



Real Investment Report



Fed Caves Bulls Run

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

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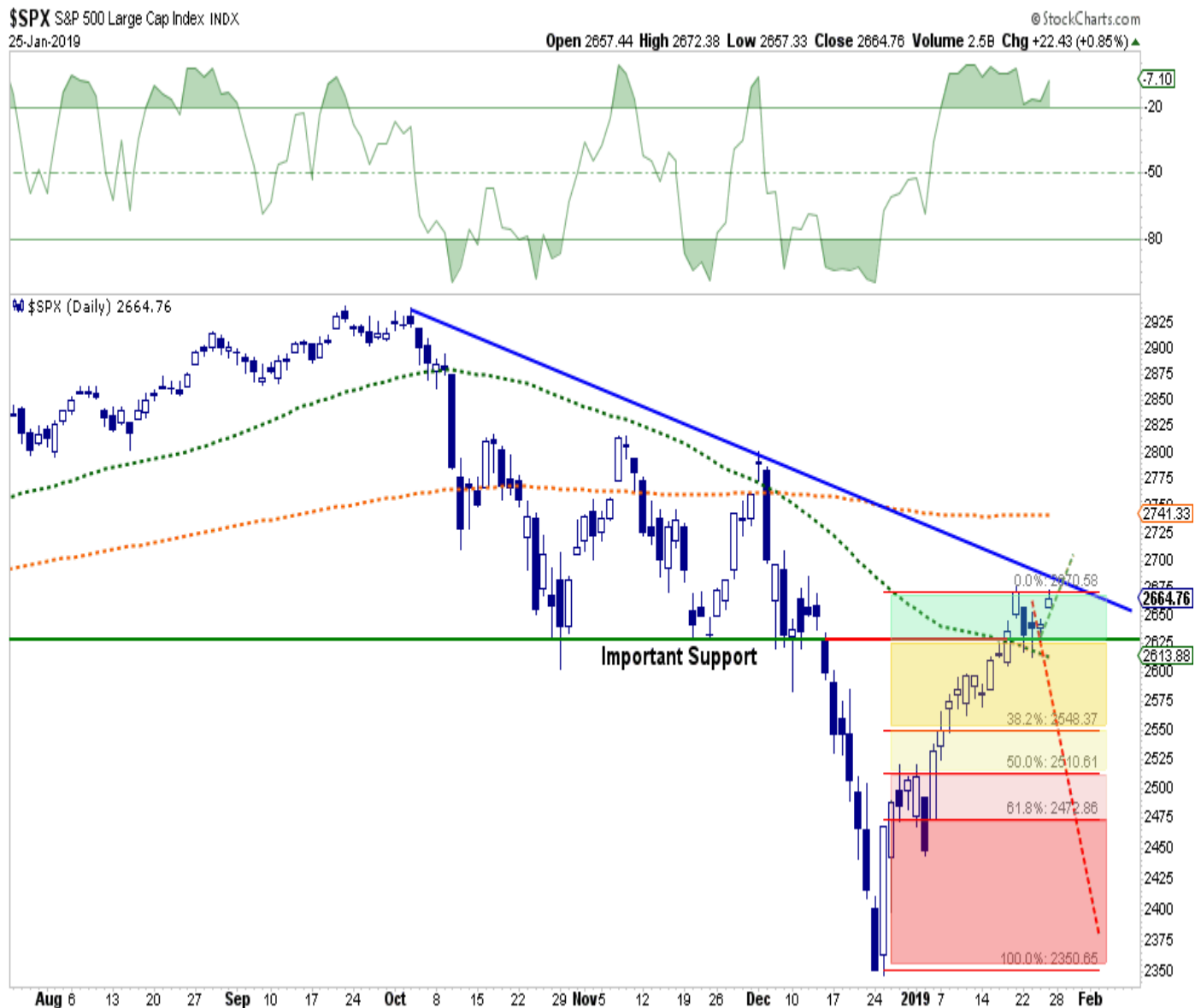
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I could almost just reprint [last week's newsletter](#) as not much changed during the week.

"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."

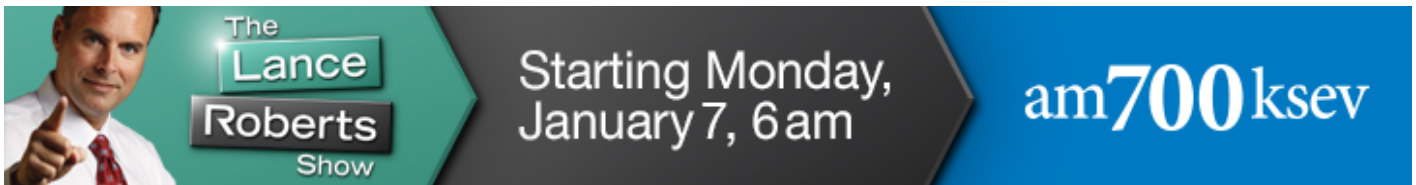


As I discussed previously, what was needed for the bulls to gain control of the narrative were several important issues:

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.☛



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." •

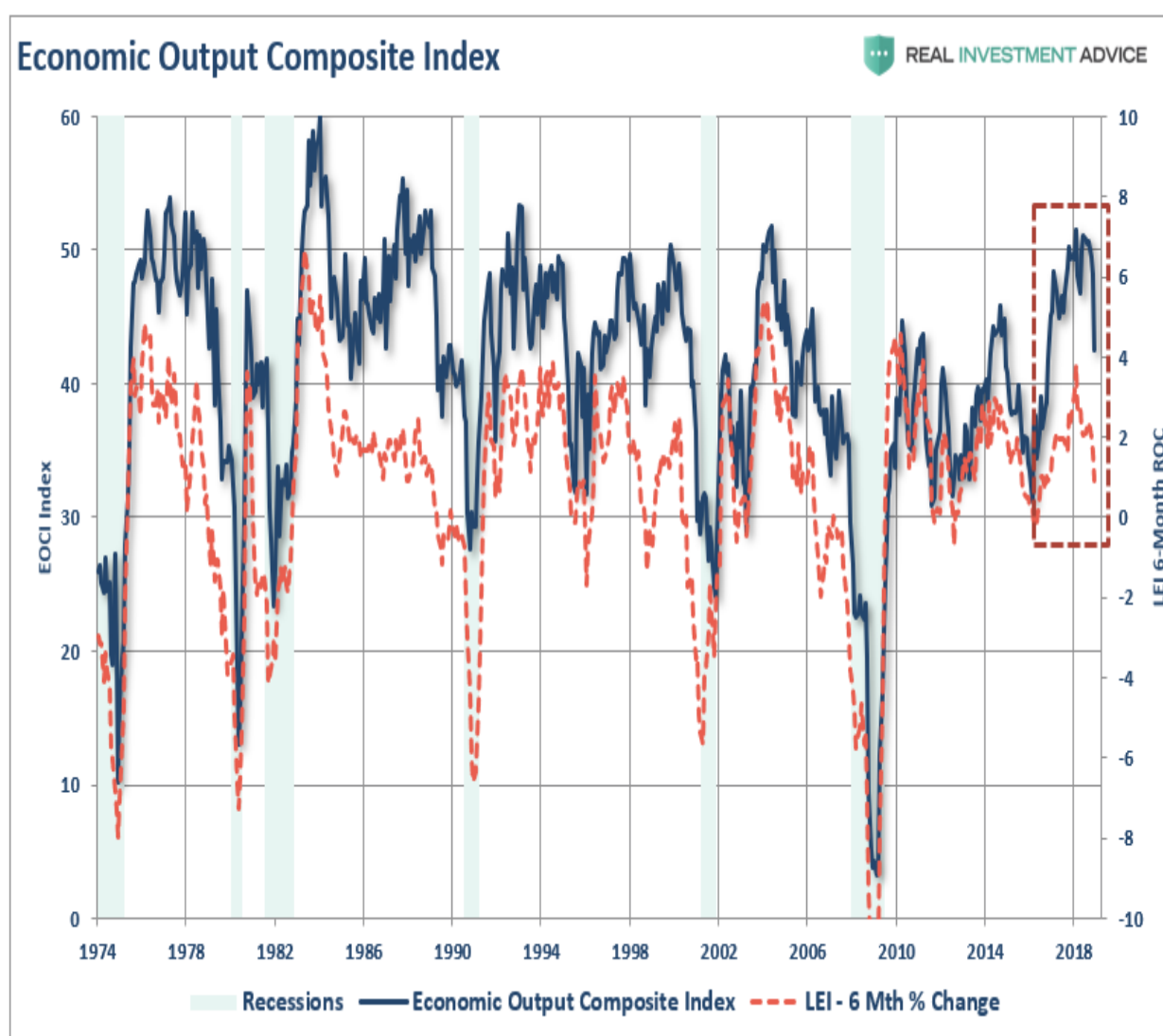
We are seeing very strong chain sales. We don't get the retail sales report right now and we see very strong manufacturing production. And in particular, this is my favorite with our corporate tax cuts and deregulation, we're seeing a seven-month run-up of the production of business equipment, which 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](#).•

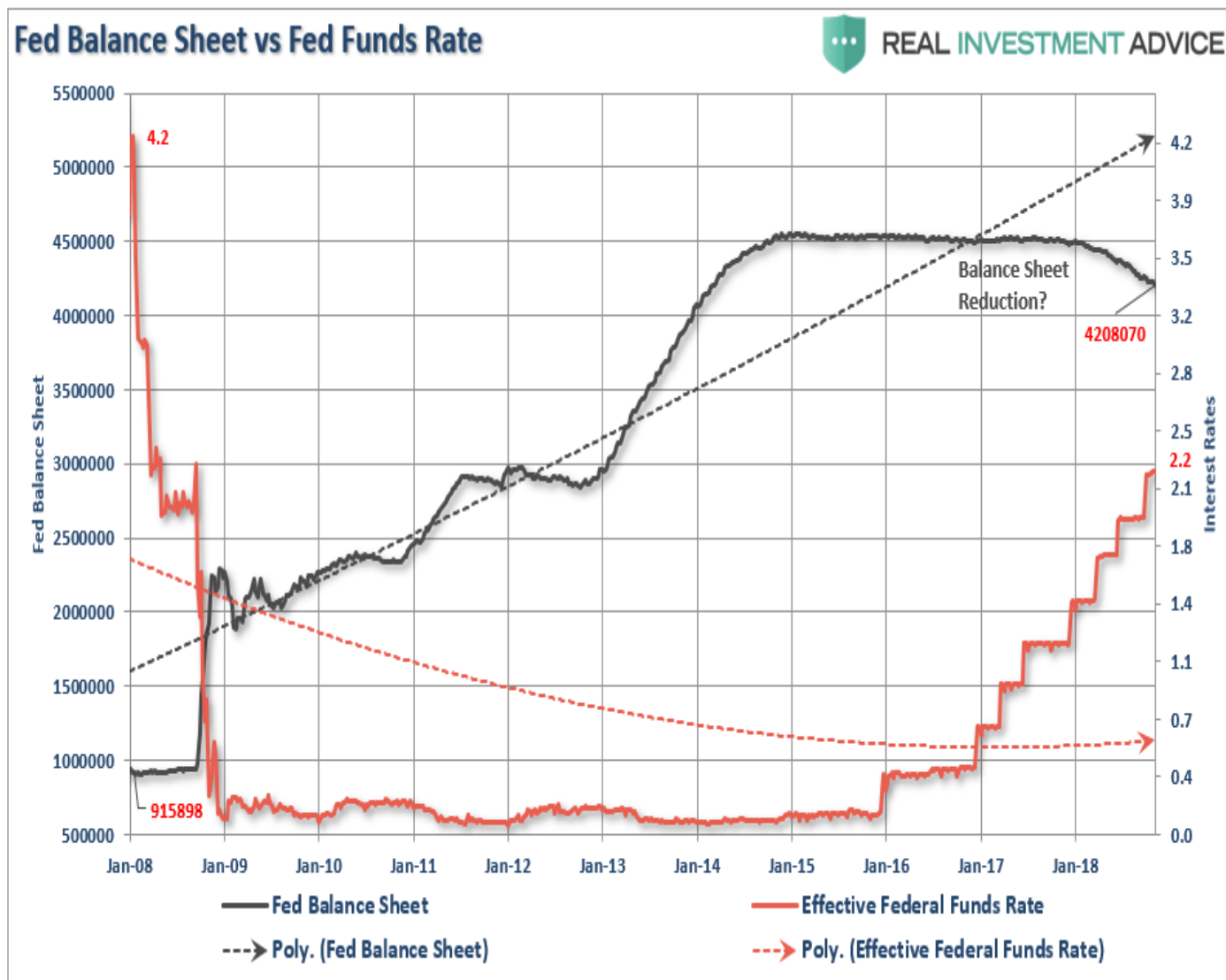
"As shown, over the last six months, the decline in the LEI has actually been sharper than originally anticipated. Importantly, there is a strong historical correlation between the 6-month rate of change in the LEI and the [EOCI](#) index. As shown, the downturn in the LEI predicted the current economic 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 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 its 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.

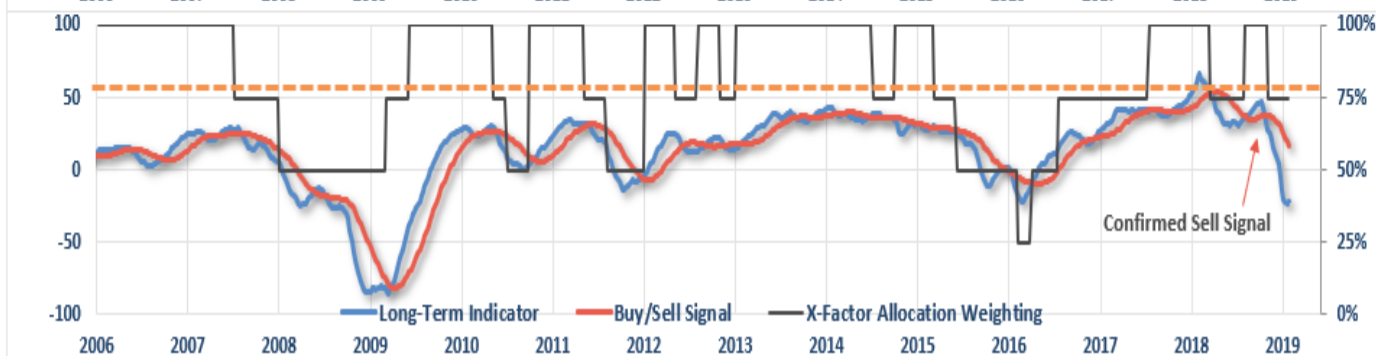
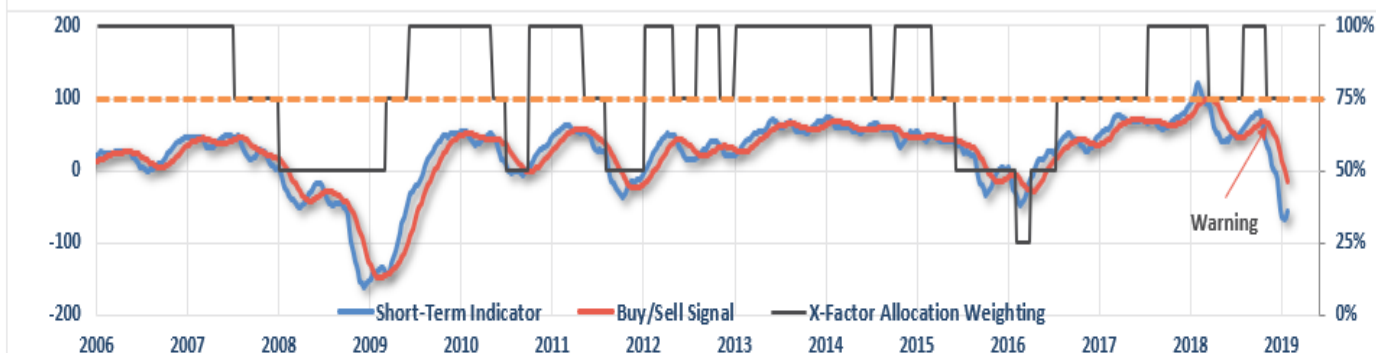
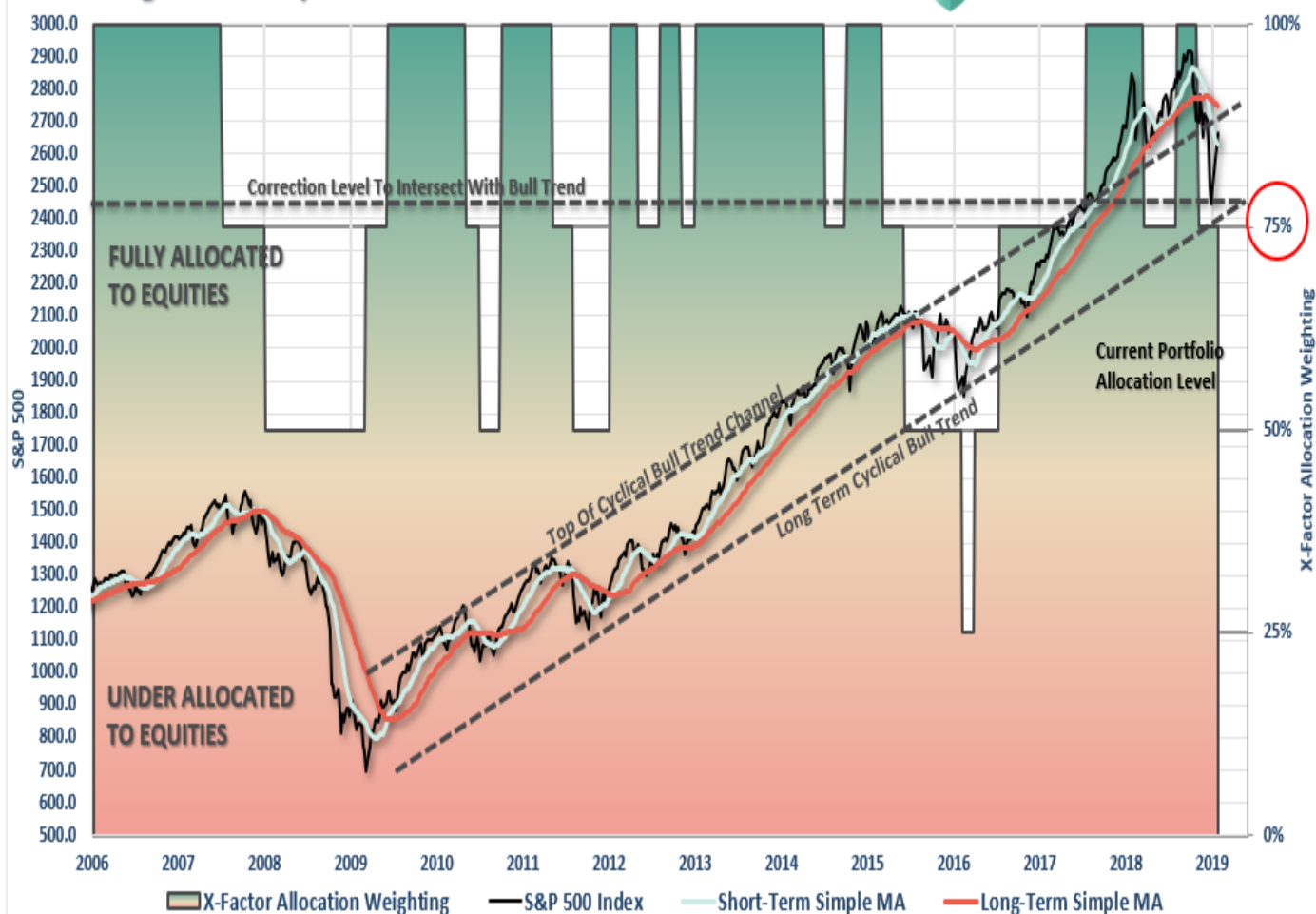
NEW IN 2019	LOOKING FOR THE REST OF THE NEWSLETTER? Market, Sector Analysis and Portfolio Positioning	CLICK HERE TO GO TO RIA PRO!
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THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors

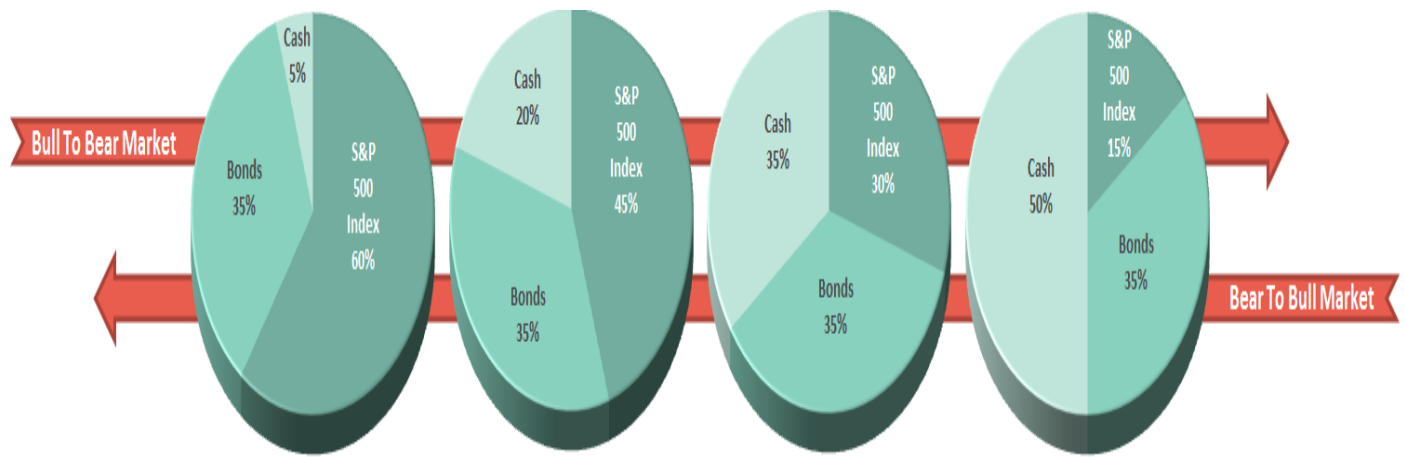
Risk Management Analysis

REAL INVESTMENT ADVICE



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. •

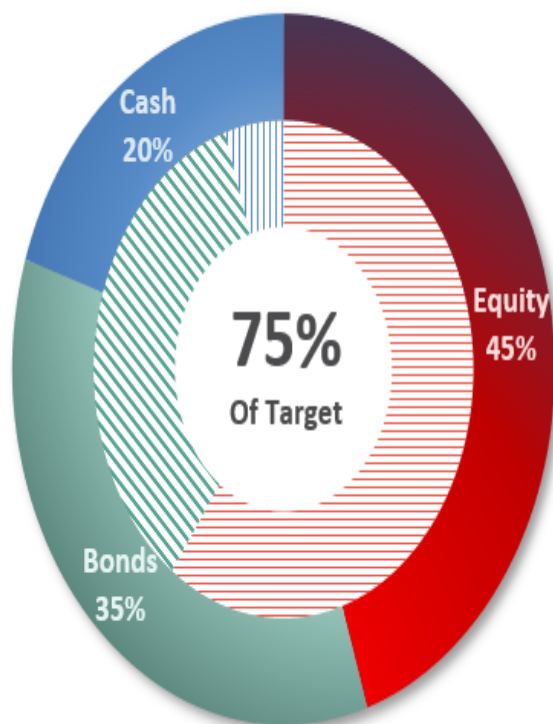
If you need help after reading the alert; don't hesitate to [contact me](#).

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 Portfolio Weighting



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	<i>Stable Value</i> <i>Money Market</i> <i>Retirement Savings Trust</i> <i>Fidelity MIP Fund</i> <i>G-Fund</i> <i>Short Term Bond</i>	Equity	
		Large Cap	<i>Vanguard Total Stock Market</i> <i>Vanguard S&P 500 Index</i> <i>Vanguard Capital Opportunities</i> <i>Vanguard PrimeCap</i> <i>Vanguard Growth Index</i> <i>Fidelity Magellan</i> <i>Fidelity Large Cap Growth</i> <i>Fidelity Blue Chip</i> <i>Fidelity Capital Appreciation</i> <i>Dodge & Cox Stock</i> <i>Hartford Capital Appreciation</i> <i>American Funds AMCAP</i> <i>American Funds Growth Fund Of America</i> <i>Oakmark Growth Fund</i> <i>C-Fund (Common Assets)</i> ALL TARGET DATE FUNDS 2020 or Later
Fixed Income	<i>Pimco Total Return</i> <i>Pimco Real Return</i> <i>Pimco Investment Grade Bond</i> <i>Vanguard Intermediate Bond</i> <i>Vanguard Total Bond Market</i> <i>Babson Bond Fund</i> <i>Lord Abbett Income</i> <i>Fidelity Corporate Bond</i> <i>Western Asset Mortgage Backed Bond</i> <i>Blackrock Total Return</i> <i>Blackrock Intermediate Bond</i> <i>American Funds Bond Fund Of America</i> <i>Dodge & Cox Income Fund</i> <i>Doubleline Total Return</i> <i>F-Fund</i>	Balanced Funds	<i>Vanguard Balanced Index</i> <i>Vanguard Wellington Fund</i> <i>Vanguard Windsor Fund</i> <i>Vanguard Asset Allocation</i> <i>Fidelity Balanced Fund</i> <i>Fidelity Equity Income</i> <i>Fidelity Growth & Income</i> <i>American Funds Balanced</i> <i>American Funds Income Fund</i> ALL TARGET DATE FUNDS 2020 or Sooner
International	<i>American Funds Capital World G&I</i> <i>Vanguard Total International Index</i> <i>Blackrock Global Allocation Fund</i> <i>Fidelity International Growth Fund</i> <i>Dodge & Cox International</i> <i>Invesco International Core Equity</i> <i>Goldman Sachs International Growth Opp.</i>	Small/Mid Cap	<i>Vanguard Mid Cap Growth</i> <i>Fidelity Mid Cap Growth</i> <i>Artisan Mid Cap</i> <i>Goldman Sachs Growth Opportunities</i> <i>Harbor Mid Cap Growth</i> <i>Goldman Sachs Small/Mid Cap Opp.</i> <i>Fidelity Low Price Stock Fund</i> <i>Columbia Acorn US</i> <i>Federated Kaufman Small Cap</i> <i>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.