



Real Investment Report

TREADING WATER

-
- *Lot's Of Action, Not A Lot Of Gain*
 - *The Importance Of Deutsche Bank*
 - *15-Risk Management Rules*
 - *Sector & Market Analysis*
 - *401k Plan Manager*

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- You **WILL NOT** be asked to link any accounts or provide any personal information.

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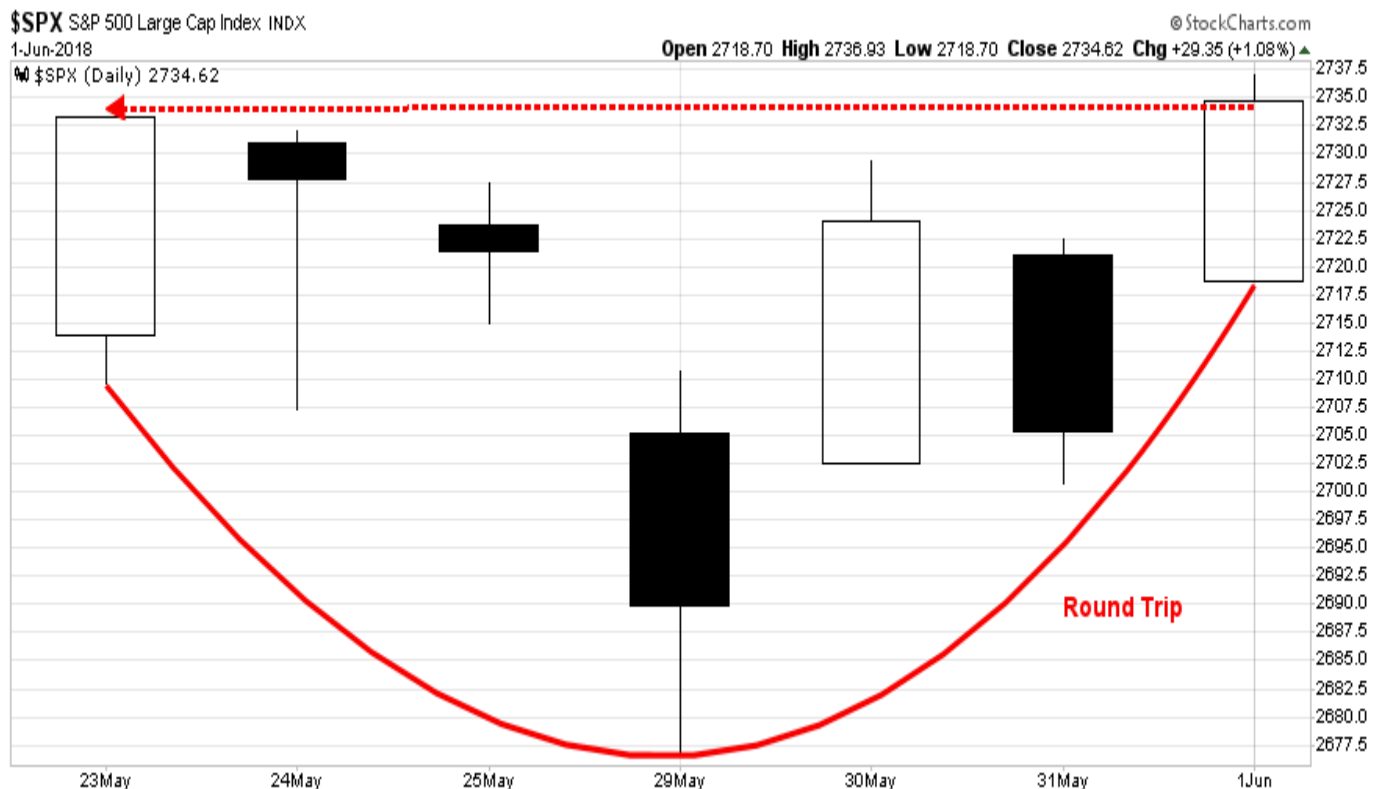
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Thank you for your help.

Lot's Of Action, Not A Lot Of Gain

"Sex is like a fish out of water, there is a lot of flopping around and gasping for air." - Gary Shandling

The markets were much like Shandling's view of sex during this holiday-shortened week. There was a lot of flopping around to eventually wind up back where we started. We starting out trading this week with a break of the 100-dma on concerns of Italy and an Italian bank debt crisis. On Wednesday, such was no longer a concern as Fed rate hike odds for June plunged keeping rates "lower for longer." But Thursday saw another plunge as the current Administration revived concerns over international "trade wars." Then Friday came with a stronger than expected employment report which was reason enough to rally traders once again. I'm worn out just writing about it.



The good news is that we did gain a VERY small bit of ground over Friday's close, but not much. There wasn't any "bad news," so to speak, so the "mediocre" news is that despite the solid rise in the markets from Tuesday's low, we remain very range bound between the 100-dma and the closing highs over the last couple of weeks as shown below. The tan shaded area is the current consolidation process from the March highs.

\$SPX S&P 500 Large Cap Index INDX
1-Jun-2018

Open 2718.70 High 2736.93 Low 2718.70 Close 2734.62 Volume 1.9B Chg +29.35 (+1.08%)▲



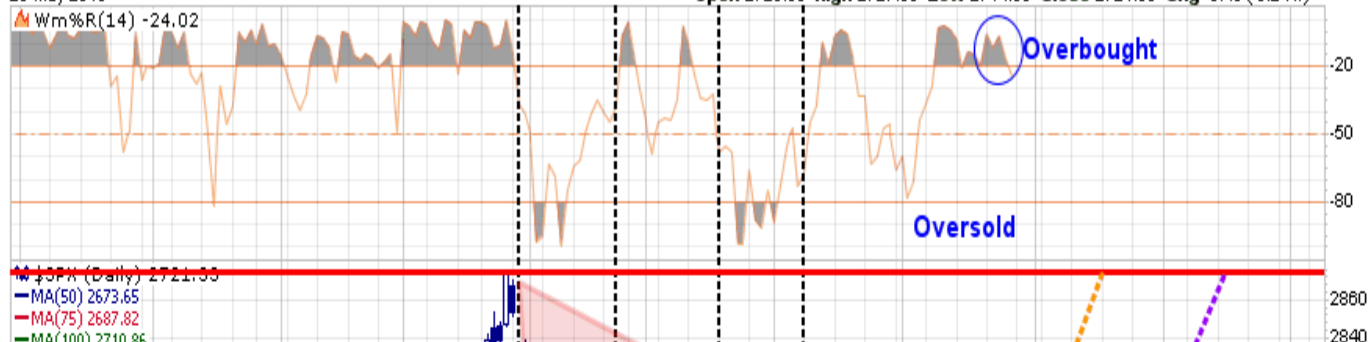
The daily "sell signal" continues to keep us more cautious on the market currently. More importantly, we are watching the erosion of the gap between the 50-dma and the 200-dma very closely. A negative cross of those two averages has historically been indicative of more extended difficulties for the market. Importantly, our current equity exposure remains under strict guidelines:

- **Overweight cash in portfolios as the ?risk? of a failure has not been absolved as of yet,**
- **Positions are carrying a ?tighter than normal? stop-loss level, and;**
- **We will quickly add negative hedges as necessary on any failure of support.●**

In [last week's missive](#) I updated our "pathway analysis" for the current changes to date.

\$SPX S&P 500 Large Cap Index INDX
25-May-2018

Open 2723.60 High 2727.36 Low 2714.99 Close 2721.33 Chg -6.43 (-0.24%)▼

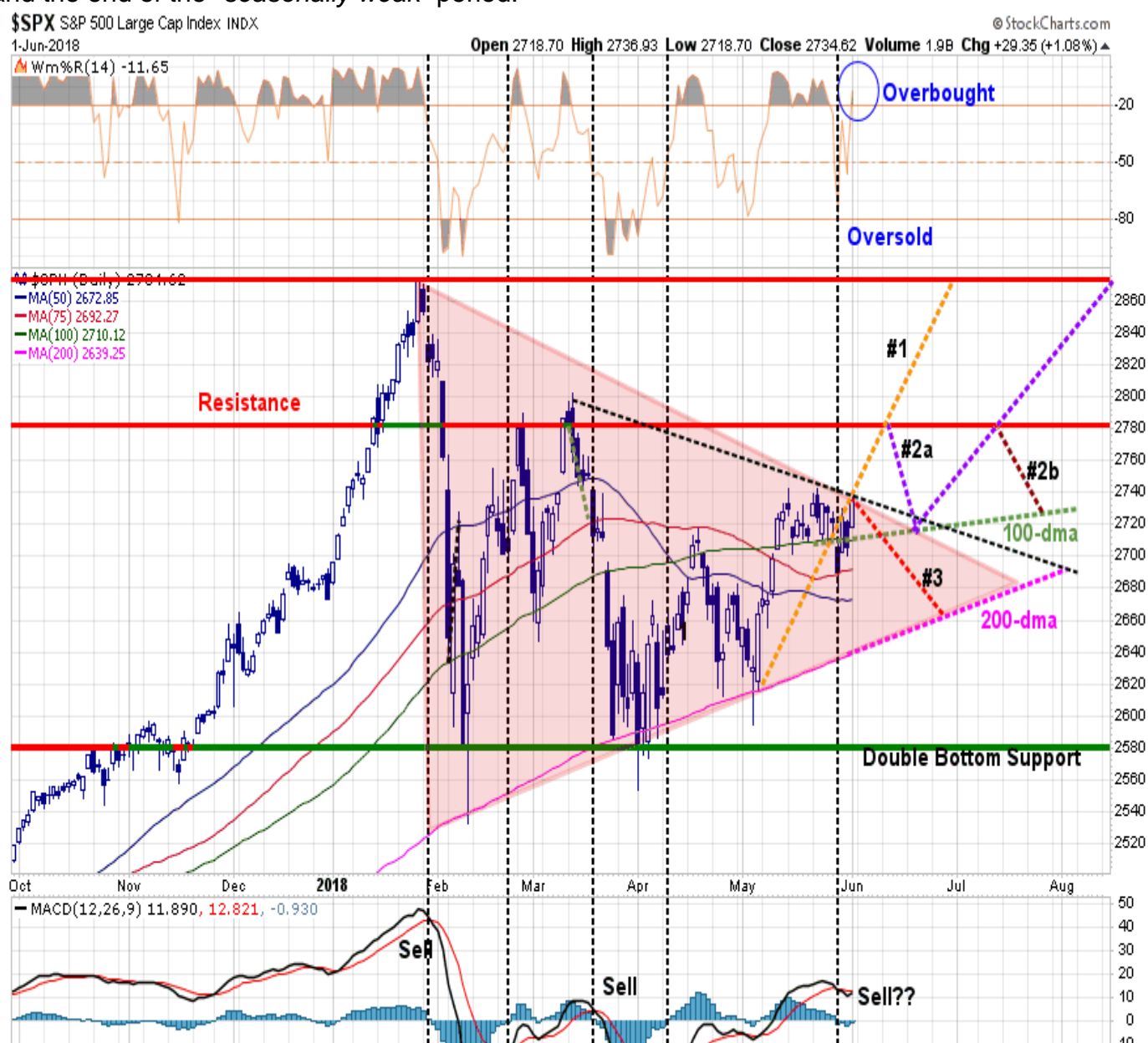


"As shown by the reddish triangle, the ongoing consolidation process continues. Eventually, this will end with either a bullish or bearish conclusion. There is no "middle ground" to be had here.

- **Pathway #1** - a breakout to the upside on heavy volume that pushes the market **through** resistance at 2780 and back to old highs. **(Probability 20%)**
- **Pathway #2a and #2b** - a breakout to the upside which fails resistance at 2780. The market then either a) retests the 100-dma and then is able to push to old highs, or, b) fails at 2780 a second time and continues the consolidation process through the summer. **(Probability 50%)**
- **Pathway #3** - the market breaks down next week on continued geopolitical worries, economic data or some unexpected catalyst and retests the 200-dma. **(Probability 30%)**

I have increased the more "bearish" probability from 20% last week to 30% this week given the potential triggering of a short-term "sell-signal." •(Lower panel)• If the market struggles next week, a triggering of that signal will increase the downward pressure on equity prices. **We will continue to hold our cash position until the market makes some determination as to its direction."**

While nothing has changed from last week in terms of "risk versus reward," the sideways action last week continues to elongate our pathways within the current consolidation process. As shown below the pathways are being pushed further out which coincides with a late summer conclusion and the end of the "seasonally weak" period.



The analysis of the pathways remains the same this week, in terms of the probabilities for the next potential move, **I have added the blacked dashed line from the March highs which provided resistance to the market's advance on Friday.** Despite the improvement of the markets on Friday, there has been little done to solve the issues that plagued the market this week.

- *Italy is still a problem*
- *The elected officials in both Spain and Italy are not particularly "EU" friendly with both recent appointments primarily anti-establishment officials.*
- *The "Trade War" is just starting to heat up with tariffs begin levied on multiple countries and products.*
- *China is still a "wild card" in the current negotiations.*
- *Deutsche Bank, as discussed below, is a major issue of concern.*
- *Fed continues to tighten monetary policy despite signs rates are already becoming problematic.*

I suspect these issues will likely bubble to the surface again over the next several weeks. **With the daily short-term "sell signal" registered on Thursday, and remaining so on Friday, it keeps our allocations on hold until next week.** While we have removed a bulk of our hedges, for now, we will be quick to add them back should the market begin to show signs of further deterioration. **As noted above, we are still giving a 70% weighting to a more bullish outcome for our holdings.** While there are those who wish to focus on the other 30% and proclaim we are bearish, I assure you we are not. **However, when it comes to investing, and the financial markets, nothing is a certainty.** Disregarding the potential for a negative outcome layers excessive risk into portfolios which can damage long-term returns. [As I penned previously:](#)

*"It should be obvious that an honest assessment of uncertainty leads to better decisions, but the benefits of Rubin's approach, and mine, goes beyond that. **For starters, although it may seem contradictory, embracing uncertainty reduces risk while denial increases it.** Another benefit of acknowledged uncertainty is **it keeps you honest.** 'A healthy respect for uncertainty and focus on probability drives you never to be satisfied with your conclusions.' It keeps you moving forward to seek out more information, **to question conventional thinking** and to continually refine your judgments and understanding that difference between certainty and likelihood can make all the difference.' We must be able to recognize, and be responsive to, changes in underlying market dynamics if they change for the worse and be aware of the risks that are inherent in portfolio allocation models. **The reality is that we can't control outcomes. The most we can do is influence the probability of certain outcomes which is why the day to day management of risks and investing based on probabilities, rather than possibilities, is important not only to capital preservation but to investment success over time.** As I have stated before, as a portfolio manager, **I am neither bullish or bearish.** I simply view the world through the lens of statistics and probabilities. My job is to manage the inherent risk to investment capital. **If I protect the investment capital in the short term ? the long-term capital appreciation will take of itself.** For those that wish to remain 'reading impaired,' there is always hope? as an investment strategy."*

The market continues to tread water currently. The current question is whether it can keep its head above water until it is rescued, or will fatigue finally drag it under.

Why Deutsche Bank Is Important...

I penned this on Friday, but it is important to understand. On Tuesday, the market tumbled on

concerns over Italian debt. (A problem, by the way, I discussed a couple of years ago.) However, on Wednesday, the market reversed course and apparently the crisis was over. Make no mistake, nothing was fixed or resolved, investors just chose to ignore the problem under the belief that Central Bankers will unite in some form of bailout. It isn't just Italian debt, which is magnitudes larger than Greece's debt crisis, but it is also Spain, and a host of other smaller European countries that continue to ramp up debt in hopes that economic growth will someday bail them out. However, sustained economic growth has failed to appear. As long as interest rates remain low, and negative in some cases, debt can continue to be accumulated even with weaker rates of economic growth. More importantly, as long as rates remain low, the banking system can continue to play the *hide-the-debt game* through derivatives, swaps and a variety of other means. But rates are rising, and sharply, on the shorter-end of the curve. **Historically, sharply rising rates have been a catalyst for a debt-related crisis.** As long as everything remains within the expected ranges, the complicated *math* behind trillions of dollars worth of financial instruments function properly. **It is when those boundaries are broken that things go wrong and quickly so.** People have forgotten that in 2008 a major U.S. financial firm crashed as its derivative based exposure *blew up*. No. I am not talking about Lehman Brothers. the poster-child of the financial



s stock went from \$159 to \$2,

Bear Stearns was the warning

shot for the financial markets in early 2008 that no one heeded. Within a couple of months, the markets dismissed Bear Stearns as a *non-event* and rallied to a higher level than prior to the event, and almost back to highs for the year. Remember, there was *nothing to worry about* at the time, even though the Fed was increasing interest rates, as the *Goldilocks economy* could handle tighter monetary policy. Sure, housing had been slowing down, mortgage delinquencies were rising, along with credit card defaults, but there wasn't much concern. **Today, we are seeing similar signs.** Interest rates are rising, along with delinquencies, defaults, and a slowing housing market. But no one is concerned as the *Goldilocks economy* can clearly offset these mild risks. And no one is paying attention to, what I believe to be, one of the biggest risks to the global financial markets **Deutsche Bank.**

DB Deutsche Bank AG NYSE

30-May-2018

DB (Daily) 11.57

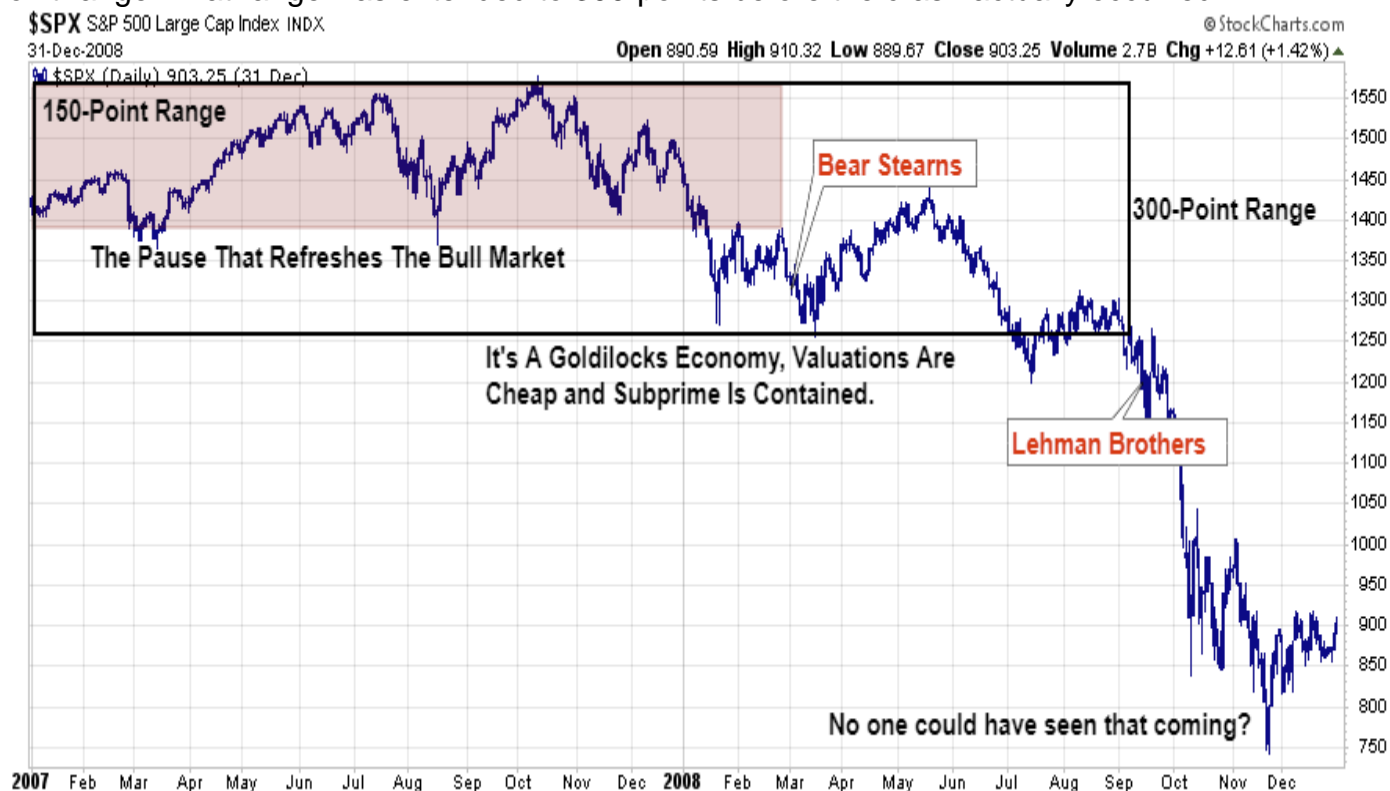
Open 11.51 High 11.62 Low 11.38 Close 11.57 Volume 10.3M Chg +0.27 (+2.39%)



Deutsche Bank is clearly showing signs of financial trouble. More importantly, it is magnitudes larger, in terms of derivative-based exposure, than Bear Stearns and Lehman Brothers combined. Bear Stearns and Lehman Brothers were not banks and did not hold deposits. As such, they posed significantly less risk to the financial system. As Doug Kass recently noted:

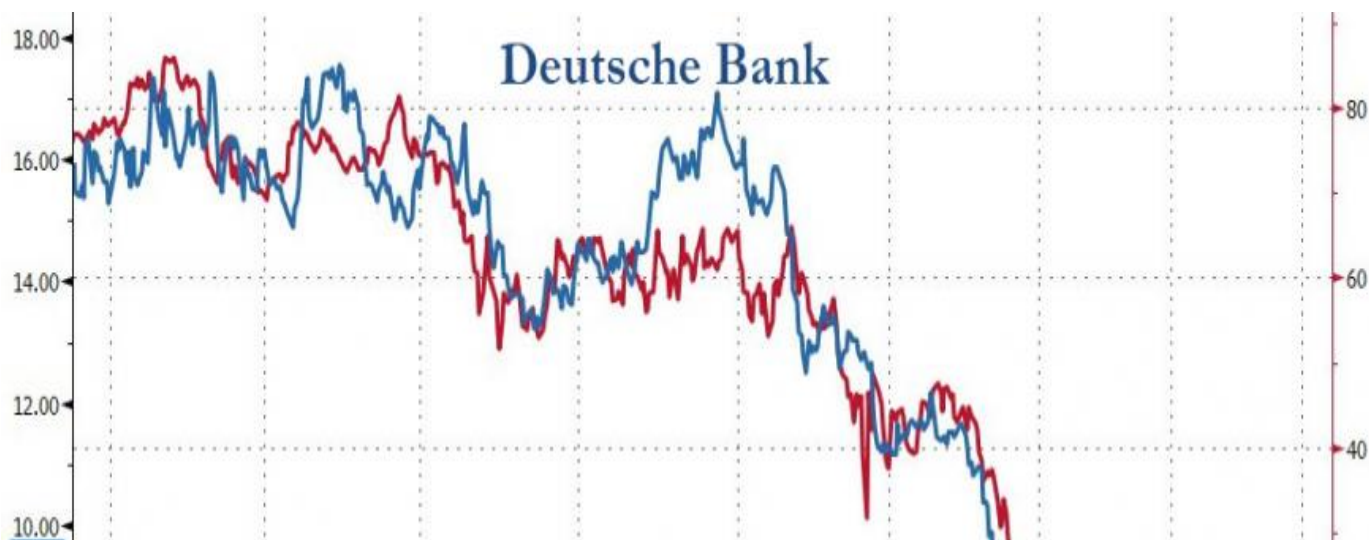
*?The collateral risks to Europe are large ? most notably to ECB and to Germany. In it?s extreme it could mean Italy separates from the rest of the EU. To me, as I have written in the past, Deutsche Bank is particularly exposed. But, to this observer, who has consistently warned about **Deutsche Bank being the next Black Swan** and the imbalances in the European banking system (particularly in Italy), the risks of a possible negative multiplier effect on other European financial intermediaries and on the region?s economic prospects is profoundly real.?*

Oh, and just one last chart. During 2007, and into 2008, the S&P 500 traded sideways in a 150-point range. That range was extended to 300-points before the crash actually occurred.



It was believed to be just a *pause that refreshes*.? Since January of this year, the S&P 500 has been trading in a 300-point range (similar in percentage terms to the period preceding Bear Stearns). It is also believed to just be a *pause that refreshes*.? Here is a chart from [Zerohedge](#) showing the overlay.

"And finally, there's this - probably nothing though..."



15-Risk Management•Rules

This is probably a good time to review the 15-risk management rules we employ in our process. •These rules are not new, or different, but they have been learned, and relearned, over my 30-year career. Why? Because I am human and every so often I let my emotions get the better of me. I hold a position too long, don't honor a stop as I should, or try to second guess my own analysis. Inevitably, more often than not, I am retaught one of the following lessons and reminded why they are important. **While our•fundamental, economic and price analysis forms the backdrop of overall risk exposure and asset allocation, the following rules are the•control boundaries?•for all specific actions.**

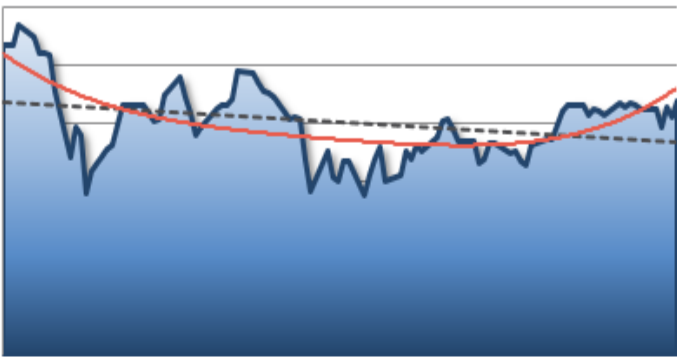
1. **Cut losers short and let winner?s run.***(Be a scale-up buyer into strength.)*
2. **Set goals and be actionable.***(Without specific goals, trades become arbitrary and increase overall portfolio risk.)*
3. **Emotionally driven decisions void the investment process.***(Buy high/sell low)*
4. **Follow the trend.***(80% of portfolio performance is determined by the long-term, monthly, trend. While a ?rising tide lifts all boats,? the opposite is also true.)*
5. **Never let a?trading opportunity?•turn into a long-term investment.***(Refer to rule #1. All initial purchases are ?trades,? until your investment thesis is proved correct.)*
6. **An investment discipline does not work if it is not followed.**
7. **?Losing money?•is part of the investment process.***(If you are not prepared to take losses when they occur, you should not be investing.)*
8. **The odds of success improve greatly when the fundamental analysis is confirmed by the technical price action.***(This applies to both bull and bear markets)*
9. **Never, under any circumstances, add to a losing position.***(As Paul Tudor Jones once quipped: ?Only losers add to losers.?)*
10. **Market are either?bullish?•or?bearish. ?•During a?bull market?•be only long or neutral. During a?bear market?•be only neutral or short.***(Bull and Bear markets are determined by their long-term trend as shown in the chart below.)*
11. **When markets are trading at, or near, extremes do the opposite of the?herd. ?**
12. **Do more of what works and less of what doesn?t.***(Traditional rebalancing takes money from winners and adds it to losers. Rebalance by reducing losers•and adding to winners.)*
13. **?Buy?•and?Sell?•signals are only useful if they are implemented.***(Managing a portfolio without a ?buy/sell? discipline is designed to fail.)*
14. **Strive to be a .700?at bat?•player.***(No strategy works 100% of the time. However, being consistent, controlling errors, and capitalizing on opportunity is what wins games.)*
15. **Manage risk and volatility.***(Controlling the variables that lead to investment mistakes is what generates returns as a byproduct.)*

Everyone approaches money management differently. This is just how we do it.
See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

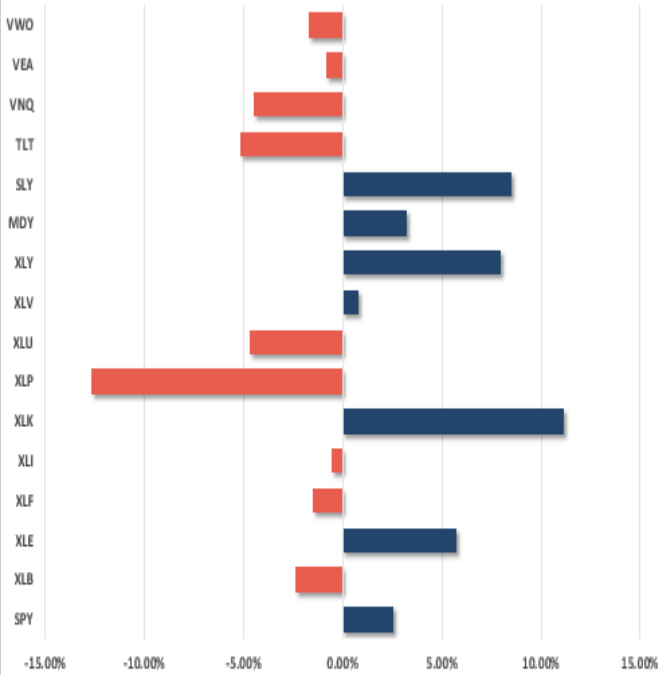
3 Month SPY Price							SPY RISK INFO						
							Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR		
							Price Return	30.12%	12.43%	2.53%	(79.67%)		
							Max Drawdown	-11.76%	-11.76%	-11.76%	0.00%		
							Sharpe	1.43	1.13	0.32	(0.72)		
							Sortino	1.58	1.27	0.36	(0.71)		
							Volatility	11.08	12.42	17.68	0.42		
							Daily VaR-5%	(1.07)	(4.12)	(21.83)	4.30		
							Mnthly VaR-5%	3.82	(0.41)	(24.57)	59.05		
S&P 500 Fundamental Analysis									S&P 500 Market Cap Analysis				
Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low	Item	12-M Ago	Current	% Chg	
Dividend Yield	2.04%	1.89%	1.83%	(3.11%)	2.17%	1.68%	(15.61%)	9.26%	Shares	2,443.6	2,413.8	(1.22%)	
P/E Ratio	18.29	21.03	20.06	(4.86%)	21.41	15.49	(6.3%)	29.49%	Sales	56,411	59,430	5.35%	
P/S Ratio	2.77	3.10	3.34	7.12%	3.52	2.16	(5.14%)	54.46%	SPS	23.1	24.6	6.65%	
P/B Ratio	3.19	3.55	3.87	8.31%	3.99	2.66	(2.93%)	45.77%	Earnings	7,508	8,353	11.25%	
ROE	15.24%	15.63%	16.59%	5.76%	16.59%	15.01%	0.00%	10.53%	EPS TTM	3.6	4.1	13.97%	
ROA	2.86%	2.91%	3.13%	7.30%	3.13%	2.83%	0.00%	10.92%	Dividend	1.4	1.5	8.53%	
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	15.87%	6.26%	1.06	32.01	154.49	12.41	(79.3%)	7.1%	2.8%	2.66%	3.36	19.35	
Materials	9.27%	2.85%	1.39	19.21	21.94	14.20	(12.4%)	10.2%	2.0%	4.91%	4.63	15.40	
Industrials	8.42%	9.97%	1.05	19.61	22.10	14.77	(11.3%)	14.8%	1.9%	5.10%	5.04	15.96	
Discretionary	16.82%	12.82%	1.08	24.49	25.42	19.77	(3.6%)	21.0%	1.3%	4.37%	4.24	19.03	
Staples	(12.19%)	6.68%	0.69	18.62	22.83	17.36	(18.4%)	24.6%	3.1%	5.23%	3.94	16.81	
Health Care	8.23%	13.95%	0.97	17.11	20.40	15.63	(16.1%)	26.6%	1.8%	5.67%	5.99	15.09	
Financials	16.22%	14.22%	1.21	15.85	18.47	11.67	(14.2%)	9.8%	1.7%	6.46%	5.31	12.83	
Technology	27.15%	25.78%	1.17	23.80	24.56	14.94	(3.1%)	30.1%	1.0%	4.38%	5.63	19.42	
Telecom	(10.79%)	1.80%	0.53	11.06	16.61	10.38	(33.4%)	18.7%	5.9%	9.60%	3.64	10.28	
Utilities	(7.71%)	2.77%	0.30	16.32	19.58	14.89	(16.7%)	11.0%	3.8%	5.79%	3.43	16.27	
Real Estate	(1.28%)	2.74%	0.70	18.24	24.39	17.61	(25.2%)	8.9%	3.6%	5.42%	3.86	16.97	
Momentum Analysis													
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell	
Large Cap	273.60	6.03%	267.23	18	2.39%	264.51	40	3.44%	1.03%	-4.55%	14.02%	Buy	
Mid Cap	356.54	6.69%	346.79	21	2.81%	340.63	44	4.67%	1.81%	-1.97%	16.03%	Buy	
Small Cap	144.34	10.02%	137.76	21	4.78%	133.29	190	8.29%	3.35%	-0.70%	23.13%	Buy	



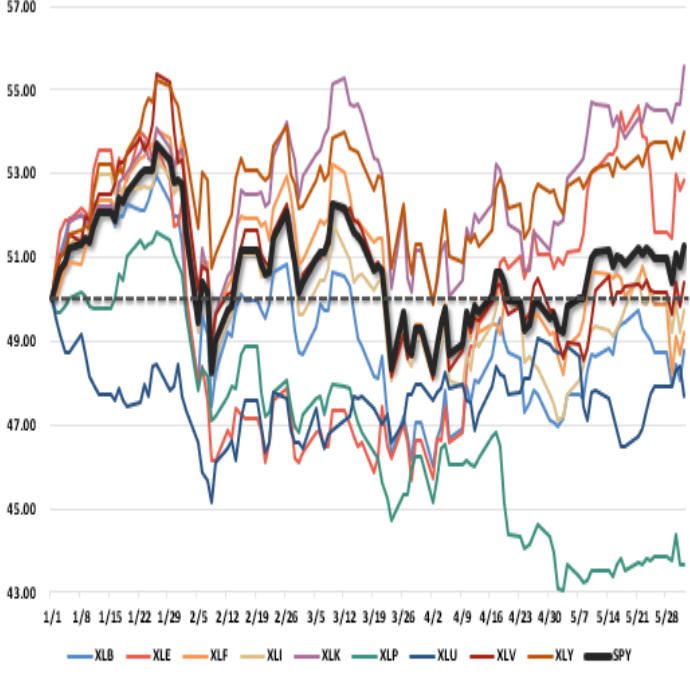
REAL INVESTMENT ADVICE

Performance Analysis

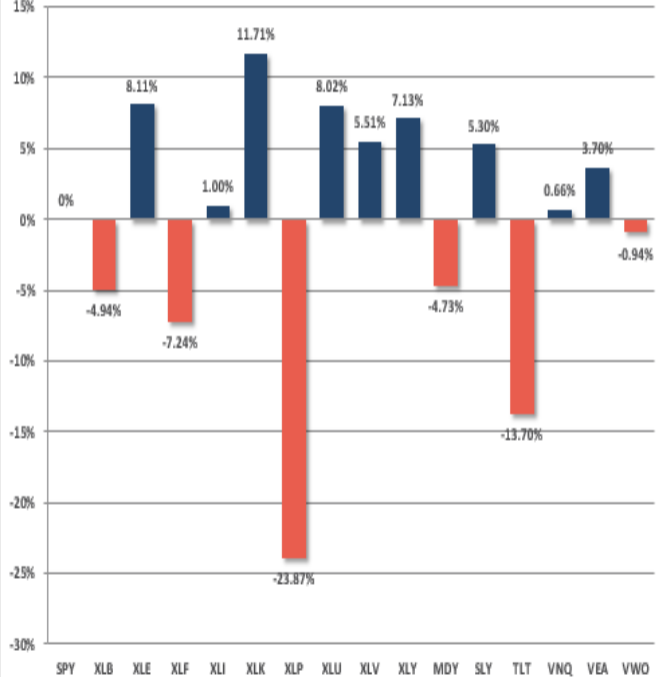
Year To Date Performance



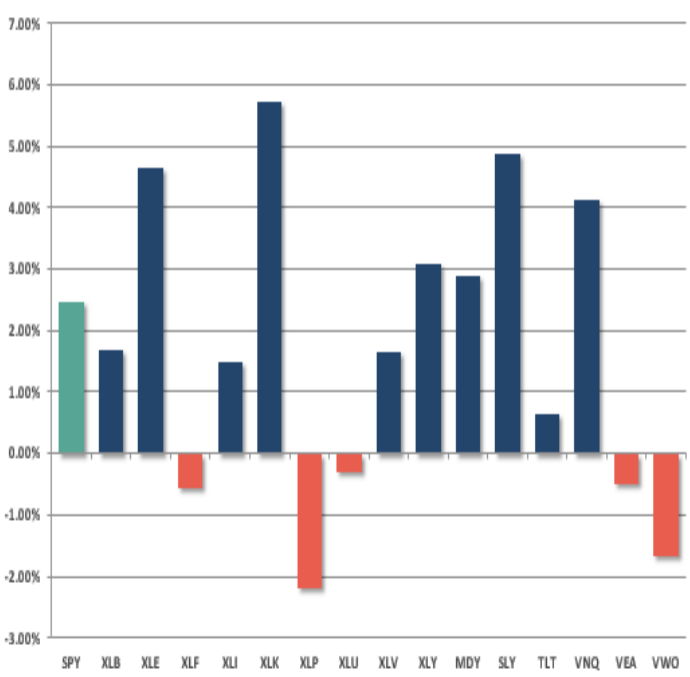
YTD Price - S&P Sectors Recalibrated To \$50/share



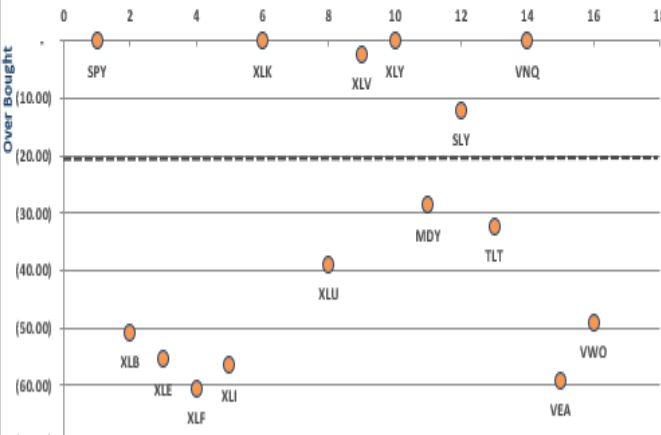
Year To Date Performance Relative To S&P 500



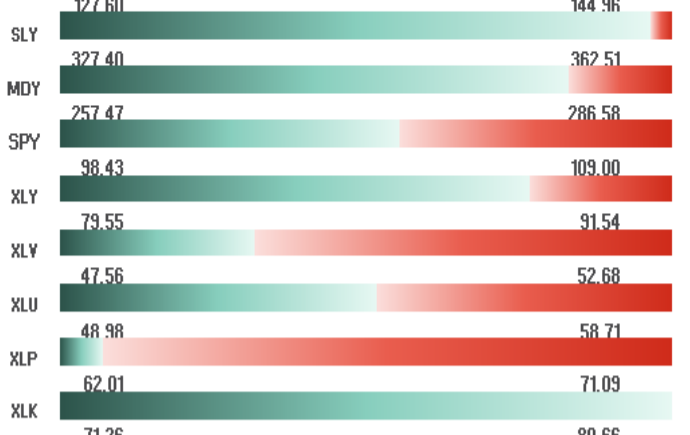
Price Deviation From 50-Day Moving Average



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	275.53	0.57	2.88	(1.88)	2.13	12.15	270.34	269.12	1.92%	2.38%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	59.07	(0.46)	(0.68)	(1.79)	(2.14)	(2.46)	58.44	59.42	1.08%	-0.59%	SELL
		XLE	SPDR-EGY SELS	76.38	1.85	0.55	13.47	9.02	5.19	71.81	70.92	6.36%	7.69%	BUY
		XLF	SPDR-FINL SELS	27.48	(1.89)	(2.11)	(5.59)	(3.31)	5.03	27.91	27.85	-1.56%	-1.33%	BUY
		XLI	SPDR-INDU SELS	75.26	(1.13)	1.27	(2.18)	(1.13)	(1.82)	74.64	74.82	0.83%	0.59%	SELL
		XLK	SPDR-TECH SELS	71.09	1.36	2.25	2.71	7.99	12.15	67.61	65.77	5.14%	8.08%	BUY
		XLP	SPDR-CONS STPL	49.66	(1.01)	(2.94)	(7.16)	(14.82)	(25.44)	51.37	53.91	-3.34%	-7.88%	SELL
		XLU	SPDR-UTIL SELS	50.21	(1.14)	(5.40)	3.52	(10.87)	(19.65)	50.22	51.84	-0.02%	-3.14%	SELL
		XLV	SPDR-HLTH CR	83.36	(0.06)	0.03	(1.76)	(2.55)	(4.48)	82.61	83.38	0.90%	-0.02%	SELL
		XLY	SPDR-CONS DISCR	106.54	(0.18)	(0.46)	2.17	6.62	3.35	103.68	100.59	2.76%	5.91%	BUY
	SIZE	MGK	VANGD-MG CAP GR	119.34	0.58	0.98	1.49	4.16	4.56	115.17	113.32	3.62%	5.32%	BUY
		IJR	ISHARS-SP SC600	83.41	0.53	2.93	6.39	6.72	7.05	79.38	77.53	5.07%	7.59%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	102.16	(0.36)	(0.54)	0.19	(0.31)	(2.32)	100.73	100.45	1.42%	1.70%	BUY
	Dividend	VIG	VANGD-DIV APPRC	102.90	(0.35)	0.25	(0.45)	(1.24)	(2.79)	101.62	101.27	1.26%	1.61%	BUY
	Real Estate	VNQ	VIPERS-REIT	79.24	1.38	(0.36)	6.73	(8.99)	(17.22)	75.97	79.09	4.31%	0.19%	SELL
	International	IDV	ISHARS-INTL SD	33.15	(1.20)	(5.49)	(0.07)	(3.02)	(13.32)	33.62	33.77	-1.39%	-1.83%	SELL
		VWO	VANGD-FTSE EM	45.11	(0.70)	(3.08)	(4.97)	(0.60)	(2.58)	46.30	46.24	-2.56%	-2.44%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	120.30	0.00	(1.78)	3.91	(8.40)	(16.39)	119.42	122.18	0.74%	-1.54%	SELL
	International	BNDX	VANGD-TTL INT B	54.37	(0.75)	(3.32)	2.20	(3.74)	(12.56)	54.50	54.54	-0.23%	-0.31%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	85.19	(1.00)	(3.15)	0.86	(4.44)	(15.98)	85.61	86.66	-0.50%	-1.69%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.06										

REAL INVESTMENT ADVICE

Sector & Market Analysis:

As noted above, the consolidation continues. As earnings season comes to its conclusion, the market will turn its focus to the economic and geopolitical backdrop which has been less optimistic as of late. We remain invested but our caution levels remain elevated.



Discretionary stocks have been leading the market as of late. However, as we noted last week, pay close attention to the price compression currently forming. A downside break could lead to a rather sharp decline, so taking some profits from the sector remains advisable. **Energy** led the decline last week as oil prices pushed fell back below \$70/bbl. We got a bit of a bounce in the sector last week which is likely a good opportunity to harvest profits currently. As stated last week, we are likely not done with the correction yet particularly if the dollar continues to strengthen. **Technology** is currently testing a double top from March of this year. A breakout here could be bullish for the sector, a failure will potentially be more problematic. We continue to carry an overweight position to the sector and will look to broaden exposure if a breakout does occur. **Financials, Industrials, Materials, and Health Care** held above their respective 50-dma's again last week and continue to consolidate. Materials and Health Care are currently the least attractive of the group with their respective 50-dma's below their 200-dma's. Remain underweight these two sectors for now. **Staples** continue to languish and under-perform. We are still watching the sector for a sector rotation play, but it still remains too soon to add staples just yet. We are watching closely particularly as we move further into the summer months. **Utilities** had a nice rally last week back above its 50-dma as money rotated into the Utilities (and Bonds) on a "risk off" trade. We remain out of the sector for now, but the rally last week has caught our attention. We need some confirmation of sustainability and we will continue to watch for an opportunity.



Small-Cap and Mid Cap continue to lead performance overall. After small caps broke out of a multi-top trading range, we now need a pull-back to add further exposure. While Mid-cap stocks have not broken out to all-time highs, a pullback that doesn't violate support will also provide a better opportunity to increase exposure. After a strong push over the last few weeks, rebalance back to core weightings and look for a more opportunistic entry point in the future. **Emerging and International Markets** remain lackluster in terms of performance currently. We previously removed

our holdings in these markets and remain domestically focused at the moment. We will continue to monitor performance for an opportunity if it presents itself. Emerging markets, in particular, continue to lag due to a rising dollar and weak economic growth globally. Industrialized International is performing better but not by much. Remain domestically focused to reduce the drag on overall portfolio performance. **Dividends and Equal weight** continue to hold their own and we continue to hold our allocations to these "core holdings." **Gold** as noted last week, gold failed to hold important support at the 200-dma. **We currently do not have exposure to gold and have been out for a long time.** We previously suggested that *"if you are already long the metal hold for now. \$123 on GLD is a hard stop and profits should be harvested on any failed rally back to the 200-dma."* Gold rallied and failed at the 200-dma. Take profits on positions, and lower your stop to last week's bottom at \$122. **Bonds and REITs** were the big winners last week. Just about the time you see articles declaring the "bond bull" dead, it is usually time to start buying interest rate sensitive sectors. We remain out of trading positions currently, but remain long "core" bond holdings mostly in floating rate and shorter duration exposure. REIT's are much more interesting now with a break back above their 200-dma. With the sector back on a "buy signal" short-term we will look for an opportunity to add REIT's back into our portfolios. The table below **shows thoughts on specific actions related to the current market environment.**

(These are not recommendations or solicitations to take any action. This is for informational purposes only related to market extremes and contrarian positioning within portfolios. Use at your own risk and peril.)



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

LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING X No Position

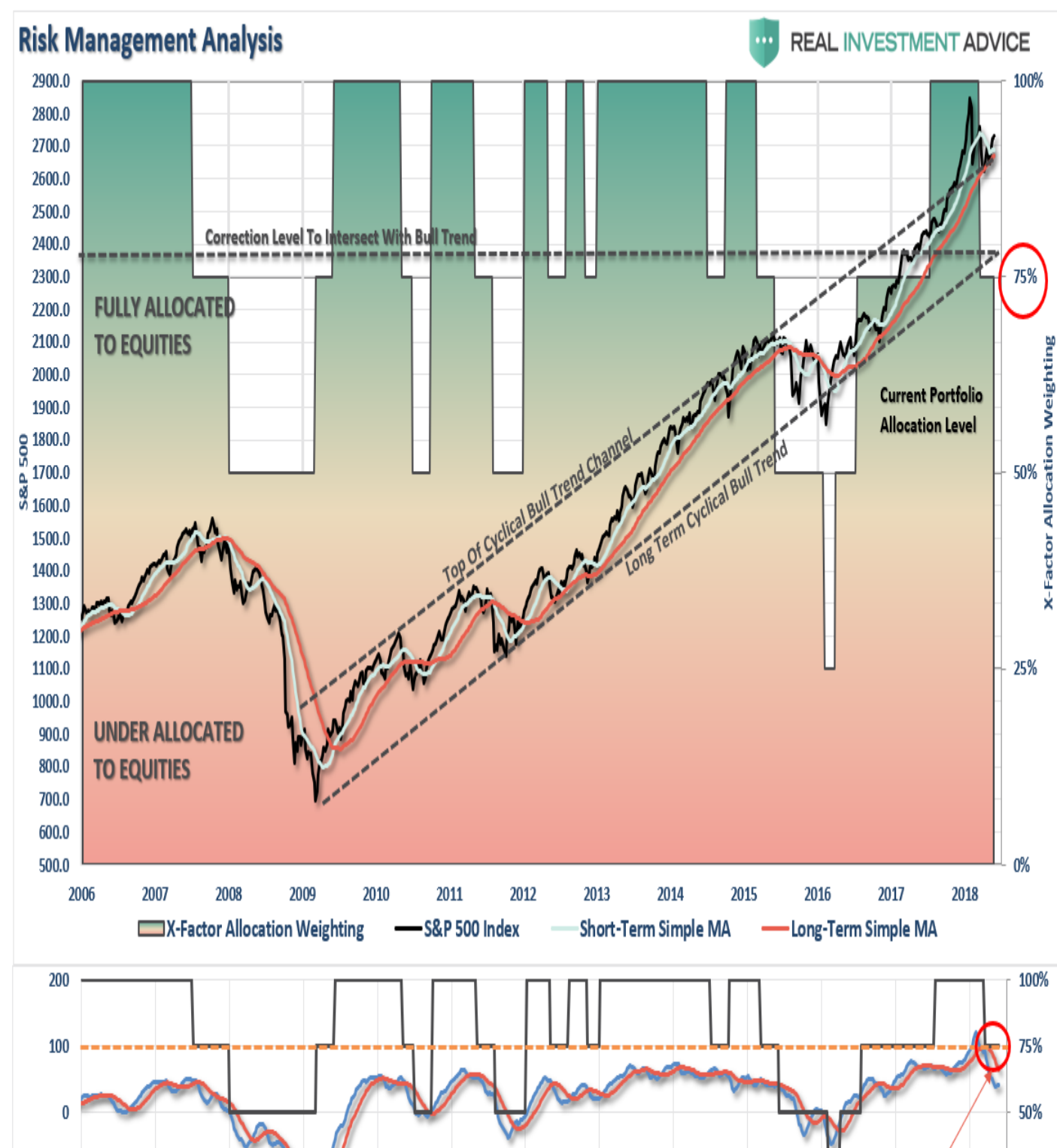
Portfolio/Client Update:

Nothing much changed as of last week, as markets still remain tightly range bound. The weakness

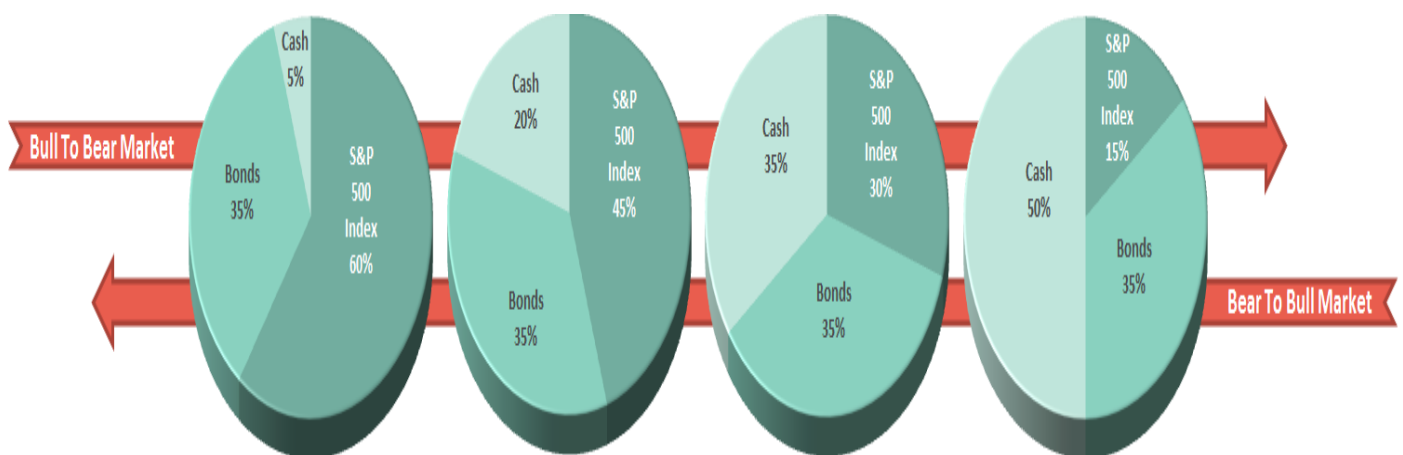
in the market hasn't violated any support, and we are still looking for an opportunity to average into our positions. However, as stated in the main missive above, we are acutely aware of the rising geopolitical, economic and rate risks that are currently prevalent in the market. The recent pickup in price volatility has historically not been a good intermediate-term indicator of more bullish future price action. As such we continue to carry an overweight position in cash, we remain underweight in equities and market weight in fixed income. We have also taken action to shorten our bond-duration, add floating-rate holdings and minimize rate-related risk as much as possible. **We remain keenly aware of the intermediate-term "sell signal"** and we will continue to take actions to hedge risks and protect capital until those signals are reversed.

THE REAL 401k PLAN MANAGER

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



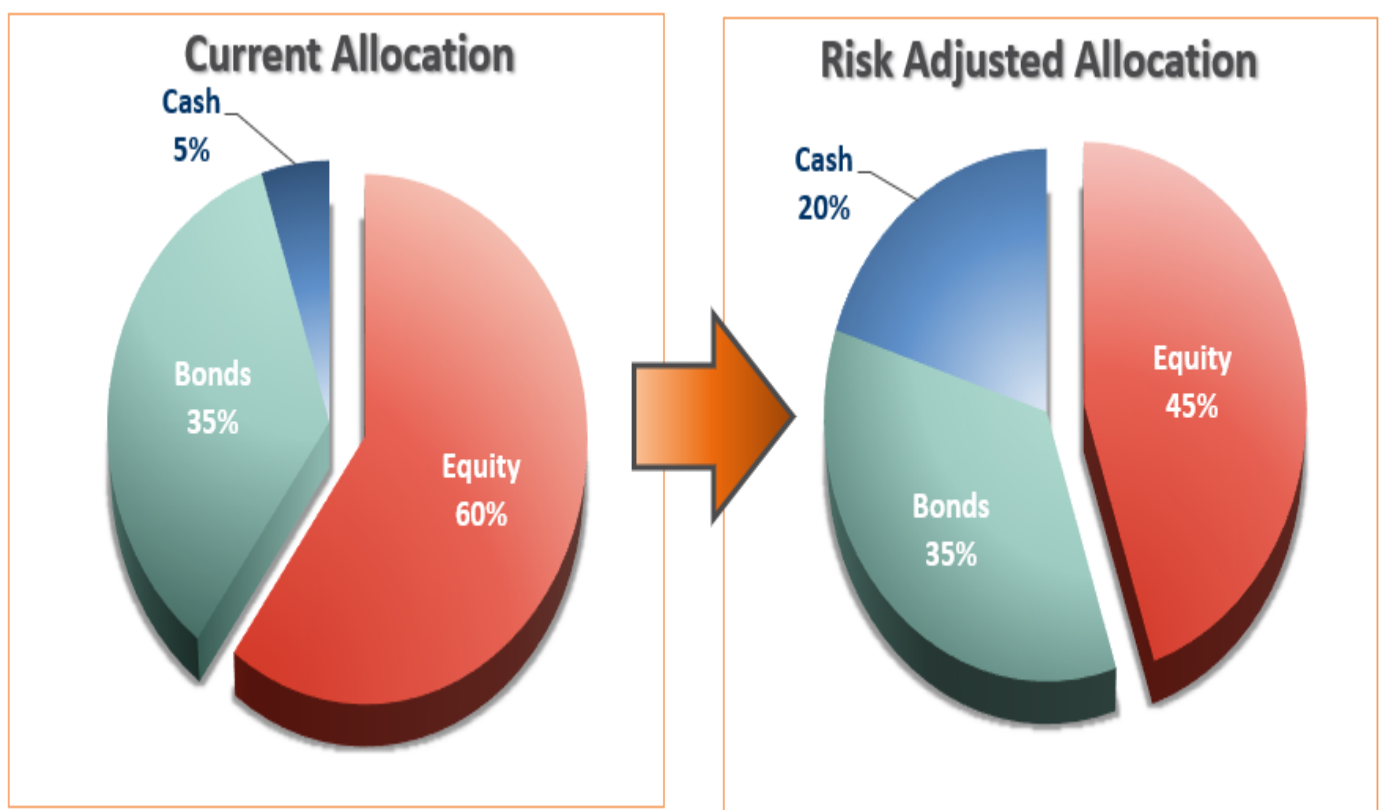
There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative to a positive trend.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



Back Where We Started

Another week where nothing changed much in the market. This has been a similar refrain over the last few weeks as the market continues to consolidate within a very defined range. I wish I had more to say, but the reality is that "sell signals" on a longer-term basis remain intact currently which keeps cash levels elevated. Until the market breaks out of the current consolidation process, and gives some evidence of the ability to push higher, we suggest continuing to remain more cautiously allocated in the near term. Since 401k plans have limited options, and restricted trading, we work from a more macro, risk-adjusted, allocation structure. For new readers, our current advice remains the same as we have posted over the last several weeks:

"Currently, our model remains underweight equities at the moment as we have to respect both of the 'sell signals' that currently remain intact as shown above. We also try to remain cognizant of the 'trading restrictions' that exist in most 401k-plans. Over the last couple of months, we have been recommending to reduce equity allocations as follows."



"If you have already reduced equity exposure, just sit tight this week and let's see what happens."

This week, the instructions continue to remain the same.

- If you are new to reading the newsletter **or have NOT taken** any previous actions **or are overweight equities** in your plan - **Do nothing**.
- If you are **slightly underweight equities** in your plan - move to the **RISK ADJUSTED** allocation model.
- If you are **very underweight equities** in your plan - move 50% of the way toward the **RISK ADJUSTED** model.

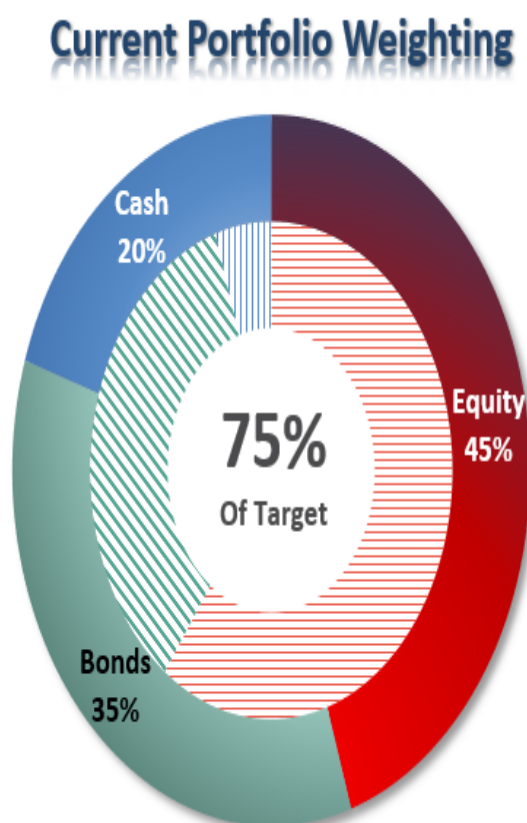
I know, it's boring.

But sometimes, *"doing nothing"* is the better course of action than *"doing something"* that turns out to be wrong.

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	
20.00%	Cash + All Future Contributions <i>Primary concern is the protection of investment capital</i> Examples: Stable Value, Money Market, Retirement Reserves
35.00%	Fixed Income (Bonds) <i>Bond Funds reflect the direction of interest rates</i> Examples: Short Duration, Total Return and Real Return Funds
45.00%	Equity (Stocks) <i>The vast majority of funds track an index. Therefore, select on ONE fund from each category. Keep it Simple.</i> 10% Equity Income, Balanced or Conservative Allocation 30% Large Cap Growth (S&P 500 Index) 0% International Large Cap Dividend 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	<i>Stable Value Money Market Retirement Savings Trust Fidelity MIP Fund G-Fund Short Term Bond</i>	Equity	Large Cap <i>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</i>
Fixed Income	<i>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</i>	Balanced Funds <i>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</i>	
International	<i>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.</i>	Small/Mid Cap <i>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</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.

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