RIA Advice

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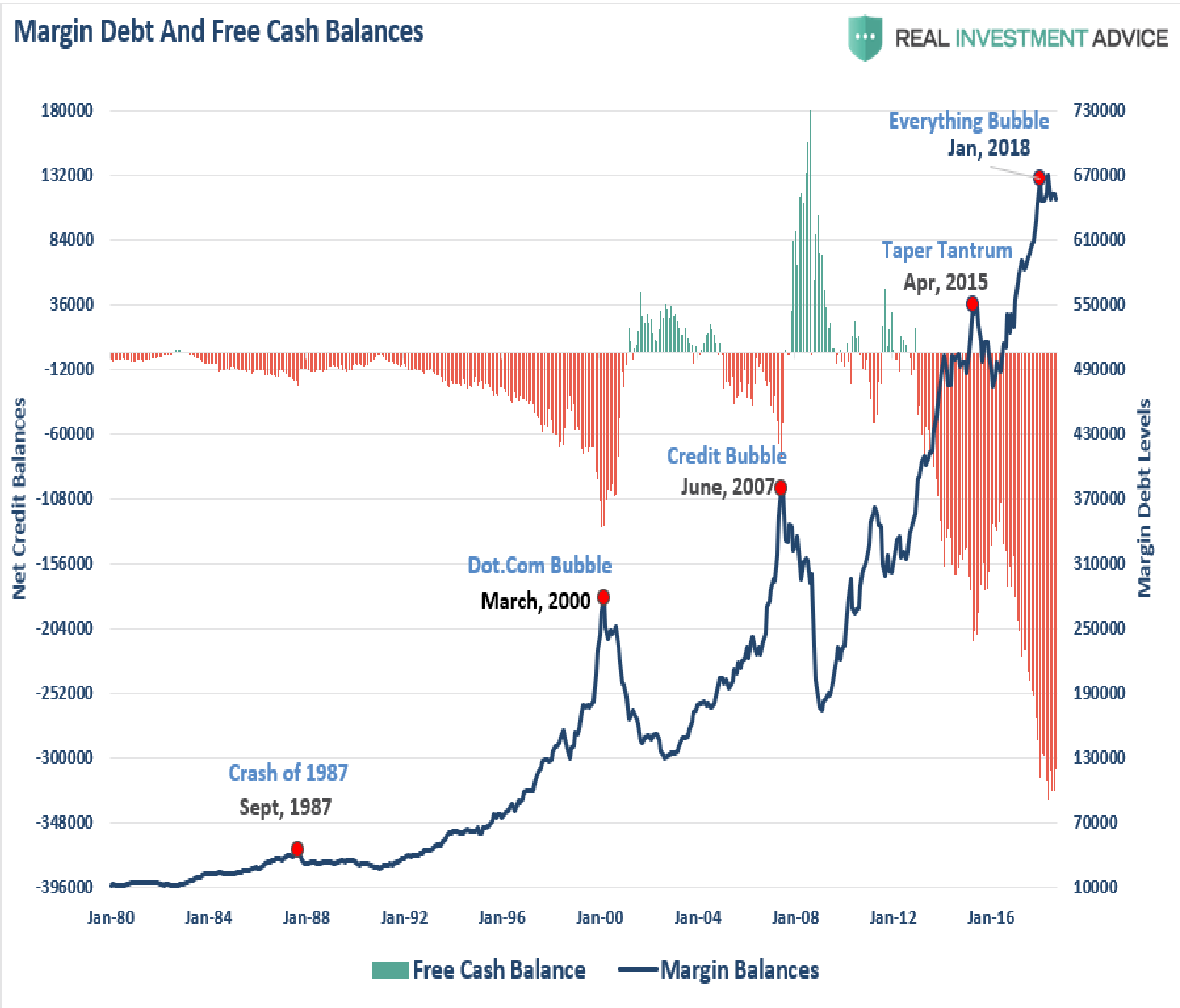
Bear Market Growl Grows Louder

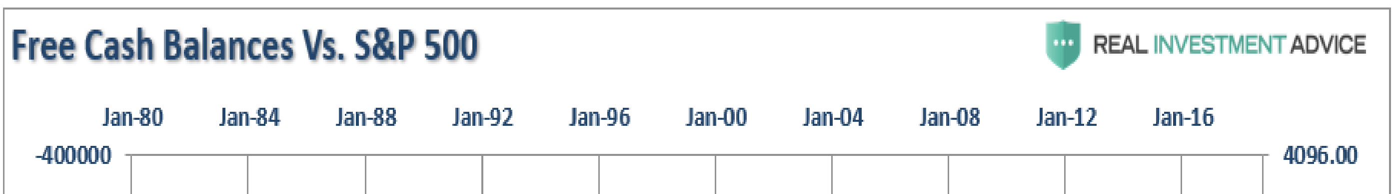
Several months ago, I penned an article about the problems with "passive indexing" and specifically the problem of the *"algorithms"* that are driving roughly 80% of the trading in the markets. To wit:

> *"When the 'robot trading algorithms'• begin to reverse (selling rallies rather than buying dips),•it will not be a slow and methodical process, but rather a stampede with little regard to price, valuation, or fundamental measures as the exit will become very narrow."*

Fortunately, up to this point, there has not been a triggering of margin debt, as of yet, which remains the *"gasoline"* to fuel a rapid market decline. As we have discussed previously, margin debt *(i.e. leverage)* is a double-edged sword. It fuels the bull market higher as investors *"leverage up"* to buy more equities, but it also burns *"white hot"* on the way down as investors are forced to liquidate to cover margin calls. **Despite the two sell-offs this year, leverage has only marginally been reduced.**

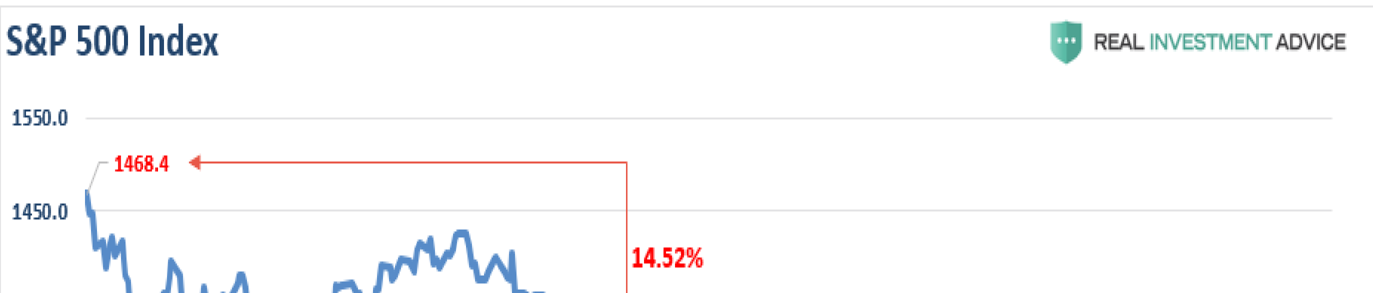


If you overlay that the S&P 500 index you can see more clearly the magnitude of the reversions caused by a *"leverage unwind."*



The reason I bring this up is that, so far, the market has not declined enough to *"trigger"* margin calls. At least not yet. **But exactly where is that level?**•There is no set rule, but there is a point at which the broker-dealers become worried about being able to collect on the *"margin lines"* they have extended. My best guess is that point lies somewhere around a 20% decline from the peak. The correction from intraday peak to trough in 2015-2016 was nearly 20%, but on a closing basis, the draft was about 13.5%. The corrections earlier this year, and currently, have both run close to 10% on a closing basis.

My best guess is that if the market breaks the October lows, which given the current state of the market is a very high probability, we will likely see an accelerated *"sell off"* as the realization a *"bear market"* starts to set in. If the such a decline triggers a 20% fall from the peak, which is around 2340 currently, broker-dealers are likely going to start tightening up margin requirements and requiring coverage of outstanding margin lines. This is just a guess...it could be at any point at which *"credit-risk"* becomes a concern. The important point is that "when" it occurs, it will start a *"liquidation cycle"* as "margin calls" trigger more selling which leads to more margin calls. This cycle will continue until the liquidation process is complete. The last time we saw such an event was here:



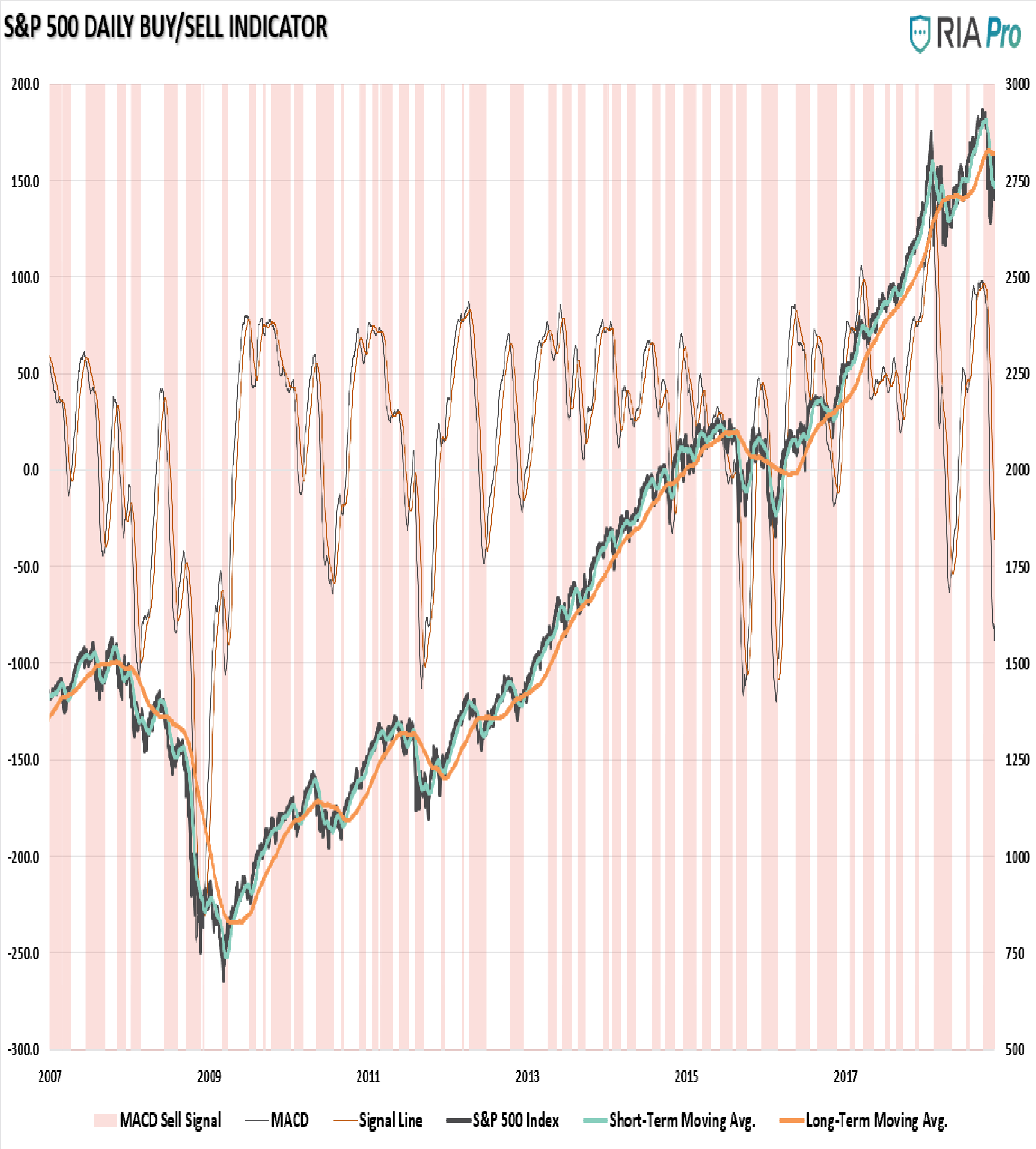
Notice that from January 1st through September of 2008 the market had already declined from the peak by 14.5%. This *"slow-bleed"* decline was dismissed by the bullish media as we were in a *"Goldilocks economy:"*

- *There was no sign of recession*
- *Rates were rising due to a strong economy.•*
- *Earnings expectations were high and expected to continue to expand bringing "Forward P/E ratios" down to historical norms.*
- *Economic growth was robust and expected to accelerate in the next year.*
- *Global growth was expected to pick back up.*

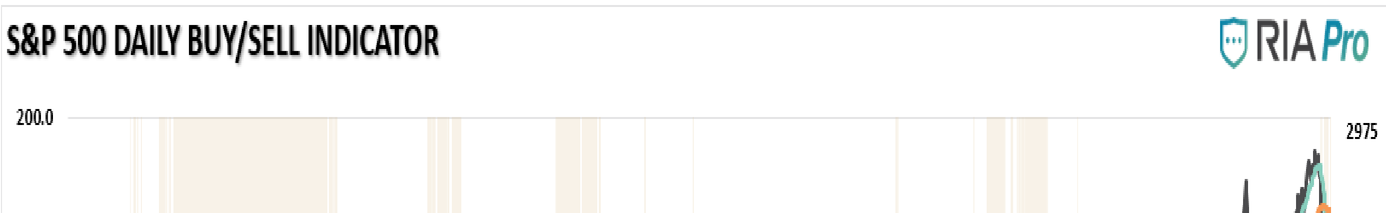
Sound familiar? Then, the *"Lehman moment"* occurred and the world changed and the realization we were in a recession would occur 3-months later. From the end of September to March of 2009, the market lost an additional 46.1%. The bulk of the at loss occurred quickly as banks and brokerage firms scrambled to pull in margin lines. The selling was relentless. It was also where many individuals found out there is a point where portfolios become an *"Imported Rug Store"* and *"Everything Must Go."*•This is the problem with *"margin debt."* This is why we continue to urge caution. The *"bear market"* in stocks is growling more loudly. **Last week, we further reduced equity risk further bringing exposures down to just 43% of our portfolios. On a rally to the 200-dma which fails, we will reduce risk more.**

Daily View

This week we are going to review our primary buy/sell indicator charts for the S&P 500.• As shown below, **the daily chart is much more noisy in terms of signals and is meant for more short-term trading activity.** However, what is important is the signals are fairly good *(pink shaded bars)* •at catching downturns in the market and suggesting a reduction in overall risk exposure. That is the case once again over the last month.



We can slow the signals down reducing the signal to just breaks of the long-term moving average. Once again we see a fairly consistent ability to navigate the more important downturns in the market. Importantly, the sell-off in January did NOT violate the long-term moving average and therefore did not register a sell-signal. **However, the current sell-off just triggered that signal to reduce equity risk this past week.•**



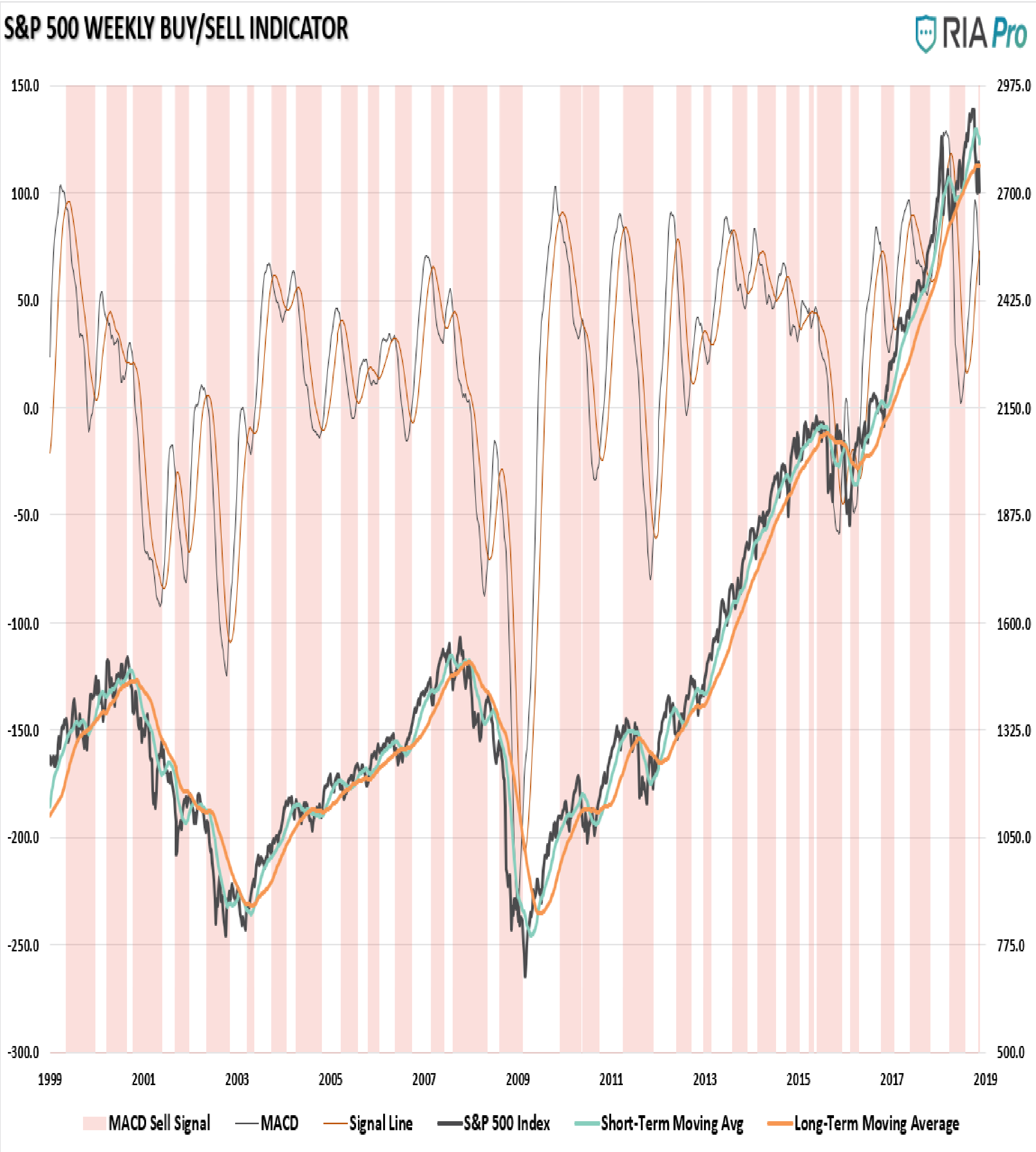
Action: *•After reducing exposure in portfolios previously, we reduced risk further this past week.* ***Sell weak positions into any market strength on Monday.***

Weekly View

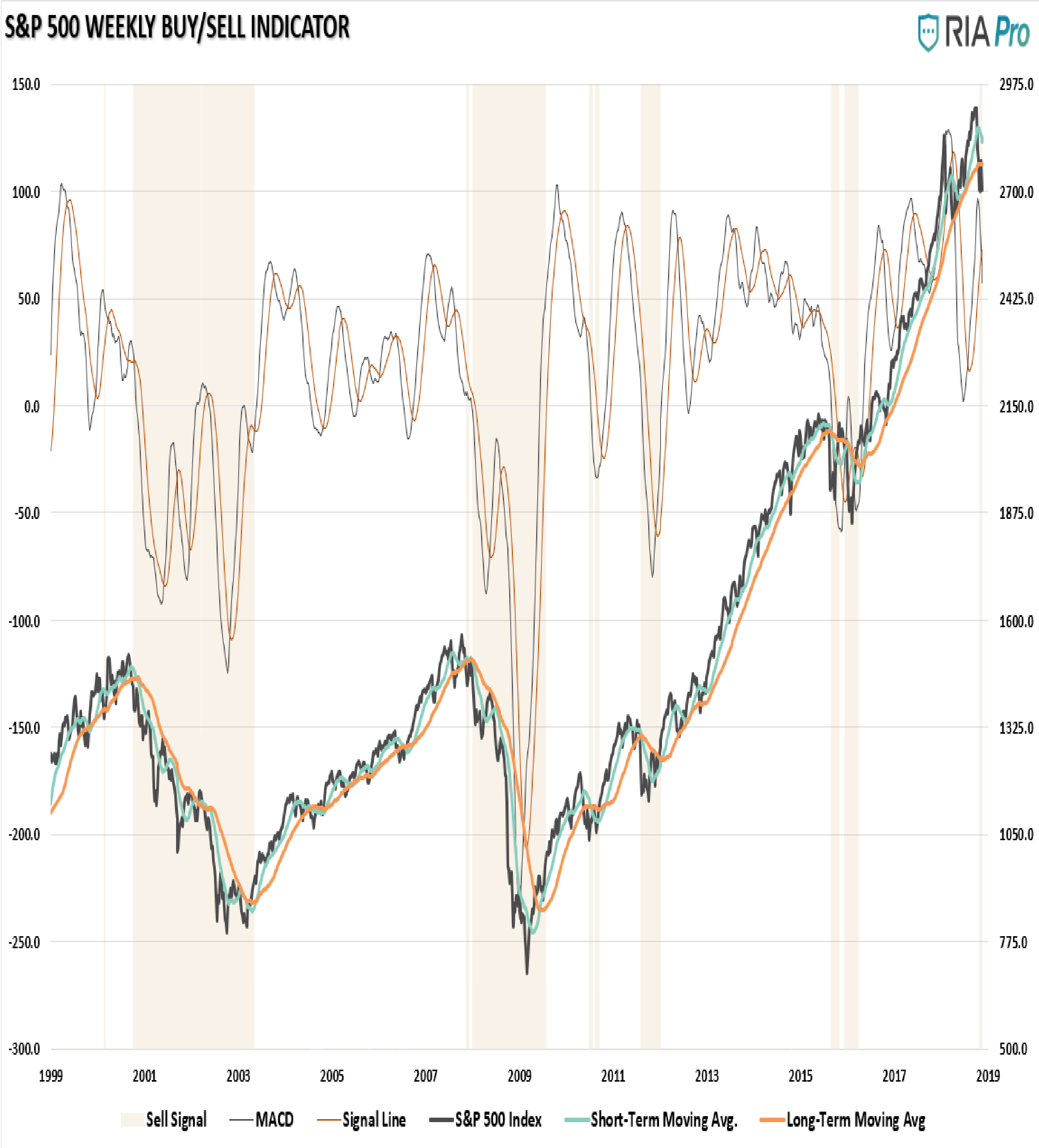
Since we prefer longer-term holding periods for our positions, we prefer to use weekly and monthly price periods as it reduces the number of• signals significantly. **This allows us to capture the trends of the market while still managing to protect capital from more significant declines.**

> *(Note: this does not mean we will miss ALL the declines. It simply means we will avoid the risk of a more substantial decline should one occur. We are NOT "market timers" but rather "risk managers.")*

As shown below, on a weekly basis, a *"sell signal"* has been registered for the second time this year suggesting that investors reduce equity risk in portfolios.



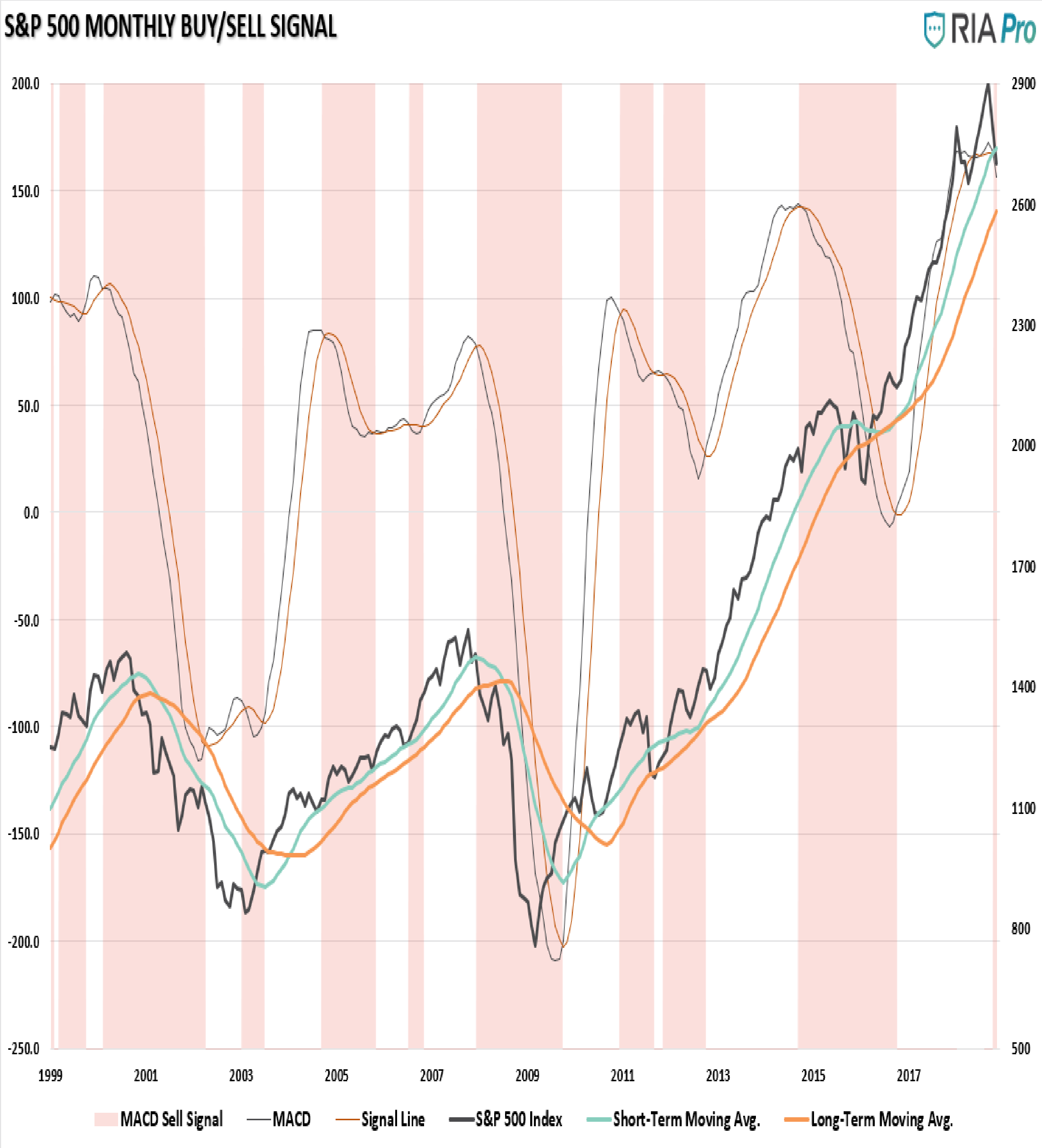
Again, we can reduce the number of signals further by using a confirmed cross of a long-term moving average. This process keeps portfolios primarily allocated toward equity risk over long periods of time. When *"sell signals"* occur, they tend to be important to pay attention to. This past week a *"sell signal"* was issued.



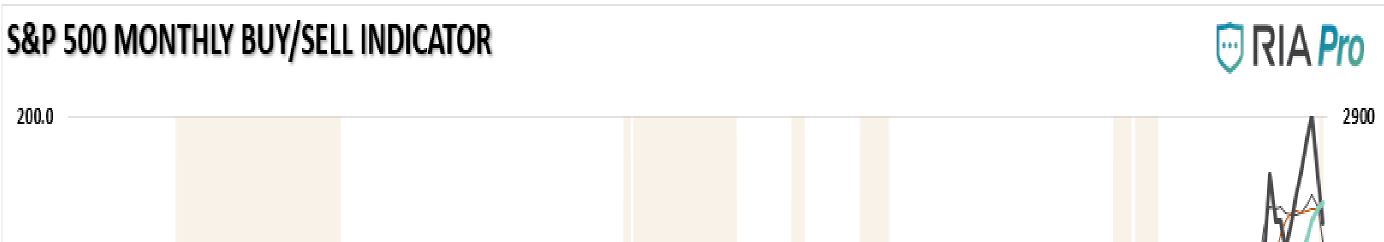
I want to caution you that by the time longer-term sell signals are issued, the market tends to be more extremely oversold and due for a reflexive bounce. In 2015, we saw a significant bounce that was worth selling into before the next decline in 2016. It was the intervention of the global Central Banks in 2016 that kept a *"bear market"* from most likely ensuing. Today, Central Banks are extracting liquidity and show no intent in coming to markets rescue. It is likely wise to use any bounce over the next few weeks to reduce risk and raise cash. **Action:** *Sell weak positions into any strength next week.*

Monthly View

Moving back to a monthly view, signals become much slower and much more important. **However, signals are ONLY VALID on the 1st trading day of each month.**•Therefore, while the markets have registered a monthly signal as of this week, it will ONLY be valid if the markets fail to rally enough to reverse it by the end of the month.



Nonetheless, the deterioration in the markets is extremely concerning and by slowing the signals down further to crosses of very long-term moving average, the risk to investors becomes much clearer.



Action: *Reduce risk on rallies, as detailed above, and look to add hedges.* **As always, the messages being sent by the market are more than just concerning and DO suggest, as we have stated on the last couple of weeks, that the bull market has indeed ended for now.** It is make or break for the markets over the next couple of weeks. If the markets fail to rally, more important long-term *"sell signals"* will be triggered which will likely suggest further declines in the markets are in the offing. Of course, with a Fed bent on continuing to lift interest rates, earnings showing real signs of deterioration, ongoing trade wars and tariffs, continued reductions in Central Bank liquidity, and corporations curtailing share buybacks - the market appears to be finally starting to *"run on empty."* Next week, we will look to raise more cash and add hedges on any failed rally attempt at the 200-dma for now.

As always, we will keep you apprised of what we are thinking. You can also follow our actual portfolio models and positioning at RIA PRO. **See you next week.**

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	25.64%	5.84%	2.57%	(55.94%)
Max Drawdown	-11.76%	-11.76%	-11.76%	0.00%
Sharpe	1.21	0.53	0.17	(0.68)
Sortino	1.31	0.62	0.19	(0.69)
Volatility	11.34	14.51	15.33	0.06
Daily VaR-5%	(3.81)	(14.10)	(20.74)	0.47
Mnthly VaR-5%	0.39	(12.23)	(17.56)	0.44

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	2.03%	1.82%	1.89%	3.86%	2.16%	1.67%	(12.50%)	13.58%
P/E Ratio	19.19	20.80	17.81	(16.79%)	20.78	16.70	(14.3%)	6.60%
P/S Ratio	2.81	3.27	3.19	(2.26%)	3.50	2.32	(8.83%)	37.46%
P/B Ratio	3.21	3.65	3.89	6.30%	4.15	2.82	(6.25%)	37.85%
ROE	15.09%	15.91%	18.14%	12.26%	18.14%	15.01%	0.00%	20.83%
ROA	2.82%	2.97%	3.43%	13.24%	3.43%	2.82%	0.00%	21.32%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,444.7	2,424.8	(0.81%)
Sales	57,858	62,397	7.85%
SPS	23.7	25.7	8.73%
Earnings	7,804	9,216	18.09%
EPS TTM	3.7	4.6	23.34%
Dividend	1.4	1.5	9.42%

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	(0.40%)	5.50%	1.11	19.05	158.73	12.53	(88.0%)	9.0%	3.2%	6.18%	4.48	13.19
Materials	(4.33%)	2.63%	1.43	15.62	22.14	13.94	(29.4%)	11.4%	2.1%	6.55%	4.71	13.54
Industrials	0.45%	9.44%	1.06	17.21	22.19	14.77	(22.4%)	15.2%	2.1%	6.09%	5.17	14.85
Discretionary	15.97%	9.94%	0.90	22.98	27.47	19.96	(16.4%)	27.9%	1.3%	4.62%	4.61	20.11
Staples	(0.17%)	7.44%	0.54	19.64	22.83	17.43	(14.0%)	26.0%	2.9%	5.35%	3.90	18.43

Performance Analysis

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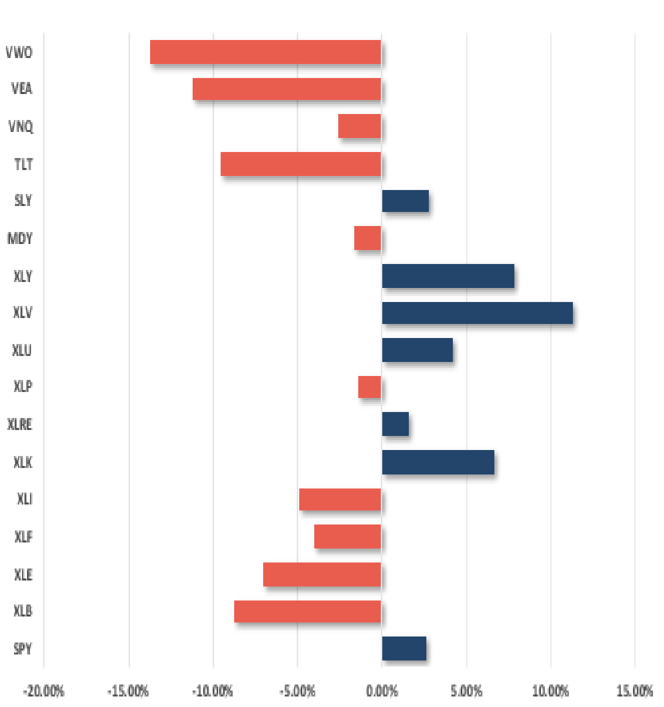
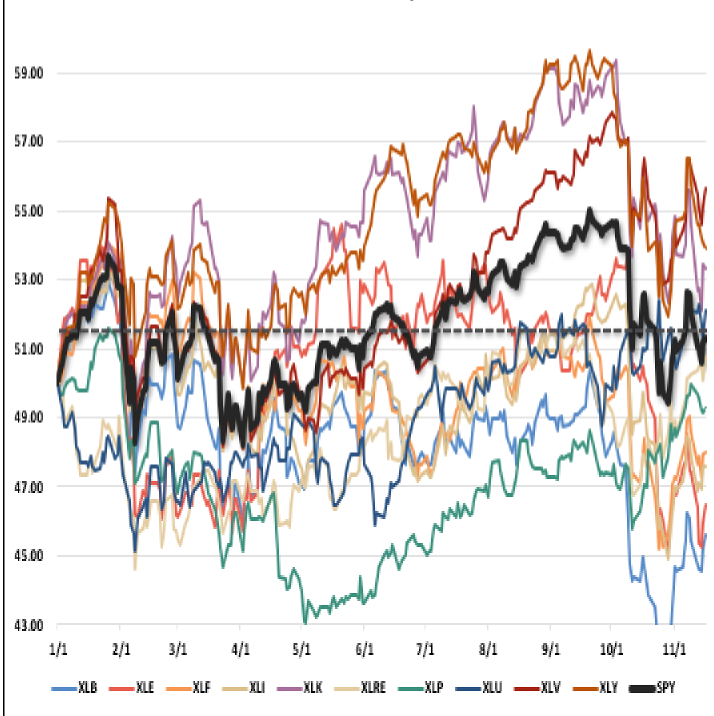
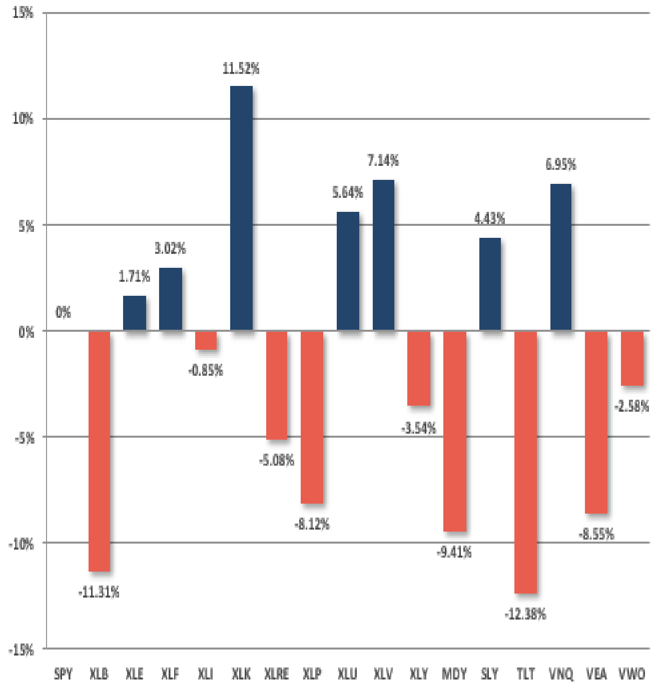
Year To Date Performance



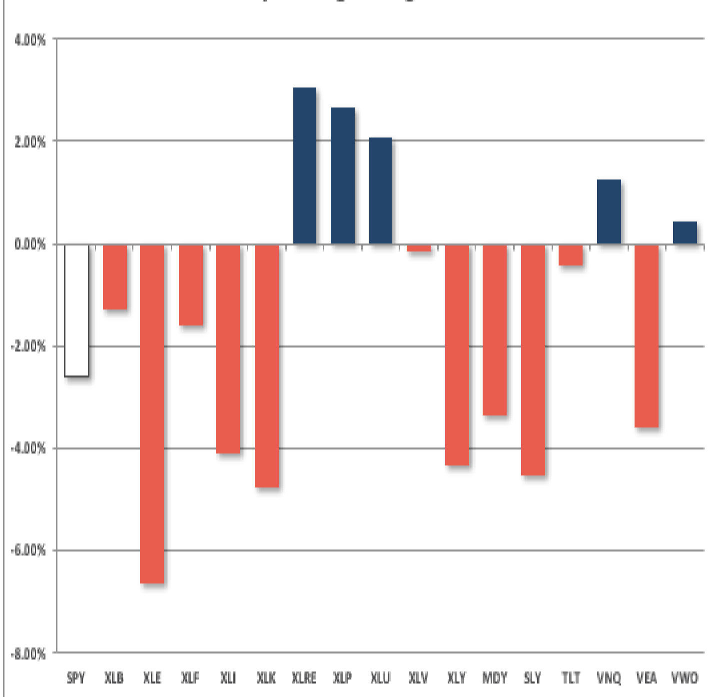
YTD Price - S&P Sectors Recalibrated To $50/share



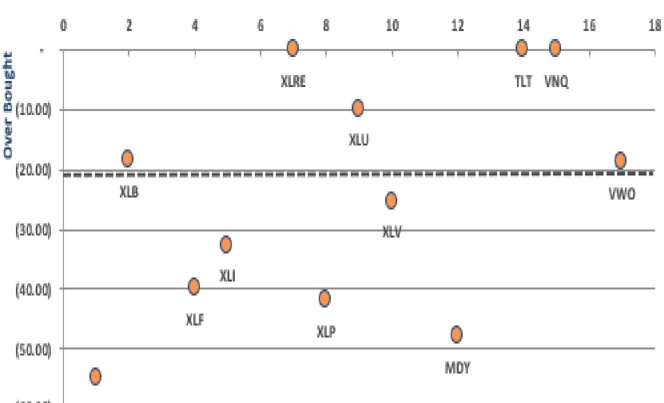
Year To Date Performance Relative To S&P 500

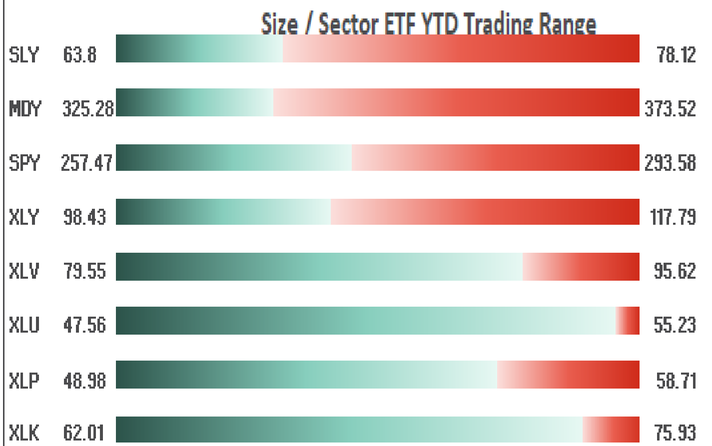


Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



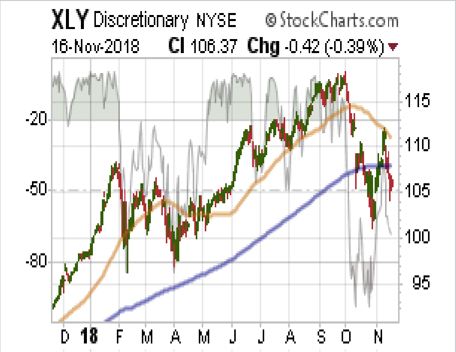


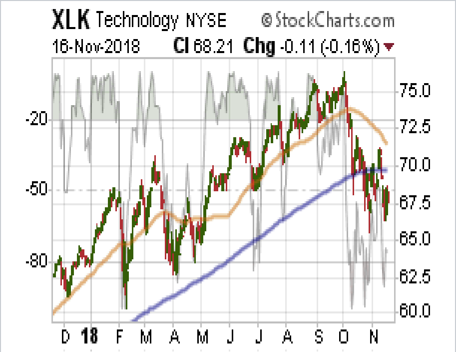
ETF Model Relative Performance Analysis

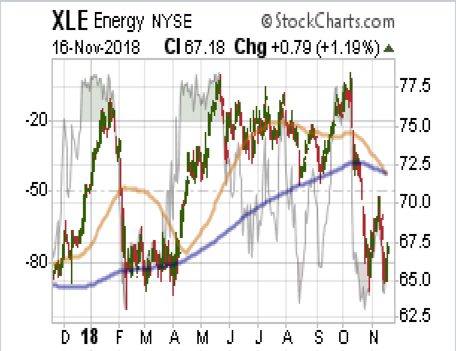
RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index: 1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
	BENCHMARK	IVV	ISHARS-SP500	275.74	(1.51)	(0.91)	(4.76)	0.08	6.20	284.81	278.83	-3.19%	-1.11%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	55.24	1.98	4.94	(1.82)	(6.56)	(11.47)	56.67	57.82	-2.52%	-4.47%	SELL
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	67.18	(0.42)	(5.17)	(5.11)	(12.12)	(6.58)	72.45	73.61	-7.27%	-8.73%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	26.79	0.29	1.36	(0.38)	(2.59)	(3.80)	27.48	27.55	-2.50%	-2.77%	SELL
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	71.99	0.91	(0.72)	(1.41)	(4.42)	(4.09)	75.53	74.76	-4.68%	-3.71%	BUY
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	68.21	(0.83)	(1.66)	(3.41)	(4.13)	1.47	72.25	70.66	-5.59%	-3.47%	BUY
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	56.06	0.17	3.41	8.46	12.81	(3.83)	54.51	52.70	2.85%	6.37%	BUY
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	54.88	1.53	1.48	6.90	9.22	(7.87)	53.77	52.13	2.06%	5.27%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	44.88	0.43	(3.03)	(4.46)			47.39	48.43	-5.30%	-7.33%	SELL
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	92.04	0.53	1.49	4.92	10.34	7.09	92.17	87.42	-0.15%	5.28%	BUY
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	106.37	(1.81)	0.94	(2.66)	(0.24)	7.51	112.15	109.29	-5.15%	-2.68%	BUY
TACTICAL	SIZE	MGK	VANGD-MG CAP GR	116.11	(1.17)	(2.14)	(2.83)	(2.78)	0.52	122.98	120.26	-5.59%	-3.45%	BUY
TACTICAL	SIZE	IJR	ISHARS-SP SC600	79.11	0.43	0.92	(7.12)	(5.23)	(0.20)	84.30	83.44	-6.16%	-5.19%	BUY
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	101.10	0.46	1.21	(0.44)	(1.11)	(2.48)	104.09	102.95	-2.87%	-1.80%	BUY
CORE	Dividend	VIG	VANGD-DIV APPRC	107.36	1.10	3.21	3.46	4.26	3.96	107.95	104.86	-0.54%	2.38%	BUY
CORE	Real Estate	VNQ	VIPERS-REIT	80.79	1.74	4.33	1.61	1.88	(10.76)	80.62	79.53	0.22%	1.59%	BUY
CORE	International	IDV	ISHARS-INTL SD	31.19	0.12	0.40	(0.18)	(5.99)	(11.80)	31.98	32.71	-2.47%	-4.65%	SELL
CORE	International	VWO	VANGD-FTSE EM	39.59	4.47	4.85	(1.38)	(12.31)	(17.97)	39.94	42.70	-0.88%	-7.29%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	114.70	2.70	1.78	(1.45)	(4.73)	(15.45)	116.48	118.68	-1.53%	-3.35%	SELL
FI	International	BNDX	VANGD-TTL INT B	54.53	1.54	1.15	4.38	0.22	(7.01)	54.53	54.57	0.00%	-0.08%	SELL
FI	High Yield	HYG	ISHARS-IBX HYCB	83.27	0.22	(1.01)	1.16	(2.33)	(11.01)	85.39	85.56	-2.48%	-2.68%	SELL
FI	Cash	BSV	VANGD-SHT TRM B	78.00										

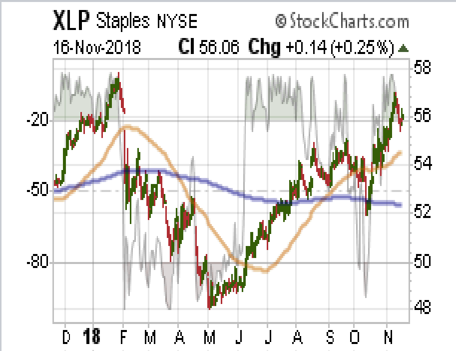
Sector & Market Analysis:

Sector-by-Sector



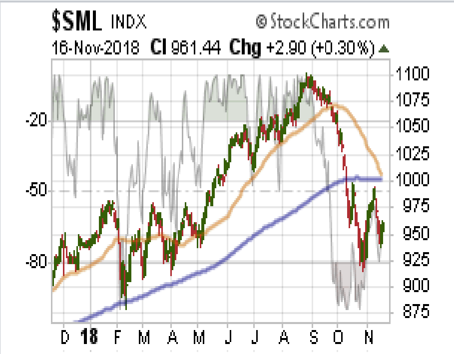


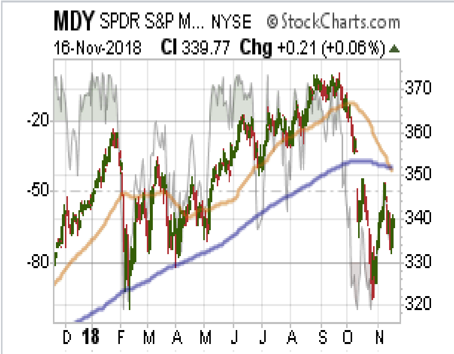


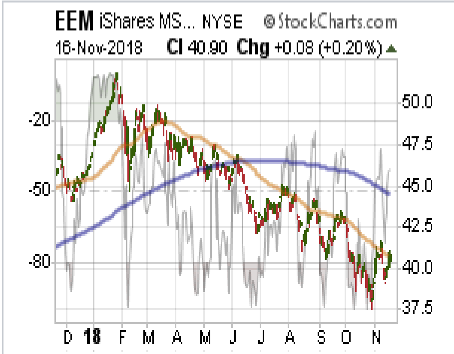


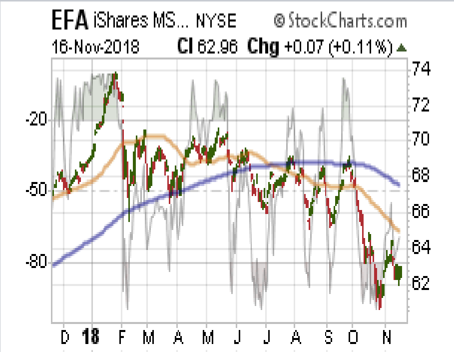
STOCK	YESTERDAY PRICE	PRICE CHANGE	SUPPORT	RESISTANCE	ALERT	LONG TERM TREND
SPY	$273.73	0.71 (0.26%)	268.17	278.79	Crossed Below SMA150	Bearish
XLB	$55.24	0.55 (1.01%)	53.6	56.63		Bearish
XLE	$67.18	0.79 (1.19%)	65.7	68.49	Full Gap Down	Bearish
XLE	$67.18	0.79 (1.19%)	65.7	68.49	MACD BELOW SIGNAL	Bearish
XLF	$26.79	0.03 (0.11%)	26.1	27.42		Bearish
XLI	$71.99	-0.02 (-0.03%)	70.47	73.41		Bearish
XLK	$68.21	-0.11 (-0.16%)	66.28	70	Crossed Below SMA200	Bearish
XLK	$68.21	-0.11 (-0.16%)	66.28	70	MACD BELOW SIGNAL	Bearish
XLP	$56.06	0.14 (0.25%)	55.15	56.92		Bullish
XLRE	$33.46	0.47 (1.42%)	32.59	34.15		Bullish
XLU	$54.88	0.83 (1.54%)	53.85	55.86	Full Gap Down	Bullish
XLV	$92.04	0.92 (1.01%)	89.57	94.28	Full Gap Down	Bullish
XLV	$92.04	0.92 (1.01%)	89.57	94.28	MACD ABOVE CENTER	Bullish
XLY	$106.37	-0.42 (-0.39%)	104.05	108.4	Full Gap Down	Bearish
XLY	$106.37	-0.42 (-0.39%)	104.05	108.4	Crossed Below SMA150	Bearish

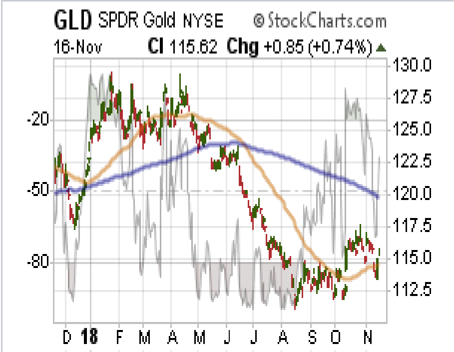
Discretionary and Technology Last week, we noted that both sectors rallied and failed at important overhead resistance at the 200-dma. ***We also suggested "taking profits and look at the 200-dma support as critical."*** Last week both sectors broke back below the 200-dma and we sold our positions in XLK on that reversal. **Industrials, Materials, Energy, Financials, Communications -** we are currently out of all of these sectors as the technical backdrop is much more bearish. While oil prices to bounce off important support last week, and is oversold, the energy sector has completely fallen apart. We continue to suggest reducing exposure on any rally next week. **Real Estate, Staples, Healthcare, and Utilities** continue to be bright spots. Last week, these sectors pulled back some as there was a bit of rotation in the. We will look to increase our weightings to these areas opportunistically for now. However, if we get into a more protracted bear market, these sectors will not be immune to the decline so caution remains high.

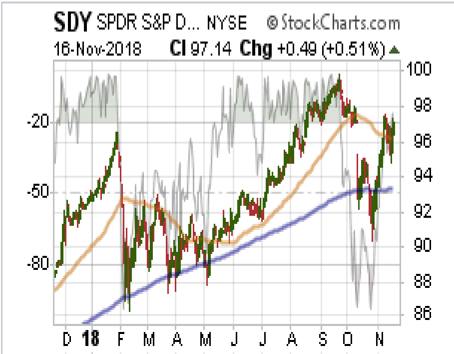












STOCK	YESTERDAY PRICE	PRICE CHANGE	SUPPORT	RESISTANCE	ALERT	LONG TERM TREND
EEM	$40.93	0.11 (0.27%)	39.77	41.96		Bearish
EFA	$62.96	0.07 (0.11%)	61.9	63.85	Full Gap Down	Bearish
GLD	$115.62	0.85 (0.74%)	114.86	116.39	MACD BELOW CENTER	Bearish
IVV	$275.74	0.78 (0.28%)	270.34	280.66	Crossed Below SMA150	Bearish
MDY	$339.77	0.21 (0.06%)	334.35	344.67		Bearish
RSP	$101.1	0.32 (0.32%)	99.38	102.68	Crossed Below SMA200	Bearish
SDY	$97.14	0.49 (0.51%)	95.36	98.69		Neutral
SLY	$68.36	0.21 (0.31%)	66.84	69.66		Bearish
TLT	$114.7	0.66 (0.58%)	113.25	115.92		Bearish

Small-Cap and Mid Cap•- Small-cap is extremely close to registering a macro sell signal as the 50-dma crosses below the 200-dma. Mid-caps already have. After having closed out of our positions in these areas we continue to look to reduce risk further on any rally in the markets next week. **Emerging and International Markets•**rallied last week a bit after recently hitting new lows but, like small and mid-cap markets continue to fail at declining resistance levels. With a major sell signal in place currently, there•**is still no compelling reason to add these markets to portfolios at this time.•Dividends, Market, and Equal Weight•-** The overall market dynamic has changed for the negative in recent weeks. Currently, Dividends are outperforming Equal and Market Weight indices as the chase for yield and safety has weighed on more aggressive sectors of the market. Use the recent rally to reduce overall equity risk for now. **Gold•**? While the precious metal found a small*"bit of love"* last week, it was more like a *"quick peck on the cheek"* rather than a *"passionate kiss."*•Gold remains in a downtrend, but the good news is the 50-dma has turned up. We are still looking for a "sign" there is a committed trade to the metal before getting back in after having been out of the trade since 2013. Stops remain at $111 if you are still long the metal. **Bonds•**? rallied last week and are testing their declining 50-dma. With a short-term buy signal in place but very overbought, it is not yet time to lay on a trade just yet. *We remain long our core bond holdings for capital preservation purposes but all trading positions are currently closed.* 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	Falling	Positive	Warning	Reduce				X		Broke 200-DMA/Reduce
XLK	Technology	OS	Positive	Warning	Reduce				X		Broke 200-DMA/Reduce
XLI	Industrials	Neutral	Warning	Negative	Sell					X	Broke 200-DMA/Reduce
XLB	Materials	Neutral	Negative	Negative	Sell					X	Broke 200-DMA/Reduce
XLE	Energy	OS	Warning	Warning	Reduce					X	Broke 200-DMA/Reduce
XLP	Staples	OB	Positive	Positive	Add		X				Add On Pullback
XLV	Health Care	OB	Positive	Positive	Hold			X			Take Profits
XLU	Utilities	OB	Positive	Positive	Hold			X			Hold Current Positions
XLF	Financials	OS	Negative	Negative	Stopped Out					X	Stopped Out
XLC	Telecom	OS	Neutral	Neutral	N/A			X			No Position / No History
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Hold Current Positions
$SML	Small Caps	Neutral	Warning	Warning	Stopped Out					X	No Position
EEM	Emerging Mkt	Rising	Negative	Negative	Sell					X	No Postion
EFA	International	Rising	Negative	Positive	Sell					X	No Position
GLD	Gold	Rising	Negative	Negative	Neutral					X	Trade Opprtunity Forming
MDY	Mid Cap	Neutral	Negative	Warning	Stopped Out					X	Stopped Out
RSP	SP500 Equal Wgt	Neutral	Weakening	Positive	Hold			X			Reduce On Rally
SDY	SP500 Dividend	Neutral	Weakening	Positive	Hold			X			Hold
IVV	SP500 Market Wg	Neutral	Weakening	Positive	Hold			X			Reduce On Rally
TLT	20+ Yr. Bond	OB	Negative	Negative	Hold			X			No Trading Pos/Buying Ind. Bonds

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

Portfolio/Client Update:

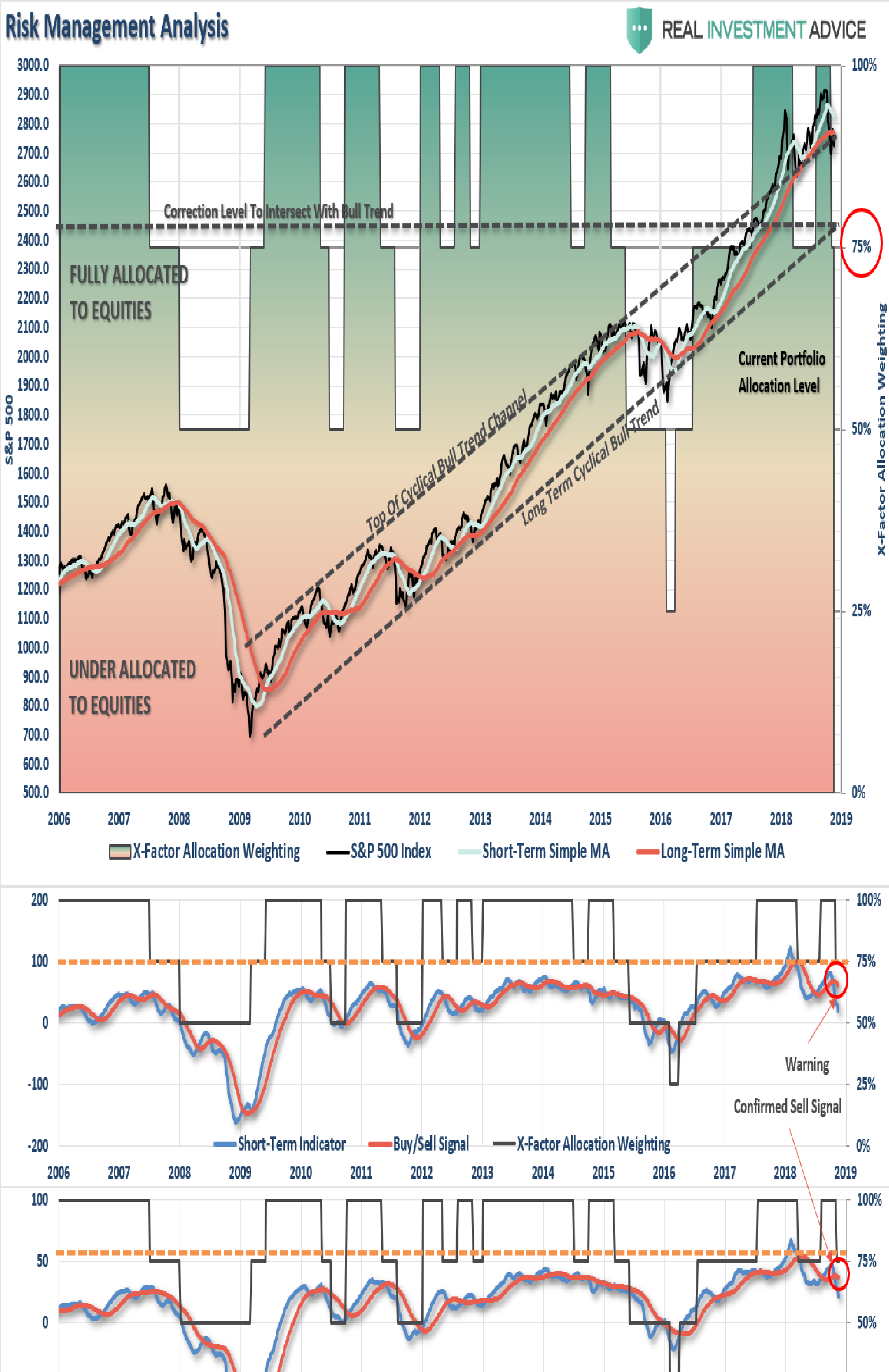
As noted last week, the market action remains troubling, to say the least. The bullish trend longer-term remains intact but more bearish dynamics are rising. It is important we do not get OVERLY cautious right now, but we are comfortable holding some extra cash right now. Last week, we removed our overweight in Technology and will look to take some additional actions as needed this week in Discretionary holdings.

- ***New clients:***•*We will continue to sell down "out of model" holdings and raise cash on rallies.*
- ***Equity Model:***•*After having sold some positions two weeks ago, we are maintaining a slightly higher weight in cash. We will be looking to sell two to three more positions next week on any strength.*
- ***Equity/ETF blended***•*- Same as with the equity model.*•
- ***ETF Model***: *We sold XLK last week and will look to reduce XLY on any rally. With portfolios carrying a good bit of cash, we can just wait to see where the next opportunity emerges.*•

While the pick up in volatility is certainly not enjoyable, we don't want to let our emotions get the better of our discipline. We remain vigilant of the risk currently and are happy to err to the side of caution until a new trend emerges.

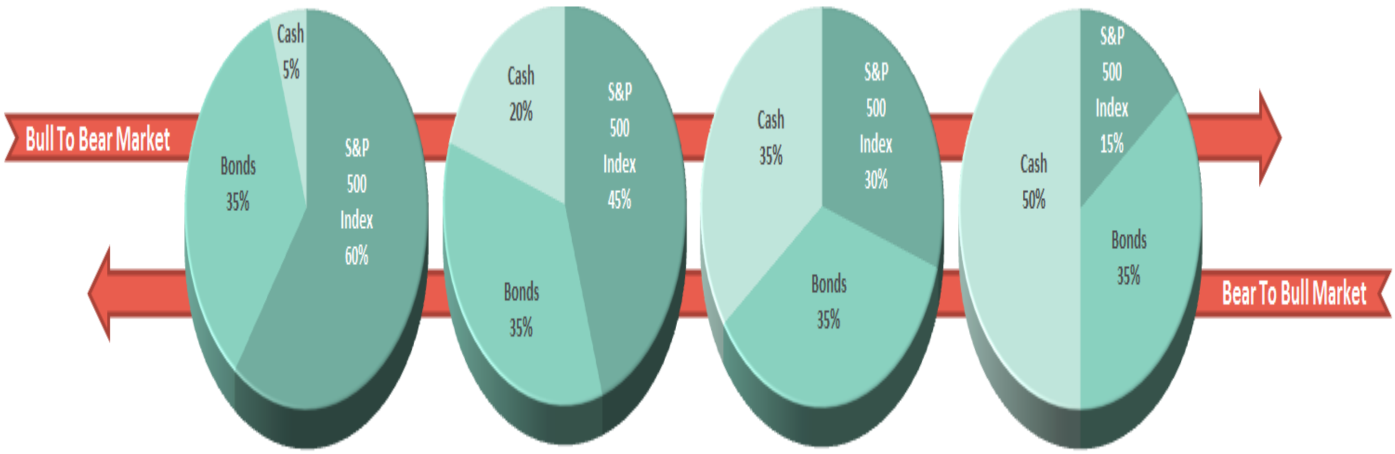
THE REAL 401k PLAN MANAGER

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



Risk Management Analysis
REAL INVESTMENT ADVICE
Correction Level To Intersect With Bull Trend
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Top Of Cyclical Bull Trend Channel
Long Term Cyclical Bull Trend
Current Portfolio Allocation Level
S&P 500
X-Factor Allocation Weighting
X-Factor Allocation Weighting
S&P 500 Index
Short-Term Simple MA
Long-Term Simple MA
Warning
Confirmed Sell Signal
Short-Term Indicator
Buy/Sell Signal
X-Factor Allocation Weighting

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.



Using Rallies To Reduce Risk Further

As I stated last week:

> *"Next week, it is critically important for the market to rally IF the bulls are going to regain control of the market."*

It didn't and the bulls are in a very weak position currently. We are also close to registering a much more important long-term signal to reduce risk in portfolios even more. As stated in the main body of this missive, there are mounting signs the bulls have lost control of the market. Two weeks ago, we lowered the allocation model to 75% of target for now. As we said then:

> *"There is more risk to the downside currently than upside reward. But...let me repeat:* ***This does NOT mean immediately go out and sell 25% of your holdings.*** *The model moves in 25% increments as signals are triggered. However, by the time a signal is triggered, the market tends to be very oversold which is why we wait for a bounce to opportunistically sell into.•It also doesn't mean to go liquidate 25% of your exposure all at once. These are just model targets that you 'adjust'•into as market dynamics develop.*

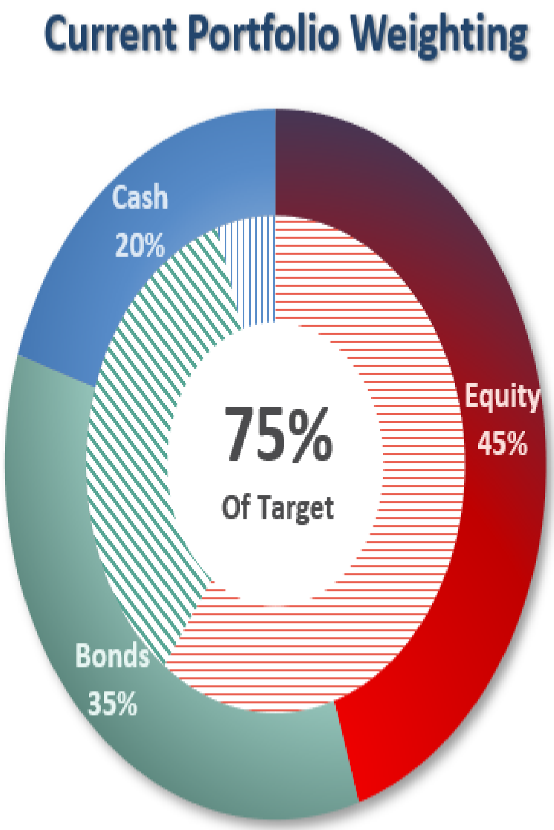
Last week, we•will be reducing equity risk in our managed 401k portfolios by another 5% this week. As long as the market remains in a more negative trend we will continue to use rallies to reduce equity further as needed. Continue to use rallies to reduce risk towards a target level with which you are comfortable. **Remember, this model is not ABSOLUTE - it is just a guide to follow.** Defense remains our primary strategy for 401k-plans currently.

- *If you are **overweightequities** - reduce international, emerging market, mid, and small-capitalization funds on any rally next week. Reduce overall portfolio weights to 75% of your selected allocation target.*
- *If you are **underweight equities** -•reduce international, emerging market, mid, and small-capitalization funds on any rally next week but hold everything else for now.*
- *If you are at **target equity allocations**•reduce overall equity exposure to 75% of your allocation target on any rally next week.*

Unfortunately, 401k plans don't offer a lot of flexibility and have trading restrictions in many cases. **Therefore, we have to minimize our movement and try and make sure we are catching major turning points.** Over the next couple of weeks, we will know for certain as to whether more changes need to be done to allocations as we head into the end of the year. 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**
Primary concern is the protection of investment capital
Examples: Stable Value, Money Market, Retirement Reserves

35.00% **Fixed Income (Bonds)**
Bond Funds reflect the direction of interest rates
Examples: Short Duration, Total Return and Real Return Funds

45.00% **Equity (Stocks)**
The vast majority of funds track an index.
Therefore, select on ONE fund from each category.
Keep it Simple.
10% Equity Income, Balanced or Conservative Allocation
35% Large Cap Growth (S&P 500 Index)
0% International Large Cap Dividend
0% Mid Cap Growth

401k Choice Matching List

The list below shows sample 401k plan funds for each major category. In reality, the majority of funds all track their indices fairly closely. Therefore, if you don't see your exact fund listed, look for a fund that is similar in nature.

Common 401K Plan Holdings By Class

Cash
- *Stable Value*
- *Money Market*
- *Retirement Savings Trust*
- *Fidelity MIP Fund*
- *G-Fund*
- *Short Term Bond*

Fixed Income
- *Pimco Total Return*
- *Pimco Real Return*
- *Pimco Investment Grade Bond*
- *Vanguard Intermediate Bond*
- *Vanguard Total Bond Market*
- *Babson Bond Fund*
- *Lord Abbett Income*
- *Fidelity Corporate Bond*
- *Western Asset Mortgage Backed Bond*
- *Blackrock Total Return*
- *Blackrock Intermediate Bond*
- *American Funds Bond Fund Of America*
- *Dodge & Cox Income Fund*
- *Doubleline Total Return*
- *F-Fund*

International
- *American Funds Capital World G&I*
- *Vanguard Total International Index*
- *Blackrock Global Allocation Fund*
- *Fidelity International Growth Fund*
- *Dodge & Cox International*
- *Invesco International Core Equity*
- *Goldman Sachs International Growth Opp.*

The above represents a selection of some of the most common funds found in 401k plans. ***If you do not see your SPECIFIC fund listed simply choose one that closely resembles the examples herein.*** All funds perform relatively similarly within their respective fund classes.

Equity

Large Cap
- *Vanguard Total Stock Market*
- *Vanguard S&P 500 Index*
- *Vanguard Capital Opportunities*
- *Vanguard PrimeCap*
- *Vanguard Growth Index*
- *Fidelity Magellan*
- *Fidelity Large Cap Growth*
- *Fidelity Blue Chip*
- *Fidelity Capital Appreciation*
- *Dodge & Cox Stock*
- *Hartford Capital Appreciation*
- *American Funds AMCAP*
- *American Funds Growth Fund Of America*
- *Oakmark Growth Fund*
- *C-Fund (Common Assets)*
- *ALL TARGET DATE FUNDS 2020 or Later*

Balanced Funds
- *Vanguard Balanced Index*
- *Vanguard Wellington Fund*
- *Vanguard Windsor Fund*
- *Vanguard Asset Allocation*
- *Fidelity Balanced Fund*
- *Fidelity Equity Income*
- *Fidelity Growth & Income*
- *American Funds Balanced*
- *American Funds Income Fund*
- *ALL TARGET DATE FUNDS 2020 or Sooner*

Small/Mid Cap
- *Vanguard Mid Cap Growth*
- *Fidelity Mid Cap Growth*
- *Artisan Mid Cap*
- *Goldman Sachs Growth Opportunities*
- *Harbor Mid Cap Growth*
- *Goldman Sachs Small/Mid Cap Opp.*
- *Fidelity Low Price Stock Fund*
- *Columbia Acorn US*
- *Federated Kaufman Small Cap*
- *Invesco Small Cap*