

# Signs, Signs, Everywhere A Sign

*Real Investment Report*

- Review & Update
- Signs, Signs, Everywhere A Sign
- Sector & Market Analysis
- 401k Plan Manager

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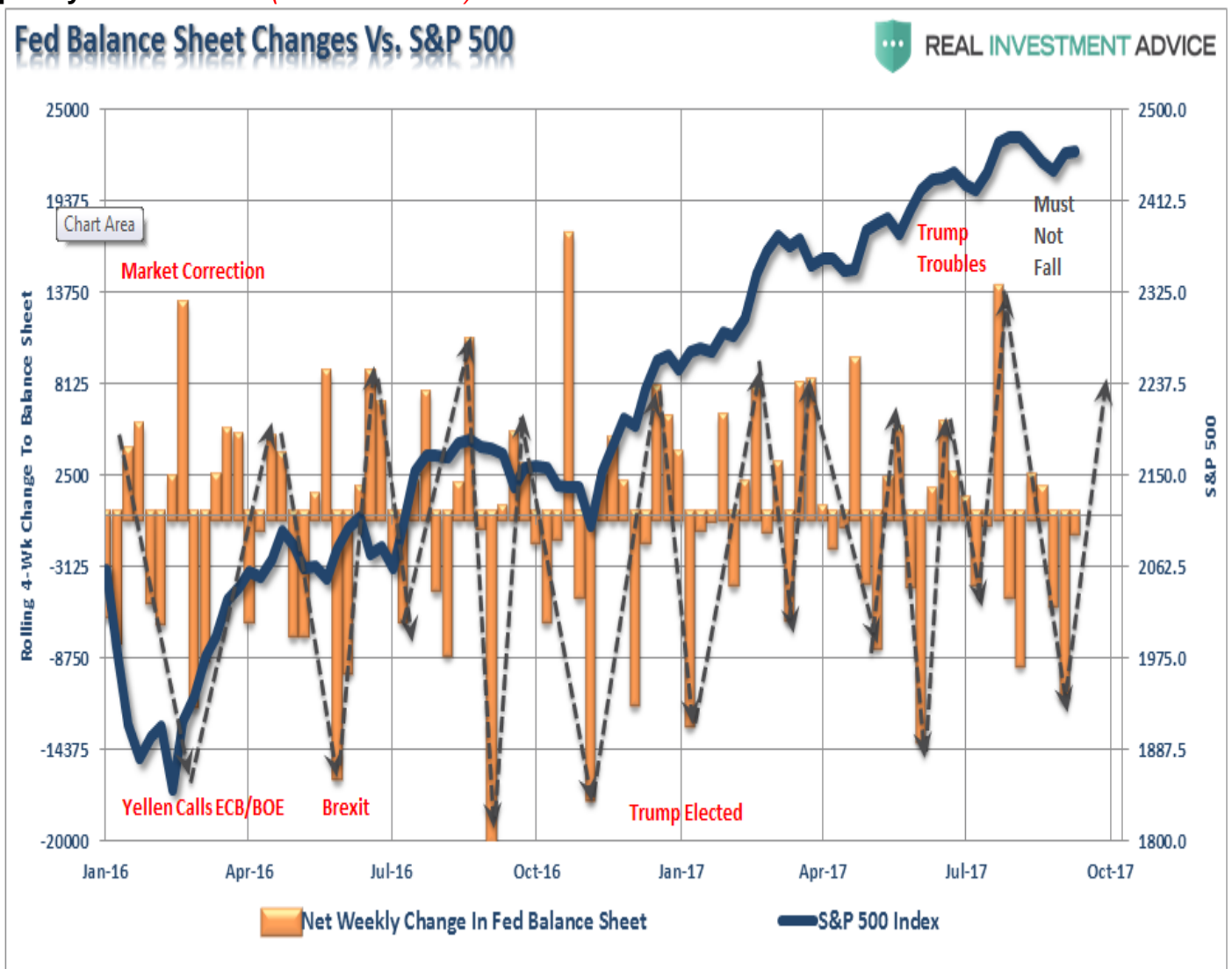
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## Review & Update

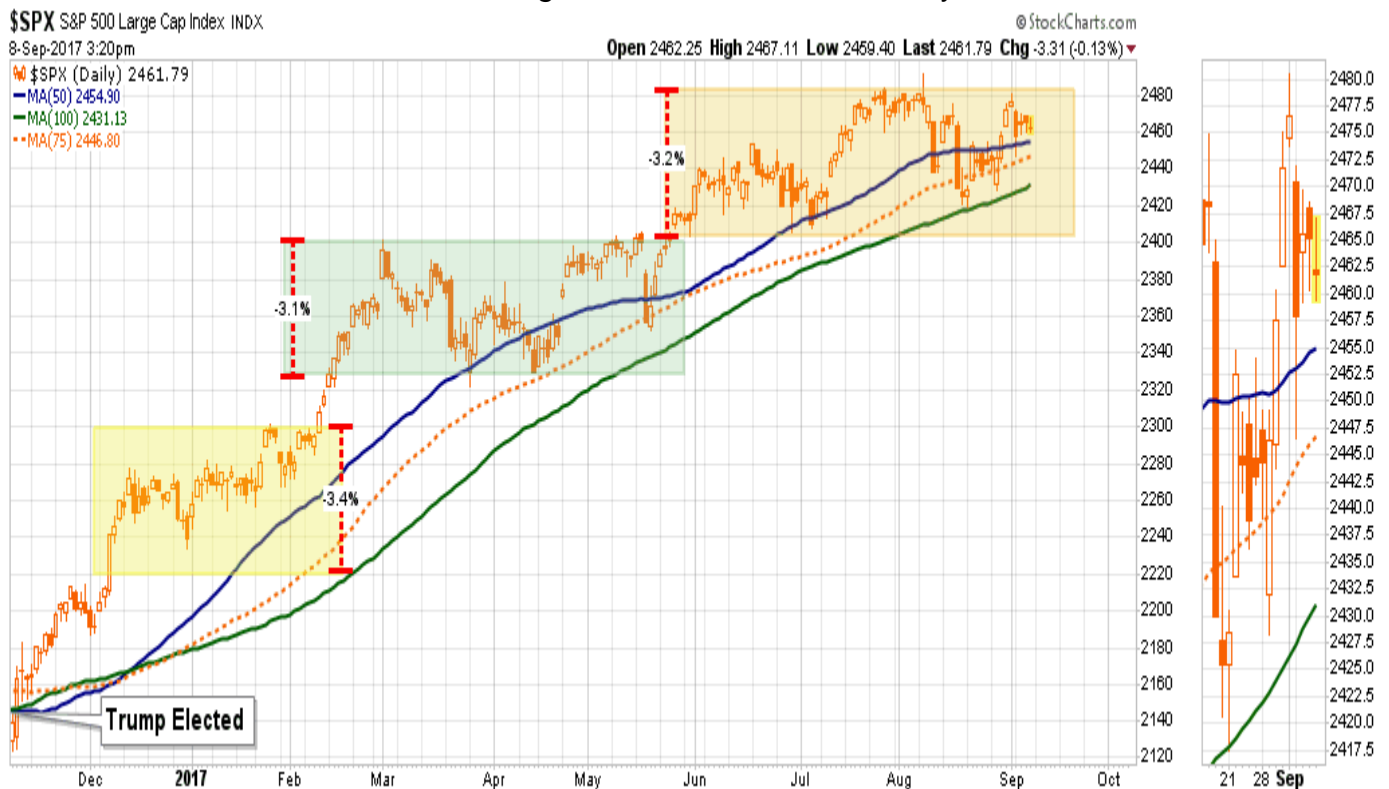
Last week, I noted:

*"I have a sneaky suspicion that when I update the Fed Balance Sheet reinvestment analysis next week, shown below, we are going to find a substantial, well-timed, reinvestment by the Central Bank. Wanna bet?"*

Well, here is the updated chart of the 4-week net change to the Fed's balance sheet. As you can see, reinvestments have, once again, returned to the market in a very "timely" fashion. **Of course, since the Fed claims they are not trying to, nor are they influenced by, the markets, this is purely coincidental.** (#SarcasmAlert)



The good news this week is that the market maintained last week's advance despite the one-day tantrum earlier this week. **Interestingly, since the election, the market has ratcheted higher in slightly more than 3% increments with each move higher followed by a drawn-out consolidation process that runs primarily along the 50-75 dma.** The last sell-off tested, and held, the 100-dma but stayed within the confines of the consolidation process. The 2400 level on the S&P 500 remains the clear *"warning level"* for investors currently.



But this short-term bullish backdrop is offset by intermediate-term bearish underpinnings as shown by the next two charts. With an intermediate-term momentum sell-signal in place, combined with overbought conditions, continues to suggest further gains from this point will likely remain limited and more volatile to obtain. **That statement DOES NOT preclude the markets reaching new highs, it just suggests that downside corrective risks outweigh the potential currently for further gains.**



The bigger concern continues to be the internal deterioration of the markets as the number of stocks on bullish *"buy signals"* and the number of stocks above their 200-dma continue to deteriorate. **Again, this is more supportive of a continued correctionary process versus a reversal and strong push higher in asset prices.**



Importantly, as I will discuss momentarily, there are technical similarities suggesting we could be closer to the next major market reversal than not. **While the markets are currently on a longer-term "buy signal," as shown at the bottom of the chart below, the current signal is similar to what was seen in the run up to the peak of the "dot.com" bubble.** Notice that in 1998, the *"buy signal"* was reversed temporarily by a sharp sell-off in the market due to the collapse of *"Long-Term Capital Management."* A test of the *"bullish"* trend held and the markets reversed as the *"dot.com"* bubble ensued. **The next "sell signal" denoted the beginning of the market topping process and prices followed soon thereafter.** With a large deviation from the bullish trend, combined with a long-term signal at very high levels, the next reversal that violates the bullish trend will very likely signal the beginning of a more protracted bear market.





The warning signs are stack up on a technical basis suggesting the "risk" is becoming more elevated. While the bullish trend remains intact, **keeping portfolios allocated toward equity risk currently**, we are more focused on rebalancing and hedging risk in portfolios currently. We agree with Howard Marks who recently stated:

***"It's time for caution, not a full-scale exodus."***

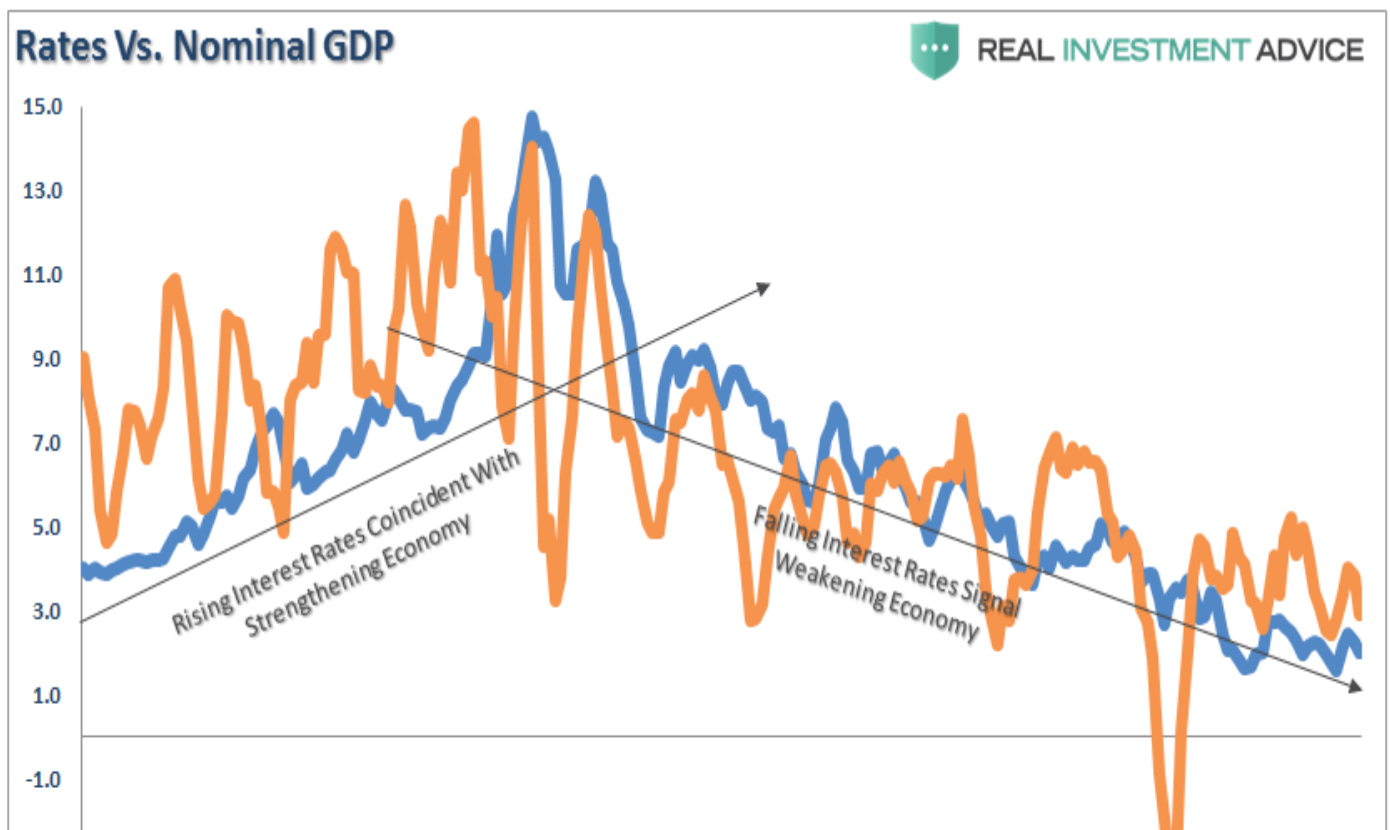
•Yet. As for what to do right now, we are pursuing the same strategy he discusses in his latest missive:

*"Thus I would mostly do the things I always have done and **accept that returns will be lower than they traditionally have been.** While doing the usual, I would increase the **caution with which I do it**, even at the cost of a reduction in expected return. And I would emphasize **"alpha markets" where hard work and skill might add to returns**, since there are no **"beta markets"** that offer generous returns today. •**Move forward, but with caution.**"*•

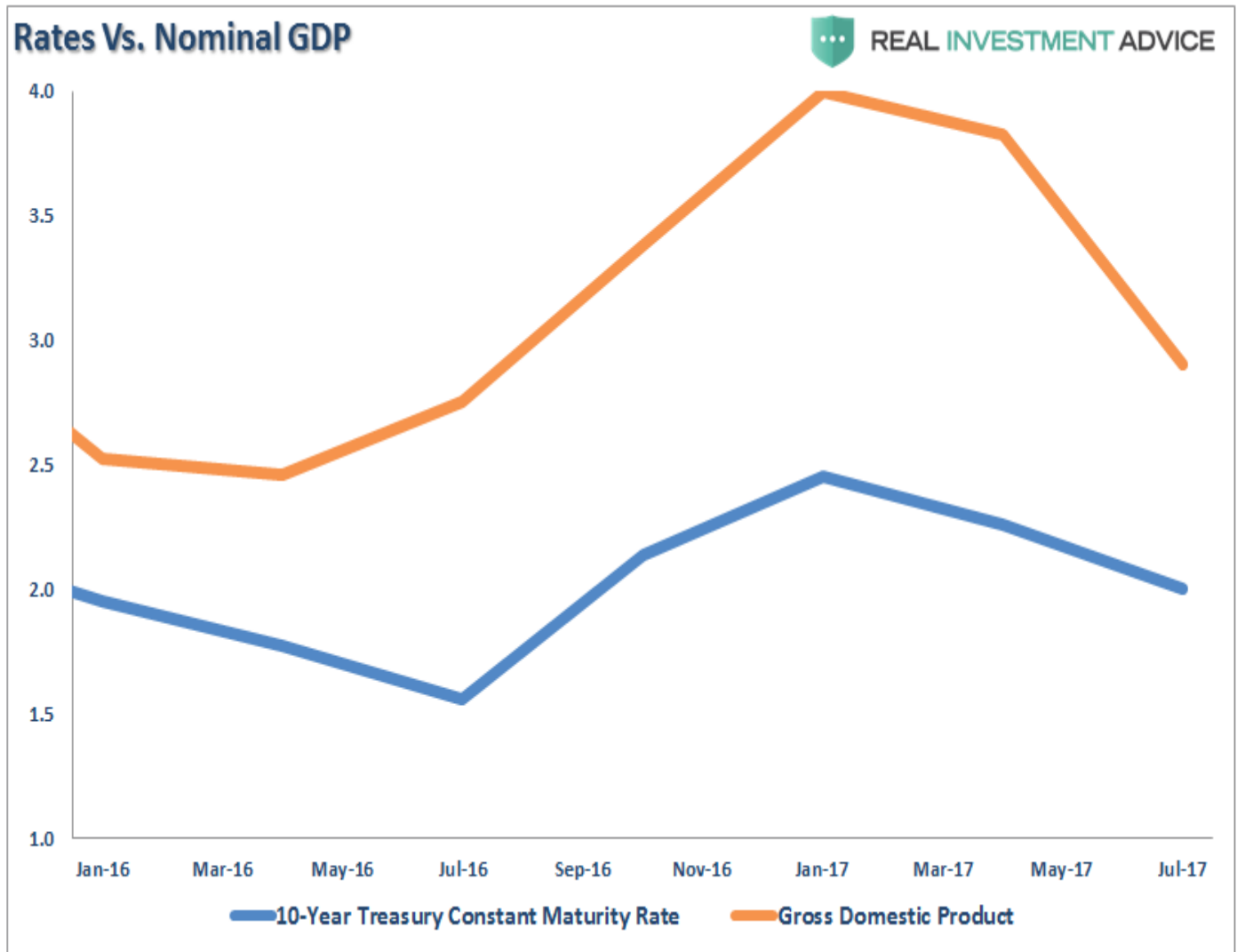
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## Signs, Signs, Everywhere A Sign

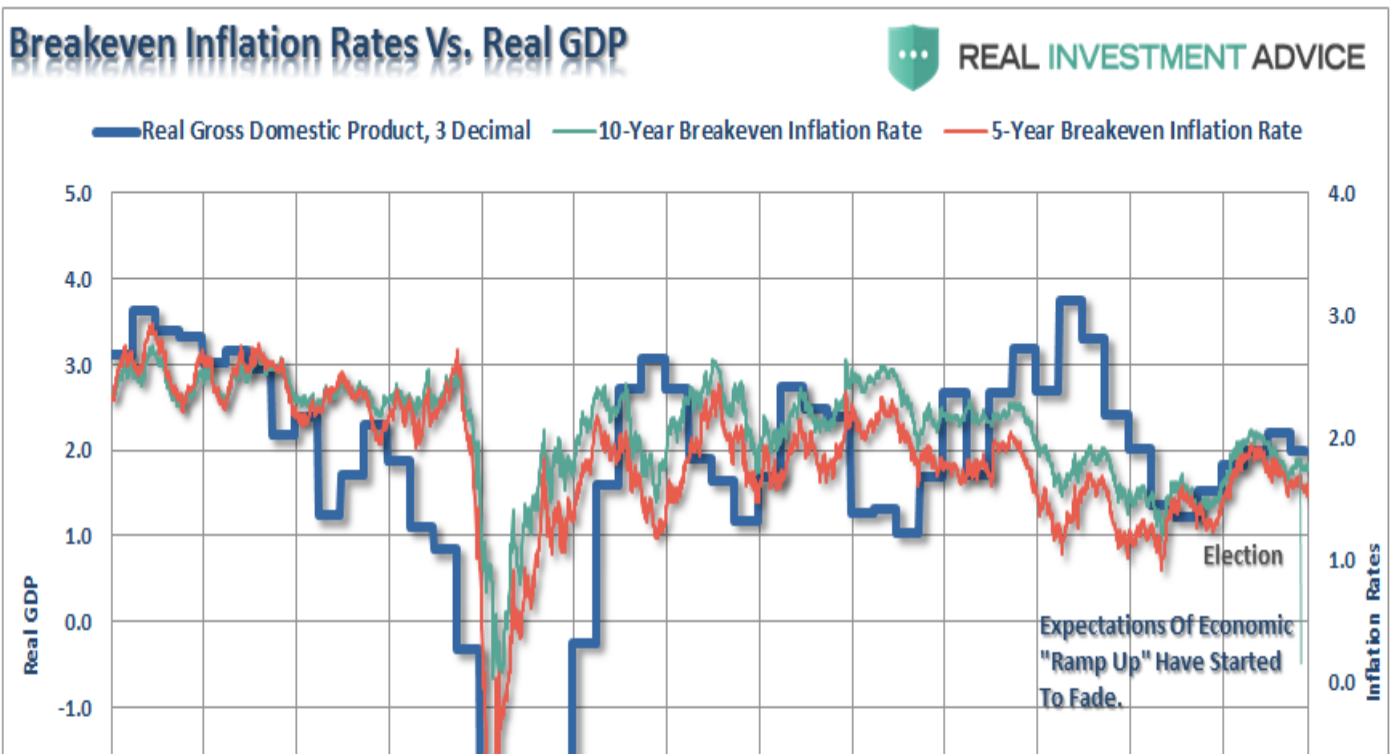
You don't have to look very hard to see a rising number of signs that suggest the "Trump Trade" has come to its inevitable conclusion. Following the election, this past November the financial markets rallied sharply on the hopes of major policy reforms and legislative agenda coming out of Washington. **Eleven months later, the markets are still waiting as the Administration has remained primarily embroiled in Washington politics with a divisive, Republican controlled, House and Senate.** While there are still "hopes" the Administration will pass through tax reform, the failure to "rally the troops" to repeal the Affordable Care Act leaves permanent tax cuts an unlikely outcome. That hopeful outcome was further exacerbated with the deal cut between President Trump and leading Democrats to lift the debt ceiling and fund the Government through December. **That "deal" has effectively nullified any leverage the Republicans had to strong-arm a deal on taxes later this year.** The markets are figuring it out as well. If you want to know where the economy is headed over the next few months, you don't have to look much further than interest rates. Since interest rates are ultimately driven by the demand for credit, and that demand is driven by economic growth, their historical correlation is no surprise.



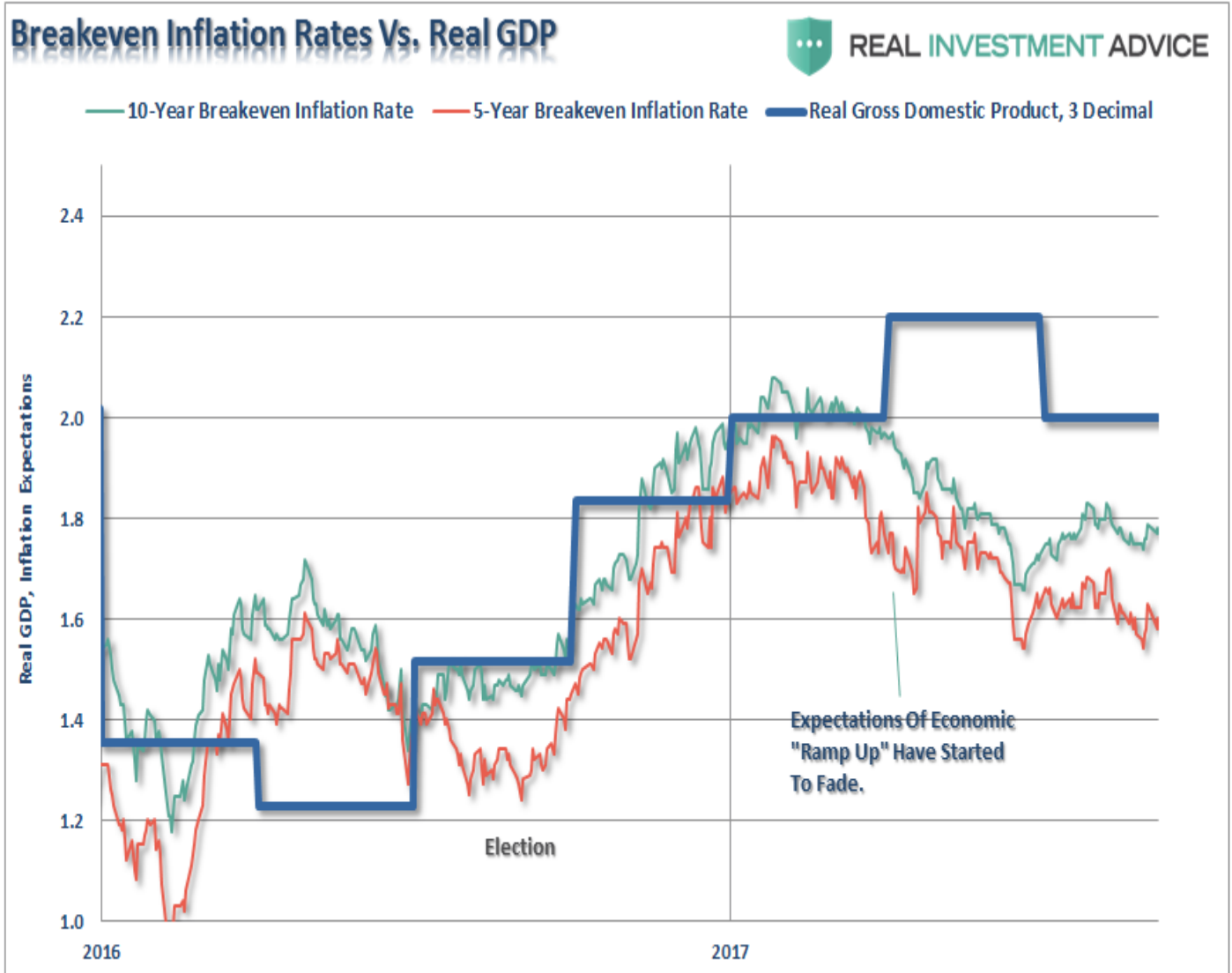
But like I said, if you want to know where GDP is going to be in the months ahead, keep a close watch on rates. I suspect, before year-end, we will see rates below 2.0%.•



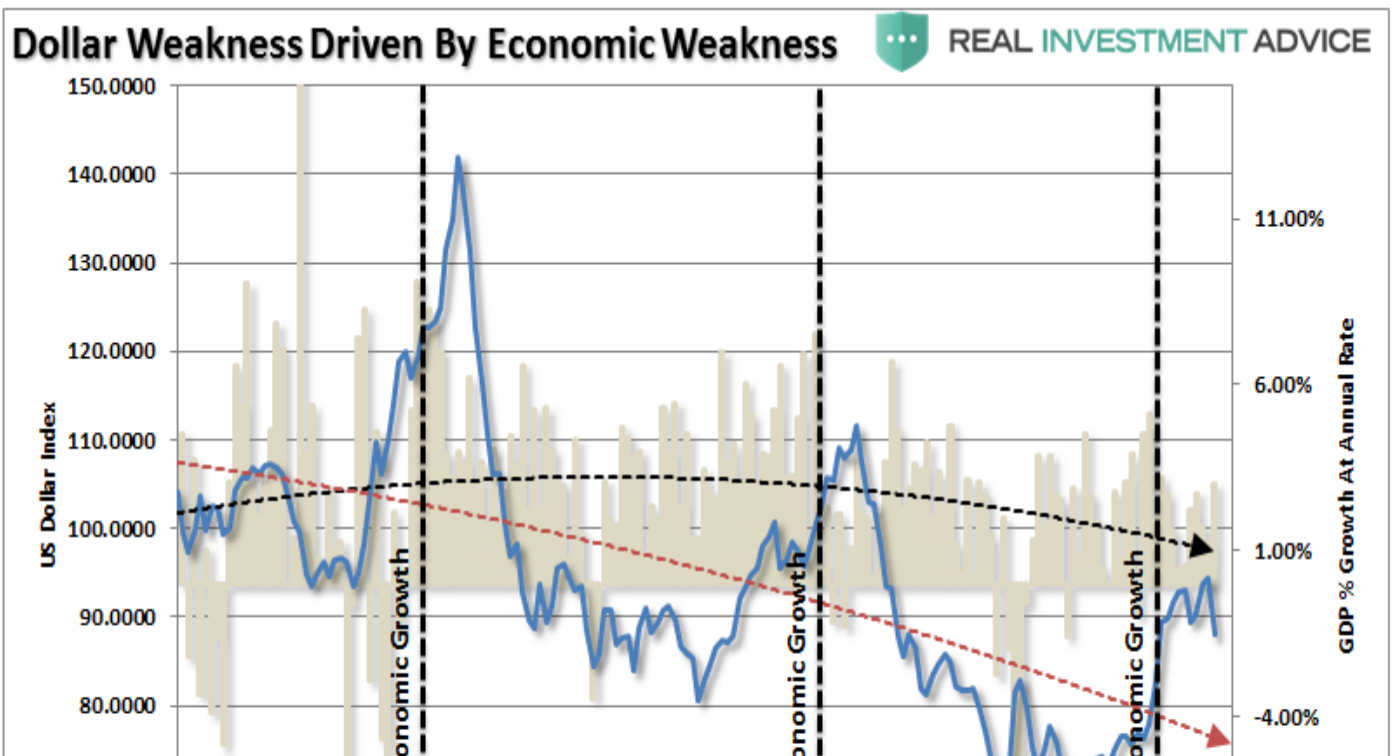
As a reminder, this is why we have remained rampant bond bulls since 2013 despite the continuing calls for the end of the **"bond bull market."**•The 3-D's(Demographics, Deflation & Debt)•ensure that rates will remain low, and go lower, in the years to come. Think Japan. But I digress. Like rates, inflation is also closely tied to the direction and trend of economic strength. While the Fed continues to hope for a return of inflationary pressures, the real strength of the underlying economy suggests something quite different.



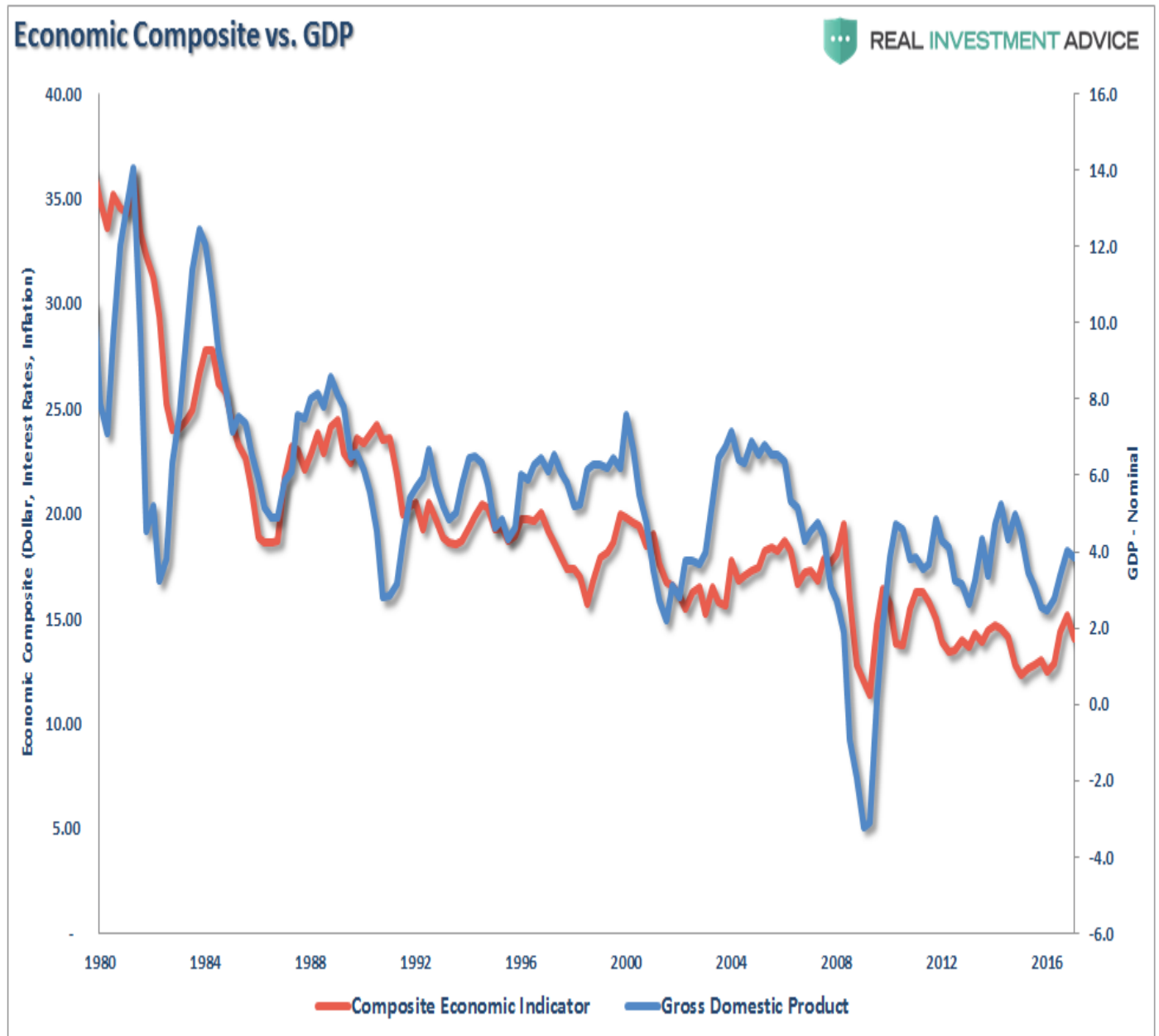
Again, following the election inflationary pressures surged on "hopes" of the "second coming" of the economy. Those hopes are now fading, and economic growth along with it.



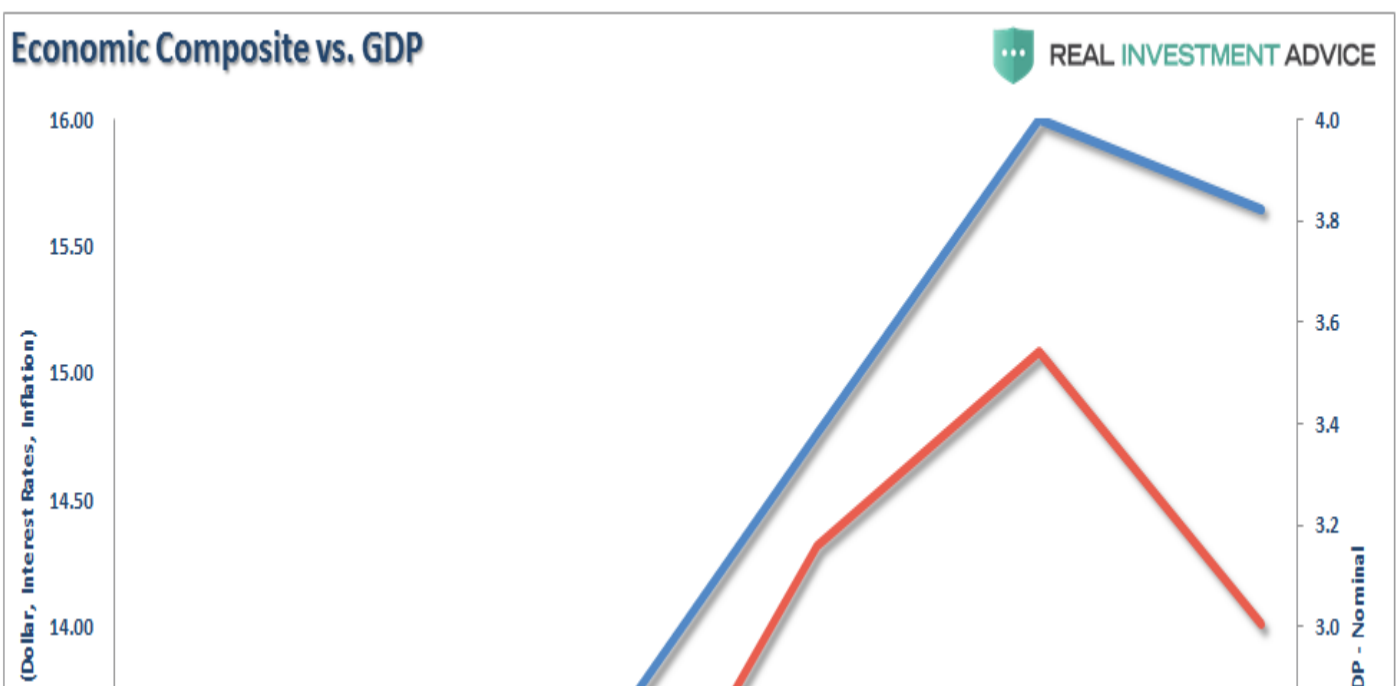
But there is no better sign to watch than that of the US Dollar. The dollar is the representation of the world's belief in the strength of the U.S. economy. A stronger economy attracts capital and investment which drives the dollar higher and further boosts economic growth. The opposite also applies. The recent decline in the dollar, which is likely to continue, suggests that economic growth will weaken in the months ahead.



While it is not hard to see, or understand, the correlation between these individual "signs" and the direction of the economy, we can see it even more clearly by building a simple composite. The composite below is the dollar, interest rates, and inflation as compared to nominal GDP.



Currently, the composite index has turned down rather sharply and we should expect economic growth, to track along with it in the coming months.





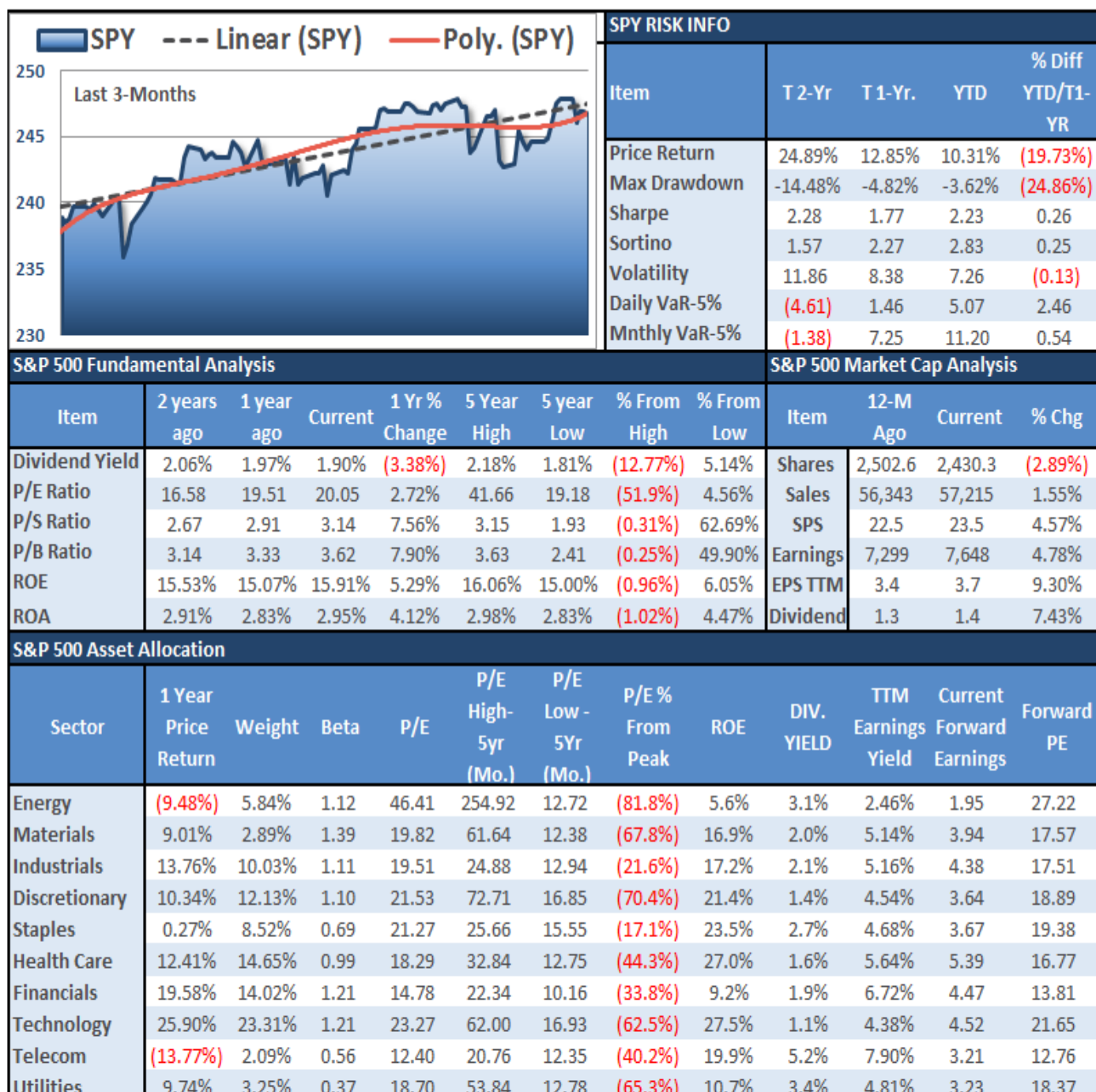
All of these signs are worth watching closely. **A weaker economy leads to weaker earnings growth and estimates are already under rather severe downward pressure.** Given the overvaluation of the market, and hopes of legislative agenda beginning to fade, there is a significant risk to outlooks for the market in the months ahead. The last few times the dollar, rates, and inflation fell following a previous advance, the outcome for investors was not all that great. **However, as I said above, we are indeed moving forward, but with caution.**

*"Here's your sign." - Bill Engvall•*

## Market & Sector Analysis

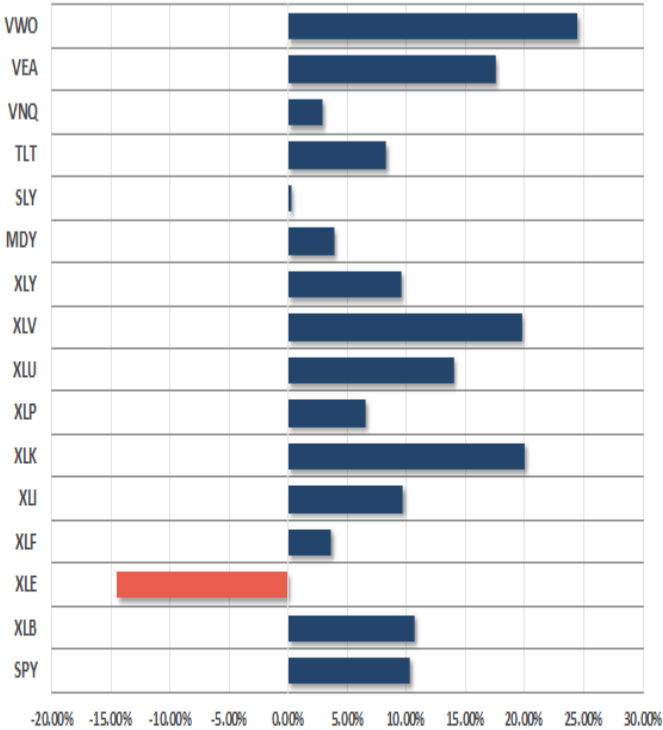
### Data Analysis Of The Market & Sectors For Traders

### S&P 500 Tear Sheet

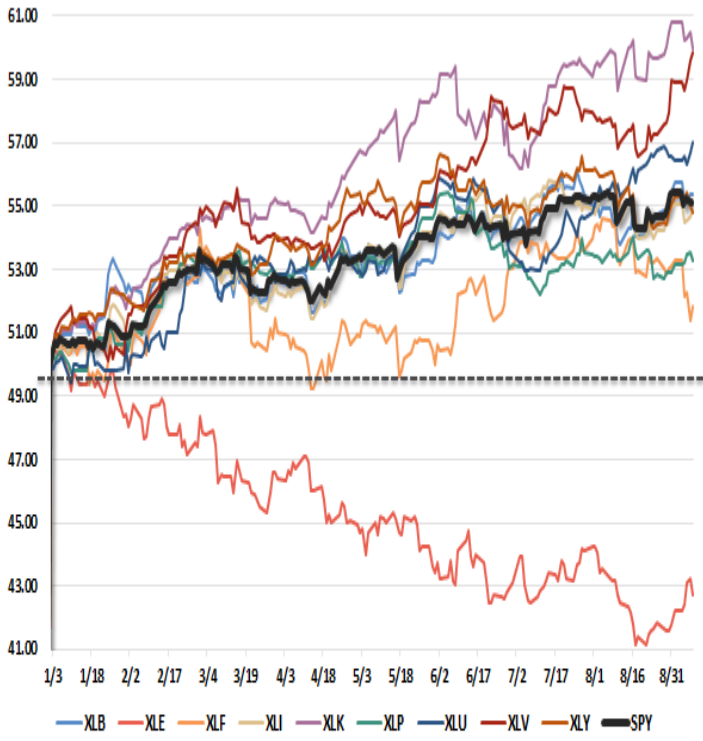


# Performance Analysis

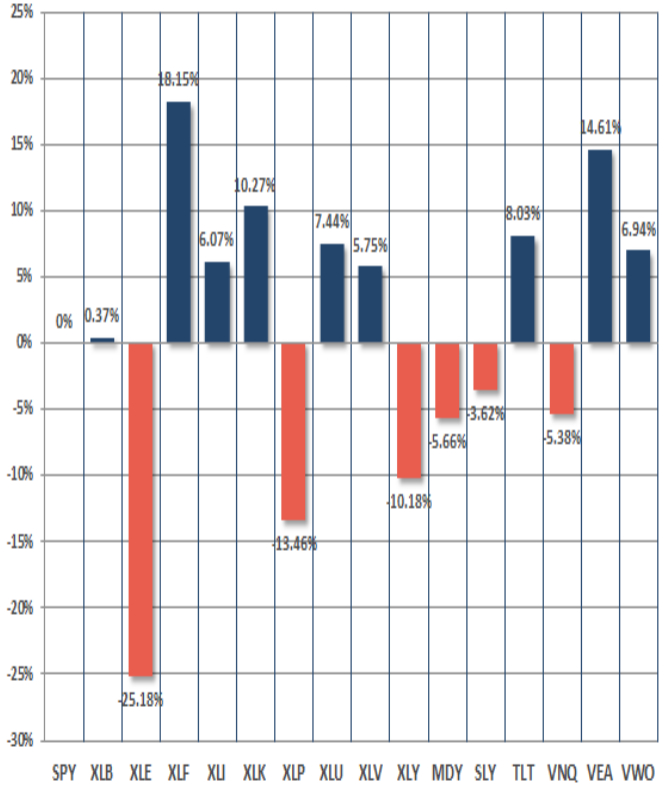
Year To Date Performance



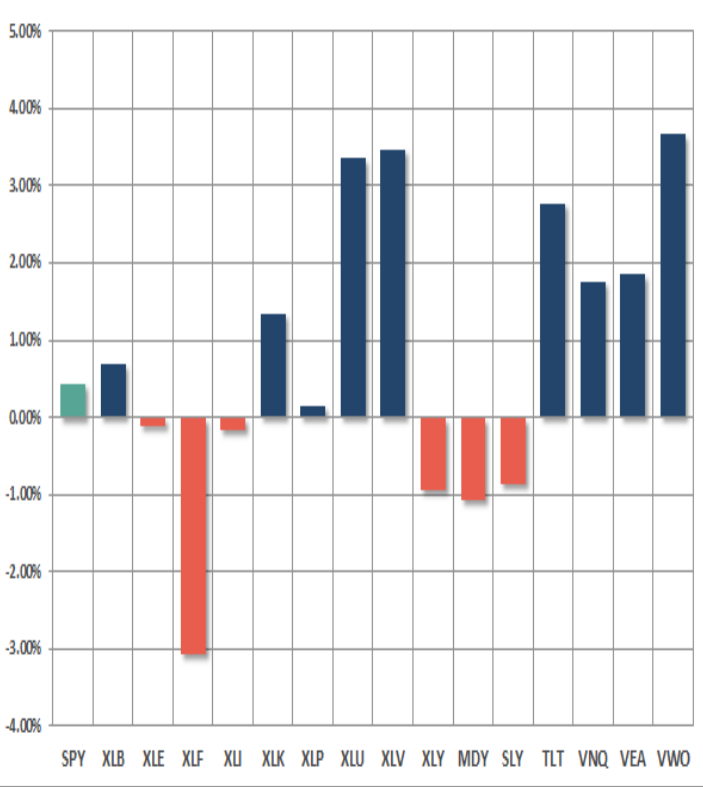
YTD Price - S&P Sectors Recalibrated To \$50/share



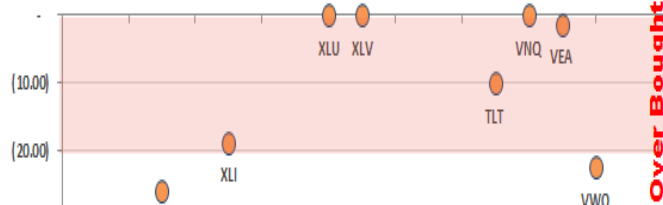
Year To Date Performance Relative To S&P 500



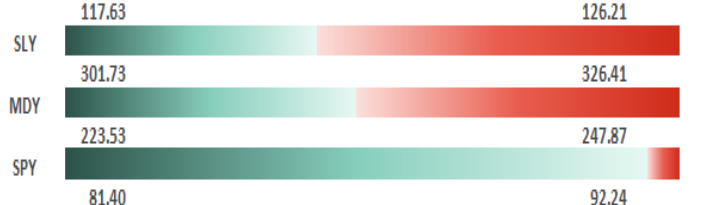
Price Deviation From 50-Day Moving Average



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	248.19	(0.55)	1.01	1.23	5.44	15.68	246.71	240.89	0.60%
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	55.01	(0.20)	1.86	0.61	1.05	0.27	54.50	53.23	0.93%	3.35%	BUY
		XLE	SPDR-EGY SELS	64.40	1.84	(0.29)	(4.09)	(11.51)	(23.29)	64.65	67.92	-0.38%	-5.18%	SELL
		XLF	SPDR-FINL SELS	24.10	(2.15)	(3.55)	(2.01)	(3.06)	(15.44)	24.74	24.15	-2.59%	-0.23%	BUY
		XLI	SPDR-INDU SELS	68.27	0.19	(0.40)	(1.82)	0.36	3.84	68.34	66.61	-0.10%	2.49%	BUY
		XLK	SPDR-TECH SELS	58.03	(0.72)	0.62	3.80	4.38	10.03	56.89	54.66	2.01%	6.16%	BUY
		XLP	SPDR-CONS STPL	55.09	0.77	(1.06)	(2.76)	(4.72)	(11.13)	55.22	54.92	-0.23%	0.31%	BUY
		XLU	SPDR-UTIL SELS	55.36	1.57	2.01	1.08	1.25	(1.45)	53.52	52.05	3.43%	6.35%	BUY
		XLV	SPDR-HLTH CR	82.54	2.17	4.01	5.02	5.67	(0.26)	79.60	76.26	3.70%	8.23%	BUY
		XLY	SPDR-CONS DISCR	89.17	(0.45)	(1.77)	(2.31)	(2.42)	(1.99)	90.01	88.55	-0.93%	0.71%	BUY
	SIZE	MGK	VANGD-MG CAP GR	104.07	0.42	1.26	2.13	4.06	6.18	102.10	98.18	1.93%	6.00%	BUY
IJR		ISHARS-SP SC600	68.95	(0.32)	0.09	(2.83)	(3.53)	(2.30)	69.73	69.24	-1.12%	-0.42%	BUY	
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	93.33	0.26	0.13	(0.74)	(1.52)	(2.10)	93.14	91.59	0.20%	1.90%	BUY
	Dividend	VIG	VANGD-DIV APPRC	93.06	0.61	(0.67)	(2.07)	(2.06)	(3.40)	93.04	91.21	0.02%	2.02%	BUY
	Real Estate	VNQ	VIPERS-REIT	84.93	1.26	2.44	(1.24)	(1.71)	(17.03)	83.68	83.26	1.49%	2.01%	BUY
	International	IDV	ISHARS-INTL SD	33.63	1.18	0.97	(0.69)	2.66	(3.02)	33.18	32.17	1.37%	4.53%	BUY
		VVO	VANGD-FTSE EM	44.53	0.35	3.99	8.05	5.31	3.35	42.45	40.70	4.89%	9.40%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	129.00	2.33	1.03	0.87	1.28	(20.50)	125.72	122.93	2.61%	4.94%	BUY
	International	BNDX	VANGD-TTL INT B	54.95	0.86	(0.71)	(0.83)	(3.72)	(17.03)	54.59	54.32	0.66%	1.16%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	87.79	(0.05)	(0.48)	(1.64)	(4.33)	(13.33)	88.20	87.85	-0.46%	-0.07%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.19										

REAL INVESTMENT ADVICE

## Sector & Market Analysis:

Let's take a look at the sector breakdown.



**Technology, Staples, Industrials, Materials, Utilities, and Healthcare** performed the best this past week relative to the index. Healthcare and Utilities are extremely overbought so profit taking and rebalancing in these sectors is well advised. **Financials and Cyclical**s were weaker on a relative basis and the deterioration in the bullish trends continue. Financials have broken the 50-dma and are now threatening the 200-dma but have gotten oversold short-term. While a bounce is likely, the decline in rates has the financial sector on alert while economic weakness is beginning to reveal itself in the discretionary sector as well. **Energy**, as noted last week, mustered a decent bounce but the trends and backdrop remain sorely negative. •Oil prices remain weak and there is little that suggests the damage is over yet. It is advised to continue using bounces in energy as a means to reduce exposure to the sector. **We continue to remain out of the sector entirely.**



**Small and Mid-Cap stocks** which bounced last week, faded this week, as small-cap stocks failed resistance at the 200-dma. Mid-cap stocks are retesting the 200-dma and a break of that support will signal rising risk for the broader markets. **Note: the narrowing of breadth in the markets is of a major concern and is often seen prior to more major corrections.** •**Emerging Markets and International Stocks** continue to hold support and money has been chasing performance in these sectors as of late. Continue to hold positions for now but profit taking and rebalancing is advisable. **Gold**•? As noted last week, Gold was FINALLY able to break out of its trading range and its longer-term downtrend. With Gold once again very overbought, we will begin looking for an entry point on any weakness which does not reverse the recent breakout. **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 index climbed back above its 50-dma and is reversing its oversold condition and on a buy signal. The deterioration in "risk" is moving to the perceived safety of yield as interest rates fell to the lowest levels since prior to the election. **Bonds and REIT**s continued to perform



well last week as money rotated from "risk" into "safety" along with the decline in interest rates. REIT's are looking to breakout of a long consolidation cycle and bonds remain favorable. Continue holding current positions for now but we are looking to take some profits and rebalance holdings.

## 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.)*



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

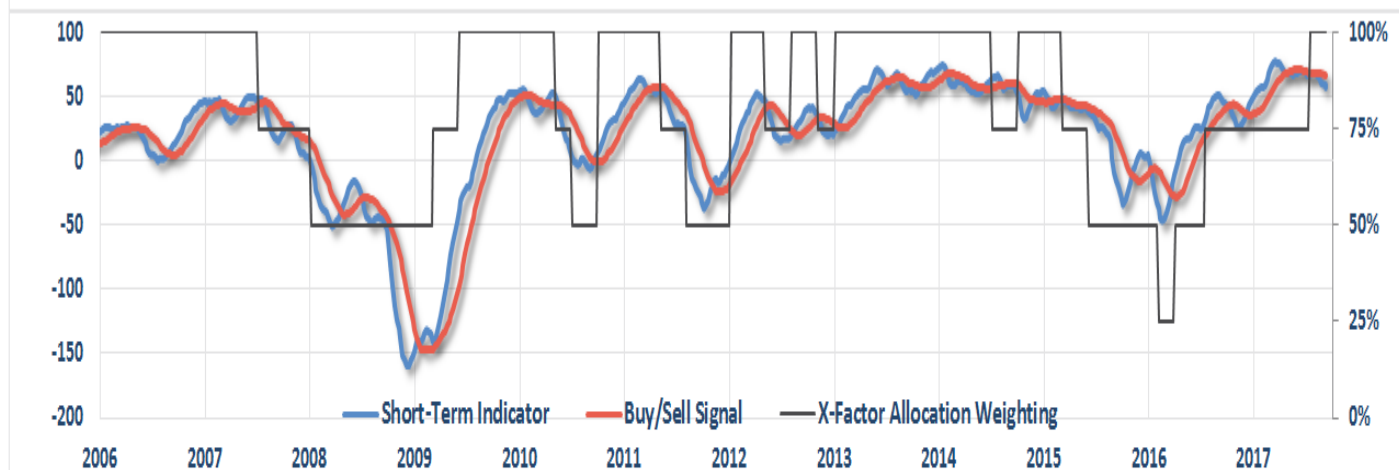
LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING

**Portfolio Update:** As noted above, the overall bullish trend remains positive which keeps our portfolios allocated toward equity risk. However, we continue to watch the deterioration of the primary supports of the market which remain concerning. **But the trend remains the trend for now, and the recovery of the market above the 50-dma allowed us to allocate some capital in newer accounts to equity related risk.** We remain extremely vigilant of the risk that we are undertaking by chasing markets at such extended levels, but our job is to make money as opportunities present themselves. **Importantly, 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. **Again, we remain invested but are becoming highly concerned about the underlying risk.**

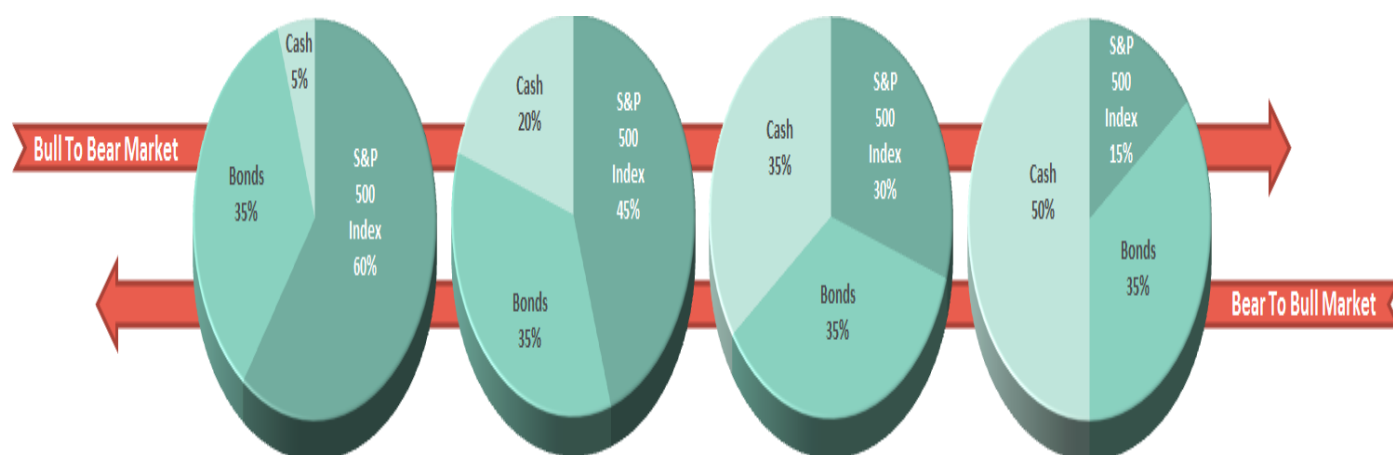


# THE REAL 401k PLAN MANAGER

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



**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.**



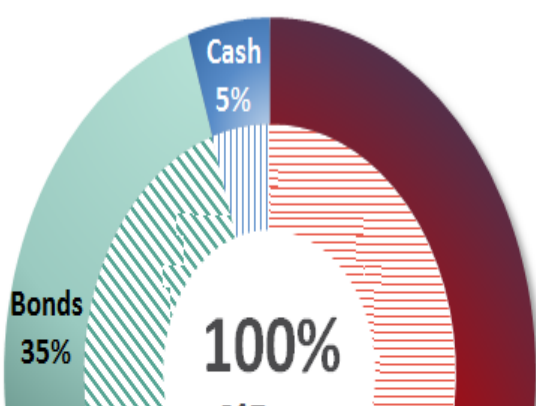
## No Changes, Again

As I noted last week, on an intermediate-term basis "sell signals" are in place, and as such, it is a good time to pay attention to your allocation models and reduce risk where necessary to become a bit more conservative. I also added a "correction potential" line to the chart above. This is the most likely area a corrective action would entail that would reduce the overbought condition of the market while maintaining the longer-term bullish trend. **A violation of that trendline will denote a larger corrective process is in process which will require much deeper reductions in the allocation model.** Pay attention to this level which I will begin adjusting each week as necessary. However, the short-term rally last week was opportunistic to take actions to rebalance risk and reposition portfolios accordingly. If you didn't do anything, I suggest you take some actions on Monday to reduce overweighted risk as needed. **Bullish trends remain in place, so portfolio allocations remain at target levels for now.** All NEW contributions to plans should currently be adjusted to cash or cash equivalents like a stable value fund, short-duration bond fund or retirement reserves. 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)

## 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	Equity	
	Money Market	Large Cap	Vanguard Total Stock Market
Fixed Income	Retirement Savings Trust		Vanguard S&P 500 Index
	Fidelity MIP Fund		Vanguard Capital Opportunities
	G-Fund		Vanguard PrimeCap
	Short Term Bond		Vanguard Growth Index
			Fidelity Magellan
	Pimco Total Return		Fidelity Large Cap Growth
	Pimco Real Return		Fidelity Blue Chip
	Pimco Investment Grade Bond		Fidelity Capital Appreciation
	Vanguard Intermediate Bond		Dodge & Cox Stock
	Vanguard Total Bond Market		Hartford Capital Appreciation
	Babson Bond Fund		American Funds AMCAP
	Lord Abbett Income		American Funds Growth Fund Of America
	Fidelity Corporate Bond		Oakmark Growth Fund
	Western Asset Mortgage Backed Bond		C-Fund (Common Assets)
	Blackrock Total Return		ALL TARGET DATE FUNDS 2020 or Later
	Blackrock Intermediate Bond		
	American Funds Bond Fund Of America	Balanced Funds	Vanguard Balanced Index
	Dodge & Cox Income Fund		Vanguard Wellington Fund
	Doubleline Total Return		Vanguard Windsor Fund
	F-Fund		Vanguard Asset Allocation
International			Fidelity Balanced Fund
	American Funds Capital World G&I		Fidelity Equity Income
	Vanguard Total International Index		Fidelity Growth & Income
	Blackrock Global Allocation Fund		American Funds Balanced
	Fidelity International Growth Fund		American Funds Income Fund
	Dodge & Cox International		ALL TARGET DATE FUNDS 2020 or Sooner
	Invesco International Core Equity		
	Goldman Sachs International Growth Opp.	Small/Mid Cap	Vanguard Mid Cap Growth
<p>The above represents a selection of some of the most common funds found in 401k plans. <b><u>If you do not see your SPECIFIC fund listed simply choose one that closely resembles the examples herein.</u></b> All funds perform relatively similarly within their respective fund classes.</p>			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