



Real Investment Report

# Is It A (Bull) Trap?



- *Is It A (Bull) Trap?*
- *Sector & Market Analysis*
- *401k Plan Manager*

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INVESTMENT  
ADVICE**

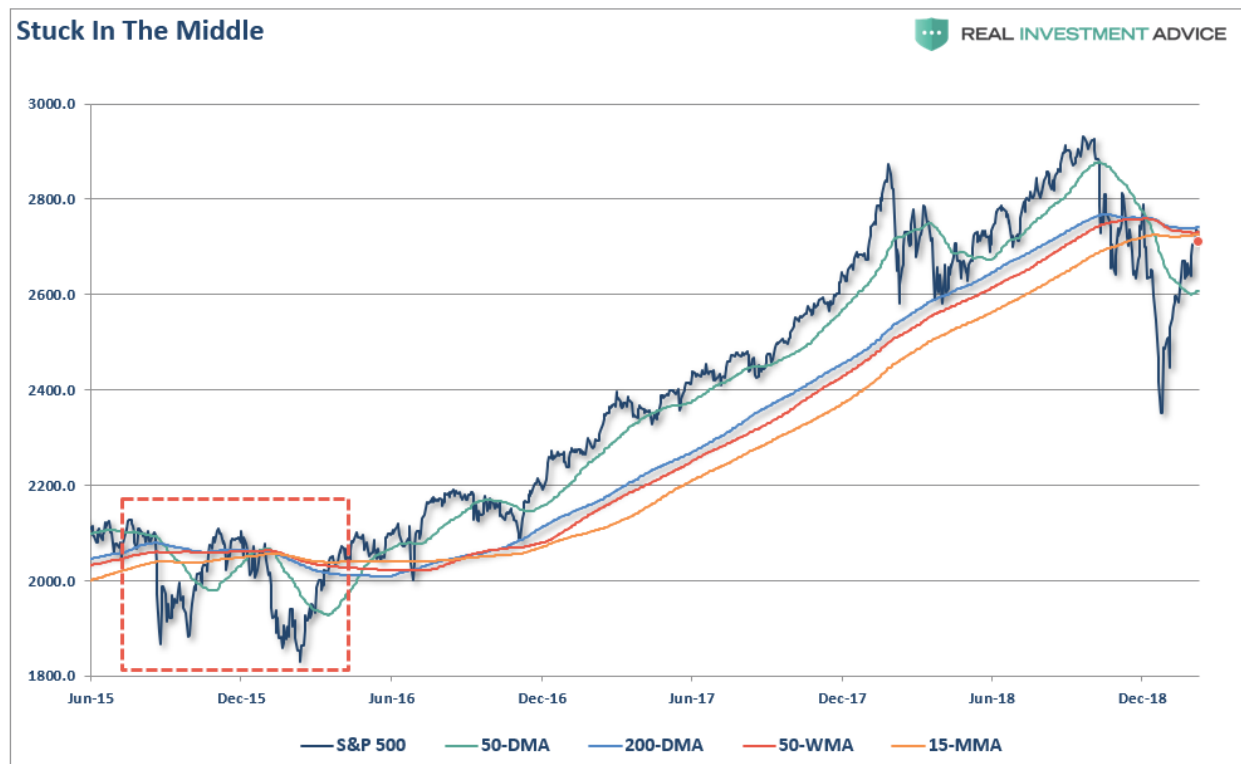
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On Tuesday, I discussed the issue of the markets being stuck between various short and longer-term moving averages. [To wit:](#)

*"Despite those more macro-concerns, the market has had a phenomenal run from the 'Christmas Eve' lows and has moved above both the Oct-Nov lows and the 50-dma. **This is clearly bullish in the short-term for investors. With those levels of previous resistance now turned support, there is a little cushion for the bulls to hold on to.***

*The biggest hurdle for a bullish advance from current levels is the cluster of resistance sitting just overhead. Sven Heinrich **noted the market remains stuck below the collision of the 200-day, the 50-week, and the 15-month moving averages.***



*"As shown, this set up previously existed back in late 2015 and early 2016. The initial challenge saw the market actually break back above the cluster of resistance, which ?sucked the bulls? back into the market before setting new lows."*

There are two things driving the advance currently.

**The first, is the Fed.**

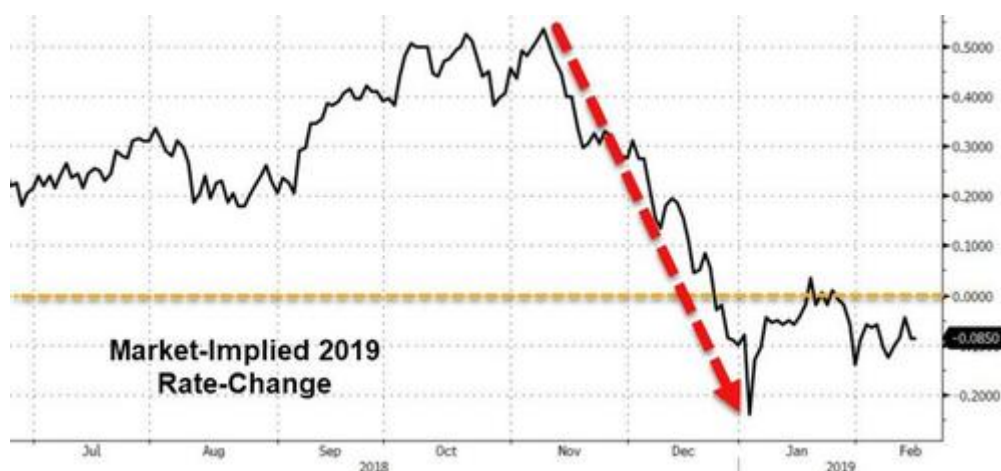
As we discussed with our [RIA PRO subscribers](#) (use code **PRO30** for a 30-day free trial) last week,

*"Today, [Cleveland Fed Reserve Governor Loretta Mester] all but put the kibosh on further rate hikes and, per Mester?s comments, will end balance sheet reduction (QT) in the months ahead."*

[John Rubino](#) also made an important note in this regard as well.

*"Take the world that we were in over the past five years and flip it upside down. **For the Fed, the risk that another rate increase could cause significant economic harm outweighs the risk that not raising rates could lead to slightly higher inflation.**" - Gennady Goldberg, TD Ameritrade.*

And with that, the odds of a rate "hike" in 2019 have evaporated in favor of a rate "cut."



However, the problem for the Fed is that they have now effectively "boxed" themselves in. As John notes:

*"If caving to the stock market re-energizes the bond market, leading corporations to increase their already record-high debt load, that will boost economic growth while raising both inflation and commodity/real estate prices ? **thus forcing the Fed to go back to tightening, thus causing chaos in the financial markets**, thus forcing the Fed to back off and return to easing. And so on, with each iteration ratcheting up overall leverage in the economy."*

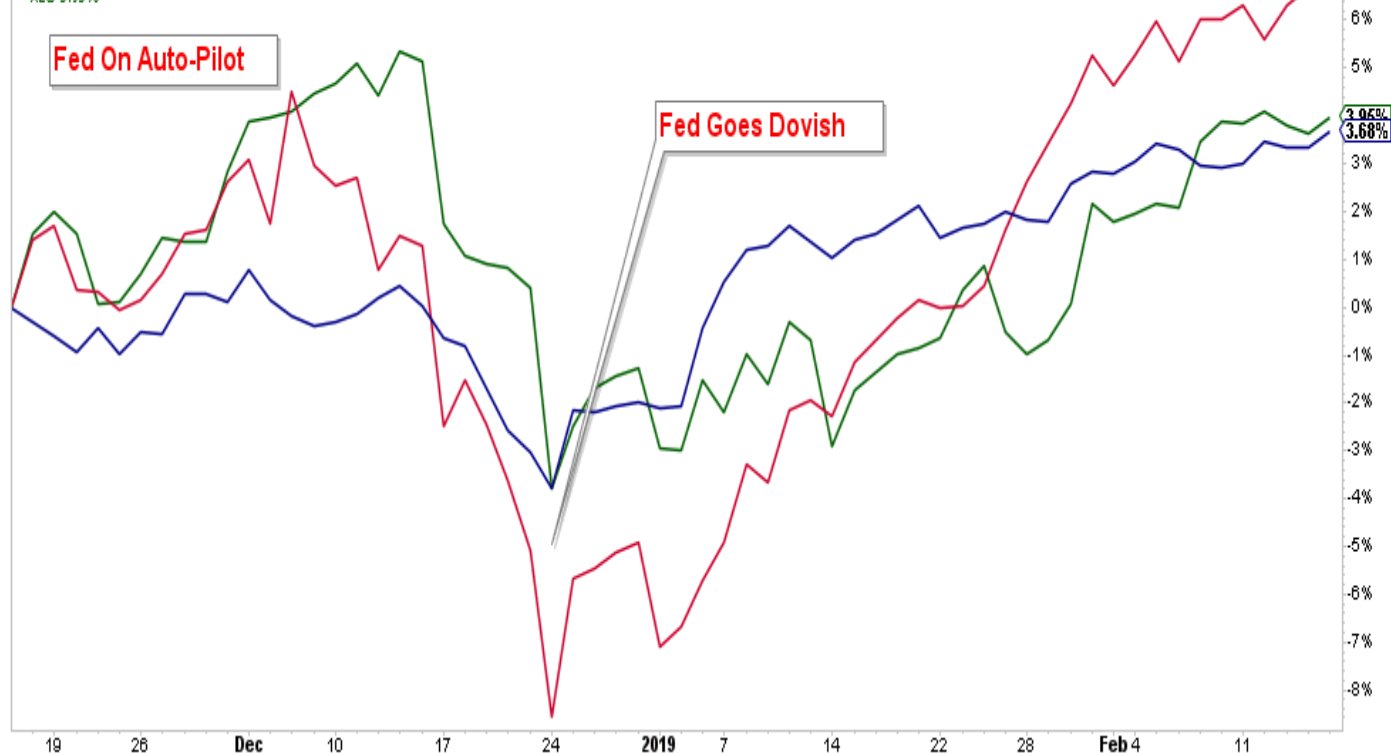
**Opps....Too Late**

*(Real Estate, Junk Bonds, & Utilities)*

HYG (Daily) 3.68%

XLRE 7.34%

XLU 3.95%



## The second, is "hope."

On Friday, on headlines that talks are continuing with China, the market pushed through those resistance levels as shown below.

## "Not" Stuck In The Middle



While there is nothing wrong with "*hoping*" for a positive outcome from "*trade talks*," the rush to "*buy*" equities has effectively "*priced in*" the best of all possible outcomes. This leaves investors vulnerable a whole host of possible disappointments:

1. *Trade deal isn't reached as China refuses to give in to demands for economic reform.*
2. *Trade deal is made but the magnitude of concessions is disappointing.*
3. *Trade deal gets extended, again, with no real progress towards a "deal."*
4. *Trade deal made and tariffs are ended, but such is likely already priced into current asset prices.*
5. *Trade negotiations collapse. (Worst possible outcome.)*

The point here is that there are few outcomes for the trade deal which are extremely optimistic which would support a further surge in assets prices. **The most likely outcome is this simply a "*buy the rumor, sell the news*" type event, and if the news is bad, the resulting sell-off could be substantial.**

## Market Has Gotten Way Ahead Of Itself

As I noted [last weekend](#):

*"While I am not suggesting that the markets are about to suffer a 10% correction, I am suggesting, as I wrote this past week, is that the markets have been ['Too Fast & Too Furious.'](#)"*

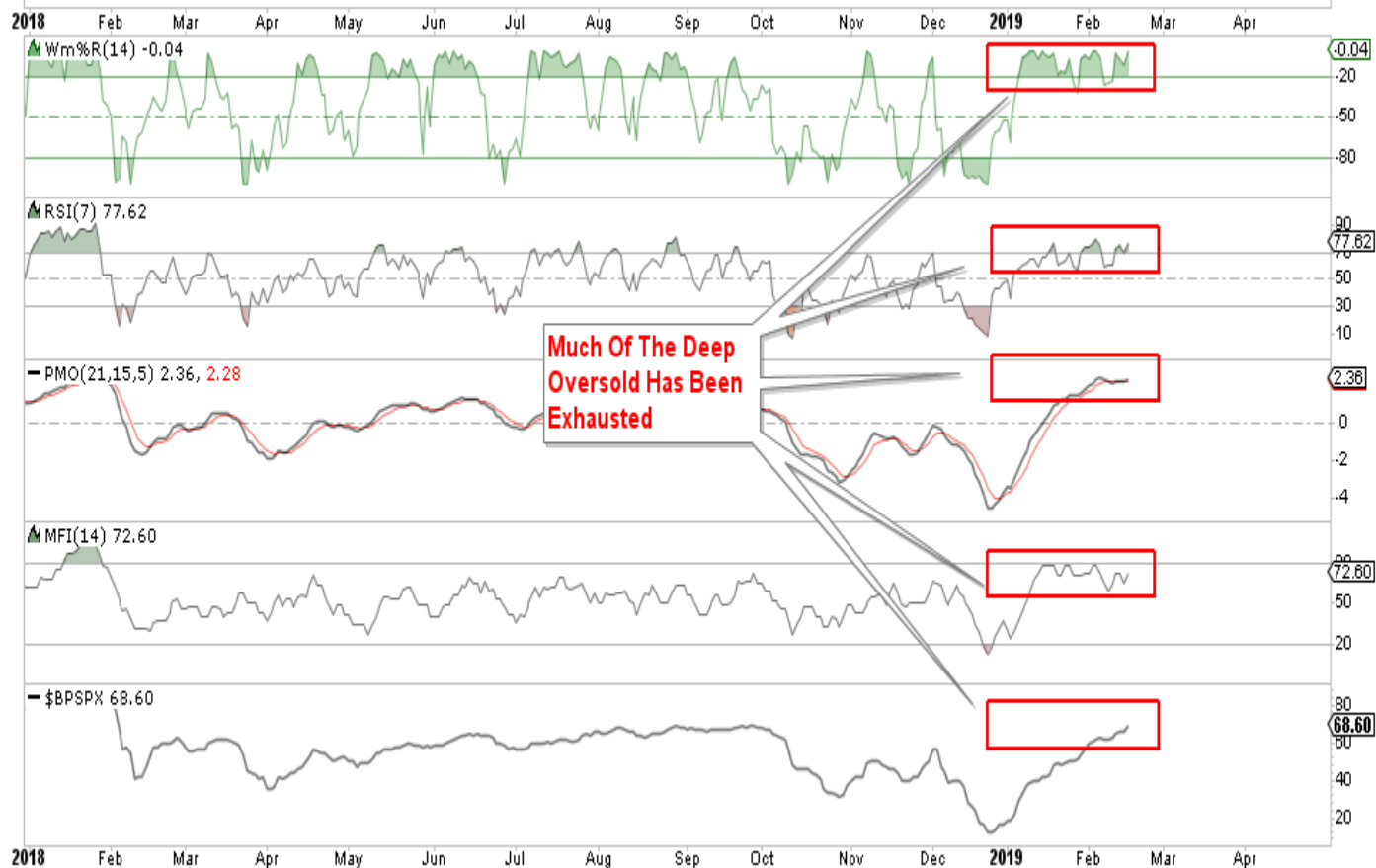
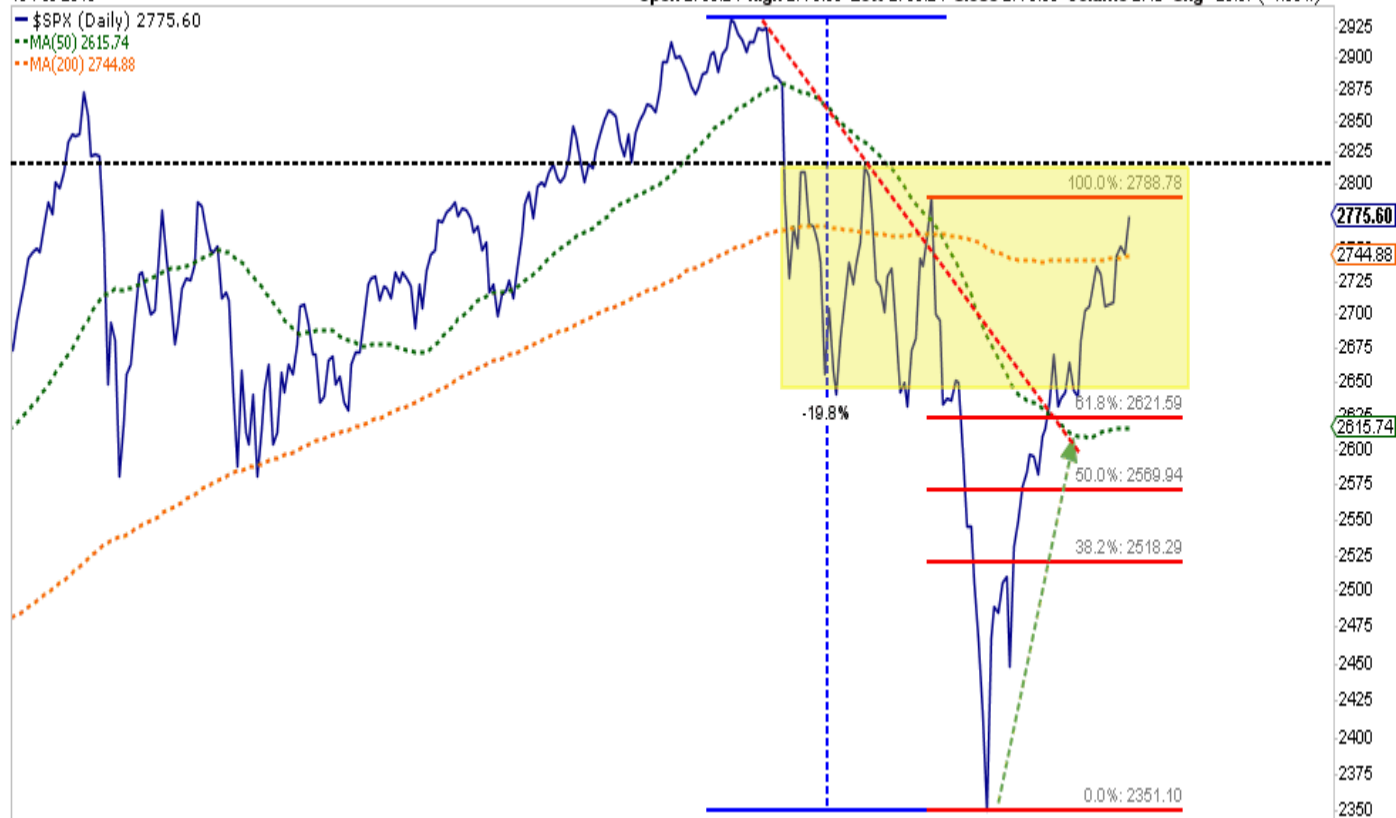
*"Short-term technical indicators also show the violent reversion from extreme oversold conditions back to extreme overbought."*

\$SPX S&P 500 Large Cap Index INDX

15-Feb-2019

© StockCharts.com


Open 2760.24 High 2775.66 Low 2760.24 Close 2775.60 Volume 2.4B Chg +29.87 (+1.09%) ▲



(Chart updated through Friday's close)

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.

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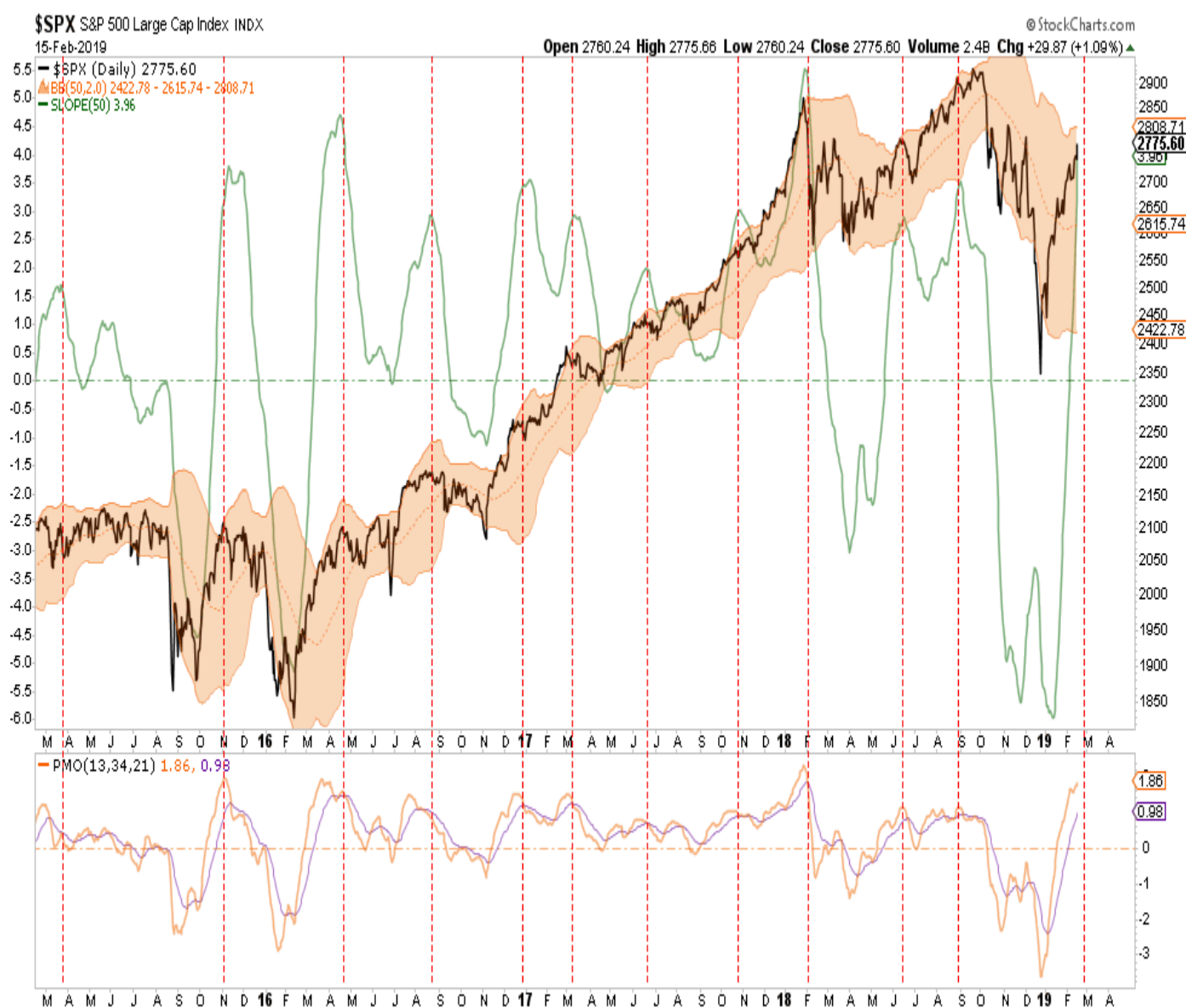


The  
**Lance  
Roberts**  
Show

Starting Monday,  
January 7, 6am

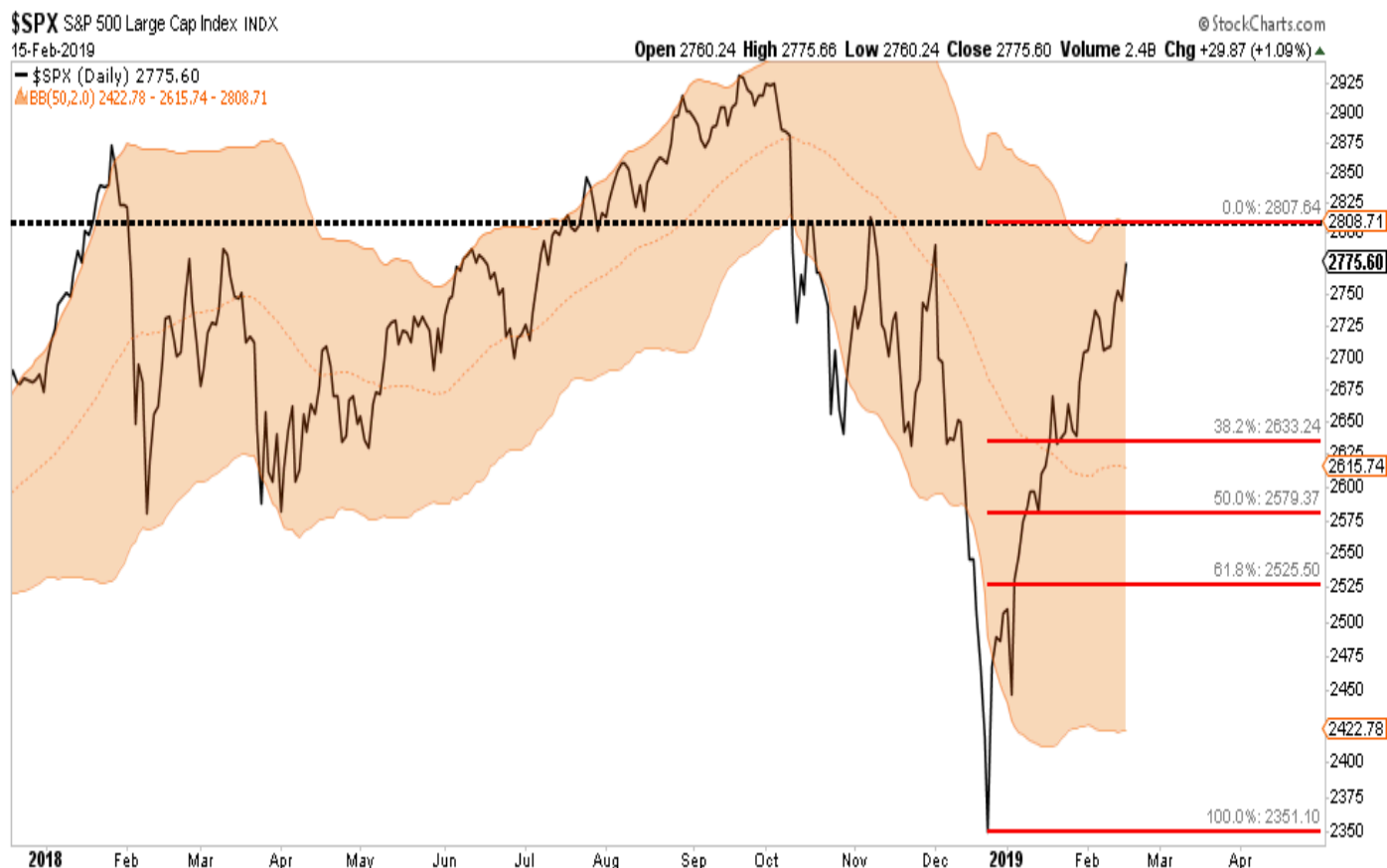
am**700**ksev

As we have discussed previously, **price movements are very much confined by the "physics" of technicals**. When deviations from underlying moving averages become too great, reversions to mean tend to occur with great regularity throughout history. The chart below shows the S&P 500, the slope of the advance, price momentum, and its deviation from the 50-day moving average.



Not surprisingly, when markets are as extended as they are currently, price corrections have not previously been too far away. Given the magnitude of the advance from the December 24th lows, **we can use a Fibonacci sequence to "guesstimate" the magnitude of a corrective process**.





First, I am making the assumption the momentum of the market continues to push stocks toward the psychologically important level of 2800 on the index over the next few days.

**A correction following that rally SHOULD be highly anticipated.**

**Level 1 = 38.2%:** The first correction to relieve some of the extreme overbought condition of the market, and provide investors with a better opportunity to increase equity risk is at the 38.2% retracement level. This would be a retest of the support levels from the Oct-Nov lows and the 50-dma. **(Bullish)**

**Level 2 = 50%:** If the markets are unable to hold support at the Level 1 correction, then a fall to the 50% level is highly likely. Such a correction is much more bearish in nature and suggests a retest of the December 24th lows is probable. **(Bearish)**

**Level 3 = 61.8%:** If the markets get to this level, it is likely the markets will be oversold short-term and a bounce likely. However, that bounce should be sold into as a retest of lows is highly likely. **(Very Bearish)**

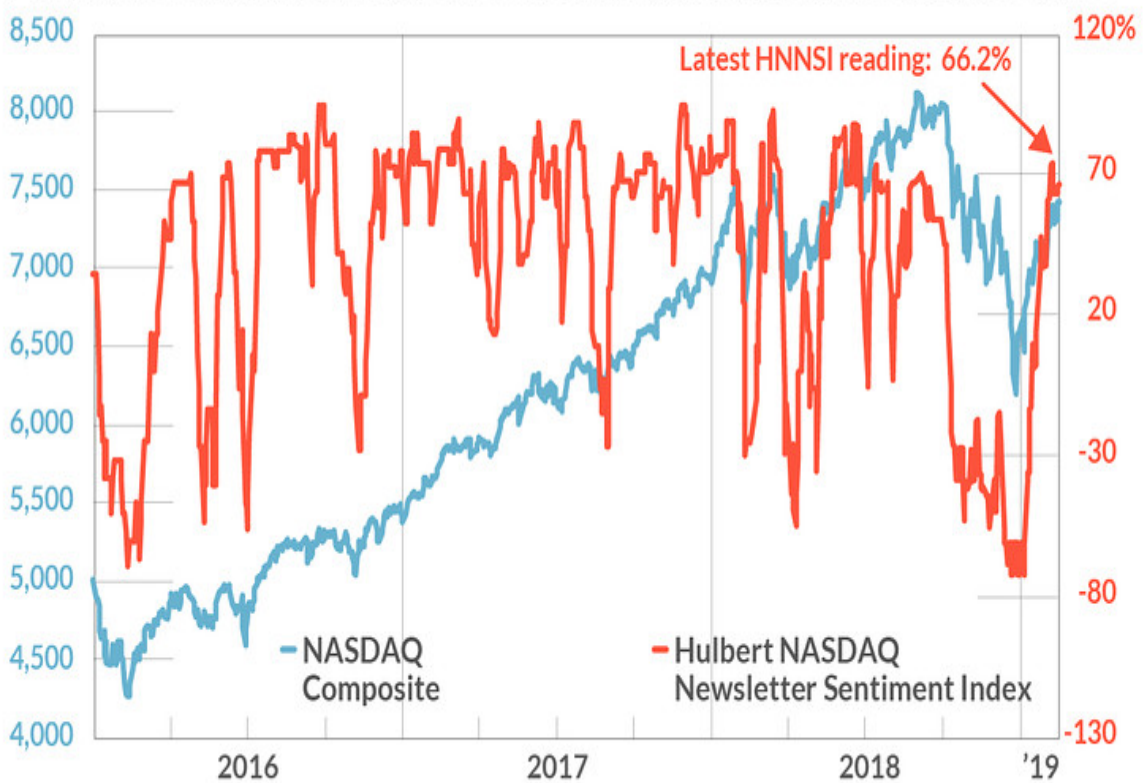
This analysis also corresponds to the extremely rapid reversion of both technical and sentiment measures.

As [Mark Hulbert](#) noted on Friday:

*"That's because the mood has shifted from the extreme pessimism that prevailed in late December to nearly as extreme optimism today. Some call current conditions a 'slope of hope.'"*

# Wall of Worry is now a Slope of Hope

Average recommended equity exposure among Nasdaq-oriented market timers\*



\*As measured by the Hulbert Nasdaq Newsletter Sentiment Index (HNNSI) Source: [www.HulbertRatings.com](http://www.HulbertRatings.com)

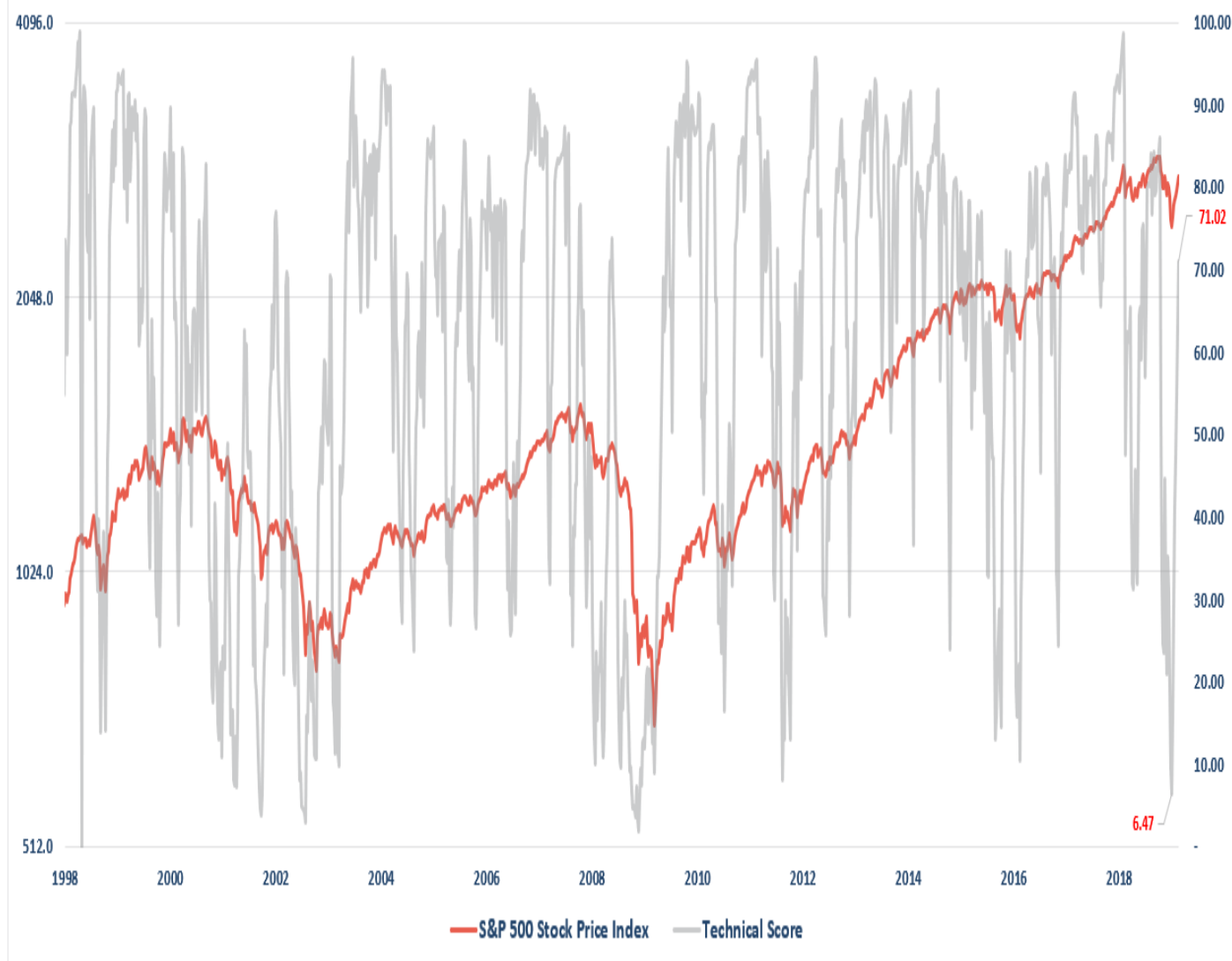
*"In other words, as you can see from the accompanying chart, in six weeks? time this group of short-term stock-market timers has increased their average equity exposure by more than 140 percentage points: Away from being aggressively bearish (recommending that clients allocate three-fourths of their trading portfolios to short-selling) to being almost as aggressively bullish (now recommending that three-fourths of clients? portfolios be long).*

*To be sure, this does not mean that a decline back to the December lows is imminent. Nevertheless, contrarian analysts are convinced that the sentiment winds are no longer blowing in the direction of higher prices."*

The same is true for our proprietary technical indicator which measures the "overbought/oversold" conditions of the market. **In 8-weeks, this indicator has reversed from one of the lowest reading in 25-years back to levels starting to push more extreme historical conditions without a corrective process along the way.**

## Technical Overbought/Sold Composite

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The important point here is that from a contrarian standpoint, markets have gotten way ahead of the underlying fundamentals. While the market may indeed end the year on a higher note, it will most likely not do that without lower prices first.

Like the 2015-2016 process noted in the *"Not Stuck In The Middle"* chart above, the bulls got *"all excited"* when the market broke above the confluence of moving averages at that time. **Over the next 2-months, the markets set new lows.**

This is a classic *"bull trap"* in the making which sucks investors in before inflicting as much pain as possible.

**Erring to the side of caution, for now,, will likely be the right choice.**

See you next week.

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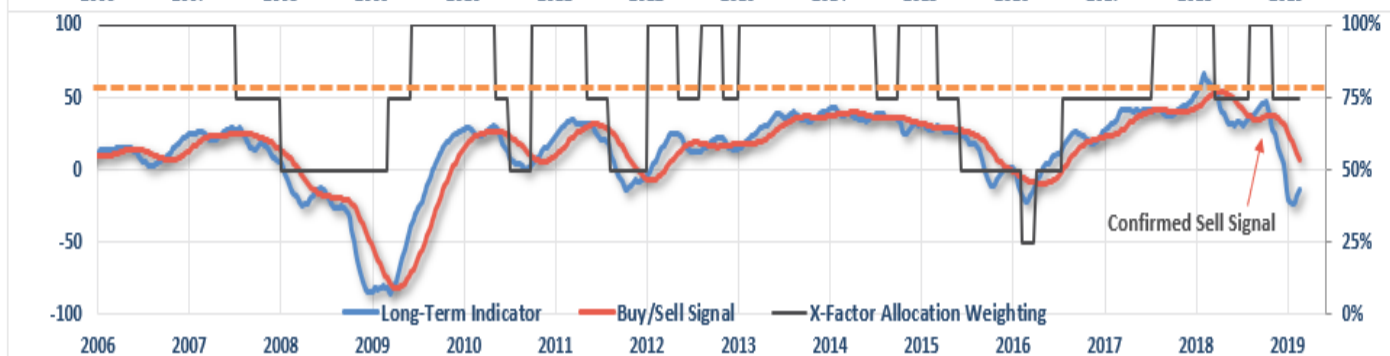
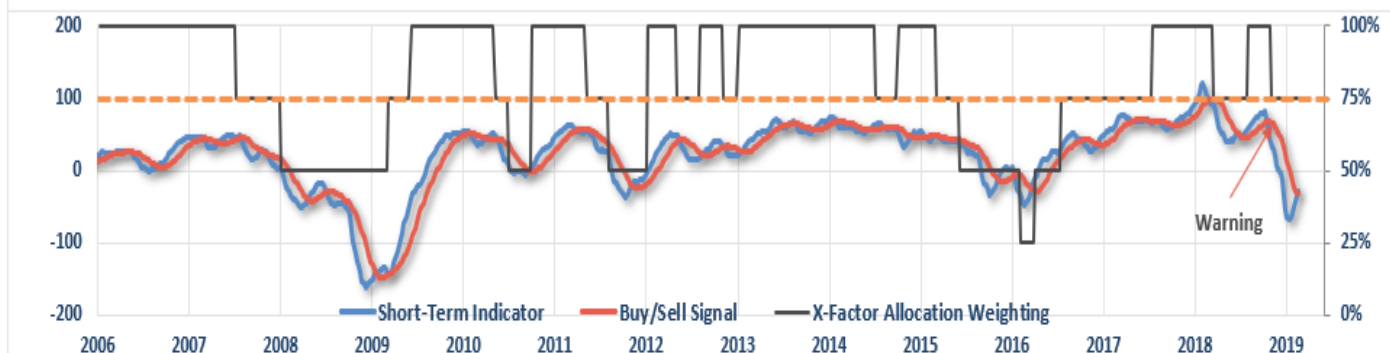
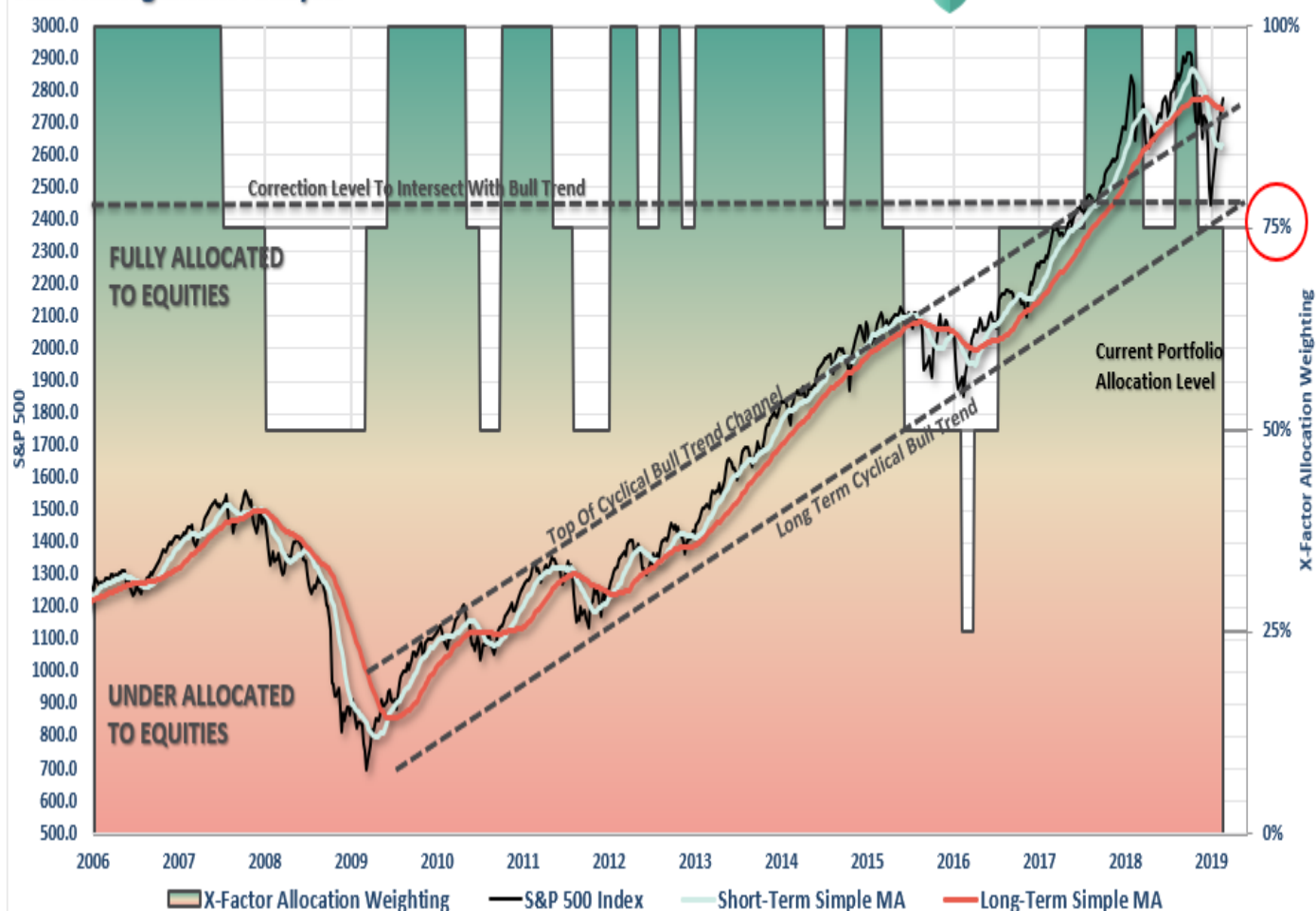
## THE REAL 401k PLAN MANAGER

*A Conservative Strategy For Long-Term Investors*

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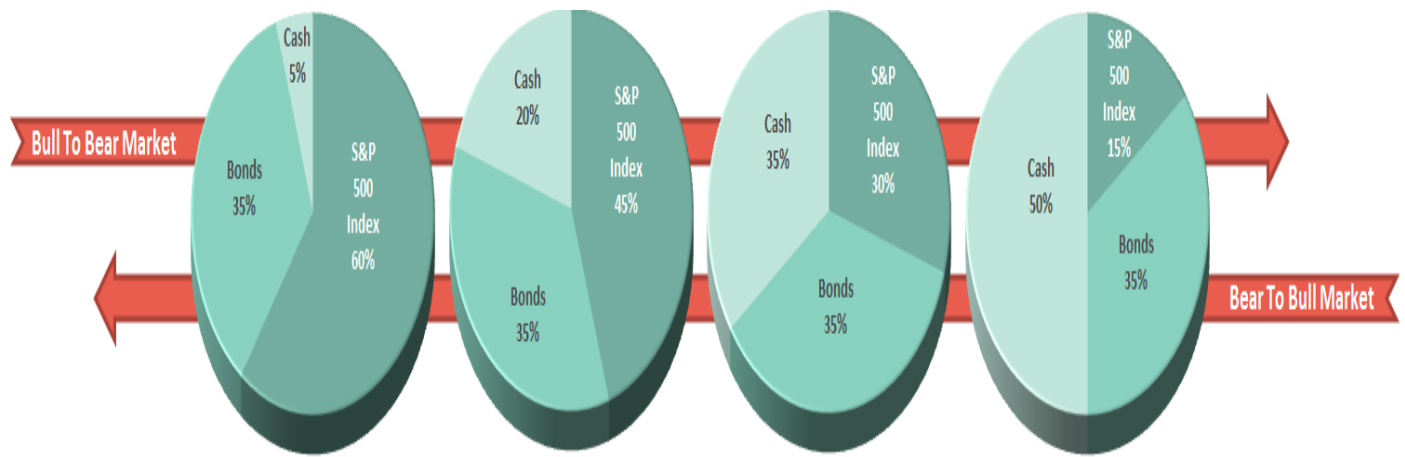
## Risk Management Analysis

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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

As we have been discussing over the last several weeks, the sharp rally in stocks has gone too far, too quickly.

While the rally pierced the 200-dma this past week, which is bullish, the markets are now back to extreme overbought conditions.

More importantly, despite the rally, longer-term "sell signals" remain intact which keeps our allocation reduced for now. It is not uncommon for there to be very sharp rallies in an ongoing bear market, so waiting for a confirmed change of stance pays off more often than not.

No change to allocations this week, we are looking for this rally to "rest" a bit and allow for a better opportunity to increase exposure. Continue to follow the model strategy for the time being.

- If you are **overweight equities** - take some profits and overall portfolio weights to 75% of your selected allocation target.
- If you are **underweight equities or at target** - hold positions for now.

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

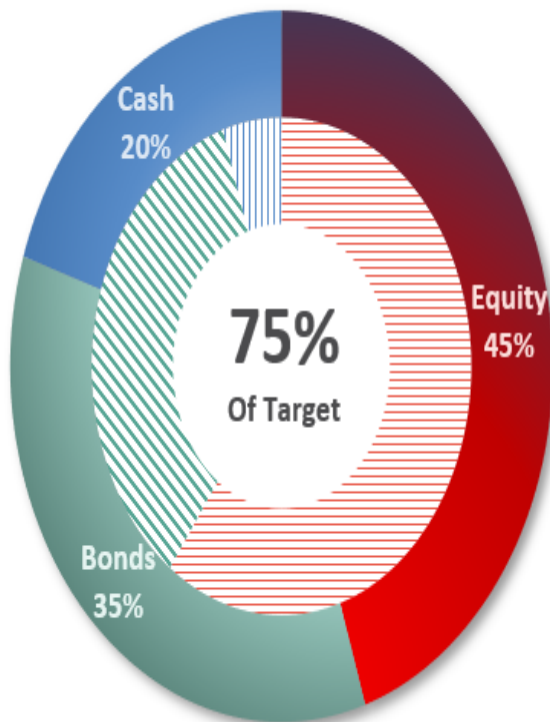
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## Current 401-k Allocation Model

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

<b>Cash</b>	<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>	<b>Equity</b>	
		<b>Large Cap</b>	<i>Vanguard Total Stock Market</i> <i>Vanguard S&amp;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 &amp; 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> <b>ALL TARGET DATE FUNDS 2020 or Later</b>
<b>Fixed Income</b>	<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 &amp; Cox Income Fund</i> <i>Doubleline Total Return</i> <i>F-Fund</i>	<b>Balanced Funds</b>	<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 &amp; Income</i> <i>American Funds Balanced</i> <i>American Funds Income Fund</i> <b>ALL TARGET DATE FUNDS 2020 or Sooner</b>
<b>International</b>	<i>American Funds Capital World G&amp;I</i> <i>Vanguard Total International Index</i> <i>Blackrock Global Allocation Fund</i> <i>Fidelity International Growth Fund</i> <i>Dodge &amp; Cox International</i> <i>Invesco International Core Equity</i> <i>Goldman Sachs International Growth Opp.</i>	<b>Small/Mid Cap</b>	<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.