a regular reassessment of portfolio related risk and positioning. Stop loss levels should be moved up accordingly. 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. principle. 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 Portfolio Weighting



Current 401k Allocation Model

5.00% 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

60.00% Equity (Stocks)

The vast majority of funds track an index.

Therefore, select on ONE fund from each category.

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