RIA Advice



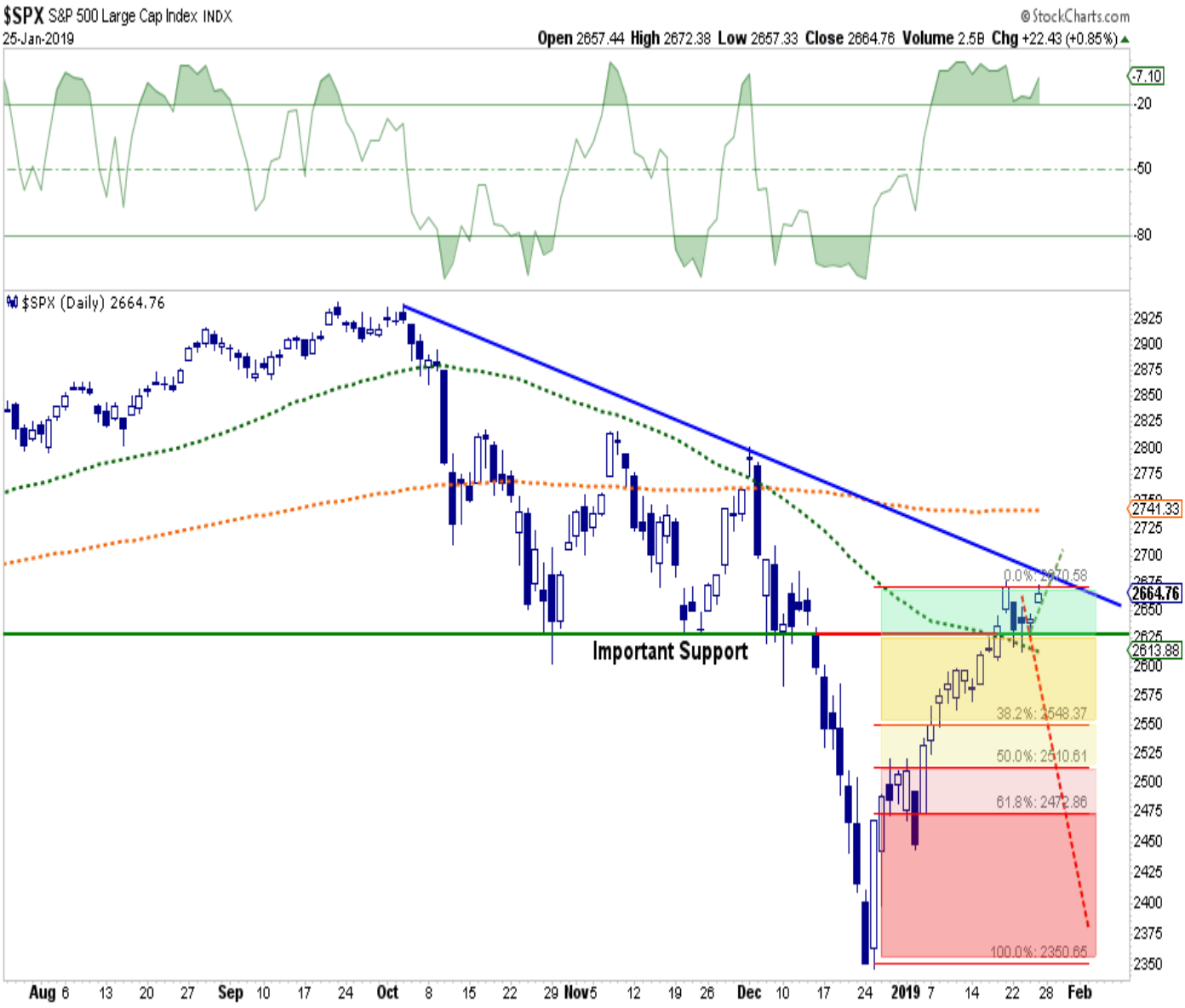
- ***Fed Caves - Bulls Run***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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REAL INVESTMENT ADVICE
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I could almost just reprint last week's newsletter as not much changed during the week.

> *"Importantly, the previous deep 'oversold' condition which was supportive of the rally following Christmas Eve has now been fully reversed back into extreme 'overbought' territory.* ***While this doesn't mean the current rally will immediately reverse, it does suggest that upside from current levels is likely limited."***

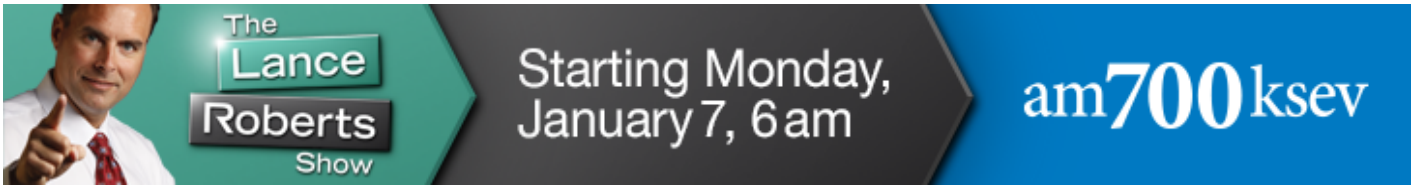


As I discussed previously, what was needed for the bulls to gain control of the narrative were several important issues:

1. *Central bank activity reverse from restrictive to accommodative,*
2. *Washington to back off of "tariffs" and "trade war" rhetoric, and;*
3. *The Federal Reserve to continue its more "dovish" stance.*

Last weekend, we noted evidence of those changes. This week, the markets were given the clearest sign yet that the Fed, and Central Banks globally, were all too ready to come to the markets rescue.

Don't forget to grab a cup of coffee and start your trading/investing day with me as I kick off my new radio show.
Streaming Live On The Web



It started with a WSJ article suggesting that the Fed would not only stop hiking interest rates but also cease the balance sheet reduction which has been extracting liquidity from the market. This was quite the change as noted in an early morning tweet.

> 2018: QT on autopilot
> Jan 4: We're flexible
> Jan 25: It could end a lot sooner. https://t.co/4X7umEHsFp
>
> ? Sven Henrich (@NorthmanTrader) January 25, 2019

In mid-2018, the Federal Reserve was adamant that a strong economy and rising inflationary pressures required tighter monetary conditions. At that time they were discussing additional rate hikes and a continued reduction of their $4 Trillion balance sheet.

All it took was a rough December, pressure from Wall Street's member banks, and a disgruntled White House to completely flip their thinking.

But the Fed isn't alone.

China has launched their own version of *"Quantitative Easing"* to help prop up their slowing economy.

Lastly, the ECB downgraded Eurozone growth and there is a likelihood that not only will they not raise rates this year, they will also extend the TLTRO program.

> *(What the *** is TLTRO?)*

Good question. It is the **Targeted Longer-Term Refinancing Operations** scheme which **gives cheap loans to struggling Eurozone banks.**

Think about this for a moment.

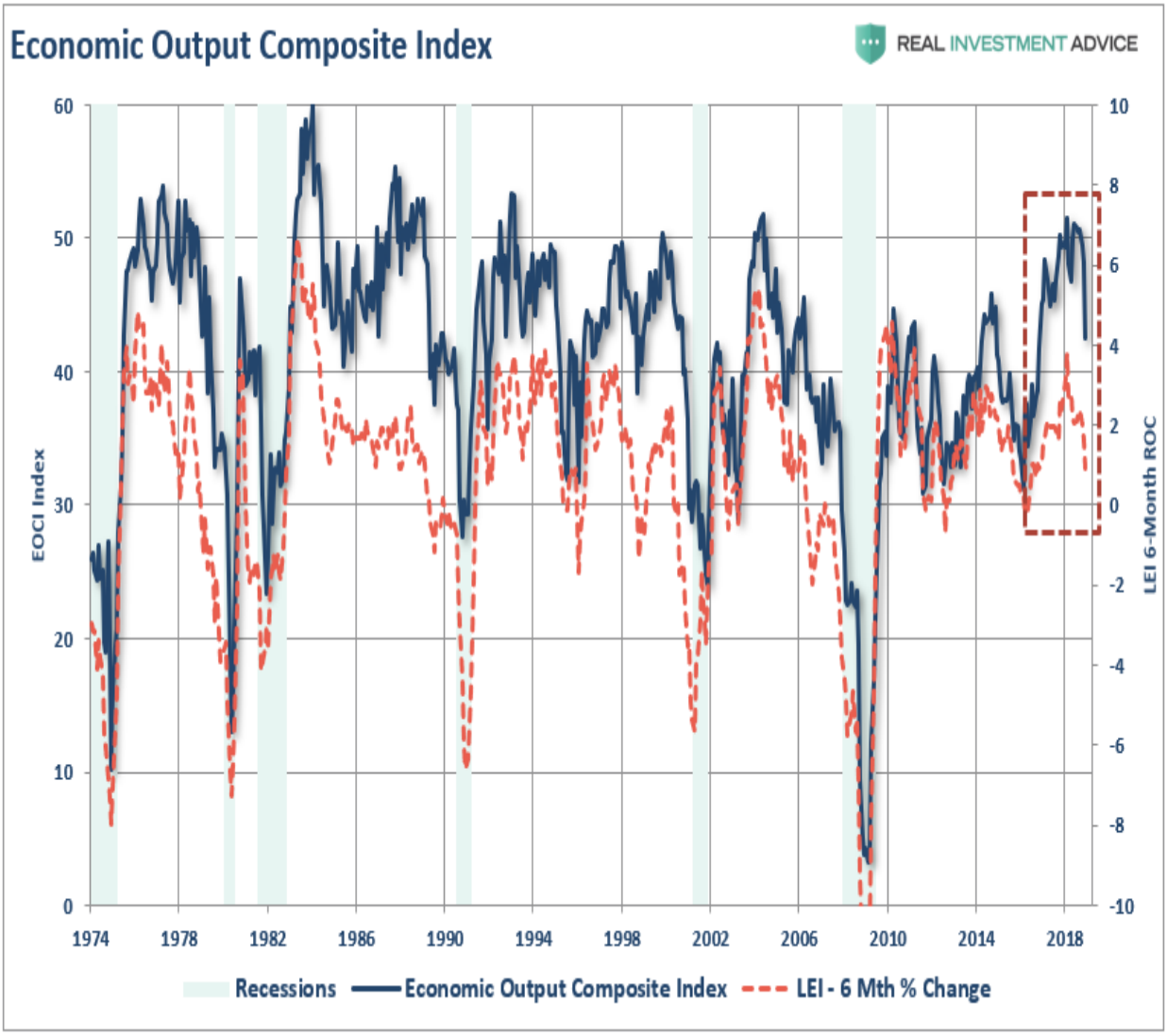
For a decade the global economy has been growing. Market participants are crowing about the massive surge in asset prices as clear evidence of the strength of the economy. As noted last week:

> ***"We're the hottest economy in the world. Trillions of dollars are flowing here and building new plants and equipment.*** *Almost every other data point suggests, that the economy is very strong. We will beat 3% economic growth in the fourth quarter when the Commerce Department reopens.*
>
> *We are seeing very strong chain sales. We don't get the retail sales report right now and we see very strong manufacturing production. And in particular, this is my favorite with our corporate tax cuts and deregulation, we're seeing a seven-month run-up of the production of business equipment, which is, you know, one way of saying business investment, which is another way of saying the kind of competitive business boom we expected to happen is happening." - Larry Kudlow, Jan 24, 2019.*

But yet, these *"emergency measures"* are STILL in place. Eurozone banks, global economies, and markets are still needing massive levels of support to stay afloat.

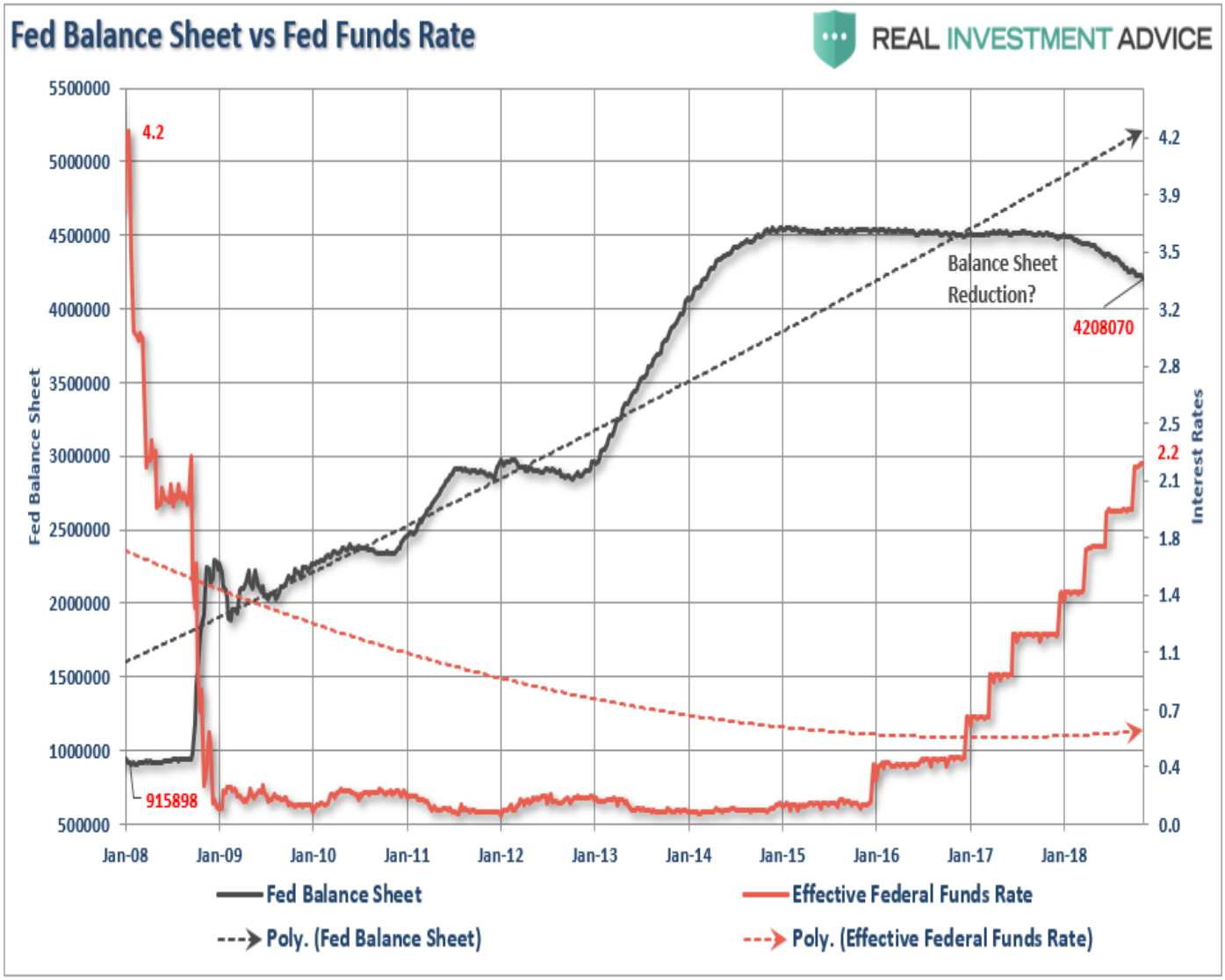
Yes, Kudlow is certainly *"spinning the yarn"* for the media to try and keep markets complacent. However, the Fed is clearly signaling their concern about *"reality,"* which as the data through the end of December shows, the U.S. economy is beginning to slow.

> *"As shown, over the last six months, the decline in the LEI has actually been sharper than originally anticipated. Importantly, there is a strong historical correlation between the 6-month rate of change in the LEI and the EOCI index. As shown, the downturn in the LEI predicted the current economic weakness and suggests the data is likely to continue to weaken in the months ahead."*



However, while the markets did respond bullishly to the news that the *"Fed Put"* was alive and well, the biggest issue facing the Fed, will be the ongoing effectiveness of *"Quantitative Easing"* programs. As previously discussed:

> *"Of course, after a decade of Central Bank interventions, it has become a commonly held belief the Fed will quickly jump in to forestall a market decline at every turn. While such may have indeed been the case previously, the problem for the Fed is their ability to 'bail out' markets in the event of a 'credit-related' crisis."*



> *"In 2008, when the Fed launched into their ?accommodative policy? emergency strategy to bail out the financial markets, the Fed?s balance sheet was only about $915 Billion. The Fed Funds rate was at 4.2%.*
>
> *If the market fell into a recession tomorrow, the Fed would be starting with roughly a **$4 Trillion** dollar balance sheet with interest rates 2% lower than they were in 2009. In other words, the ability of the Fed to 'bail out' the markets today, is much more limited than it was in 2008."*

As an investor what you should be most concerned that it only a slight slowing in economic growth and just a 4.4% decline in the S&P 500 last year to send the Fed into *"panic mode."*

The question you should be asking is what do they know that you don't.

Bull In A Bear's Den

Michael Lebowitz and I recently discussed the market in a broader sense for our subscribers at RIA PRO.

Use code "Bear Market" for a 1-MONTH free trial to RIA PRO.

You get access to our exclusive commentary, portfolios, and a ton of research data to help improve your investing.

From a technical short-term perspective, the recent bullish market action remains confined to a *"bearish"* trend currently. This keeps the risk/reward ratio unbalanced for aggressive equity exposure.



As shown, this past week, the market tested both its previous support of the October and November lows while maintaining above the 50-dma. However, despite the news on Friday which pushed prices sharply higher, the market failed to break above it previous highs and still remains trapped below the downtrend line from the 2018 highs.

As I stated last week:

"Importantly, while the market did break above the first level of resistance, it is currently NOT confirming the change to a bear market just yet. As shown in the chart below, the 2015-2016 correction ended when the market broke above, and successfully retested the 200-dma. That put the market back on a bullish price trend above that running moving average."



We are still a long way away from that happening.

Conclusion

The rally on Friday was based on the Fed will turn exceedingly "*dovish"* in their meeting next week. This could well wind up disappointing the markets.

Last week, we added equity exposure to our portfolios with the acquisition of some companies that we like the fundamentals of. However, we also swept a large portion of our trading cash into 1-3 month Treasury bills as the risk/reward for equities remains negative.

Even if you are exuberantly bullish, you should consider Mark Hulbert's analysis from this past week:

The Dow Theory is still flashing a ?sell? signal. Before this indicator can turn bullish again, the rally that has taken the Dow Jones Industrial Average almost straight up since its Dec. 24 low must end.

That?s why bullishly predisposed Dow Theorists should be hoping for a market pullback.

Though individual Dow Theorists disagree on the specifics of how to apply the Dow Theory in any particular situation, there is a broad consensus on what it takes to generate a buy signal:

1. Both the Dow Jones Industrial Average and the Dow Jones Transportation Average must undergo a ?significant? rally after hitting new lows ? ?significant? both in terms of time and magnitude. This step has been satisfied by the market?s rally from the Dec. 24 lows.

2. Both of these Dow averages must subsequently undergo a ?significant? correction of the rally referred to in step #1, and in this correction either one or both of these Dow averages must hold above their previous lows (Dec. 24). We are waiting for this step.

3. Both averages must rise then rise above their highs registered at the top of the rally referred to in step #1.

One of the lesser-appreciated aspects of this three-step process is that, without a ?significant? pullback (step #2), a buy signal will never occur.

This is why we concluded last week by stating:

"Overall, the weight of evidence suggests a retest of support at which time portfolios can be re-evaluated."

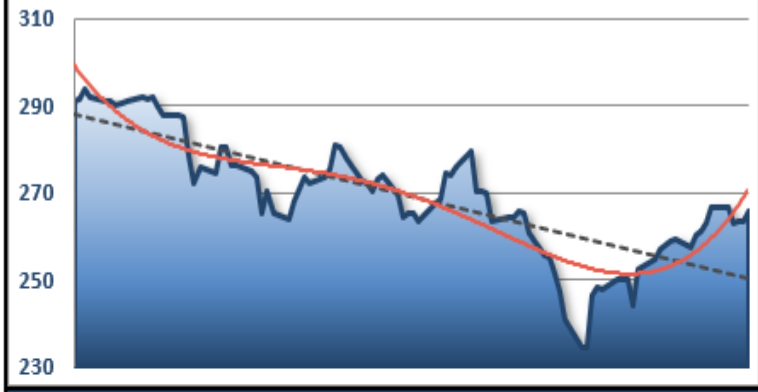
See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet

3 Month SPY Price



SPY RISK INFO ZACKS REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	15.77%	(6.18%)	6.35%	(202.62%)
Max Drawdown	-20.47%	-20.47%	-3.00%	-85.34%
Sharpe	0.69	(0.32)	7.55	(24.63)
Sortino	0.81	(0.33)	9.90	(30.67)
Volatility	13.38	17.61	18.93	0.08
Daily VaR-5%	(10.93)	(31.91)	114.44	(4.59)
Mnthly VaR-5%	(10.30)	(28.54)	(28.54)	0.00

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	1.97%	1.77%	1.96%	10.02%	2.17%	1.67%	(9.48%)	17.86%
P/E Ratio	20.29	22.94	17.43	(31.59%)	21.57	16.67	(19.2%)	4.54%
P/S Ratio	2.95	3.33	3.12	(6.78%)	3.53	2.40	(11.69%)	29.81%
P/B Ratio	3.39	3.77	3.80	0.66%	4.15	2.82	(8.48%)	34.76%
ROE	15.22%	15.97%	18.12%	11.86%	18.12%	15.01%	0.00%	20.70%
ROA	2.83%	3.01%	3.43%	12.29%	3.43%	2.82%	0.00%	21.51%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,450.2	2,420.9	(1.19%)
Sales	57,211	62,307	8.91%
SPS	23.4	25.7	10.22%
Earnings	7,813	9,221	18.01%
EPS TTM	3.7	4.6	23.53%
Dividend	1.4	1.6	10.82%

S&P 500 Asset Allocation

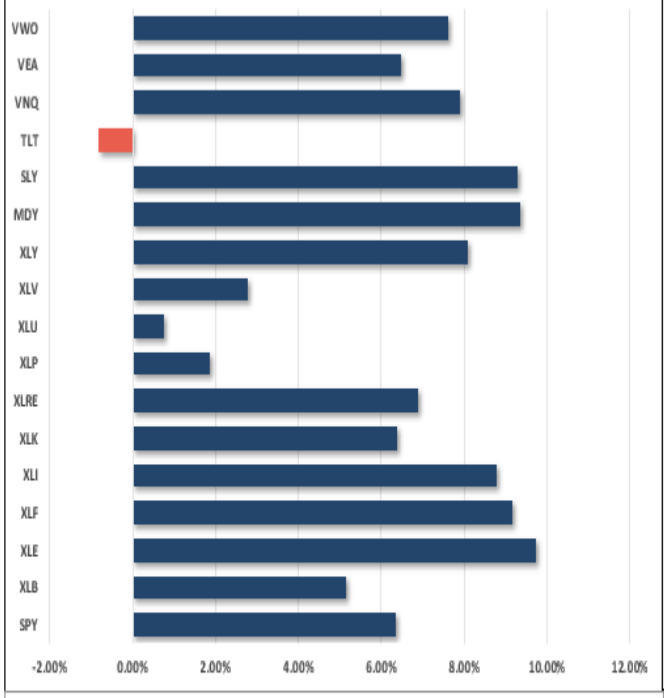
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(18.24%)	5.43%	1.14	18.02	154.63	12.50	(88.3%)	9.0%	3.4%	5.57%	3.48	14.64
Materials	(16.90%)	2.69%	1.36	14.78	21.86	13.82	(32.4%)	11.5%	2.2%	6.81%	4.54	13.67
Industrials	(12.84%)	9.32%	1.00	16.77	22.21	14.71	(24.5%)	15.2%	2.0%	5.98%	4.70	14.95
Discretionary	1.10%	10.06%	0.96	23.29	27.47	19.96	(15.2%)	27.9%	1.3%	4.29%	4.27	20.40
Staples	(12.40%)	7.23%	0.62	18.24	22.83	17.43	(20.1%)	25.9%	3.1%	5.44%	3.73	17.72
Health Care	(0.82%)	15.32%	0.97	17.19	20.62	15.93	(16.6%)	28.4%	1.7%	5.80%	5.86	16.26
Financials	(12.94%)	13.68%	1.18	13.10	18.41	11.69	(28.8%)	10.9%	2.1%	7.64%	5.24	11.45
Technology	2.15%	19.84%	1.21	18.06	21.83	14.47	(17.3%)	37.2%	1.7%	5.57%	4.93	16.80
Telecom	(7.43%)	10.19%	0.85	19.83	26.97	19.96	(26.5%)	18.3%	1.0%	5.06%	4.58	21.21
Utilities	7.10%	3.21%	0.28	17.48	20.25	15.54	(13.7%)	11.2%	3.5%	5.67%	3.37	17.44
Real Estate	3.86%	2.96%	0.71	18.57	24.47	17.87	(24.1%)	9.4%	3.5%	5.40%	4.11	17.22

Momentum Analysis

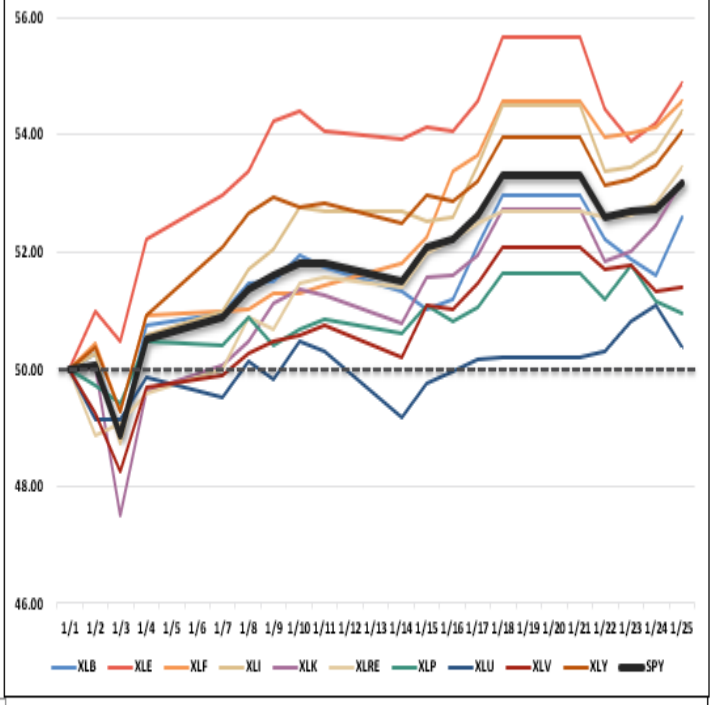
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	265.78	(2.90%)	259.67	7	2.35%	273.78	40	(2.92%)	(5.15%)	(9.58%)	13.70%	Sell
Mid Cap	330.99	(2.58%)	319.35	8	3.65%	347.46	200	(4.74%)	(8.09%)	(11.52%)	16.36%	Sell
Small Cap	65.54	(4.13%)	63.51	8	3.19%	70.52	#N/A	(7.06%)	(9.94%)	(16.24%)	16.41%	Sell

Performance Analysis

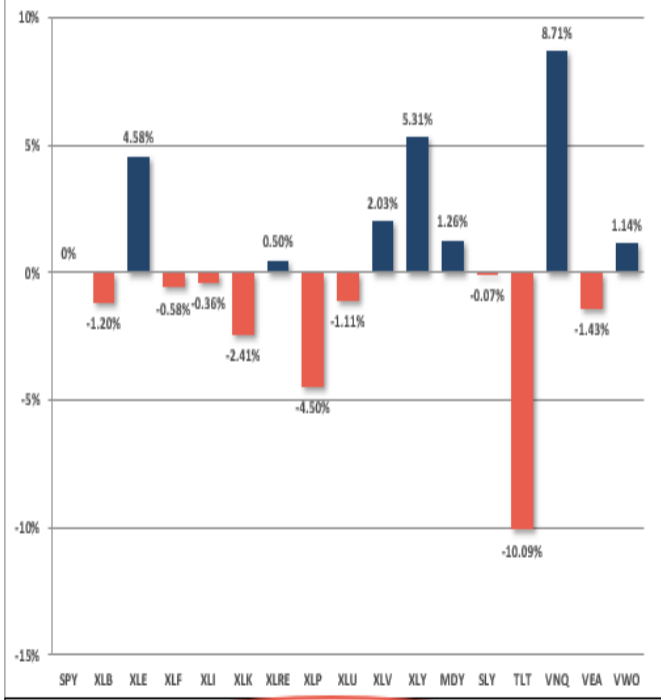
Year To Date Performance



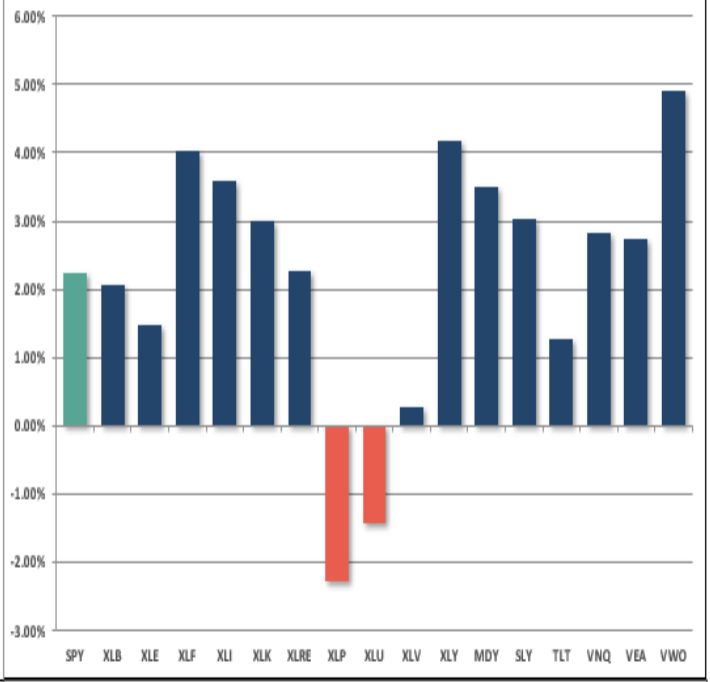
YTD Price - S&P Sectors Recalibrated To $50/share



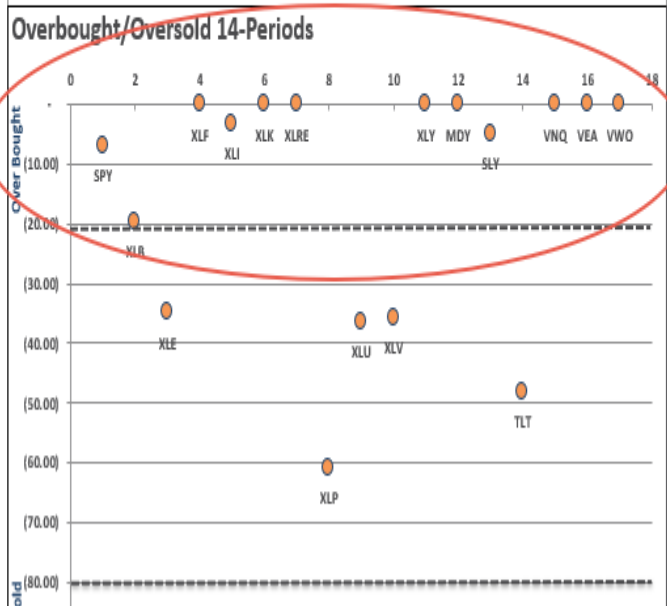
Year To Date Performance Relative To S&P 500



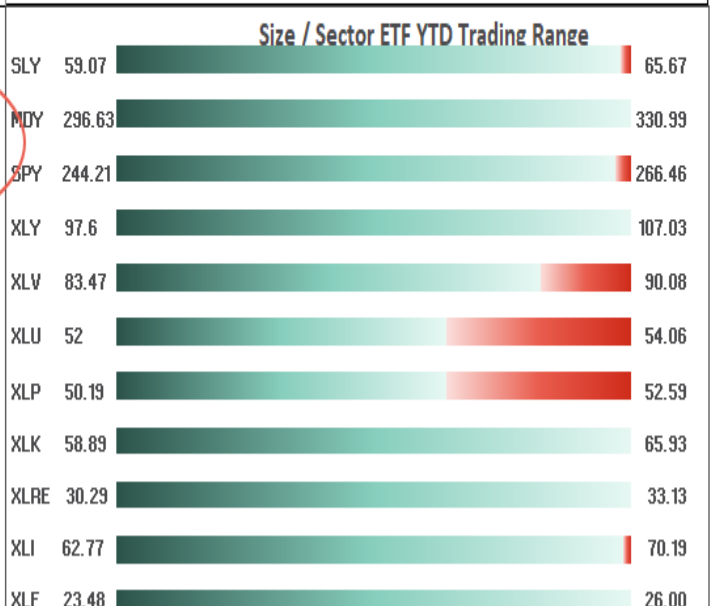
Price Deviation From 50-Day Moving Average



Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



ETF Model Relative Performance Analysis

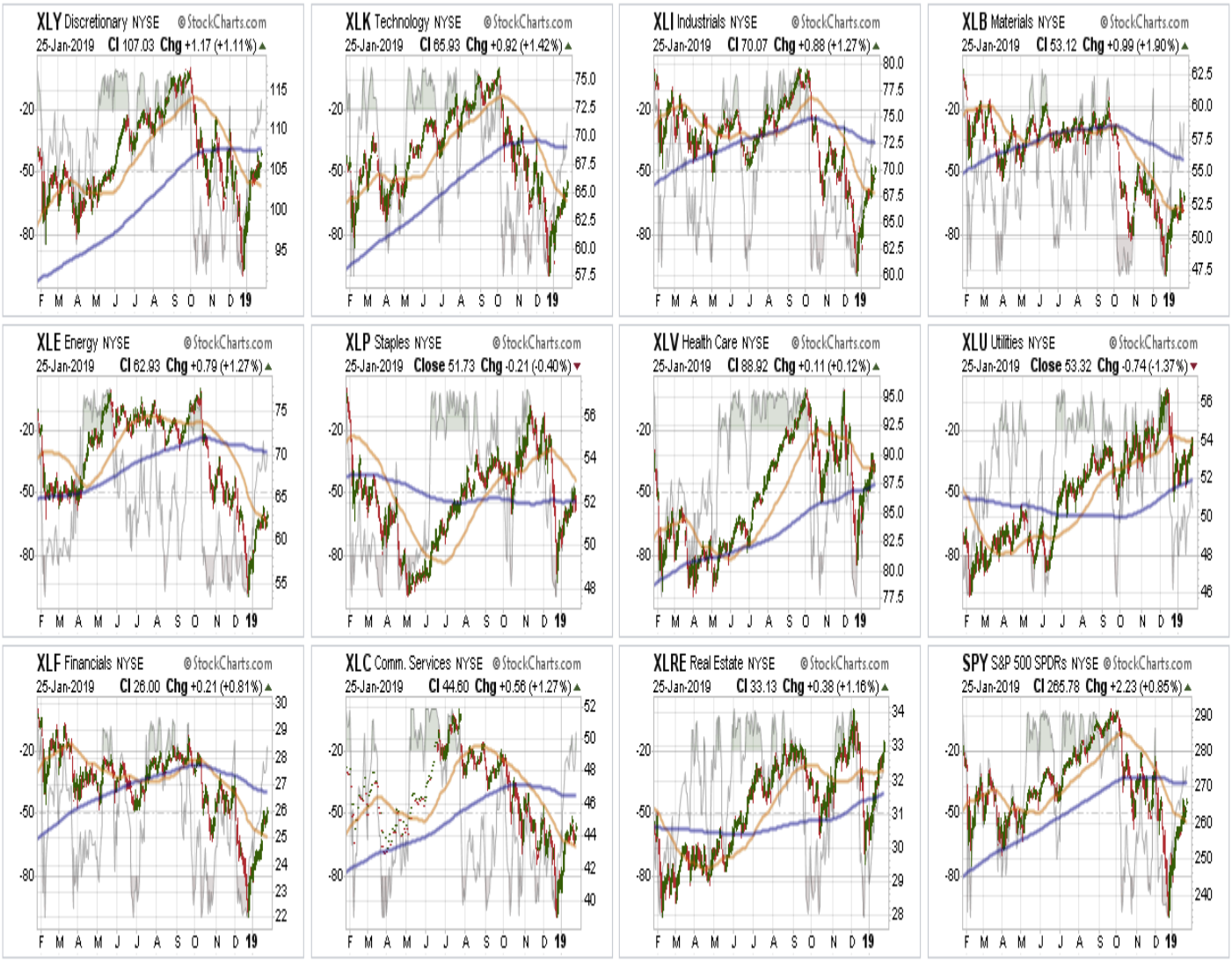
	RELATIVE PERFORMANCE	Ticker	ETF NAME	Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
	BENCHMARK	IVV	ISHARS-SP500	267.50	(0.21)	7.29	(2.33)	(6.16)	(7.33)	264.53	276.56	1.12%	-3.28%	SELL
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	53.12	(0.52)	(1.26)	0.78	(3.31)	(9.79)	52.46	56.01	1.25%	-5.16%	SELL
		XLE	SPDR-EGY SELS	62.93	(1.21)	3.02	(4.52)	(10.25)	(11.48)	63.17	70.31	-0.38%	-10.50%	SELL
		XLF	SPDR-FINL SELS	26.00	0.21	2.93	0.89	(0.88)	(6.49)	25.34	26.76	2.61%	-2.84%	SELL
		XLI	SPDR-INDU SELS	70.07	0.04	2.59	1.04	(0.50)	(5.80)	68.42	72.82	2.42%	-3.77%	SELL
		XLK	SPDR-TECH SELS	65.93	1.10	0.09	(1.75)	(3.56)	2.62	65.03	69.67	1.38%	-5.37%	SELL
		XLP	SPDR-CONS STPL	51.73	(1.16)	(4.99)	(3.80)	3.33	(4.56)	53.57	53.32	-3.43%	-2.98%	BUY
		XLU	SPDR-UTIL SELS	53.32	0.55	(6.36)	2.65	6.79	11.80	54.13	53.21	-1.50%	0.20%	BUY
		XLC	SPDR-COMM SV SS	44.60	(0.61)	0.91	(0.37)			43.74	46.80	1.97%	-4.69%	SELL
		XLV	SPDR-HLTH CR	88.92	(1.08)	(2.98)	1.95	5.37	4.47	89.08	89.35	-0.18%	-0.48%	SELL
		XLY	SPDR-CONS DISCR	107.03	0.42	1.97	1.46	1.12	5.52	103.79	109.08	3.12%	-1.88%	SELL
	SIZE	SLY	SALOMON LEASING	65.54	0.01	2.57	(2.97)	(6.97)	1.64	64.67	70.62	1.34%	-7.19%	SELL
		MDY	SPDR-SP MC 400	330.99	0.27	3.28	(0.05)	(2.73)	(1.36)	323.76	347.01	2.23%	-4.62%	SELL
CORE	Equal Weight Market	RSP	GUGG-SP5 EQ ETF	98.88	0.30	1.77	1.07	0.55	(0.63)	96.92	101.60	2.03%	-2.68%	SELL
	Dividend	SDY	SPDR-SP DIV ETF	93.79	(0.64)	(1.66)	1.53	3.60	2.76	93.32	94.85	0.51%	-1.12%	SELL
	Real Estate	XLRE	SPDR-RE SELS	33.13	1.65	(0.21)	6.06	6.77	10.35	32.46	32.59	2.05%	1.64%	SELL
	International	EEM	ISHARS-EMG MKT	42.20	1.78	0.26	5.71	3.87	(11.64)	40.13	41.86	5.17%	0.80%	SELL
		EFA	EMG MKT FREE AS	62.17	0.36	(1.36)	0.47	(0.68)	(10.05)	61.22	64.92	1.56%	-4.23%	SELL
		IXUS	ISHARS-CR INT S	55.98	0.64	(0.50)	1.59	(0.07)	(10.24)	54.60	57.88	2.52%	-3.29%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	120.53	1.02	(7.72)	9.95	6.06	4.85	117.80	118.56	2.32%	1.66%	SELL
	International	BNDX	VANGD-TTL INT B	54.63	0.69	(6.42)	2.63	5.98	8.14	54.57	54.58	0.11%	0.08%	SELL
	High Yield	HYG	ISHARS-IBX HYCB	84.41	0.11	(3.13)	2.50	4.44	3.51	83.12	84.73	1.56%	-0.38%	SELL
	Cash	BSV	VANGD-SHT TRM B	78.71										

REAL INVESTMENT ADVICE

Sector & Market Analysis:

Sector-by-Sector

This past week:



Discretionary, Technology, Industrials, Materials, Energy, Staples, Financials, and Communications - Last week I noted that all of these sectors climbed above their respective 50-dma's and were holding support. This week, they all retested their support levels and rallied into the end of the week which is very bullish short-term. However, each sector is now VERY overbought short-term. If you are long, take profits and rebalance portfolio risks accordingly. All positions should maintain a tight stop at the running 50-dma.

Current Positions: *XLP - Stop moved up to $52.*

Health Care and Real Estate are both above their respective 50- and 200-dma's. Real estate exploded higher last week, which is interesting considering the "offensive" move in the markets. Health Care, on the back of several earnings missives, pulled back to support at the 50-dma. Both sectors are extremely overbought so stops should be raised to just below their respective 50-dma's.

Utilities I noted last week that Utilities had bounced off the 200-dma for the 3rd-time in recent weeks solidifying support. Along with Health Care and Real Estate, there is an improving backdrop in the "defensive" side of the S&P 500. Utilities ran into its 50-dma and pulled back on Friday as the markets turned *"risk on."* We did add a position in Utilities to our portfolios last week.

Current Positions: *XLU added. Stop is $51.50*



Small-Cap and Mid Cap - both of these markets are currently on macro-sell signals but did rally above their respective 50-dma's and retested that support last week. Small and Mid-Cap stocks tend to perform better than their large-cap brethren during the month of February, however, that means during a decline they don't fall as much. So be careful with media-cheer leading. The overall trend remains negative and, while on short-term *"buy signals,"* both markets are now back to extreme short-term overbought conditions. Look for a pullback to reduce some of the overbought condition before adding exposure with tight-stops.

Current Position: *None*

Emerging, International & Total International Markets -

> **Note: We have added IXUS to our watch list which combines Emerging and International Markets.**

Both international markets have climbed above their respective 50-dma's. Last week, Emerging Markets are testing the underside of their longer-term moving average resistance. Currently, extremely overbought, a correction is needed with supports holding to add positioning.

Major International & Total International shares are extremely overbought but not performing nearly as well as Emerging Markets. Keep stops tight on existing positions, but no rush here to add new

exposure. Emerging Markets are much more interesting.

Stops should remain tight at the running 50-dmas.

Current Position: *None*

Dividends, Market, and Equal Weight - Not surprisingly, given the rotation to *"defensive"* positioning in the market, dividend-based S&P Index continues to outperform other weighting structures. The overall market dynamic remains negative and markets are pushing into very tough levels of overhead resistance. Take profits and tighten stops up to the running 50-dma's.

Current Position: *RSP, VYM, IVV*

Gold ? We have been discussing a pullback in Gold to add exposure to portfolios. The pullback was in progress until Friday when the rumors swirled that the Fed would cease their balance sheet reductions. With that Gold exploded higher completely reversing the sell-off that was in progress.

Gold remains very-overbought short-term, BUT given the short-term pullback and break above recent highs, the entry point for Gold has been pushed up to $122 with stops raised to $121.

Current Position: *GDX (Gold Miners)*

Next Position: *GLD - Buy Target: $122.00, Sell-Stop: $121*

Bonds ?

> **Note: We have added HYG (High Yield) and BNDX (International Bonds) to our watch list.**

Last week, we noted that the pullback in bonds to support occurred we added to our bond holdings.

Current Positions: *DBLTX, SHY, TFLO, GSY*

High Yield Bonds, representative of the *"risk on"* chase for the markets have surged back to previous highs after the rout last year. International Bonds, also another area of very *"high risk"* have surged off to the moon as well.

These two areas are the very definition of "risk appetite" by investors and given the extreme overbought conditions is suggestive the recent run in the markets may be closer to a corrective phase in February.

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	OB	Negative	Negative	No Position					X	Above 50-DMA
XLK	Technology	OB	Negative	Negative	No Position					X	Above 50-DMA
XLI	Industrials	OB	Negative	Negative	No Position					X	Above 50-DMA
XLB	Materials	OB	Negative	Negative	No Position					X	Above 50-DMA
XLE	Energy	OB	Negative	Negative	No Position					X	Above 50-DMA
XLP	Staples	OB	Stabilizing	Neutral	Hold			X			Above 50-DMA
XLV	Health Care	OB	Stabilizing	Neutral	Hold					X	Above 50 & 200 DMA
XLU	Utilities	OB	Positive	Positive	Hold			X			Added 1/2 Position
XLF	Financials	OB	Negative	Negative	No Position					X	Above 50-DMA
XLC	Telecom	OB	Negative	Negative	No Position			X			Above 50-DMA
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Above 50 & 200 DMA
SLY	Small Caps	OB	Negative	Negative	No Position					X	Above 50-DMA
MDY	Mid Caps	OB	Negative	Negative	No Position					X	Above 50-DMA
EEM	Emerging Mkt	OB	Negative	Improving	Trade Oppty					X	Trade Opportunity Forming
EFA	International	OB	Negative	Negative	No Position					X	Above 50-DMA
IXUS	Total International	OB	Negative	Negative	No Position					X	Above 50-DMA
GLD	Gold	OB	Positive	Improving	Buy @120		X				Tradeing Opportunity
RSP	SP500 Equal Wgt	OB	Negative	Negative	Hold			X			Above 50-DMA
SDY	SP500 Dividend	OB	Stabilizing	Negative	Hold			X			Above 50-DMA
IVV	SP500 Market Wgt	OB	Negative	Negative	Hold			X			Above 50-DMA
TLT	20+ Yr. Bond	Rising	Positive	Improving	Added		X				Added To Bond Holdings
HYG	Corporate High Yield	OB	Negative	Improving	No Position			X			Way Too Overbought Currently
BNDX	Int'l Bond Aggregrate	OB	Positive	Positive	No Position			X			Way Too Overbought Currently

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

Portfolio/Client Update:

As I noted last week, the rally has pushed into the our maximum resistance zone. However, the good news is that the 50-dma did successfully hold a test last week which potentially sets the market up to rally to the 200-dma.

Such will likely be the case if the Fed does indeed suggest at their meeting next week that they are going to stop their QT process. A failure to make that announcement, or a more hawkish than expected stance, could see a quick reversal in the markets.

Given the "unknown" of what will be announced, it is best to just stand aside and let it happen and then respond accordingly.

- ***New clients:*** *We will add to our core positions on any pullback in the next week or so. Our core positions are our long-term holds for inflation adjustments to income production. Tactical positions for growth will be added accordingly as needed.*

- ***Equity Model:*** *We sold ABBV and PFE last week due to underperformance and disappointing earnings. We added MSFT, UTX, HCA, and YUM brands to our long-term holdings.*
- ***Equity/ETF blended*** *- Same as the equity model.*
- ***ETF Model****: No changes last week.*

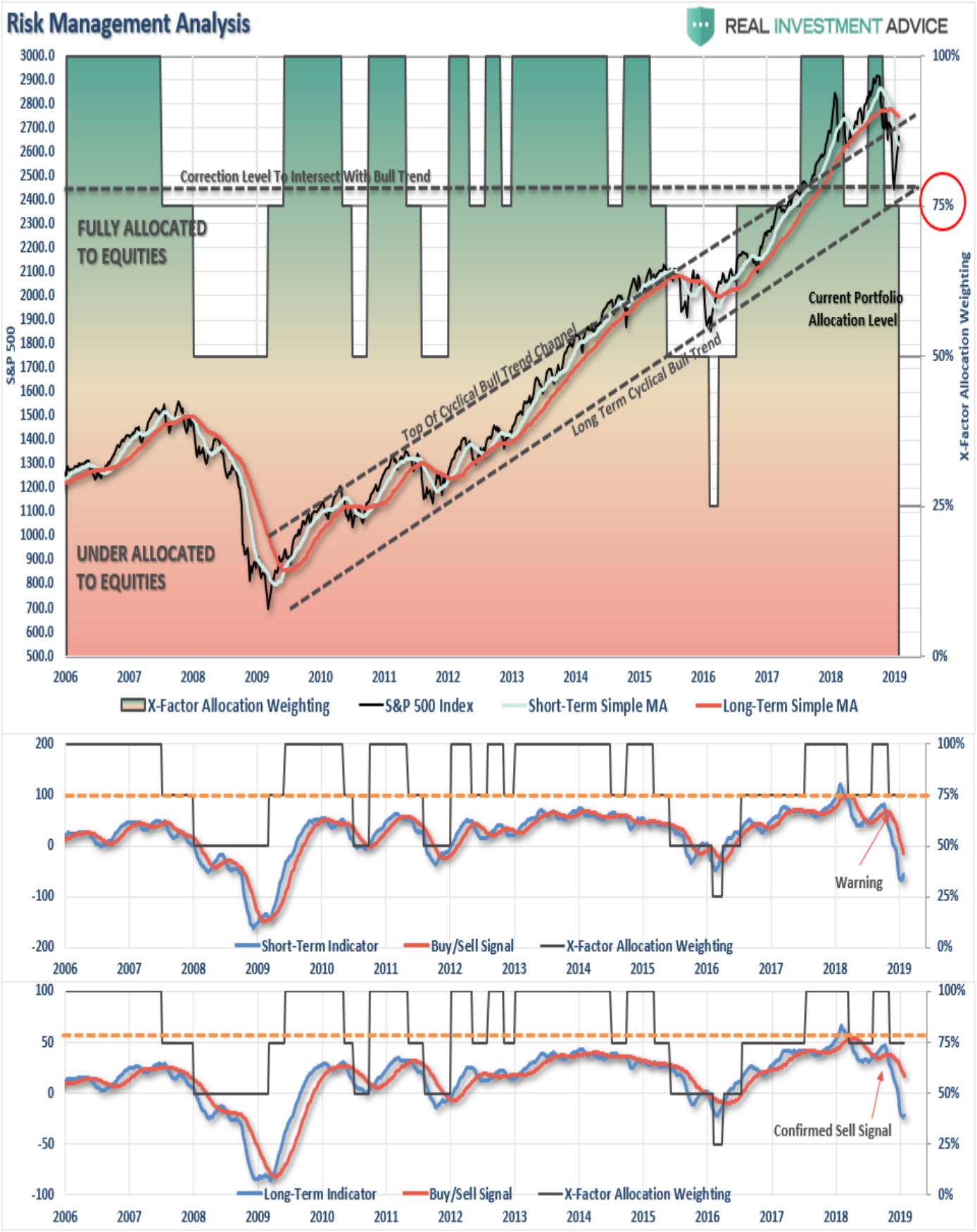
There are some changes afoot, as noted above, which could indeed reverse the current bearish trend of the market. However, we are a long way from that happening and the downside risk currently dwarfs the upside reward.

Note for new clients:

It is important to understand that when we add to our equity allocations, ALL purchases are initially *?trades?* that can, and will, be closed out quickly if they fail to work as anticipated. This is why we *?step?* into positions initially. Once a *?trade?* begins to work as anticipated, it is then brought to the appropriate portfolio weight and becomes a long-term investment. **We will unwind these actions either by reducing, selling, or hedging, if the market environment changes for the worse.**

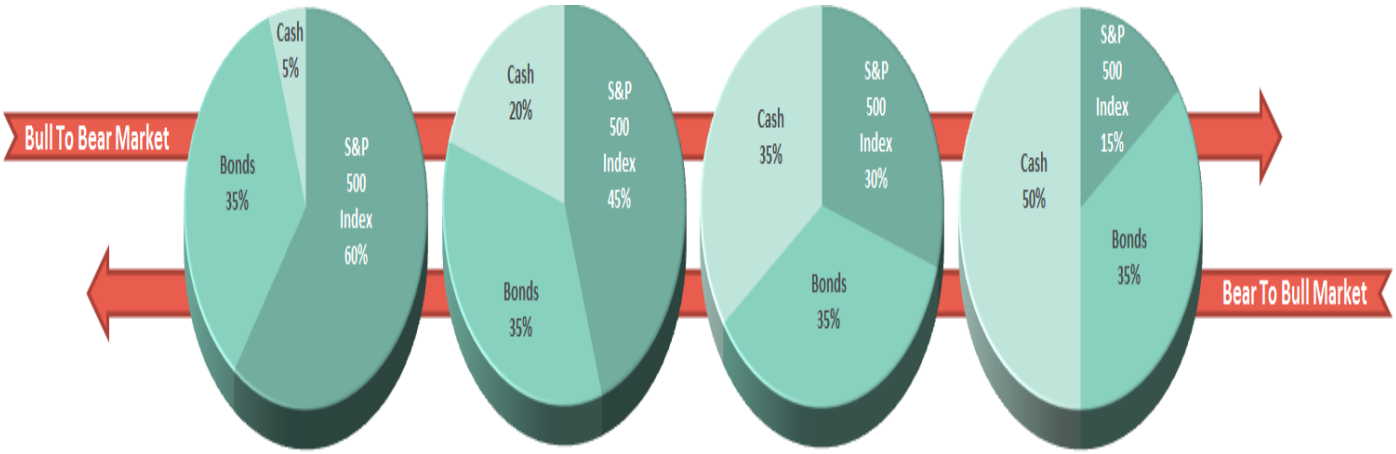
THE REAL 401k PLAN MANAGER

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.*



Too Far, Too Fast

Over the last couple of weeks, we have watch a sharp rally in stocks as Washington, The Fed, and Global Central banks have put their best foot forward to provide a "put" underneath stock prices following the rout last year.

That continued to be the case this past week, but now the rally is pushing into exhaustion territory. We continue to recommend taking some action in plans if you haven't done so already. We are going to get a correction, the only question is the timing of it.

- *If you are **overweight equities** - 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** hold for now.*

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.**

Unfortunately, since 401k plans don't offer a lot of flexibility and have trading restrictions in many cases, **we have to minimize our movement and try and make sure we are catching major turning points.**

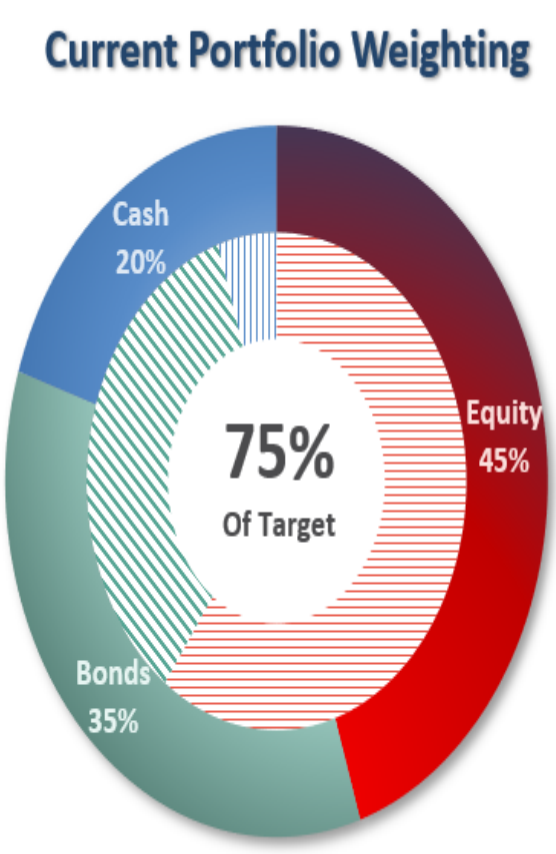
We want to make sure that we are indeed within a bigger correction cycle before reducing our risk exposure further.

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