- ***Review & Update***
- ***Bonds Send A Signal***
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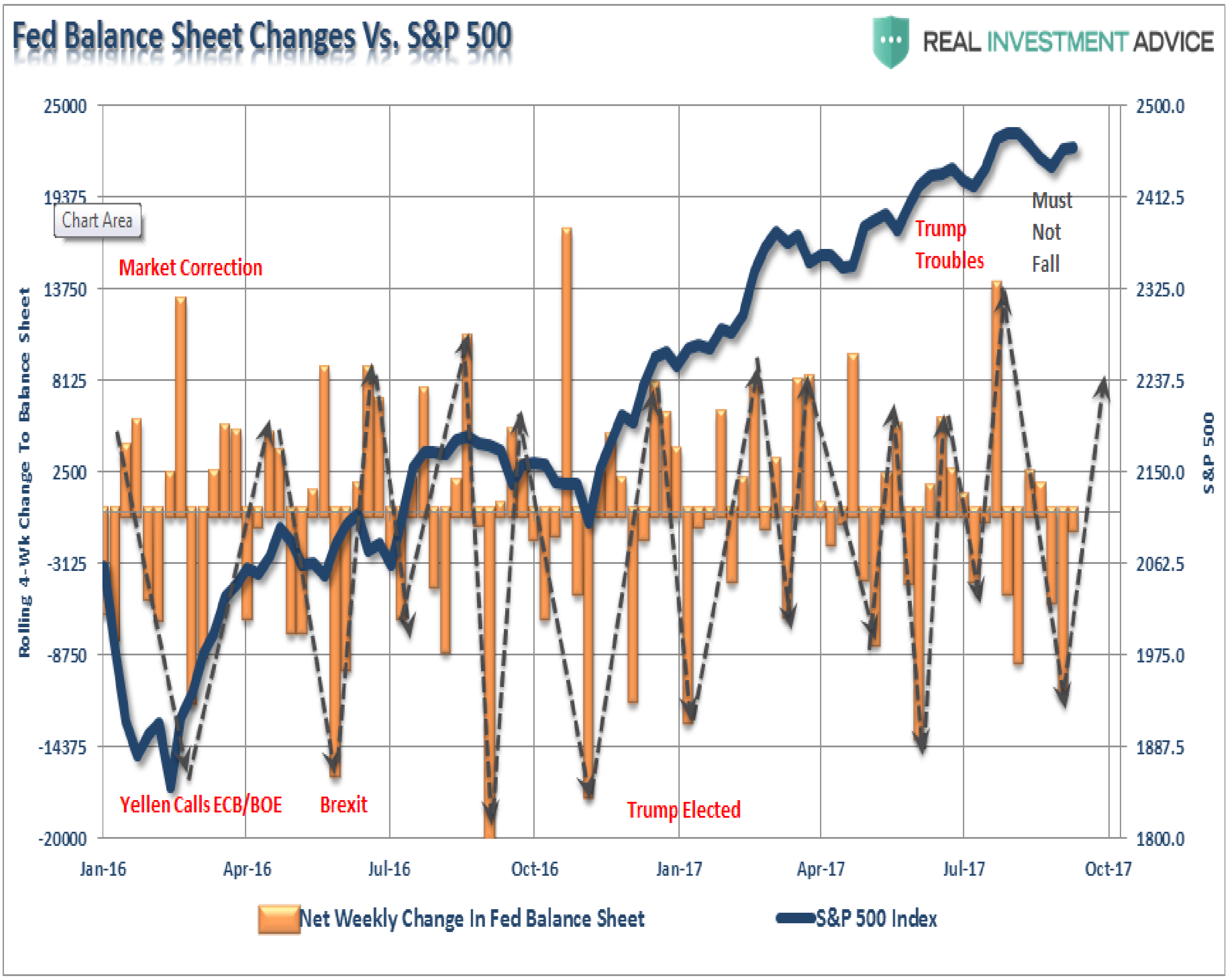
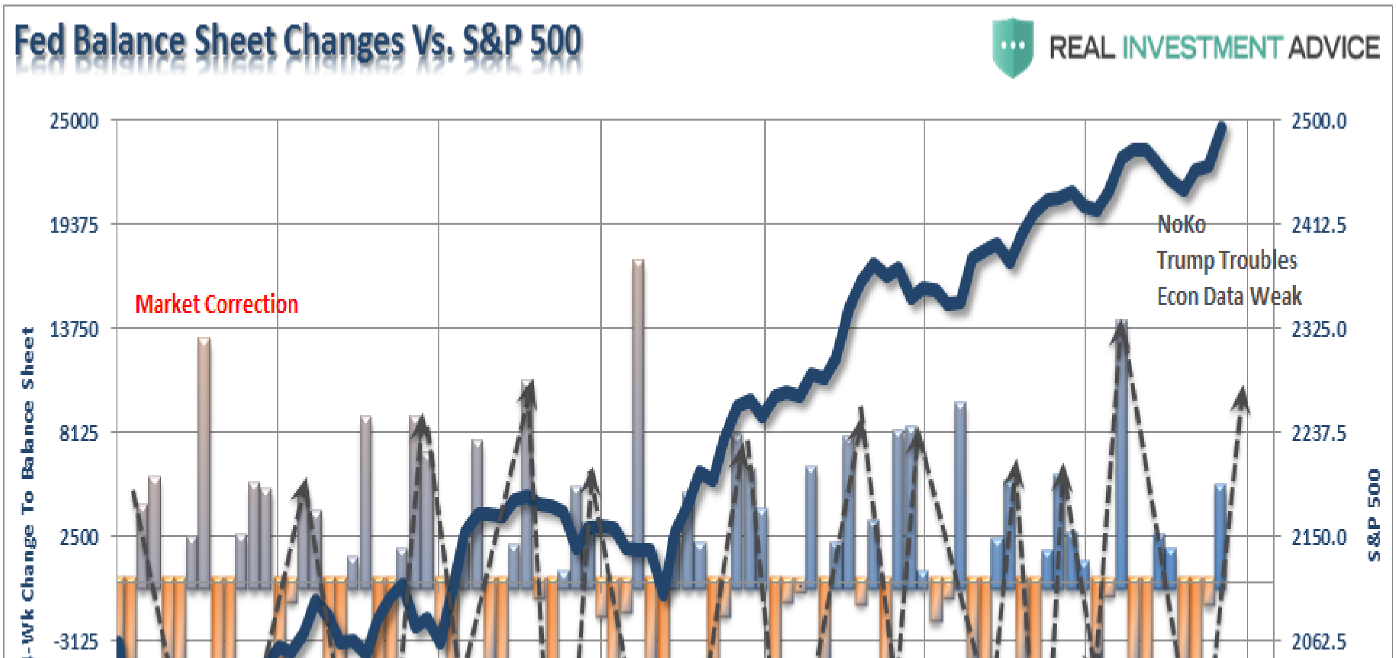
Review & Update

Two weeks ago, 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)"*



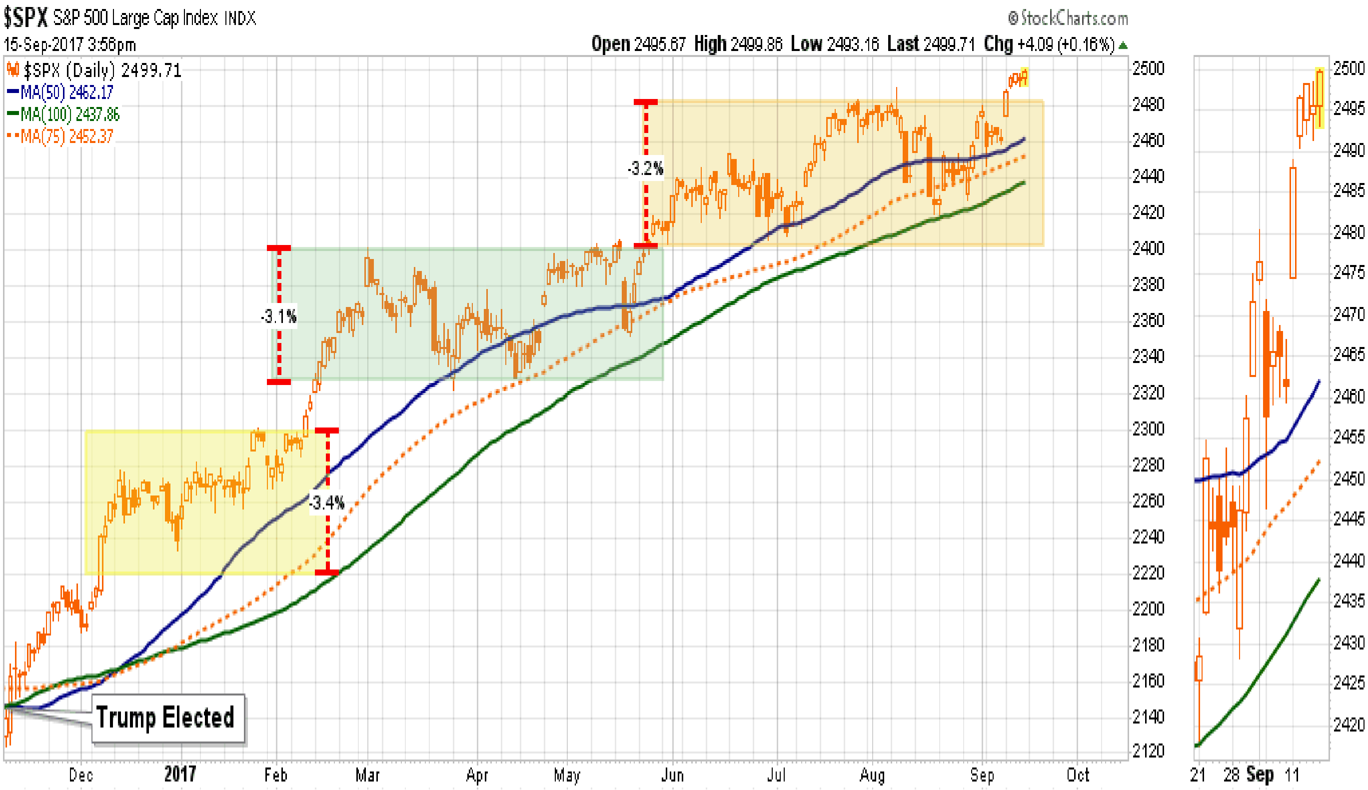
Here is the updated chart this week as the markets broke out to new *"all-time highs."* I changed the coloration to more clearly show balance sheet expansion periods more closely.



There are two things to take away from the chart.

1. *The current breakout of the market is likely limited given there is little room before the next down cycle in the balance sheet occurs.•*
2. *These reinvestments to "save" the markets from decline will be severely restricted IF the Federal Reserve actually proceeds with a "balance sheet reduction" program. •*

As noted on Tuesday:



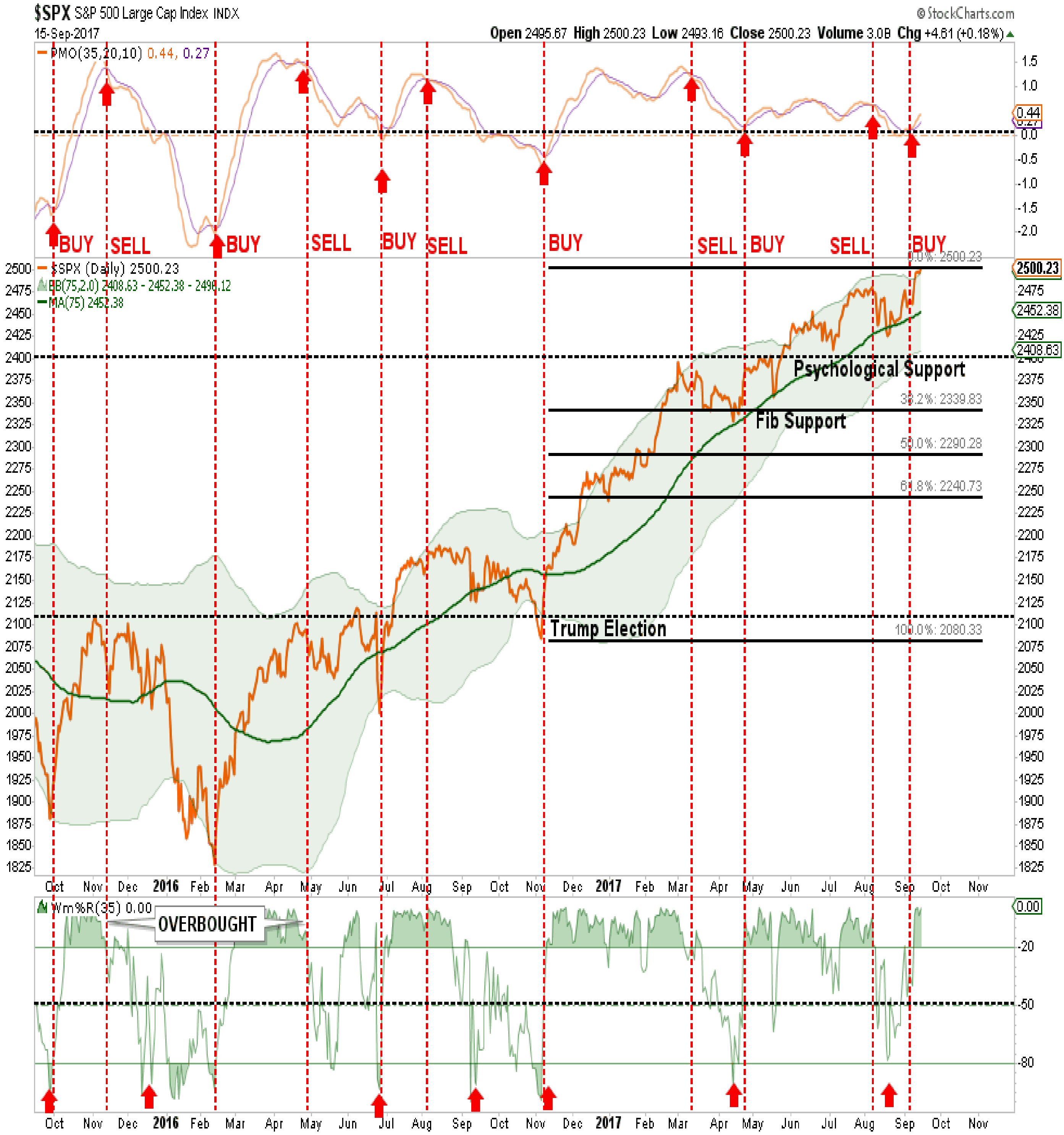
"That 'gap up'•opening occurred Monday morning as 'relief'•spread through global markets due to the reduction of geopolitical stress as the U.S. once again 'caved'•to the threats of North Korea."

With that, and a lot of Central Bank intervention, the world breathed a sigh of relief as the previous• *?risk off?*•trade converted into a*"rush for risk."* This rotation over the last 7-10 trading days out of bonds and gold back into equities can be seen in the chart below.

2500 or Bust! Not surprisingly, and as I [noted yesterday](), the market very slightly breached 2500:

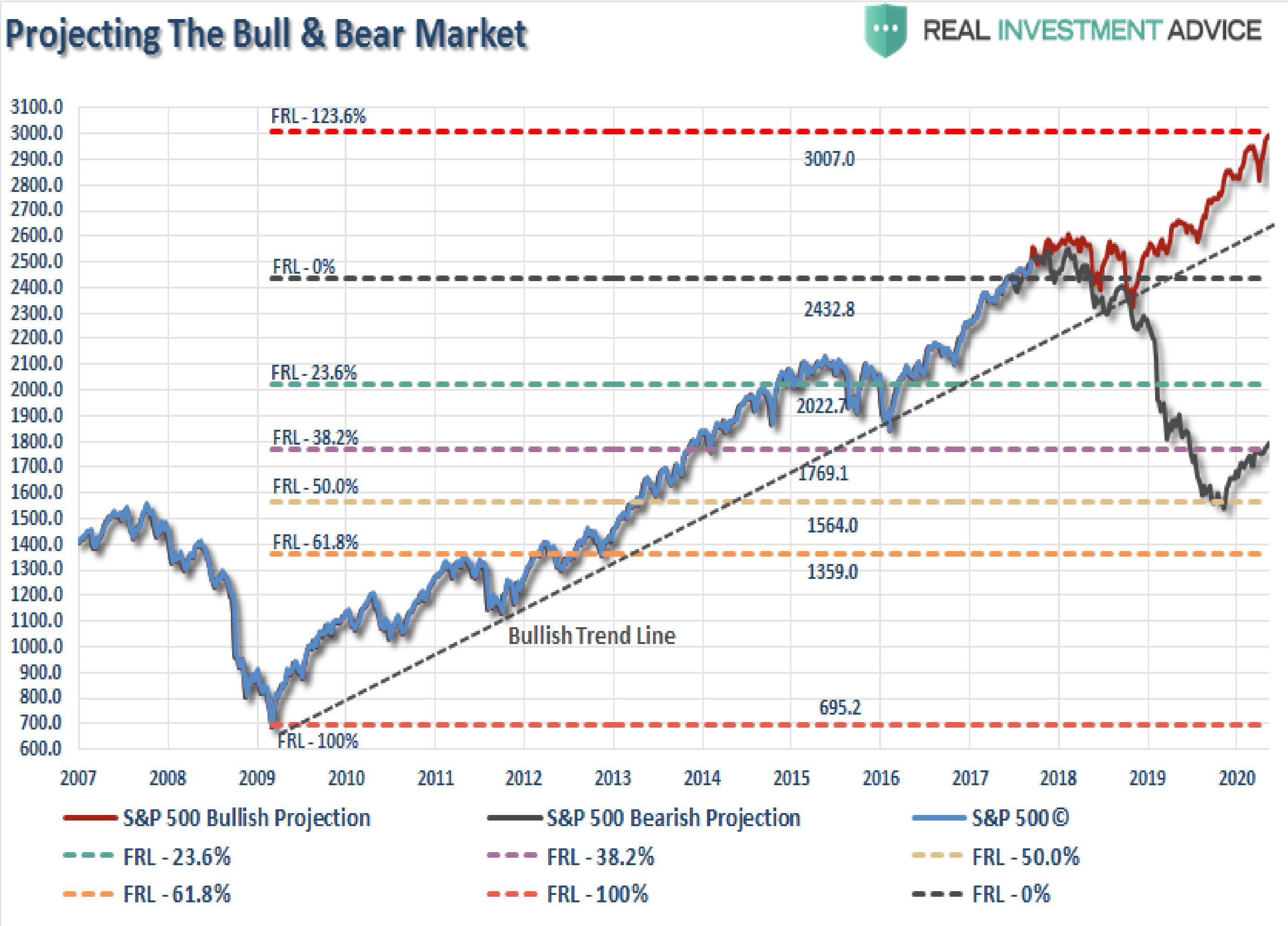
> *"Since the election, there has been a concerted effort to push stocks higher on the hopes of tax reform, ACA repeal, and infrastructure building which would lead to strongly improving earnings for U.S. companies. Now, eleven months later, stocks have been breaching the* ***psychologically important levels of 2200 in December, 2300 in February and finally 2400 in May. 2500 is the next target."***

As shown below, the market is pushing a short-term *"buy"* signal. However, now at 2-standard deviations above the 75-dma, as seen previously, the market likely has limited upside from here. Look



Let me remind you this move is not unexpected. As I addressed back on [June, 9th:]()

*"**Let me state this VERY clearly. The bullish bias is alive and well and a move to 2500 t0 3000 on the S&P 500 is viable.**•All that will be needed is a push through of some piece of legislative agenda from the current administration which provides a positive surprise. However, without a•sharp improvement in the underlying fundamental and economic backdrop soon, the risk of something going 'wrong' is rising markedly.• **The chart below shows the Fibonacci run to 3000 if 'everything goes right.'?**•*



Despite the complete lack of legislative agenda, the markets did achieve its first milestone since that missive. However, just remember, **the bull-run is a•one-way trip.**For now, the *"bullish trend"* remains intact which keeps portfolios allocated towards equities for now. **BUT, and that is a *"Kardashian"* sized one, we do so with a *"clear and present"* understanding of the risk that we are undertaking.** Stops have been moved up to recent support levels on all positions. While there is some psychological support at 2400, the first level of Fibonacci support, post-election, is at 2340-ish. However, on a longer-term retracement, we are looking at a correction closer to 2000, and ultimately back to 1800ish. The biggest concern currently is the massively elevated level of complacency. Regardless of threats•of nuclear war, legislative agenda failure, missiles being launched over Japan, weak economics, and downwardly revised earnings estimates, the market has pushed higher on *"hope."* **I have seen this environment before.** We are in one of the longest periods on record without a 5% correction not to mention one of 10%. Volatility remains historically suppressed, and as noted on Thursday, investors are *"all in the pool."*•**The bulls have become completely desensitized to market risk.**•I don't know when. Nor, do I know what•will trigger it. But a correction is coming and the following three charts are my•biggest concern.

Chart 1) The current bull market cycle is already pushing one of the longest in history. With the support of global Central Banks, it could indeed become the longest. Regardless, it will end, and like all previously over-valued, over-

leveraged and overly-complacent bull cycle in history, it ends badly.•

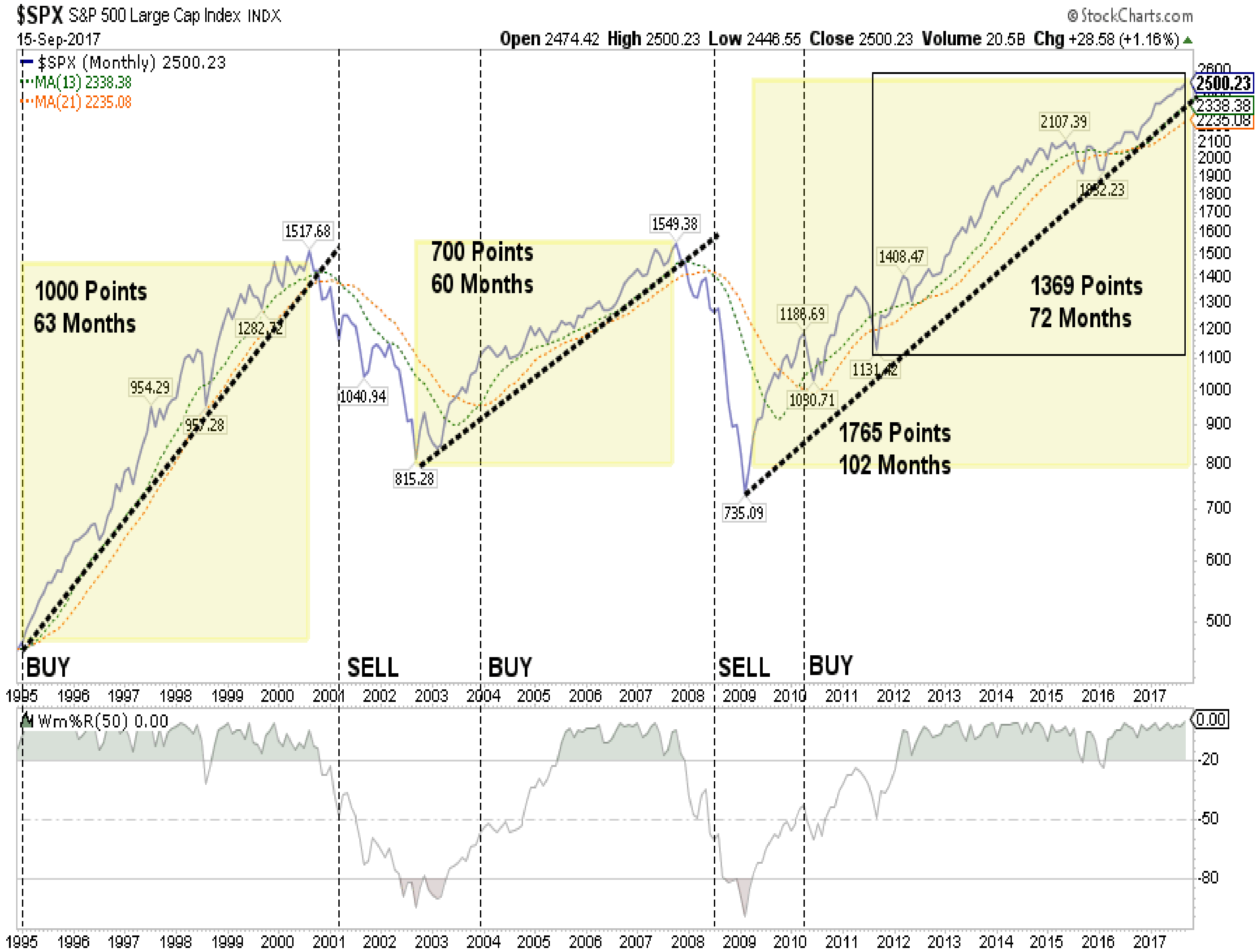
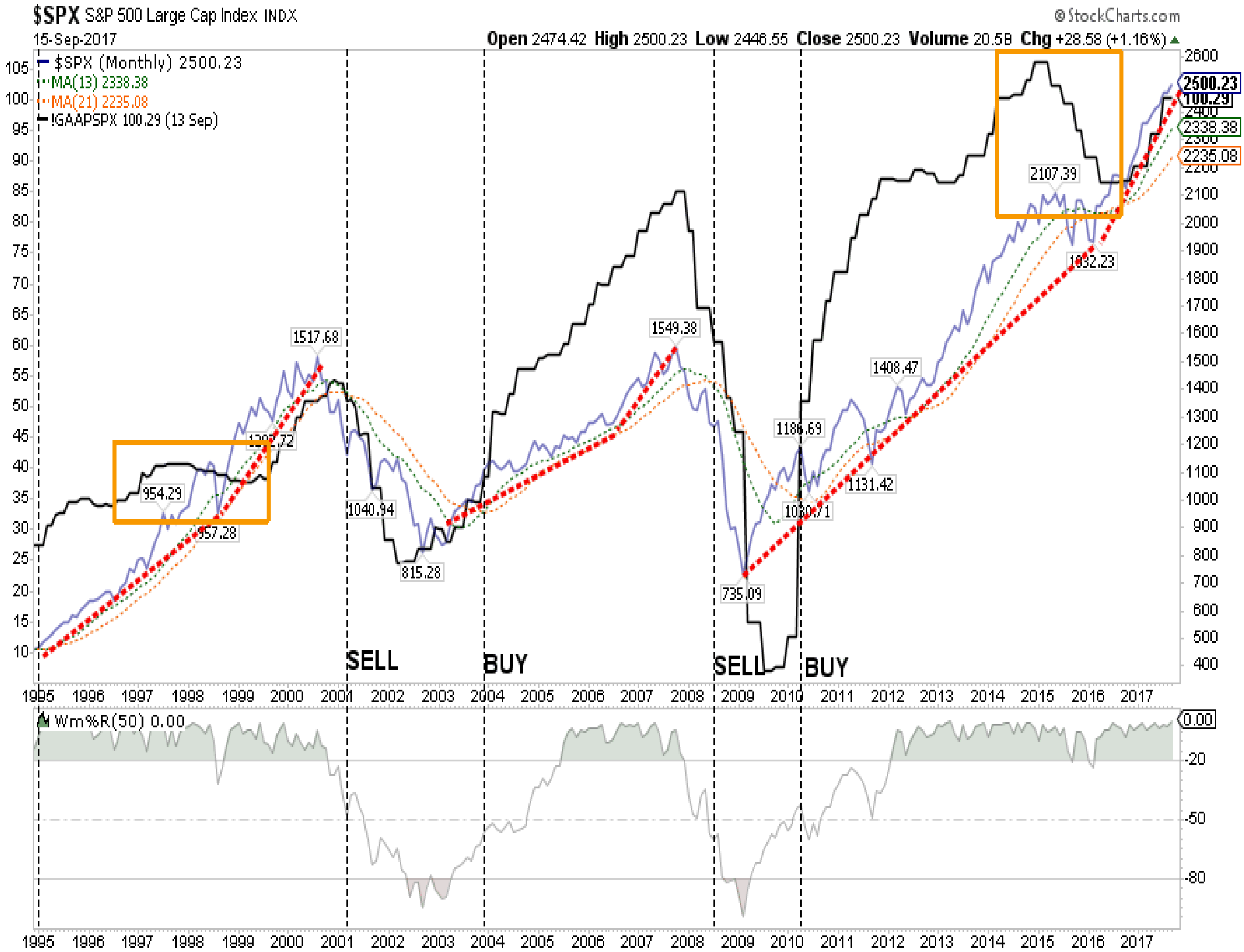
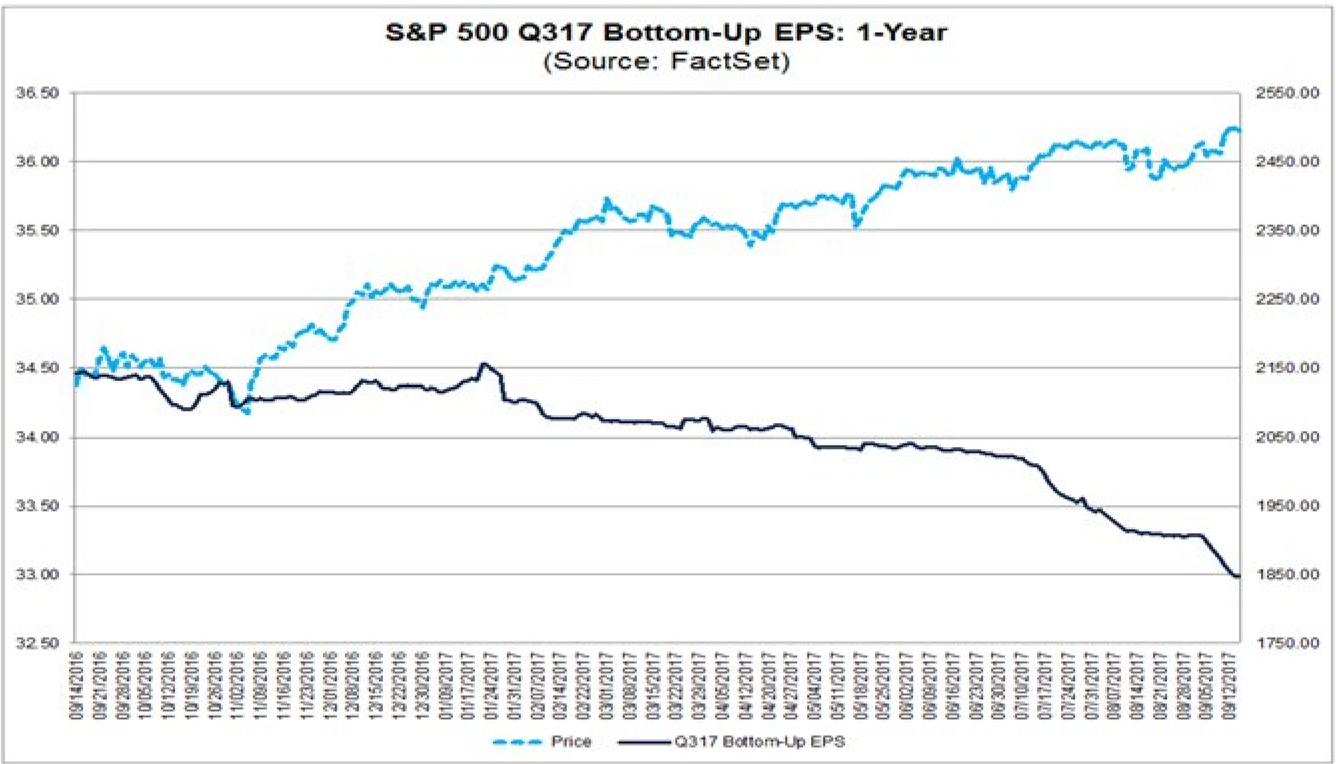


Chart 2) One of the hallmarks of a late-stage bull market cycle is the acceleration in price as investors capitulate by "jumping in"•as prices accelerate•*While the long-term moving averages currently suggest the bull cycle is intact, we will watch for the crossover to* ***give us an indication of when to leave.***•

Chart 3) It is also not surprising to see earnings hit a "rough patch" before moving higher into the final phase of exuberance. The second downturn in earnings, particularly when sales are stagnating as they are now, tends to be the demarcation point of a repricing phase.•





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tax legislation fails to be passed this year, it is likely we will see a much more aggressive repricing of expectations in the near future. As I stated previously:

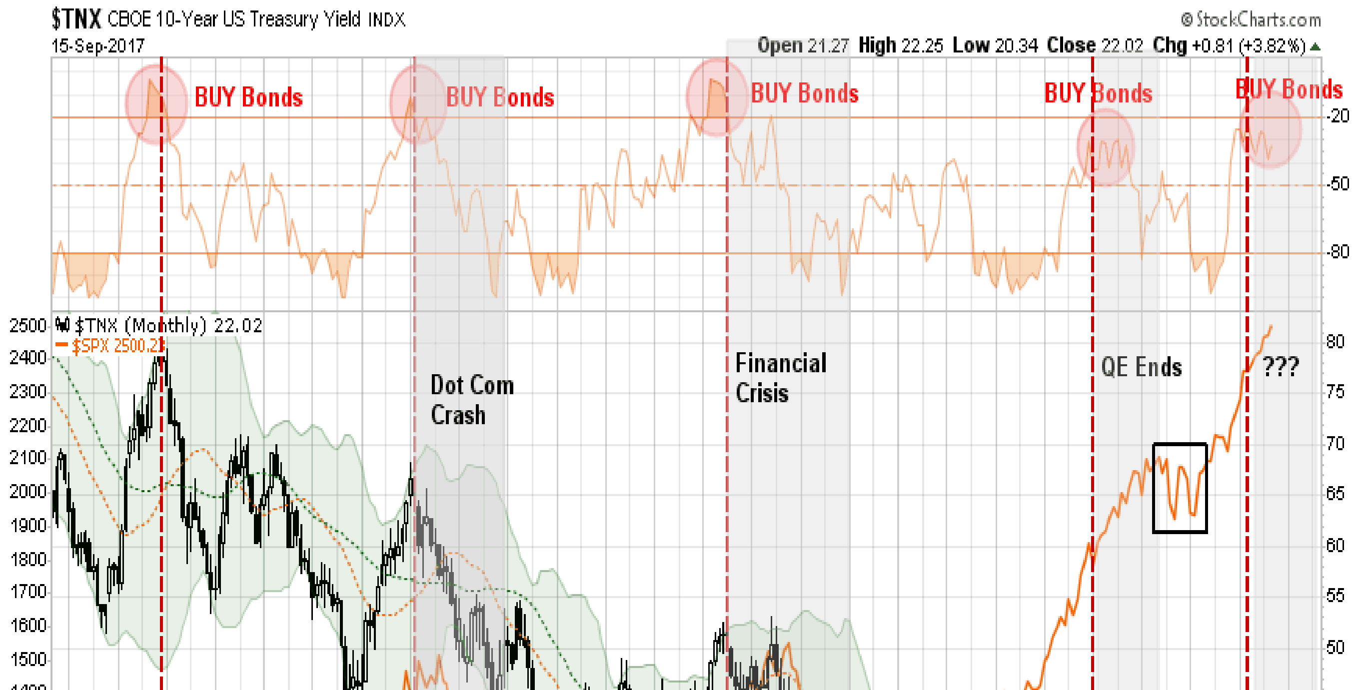
> *"The question you have to ask yourself is simply this. 'From current levels,•**IF everything goes right**•there is roughly **600 points**•of upside. **If something goes wrong**• there are **900•points** of downside. Are those odds I am willing to take?'It?s easy to get wrapped up in the bullish advance, however,•**it is worth remembering that making up a loss of ca***

At this juncture, th

Of Thrones Fan" would say...

Bonds Send A Signal

Last week, I discussed the various economic indicators suggesting the *"Trump Trade"* has likely come to its conclusion. **Interest rates are also currently sending a signal that investors should heed.** As you know, I have been, and remain, a rampant bond bull. **Since 2013,** as the vast majority of mainstream analysts were touting the end of the *"bond bull market,"* **I was aggressively buying bonds.**•While we have recently pared back some of our bond holdings and took profits around 2.1% on the 10-year treasury, we remain optimistically long corporate, GNMA and municipal bonds and are looking for the next opportunity to buy more bonds. *(When you headlines about the "death of the bond market," that is your signal to buy.)* **When the next recession hits the U.S. economy, [rates will fall below 1%](#) as**•money flows to the relative safety of bonds as equity prices lose 30-50% of their value. More importantly, and as shown below, interest rates on a monthly basis are at levels that have been associated with significant tops in both rates and stocks.



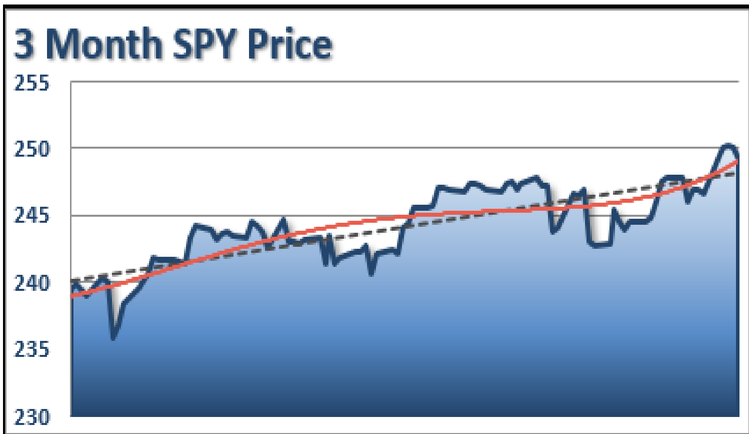
Whether or not you agree, there is a high degree of complacency in the financial markets. **The realization of ?risk,? when it occurs, will lead to a rapid unwinding of the markets pushing volatility higher and bond yields lower.** This is why I continue to acquire bonds on rallies in the markets, which suppresses bond prices, to increase portfolio income and hedge against a future market dislocation. **In other words, I get paid to hedge risk, lower portfolio volatility and protect capital.** Bonds aren?t dead, in fact, they are likely going to be your best investment in the not too distant future.

> *?I don?t know what the seven wonders of the world are, but the eighth is compound interest.? ? Baron Rothschild*

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet



SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	25.56%	15.75%	11.48%	(27.12%)
Max Drawdown	-14.48%	-4.21%	-3.62%	-13.84%
Sharpe	2.57	2.49	2.52	0.01
Sortino	1.63	3.60	3.21	(0.11)
Volatility	11.80	7.81	7.27	(0.07)
Daily VaR-5%	(3.93)	7.36	7.15	(0.03)
Mnthly VaR-5%	(1.38)	7.25	11.20	0.54

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	2.06%	1.97%	1.88%	(4.86%)	2.19%	1.81%	(14.06%)	3.68%
P/E Ratio	17.10	19.18	20.35	5.76%	41.50	19.19	(51.0%)	6.02%
P/S Ratio	2.67	2.90	3.19	9.01%	3.15	1.93	1.13%	65.26%
P/B Ratio	3.14	3.33	3.67	9.16%	3.63	2.41	1.13%	51.96%
ROE	15.53%	15.07%	15.91%	5.30%	16.06%	15.00%	(0.96%)	6.04%
ROA	2.91%	2.83%	2.95%	4.13%	2.98%	2.83%	(1.00%)	4.48%

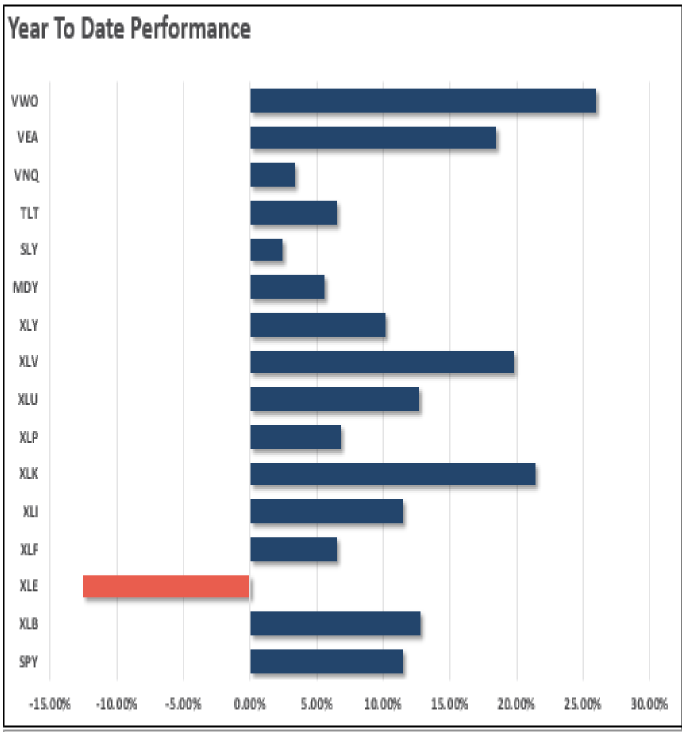
S&P 500 Market Cap Analysis

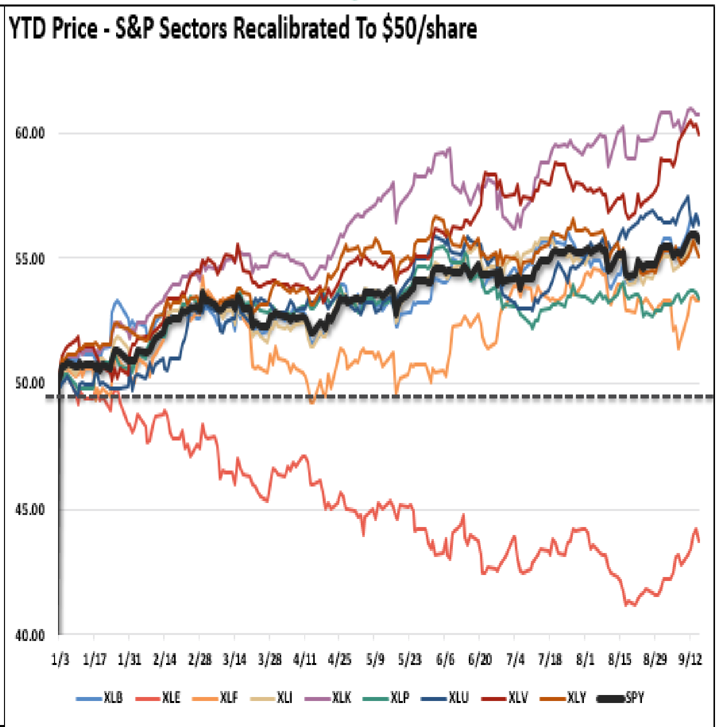
Item	12-M Ago	Current	% Chg
Shares	2,499.6	2,429.2	(2.81%)
Sales	56,287	57,128	1.49%
SPS	22.5	23.5	4.43%
Earnings	7,289	7,638	4.79%
EPS TTM	3.4	3.7	9.31%
Dividend	1.3	1.4	7.34%

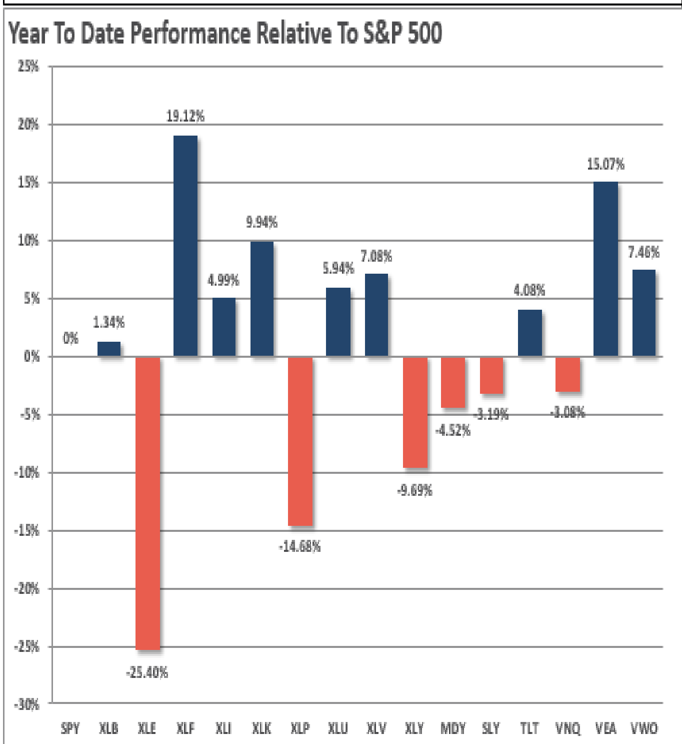
S&P 500 Asset Allocation

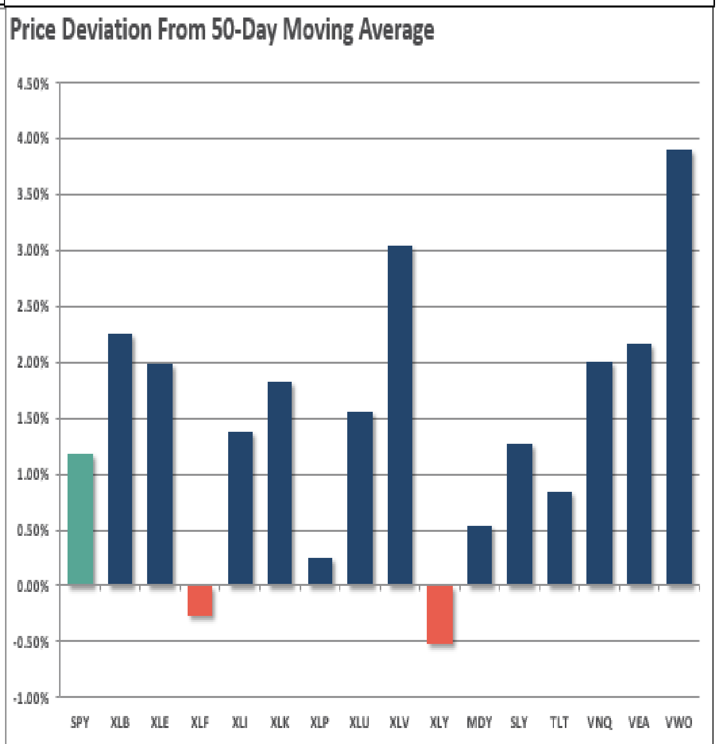
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(4.17%)	5.88%	1.12	47.51	254.92	12.72	(81.4%)	5.6%	3.0%	2.40%	1.96	27.08
Materials	15.44%	2.92%	1.39	20.16	61.64	12.38	(67.3%)	16.9%	2.0%	5.15%	3.95	17.52
Industrials	19.73%	10.07%	1.11	19.99	24.88	12.94	(19.7%)	17.2%	2.1%	5.04%	4.39	17.48
Discretionary	15.31%	12.01%	1.10	21.96	72.58	16.85	(69.7%)	21.3%	1.4%	4.49%	3.63	18.87
Staples	2.47%	8.45%	0.69	21.31	25.66	15.55	(17.0%)	23.5%	2.7%	4.68%	3.68	19.35
Health Care	14.14%	14.79%	0.99	18.42	32.84	12.75	(43.9%)	27.0%	1.6%	5.52%	5.40	16.74
Financials	26.45%	14.16%	1.21	15.38	22.34	10.16	(31.2%)	9.2%	1.8%	6.60%	4.47	13.78
Technology	26.33%	23.27%	1.21	23.31	61.99	16.93	(62.4%)	27.5%	1.1%	4.36%	4.53	21.61

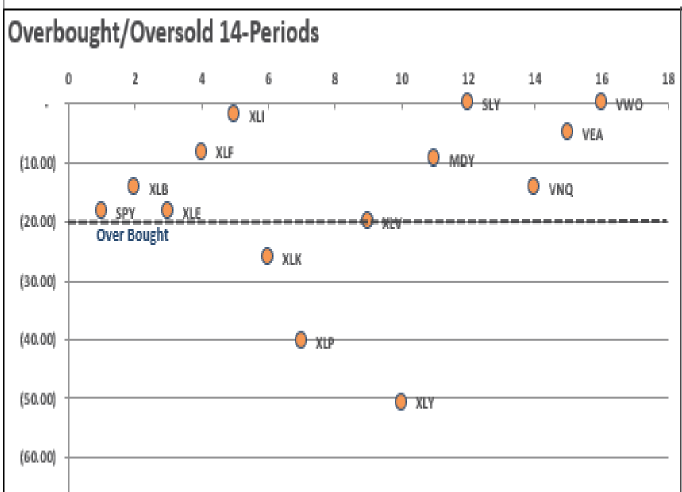
Performance Analysis

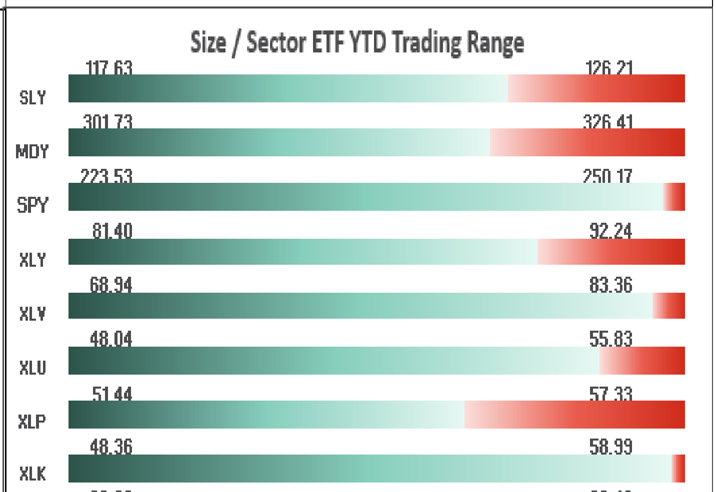












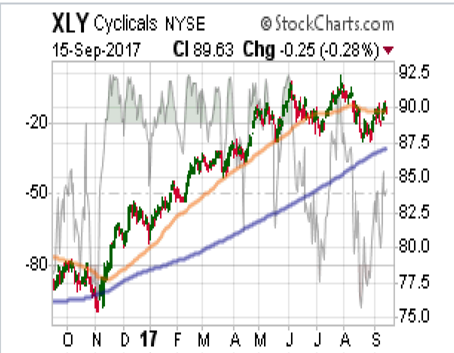
ETF Model Relative Performance Analysis

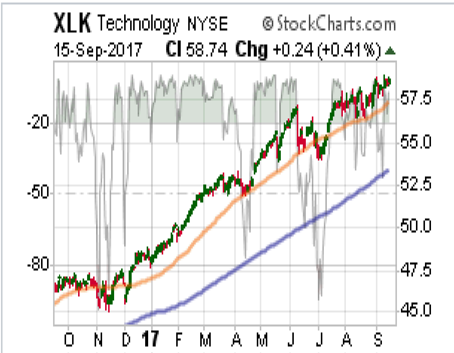
RELATIVE PERFORMANCE		Ticker	Company / ETF NAME	Current Price	1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	252.14	1.59	3.23	2.56	6.27	16.94	247.19	241.59	2.00%	4.37%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	56.07	0.34	1.16	1.56	0.72	2.97	54.63	53.38	2.63%	5.04%	BUY
		XLE	SPDR-EGY SELS	65.84	0.64	2.42	(0.29)	(12.08)	(19.32)	64.60	67.66	1.92%	-2.69%	SELL
		XLF	SPDR-FINL SELS	24.77	1.19	(2.62)	1.13	(1.88)	(12.07)	24.77	24.20	0.01%	2.35%	BUY
		XLI	SPDR-INDU SELS	69.39	0.05	0.11	(0.53)	0.39	5.64	68.39	66.79	1.46%	3.89%	BUY
		XLK	SPDR-TECH SELS	58.74	(0.37)	(0.30)	1.78	3.92	7.49	57.13	54.93	2.82%	6.93%	BUY
		XLP	SPDR-CONS STPL	55.22	(1.36)	(3.19)	(3.05)	(5.09)	(12.33)	55.12	55.02	0.18%	0.37%	BUY
		XLU	SPDR-UTIL SELS	54.75	(2.69)	(2.77)	0.34	0.44	(5.79)	53.61	52.24	2.13%	4.81%	BUY
		XLV	SPDR-HLTH CR	82.59	(1.53)	2.65	0.08	4.80	(2.40)	80.01	76.64	3.23%	7.77%	BUY
		XLY	SPDR-CONS DISCR	89.63	(1.08)	(1.67)	(2.44)	(4.36)	(2.77)	89.97	88.73	-0.38%	1.02%	BUY
	SIZE	MGK	VANGD-MG CAP GR	105.08	(0.62)	0.41	0.90	3.52	4.21	102.43	98.64	2.58%	6.53%	BUY
		IJR	ISHARS-SP SC600	70.78	1.06	2.14	(1.55)	(3.92)	(0.65)	69.70	69.31	1.54%	2.13%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	94.37	(0.48)	(0.18)	(0.74)	(2.36)	(1.81)	93.24	91.79	1.21%	2.82%	BUY
	Dividend	VIG	VANGD-DIV APPRC	94.59	0.05	(0.45)	(0.49)	(1.10)	(2.60)	93.05	91.45	1.66%	3.43%	BUY
	Real Estate	VNQ	VIPERS-REIT	85.34	(1.11)	0.60	(1.14)	(2.94)	(16.50)	83.71	83.32	1.95%	2.42%	BUY
	International	IDV	ISHARS-INTL SD	33.88	(0.85)	(1.27)	1.46	1.43	(1.58)	33.22	32.27	1.98%	4.98%	BUY
		VWO	VANGD-FTSE EM	45.06	(0.40)	1.49	8.07	7.18	5.51	42.77	40.93	5.36%	10.08%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	126.86	(3.25)	(3.04)	(3.28)	(1.17)	(22.79)	125.83	123.10	0.82%	3.05%	BUY
	International	BNDX	VANGD-TTL INT B	54.60	(2.23)	(3.49)	(3.05)	(5.40)	(18.67)	54.59	54.34	0.02%	0.47%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	88.41	(0.89)	(2.16)	(2.32)	(5.55)	(14.03)	88.18	87.88	0.26%	0.60%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.95										

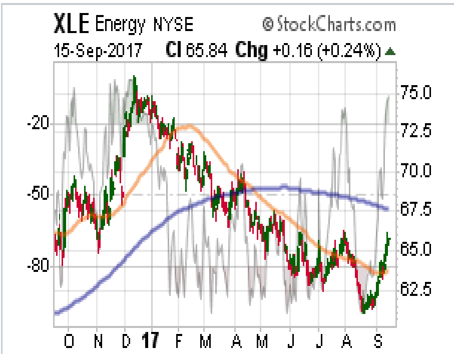
(Model Position Price Changes Relative to Index: 1 Week, 4 Week, 12 Weeks, 24 Weeks, 52 Weeks)

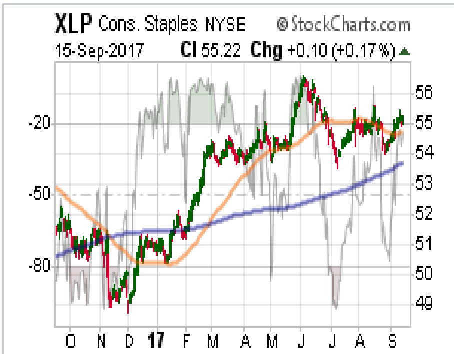
Sector & Market Analysis:

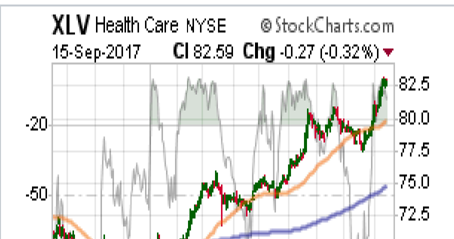
Let's take a look at the sector breakdown.

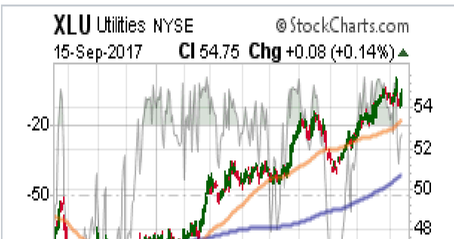


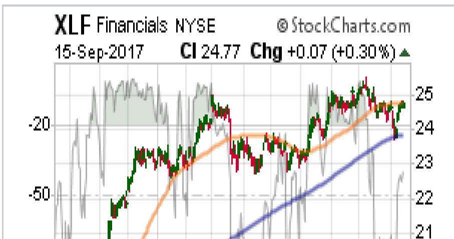












ALL SECTORS -•improved this past week with each regaining above the 50-dma. This reduces some of the short-term negative pressure on the market. See recommendation analysis below for specific actions. **Energy,•**as noted over the last two weeks, has mustered a decent bounce but the trends and backdrop 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•bounced last week, regaining their 50-dma and pulling more of the recent negative pressure off of the markets.•With both indices back to overbought look to take profits at any failure of new highs. **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 remains advisable.

Gold•? As noted two weeks ago, Gold was 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. Gold did weaken a bit this week as money rotated from safety to risk, with overbought conditions still present, remain patient for now. **S&P Dividend Stocks,•**after adding some additional exposure recently the index broke out to new highs. We are holding our positions for now with stops moved up to recent lows. **Bonds and REIT?s** finally had some profit taking hit these positions last week on the *"risk"* rotation. As stated last week:

> *"REIT's are looking to break out 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."

We did take profits in bonds and are looking for the next opportunity to add more exposure on a further pullback that does not violate bullish trends.

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.)

REAL INVESTMENT ADVICE

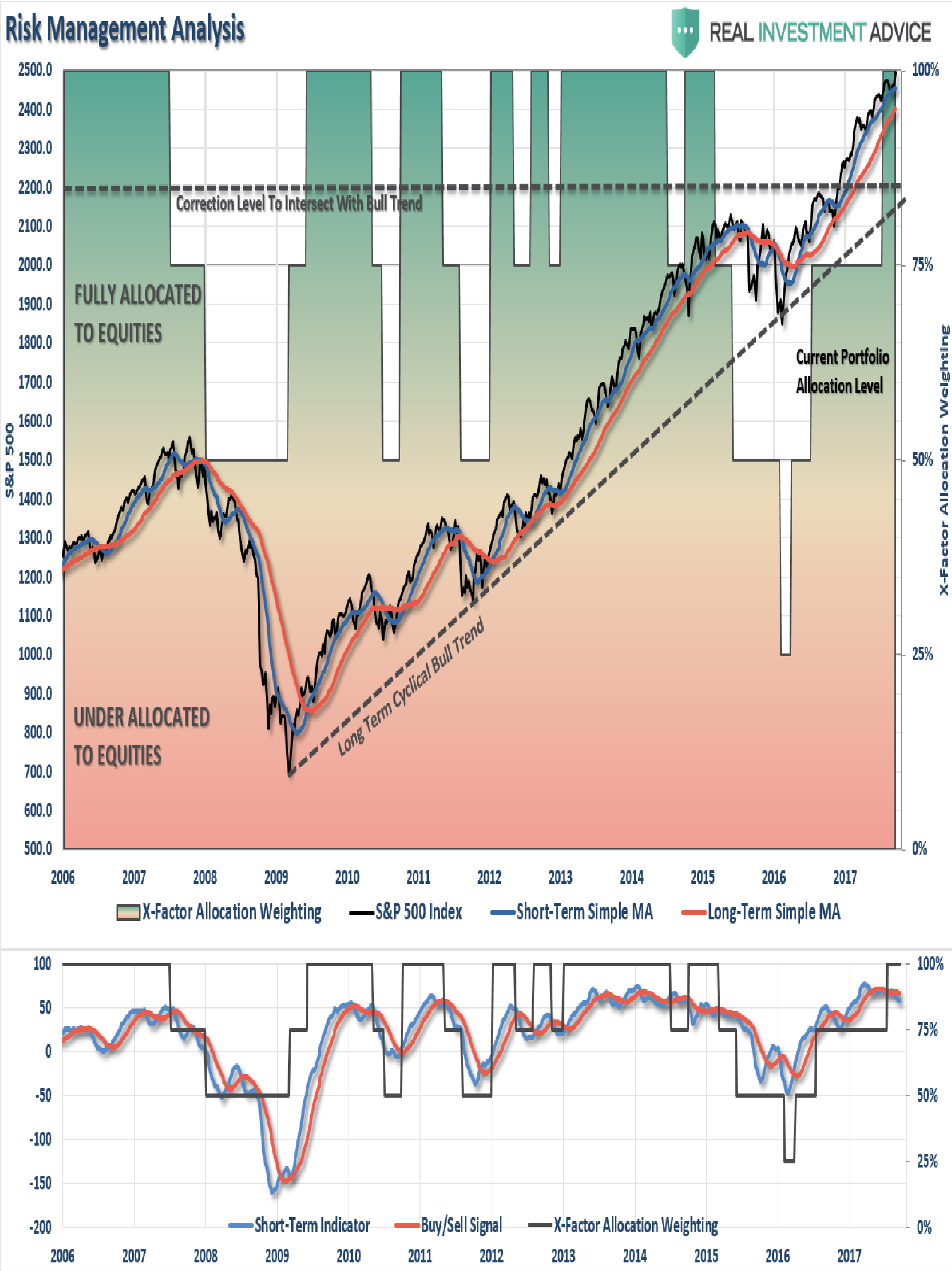
		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	Improving	Positive	Positive	Warning			X			Hold
XLK	Technology	OB	Positive	Positive	Hold			X			Hold
XLI	Industrials	Improving	Positive	Positive	Warning			X			Hold
XLB	Materials	Improving	Positive	Positive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

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

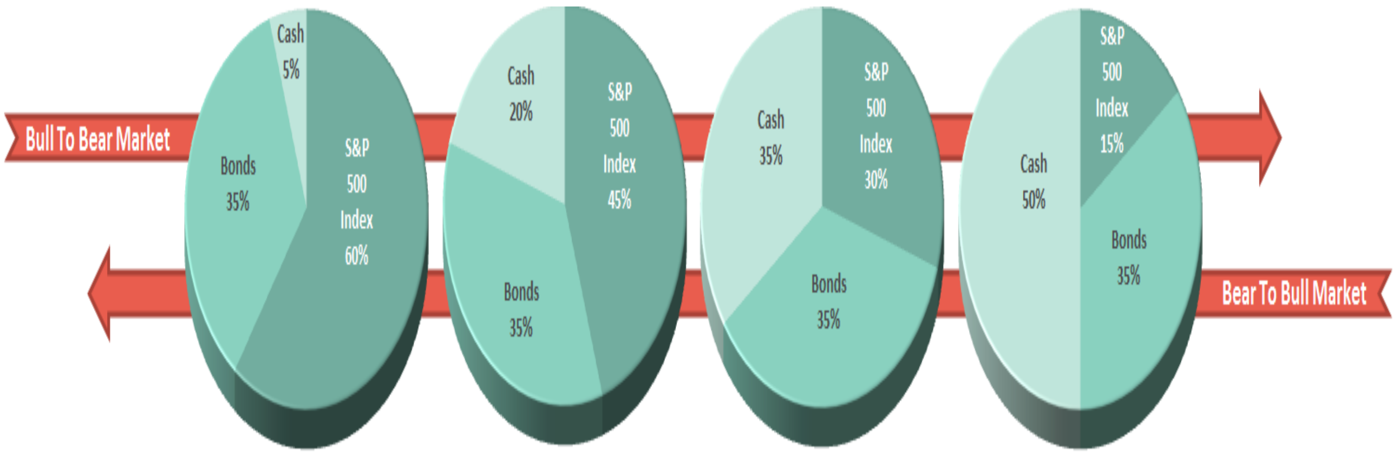
Portfolio Update: As noted above, the overall bullish trend remains positive which keeps our portfolios allocated toward equity risk. We remain cautious of potential corrections giving the length of time the markets have been absent one. **However, the trend remains the trend for now, and the recent 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

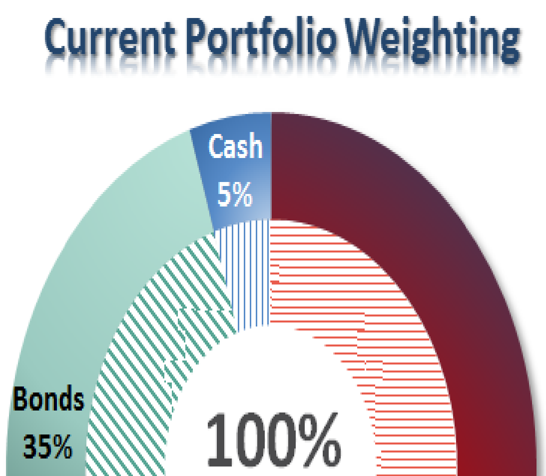
Despite the breakout to new highs and a slight breach of 2500, weekly sell signals also remain in place. As such, continue to pay attention to allocation models and reduce risk where necessary to remain a bit more conservative. As I noted last week:

> *"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 action 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."*

For now, **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 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*

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