

# GAME OF THRONES®

# Winter Is Coming



- 
- *Market Review & Update*
  - *Game Of Thrones*
  - *Sector & Market Analysis*
  - *401k Plan Manager*

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## Market Review & Update

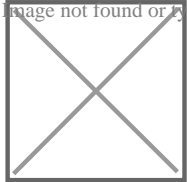
As we [discussed last Saturday](#) it was important for the markets to hold within to consolidation band, or break out to the upside, if the bulls were going to maintain control of prices in the short-term. The return of "Tariff Man" put the markets back on edge. •

As I noted then:

***"The market's stellar run is set for a breather over the next couple of months. Specifically, as we approach the end of the seasonally strong period, the odds of a 'reset' rise markedly."***

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I also discussed our portfolio actions with respect to our clients:

*"This brings me to what we did with our equity portfolios last Tuesday and subsequently reported to our [RIA PRO subscribers](#) on Wednesday morning. (Try NOW and get 30-days FREE)*

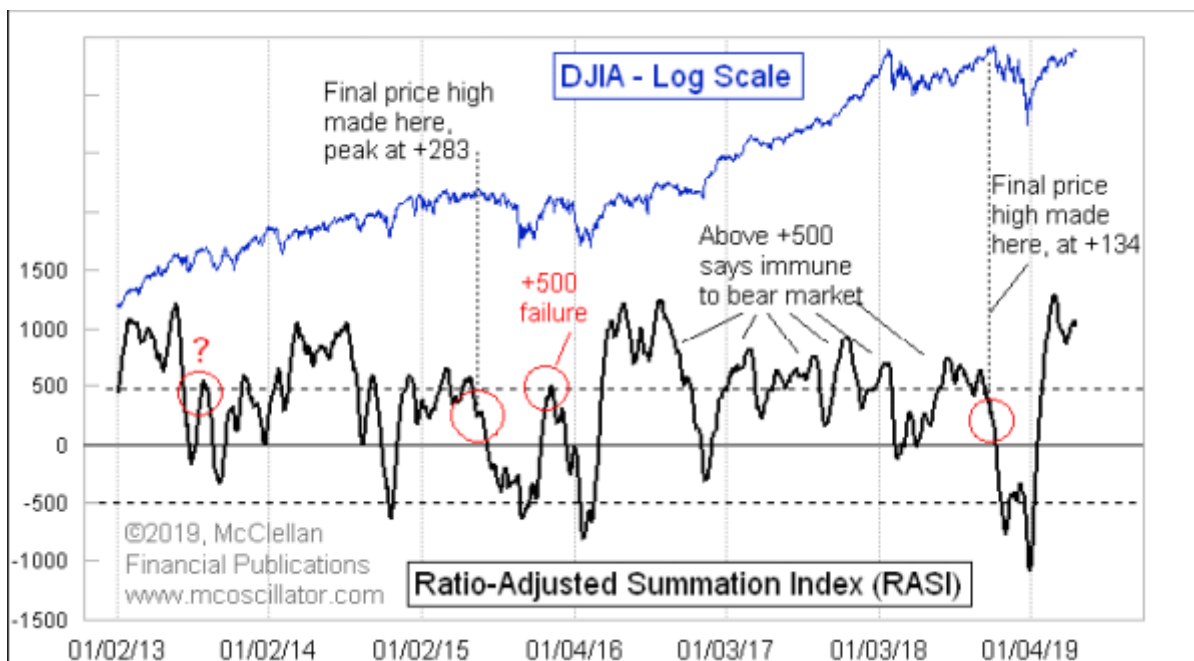
***"A common theme through today's report is 'Profit Taking.' Over the last couple of weeks, we have continued to discuss taking profits and rebalancing risks. Yesterday we sold 10% of our many of holdings prior to earnings to capture some profits. We also added to some of our Healthcare holdings which have been under undue pressure and represent value in a market that has little value currently."***

***Yes, markets are hovering near all-time highs, and everything certainly seems to be firing on all cylinders. However, such is ALWAYS the case before a correction begins. Such is the nature of markets."***

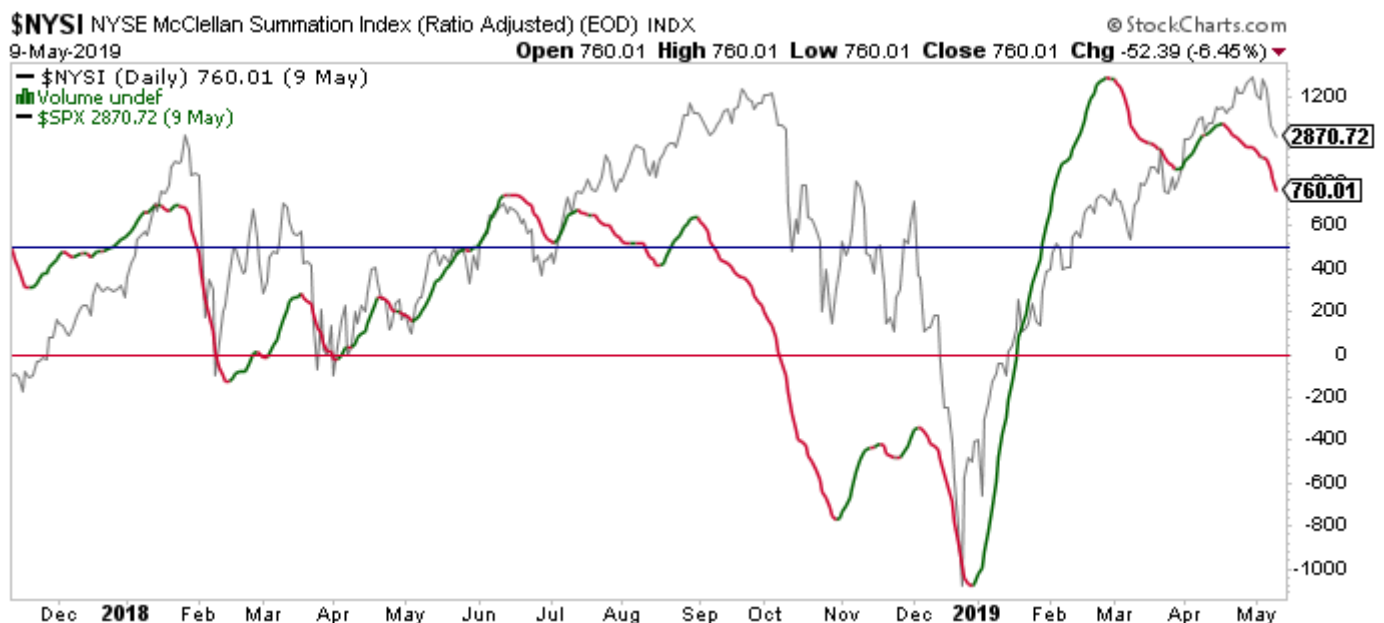
Currently, the bulls do remain in charge, and as investors, we must "pay homage at the alter of momentum" for now. This aligns with a note my Canadian research department sent me from Tom McClellan last week:

*"We are now 4-months into the rebound off of the Dec. 24, 2018 low, so it is a natural question to wonder if the uptrend is going to continue, or whether, instead the major averages are going to stop here at the level of the prior highs. • This week's chart offers us some useful clues about which answer applies this time.*

*Here is the shortcut version: **Gobs of breadth is a good thing.**" - Tom McClellan, [April 25th](#).*



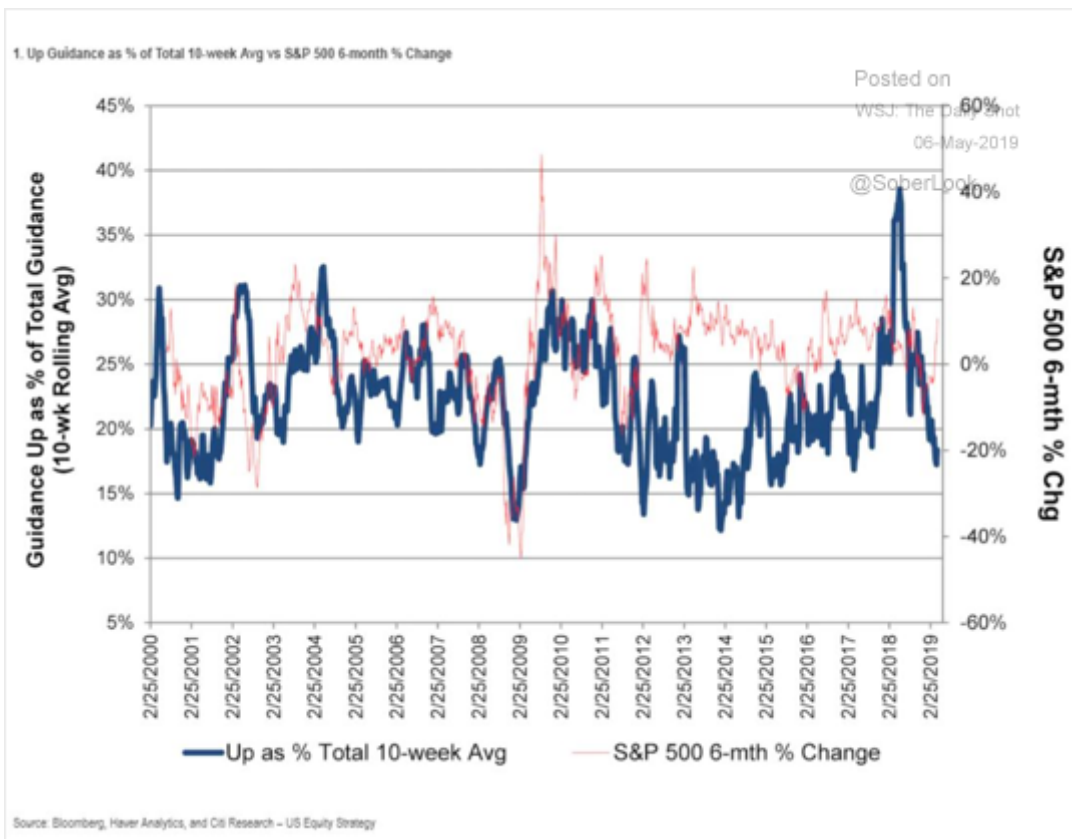
We agree, which is why we still maintain a long-bias towards equity risk. But, that exposure is hedged with cash and bonds which remain at elevated levels. As shown below, The summation index has turned lower which typically precedes correction periods in the market. **This doesn't mean the markets will "crash," but does suggest downward pressure on asset prices in the near term. (It also doesn't mean stocks won't bounce while working their way lower either.)**



**"Momentum" driven markets are "fickle beasts" and will turn on you when you least expect it.●**

In Tuesday's technical update, I noted the fundamental underpinnings continue to erode which is consistently reducing the support for asset prices at current levels. [To wit:](#)

*"Not only are earnings on the decline, but so is forward guidance by corporations."*



As we will discuss momentarily in more depth, the "Trade War" is not a good thing for markets or the economy as recently suggested by the President. •David Rosenberg had an interesting point on this as well on Friday:

*"Tracing through the GDP hit from a tariff war on EPS growth and P/E multiple compressions from heightened uncertainty, the downside impact on the S&P 500 would come to 10%. I chuckle when I hear economists say that the impact is small- meanwhile, global trade volumes have contracted 1.1% over the year to February...how is that bullish news exactly?" •*

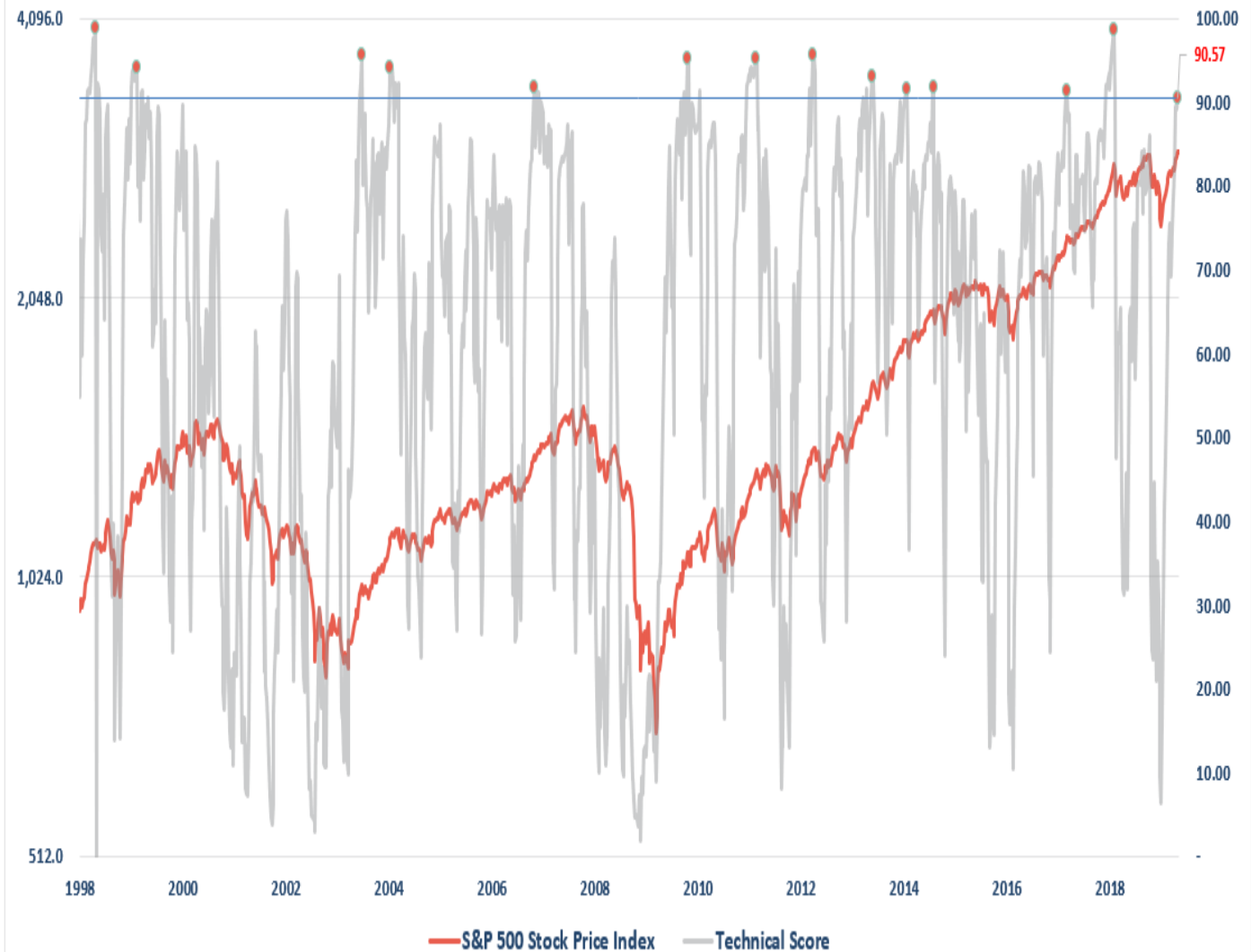
Remember, at the beginning of 2018, with "tax cuts" just passed, and earnings growing, the market was set back by 5% as an initial tariff of 10% was put into place. **Fast forward to today, you have tariffs going to 25%, with no supportive legislation in place, earnings growth and revenue weakening along with slower economic growth. •**

In the meantime, the bond market is screaming "deflation," and yields have clearly not been buying the 3-point multiple expansion from the December 24th lows. •



Lastly, stock market positioning was excessively bullish with record long stock exposure combined with record shorts on the volatility index and our technical composite index back near record levels (shown below).•

## Technical Overbought/Sold Composite



The table was set for a decent correction; all that was needed was the right catalyst.

*"Since it is ALWAYS and unexpected event which causes sharp declines in asset prices, this is why advisors typically tell their clients?since you can?t predict it, all you can do is just ride it out.?•*

*This is not only lazy, but ultimately leads to the unnecessary destruction of capital and the investors time horizon."*

**(If you missed that article, it contained our [Portfolio Management Guidelines](#))**

On a short-term basis, as shown below, the market is very oversold, so the bounce on Friday was expected (*which is why we **took on a trading position in 2x S&P 500 in our equity trading account.***) However, we plan to use any rally next week to rebalance risk into as we head into summer.•

\$SPX S&P 500 Large Cap Index INDEX  
10-May-2019

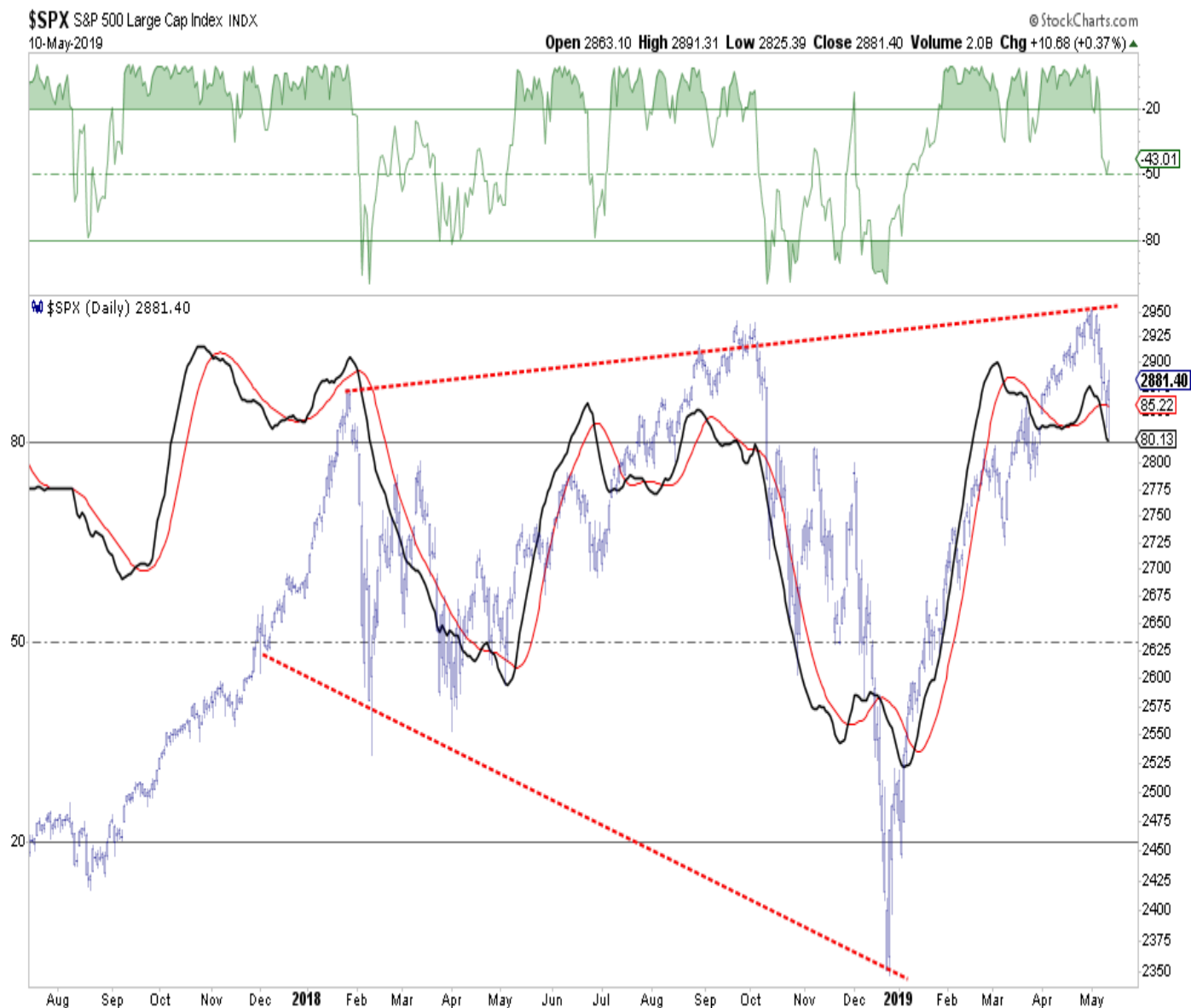
© StockCharts.com

Open 2863.10 High 2891.31 Low 2825.39 Close 2881.40 Volume 2.0B Chg +10.88 (+0.37%) ▲



Most importantly, the failure of the market to confirm new highs now puts adds additional resistance and confirms the current topping process continues.●





The "megaphone" pattern which has continued to build over the last 18-months suggests a deeper correction is likely during the coming months. As I [addressed on Tuesday](#):

*With the market pushing overbought, extended, and bullish extremes, a correction to resolve this condition is quite likely. The only question is the cause, depth, and duration of that corrective process. Again, this is why we discussed taking profits and rebalancing risk in our portfolios last week.*

*I am not suggesting you do anything, it is just something to consider when the media tells you to ignore history and suggests 'this time may be different.'*

***That is usually just about the time when it isn't.***



**REAL  
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ADVICE**

**Are your investments prepared  
for the next bear market?**

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TODAY**



# Game Of Thrones

Just as Jon Snow faced the "White Walkers" in the battle to save civilization, Trump has squared off with China again over trade. •

Most of the comments I have read about the ongoing "trade deal" negotiations are, in my opinion, wrong. The general belief is that China "wants" a deal with the U.S. and Trump has the upper hand in this matter. To wit [a recent comment](#) by Kevin Giddis via Raymond James:

*"It doesn't help when the Chinese reportedly backed away from issues important to the U.S. just days before they are set to meet to negotiate a deal. Could this be as simple as a 'clash of culture,' **or the way each side has postured themselves to get a deal done?**"*

I believe this to be incorrect and I laid out my reasoning Tuesday in ["Trade War In May, Go Away:"](#)

*"The problem, is that China knows time is short for the President and subsequently there is 'no rush' to conclude a 'trade deal' for several reasons:*

1. **China is playing a very long game.** Short-term economic pain can be met with ever-increasing levels of government stimulus. The U.S. has no such mechanism currently, but explains why both Trump and Vice-President Pence have been suggesting the Fed restarts QE and cuts rates by 1%.
2. **The pressure is on the Trump Administration to conclude a ?deal,? not on China.** Trump needs a deal done before the 2020 election cycle AND he needs the markets and economy to be strong. If the markets and economy weaken because of tariffs, which are a tax on domestic consumers and corporate profits, as they did in 2018, the risk of electoral losses rises. China knows this and is willing to ?wait it out? to get a better deal.
3. **As I have stated before, China is not going to jeopardize its 50 to 100-year economic growth plan on a current President who will be out of office within the next 5-years at most.** It is unlikely, the next President will take the same hard-line approach on China that President Trump has, so agreeing to something that is unlikely to be supported in the future is unlikely. It is also why many parts of the trade deal already negotiated don't take effect until after Trump is out of office when those agreements are unlikely to be enforced. •

*Even with that said, the markets rallied from the opening lows on Monday in 'hopes' that this is just part of Trump's 'Art of the Deal' and China will quickly acquiesce to demands. **I wouldn't be so sure that is case.**"*

[Doug Kass agreed](#) with my views yesterday:

*"It was never likely that tariff pressures were ever going to force China to succumb and alter deep rooted policy and the country's 'evolution' and planned economic growth strategies.*

*Trump's approach failed to comprehend the magnitude of the tough structural issues (that were never going to be resolved with China) and, instead, leaned on a focus of the bilateral trade deficit. **Technology transfer, state-sponsored industrial policy, cyber issues and intellectual property theft were likely never on the table of serious negotiation from China's standpoint and despite Trump's protestations that discussions were going well.***

*As I have suggested for months, the unilateral imposition of tariffs will cause more economic disruption than the Administration recognizes (in our flat and interconnected economic world):*

- *China's role in world trade is important - the country is the third largest exporter in the world.*
- *Specifically, China is a prime source of cheap, imported goods for American consumers.*
- *China is the largest owner of U.S. debt.*

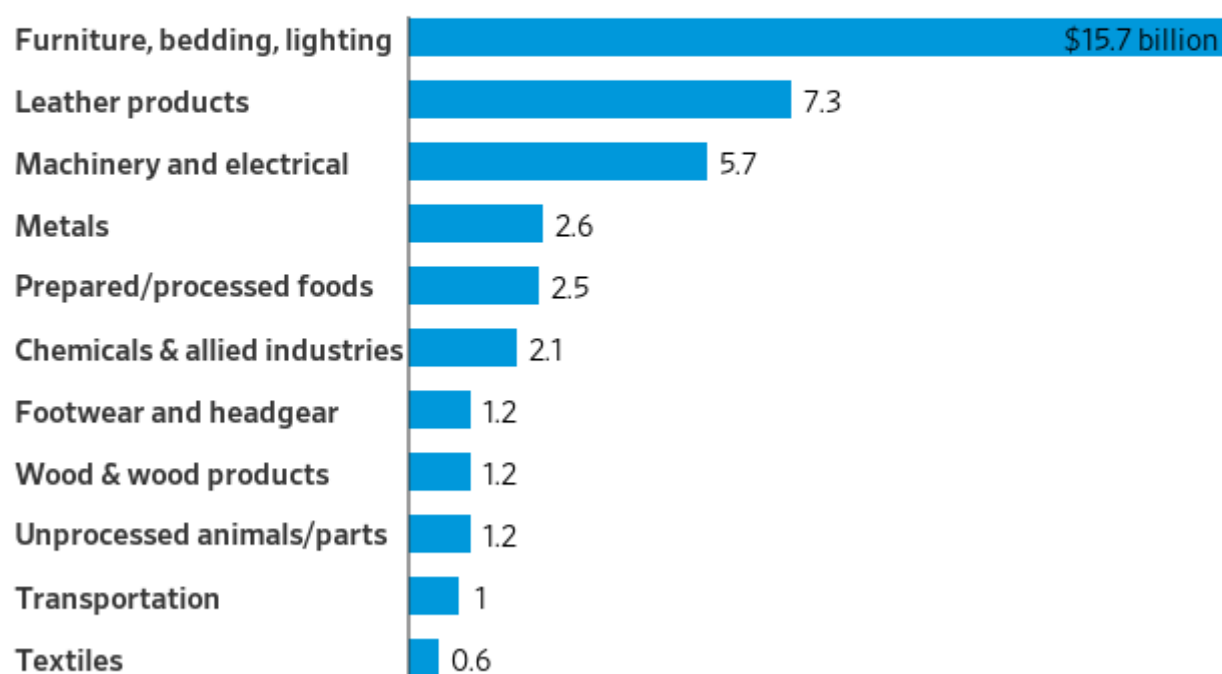
*Last night at a political rally in the Panhandle of Florida the president said that "**we don't have to do business**" with China. That statement is short-sighted.*

I agree particularly with the last point. **There is little evidence that U.S. consumers have the "willpower" to either forgo purchases or be willing to pay substantially higher prices.**•

### Pocketbook Issue

Many Chinese-made consumer goods are among the imports targeted for tariff increases on Friday. In 2017, the U.S. imported \$42 billion of those products.

#### Consumer goods imported from China, 2017



Note: Figures may not add up to total due to rounding.

Source: Peterson Institute for International Economics

Trump was also misguided on Friday when he tweeted:

*The process has begun to place additional Tariffs at 25% on the remaining 325 Billion Dollars. The U.S. only sells China approximately 100 Billion Dollars of goods & products, a very big imbalance. With the over 100 Billion Dollars in Tariffs that we take in, **we will buy agricultural products from our Great Farmers, in larger amounts than China ever did, and ship it to poor & starving countries in the form of humanitarian assistance.** In the meantime, we will continue to negotiate with China in the hopes that they do not again try to redo deal!*

***Tariffs will bring in FAR MORE wealth to our country than even a phenomenal deal of the traditional kind.** Also, much easier & quicker to do. Our Farmers will do better, faster, and starving nations can now be helped. Waivers on some products will be granted, or go to new source! If we bought 15 Billion Dollars of Agriculture from our Farmers, far more than China buys now, we would have more than 85 Billion Dollars left over for new Infrastructure, Healthcare, or anything else. China would greatly slow down, and we would automatically speed up! ? Donald J. Trump, [May 10, 2019](#)*

**The economy is not built on "goodwill."** Let's examine his comment.

- **We tax China more**, which means their consumption of U.S. products will decline as they seek cheaper sources elsewhere and in turn U.S. exports fall which comprises more than 40% of U.S. profits.
- **U.S. buys products from farmers and gives it poor countries.** While a great idea from a humanitarian standpoint, and does stabilize farmers short-term, it again has a negative impact on exports and corporate profits from other sectors of the economy.
- **Trade is a zero-sum game.** There is only a finite amount of supply of products and services in the world. If the cost of U.S. products and services is too high, China sources demand out to other countries which drain the supply available for U.S. consumers. As imbalances shift, prices rise, increasing costs to U.S. consumers. •

**As noted, tariffs impact domestic consumers more than then impact to China.** If tariffs impact China they stimulate their economy with massive credit injections just as we have seen them do recently. **The U.S. doesn't have that luxury currently which is why both President Trump and Vice-President Mike Pence have discussed the need to drop rates by 1% now while the economy is still expanding.** [To wit:](#)



**Donald J. Trump** ✓  
@realDonaldTrump



China is adding great stimulus to its economy while at the same time keeping interest rates low. Our Federal Reserve has incessantly lifted interest rates, even though inflation is very low, and instituted a very big dose of quantitative tightening. We have the potential to go...

♡ 54.8K 12:56 PM - Apr 30, 2019



💬 18.2K people are talking about this



**Donald J. Trump** ✓  
@realDonaldTrump



....up like a rocket if we did some lowering of rates, like one point, and some quantitative easing. Yes, we are doing very well at 3.2% GDP, but with our wonderfully low inflation, we could be setting major records &, at the same time, make our National Debt start to look small!

♡ 61.2K 1:05 PM - Apr 30, 2019



💬 21.8K people are talking about this



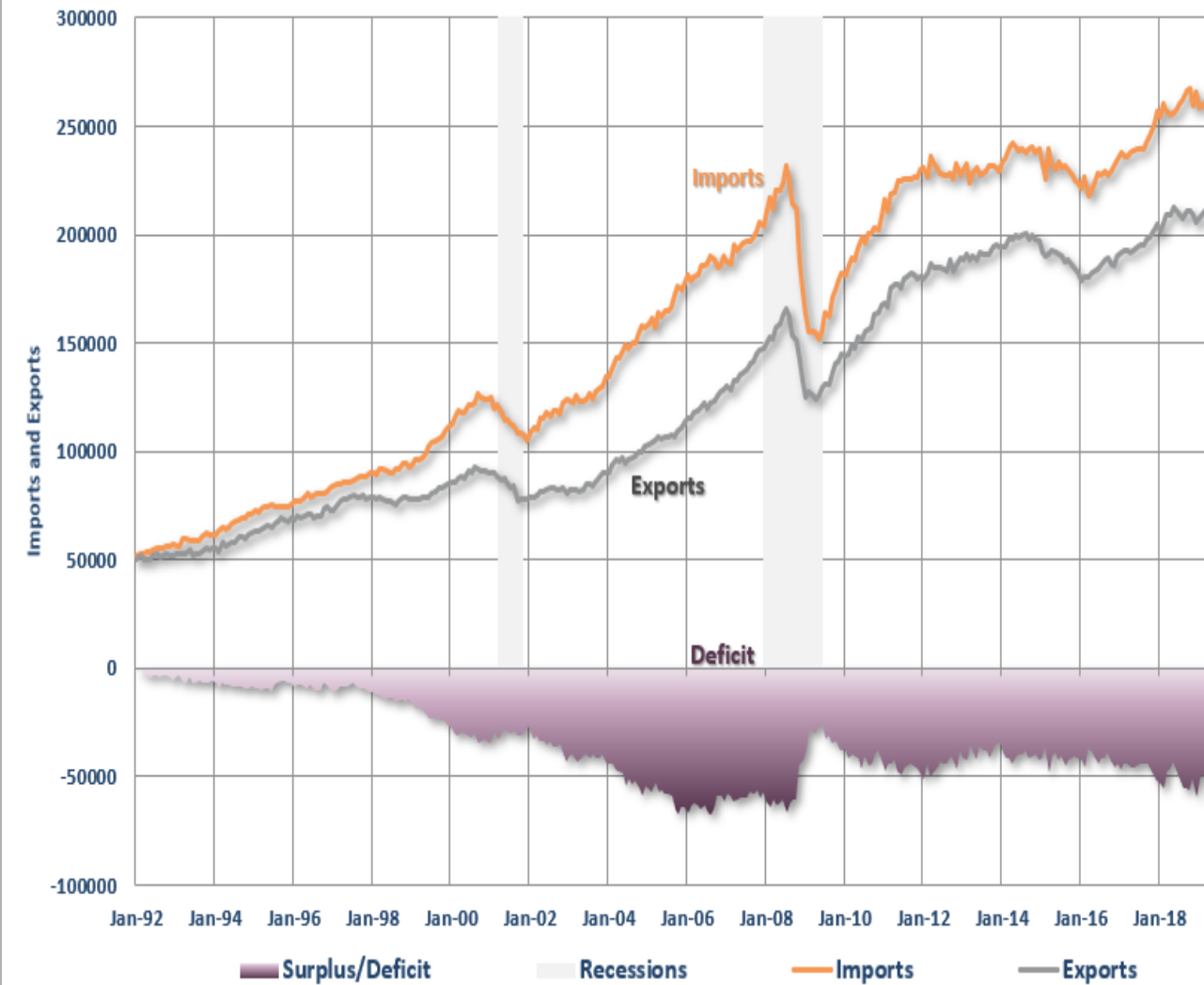
**This is also extremely short-sighted and dangerous.•**

Yes, it would have the effect of lifting markets higher temporarily, but would only ensure that the next recession and coinciding market crash would be larger with no *"policy tools"* available to offset the slide.•

Secondly, Trump attacking China on the trade deficit is equally short-sighted.•

We have run a trade deficit since Reagan came into office as American's went on a *"credit-driven"* consumption spending spree. That deficit has continued to grow over the years as credit-based consumption in the U.S. has outstripped the rest of the world's ability to keep pace. **As a function, we import more than we export.•**

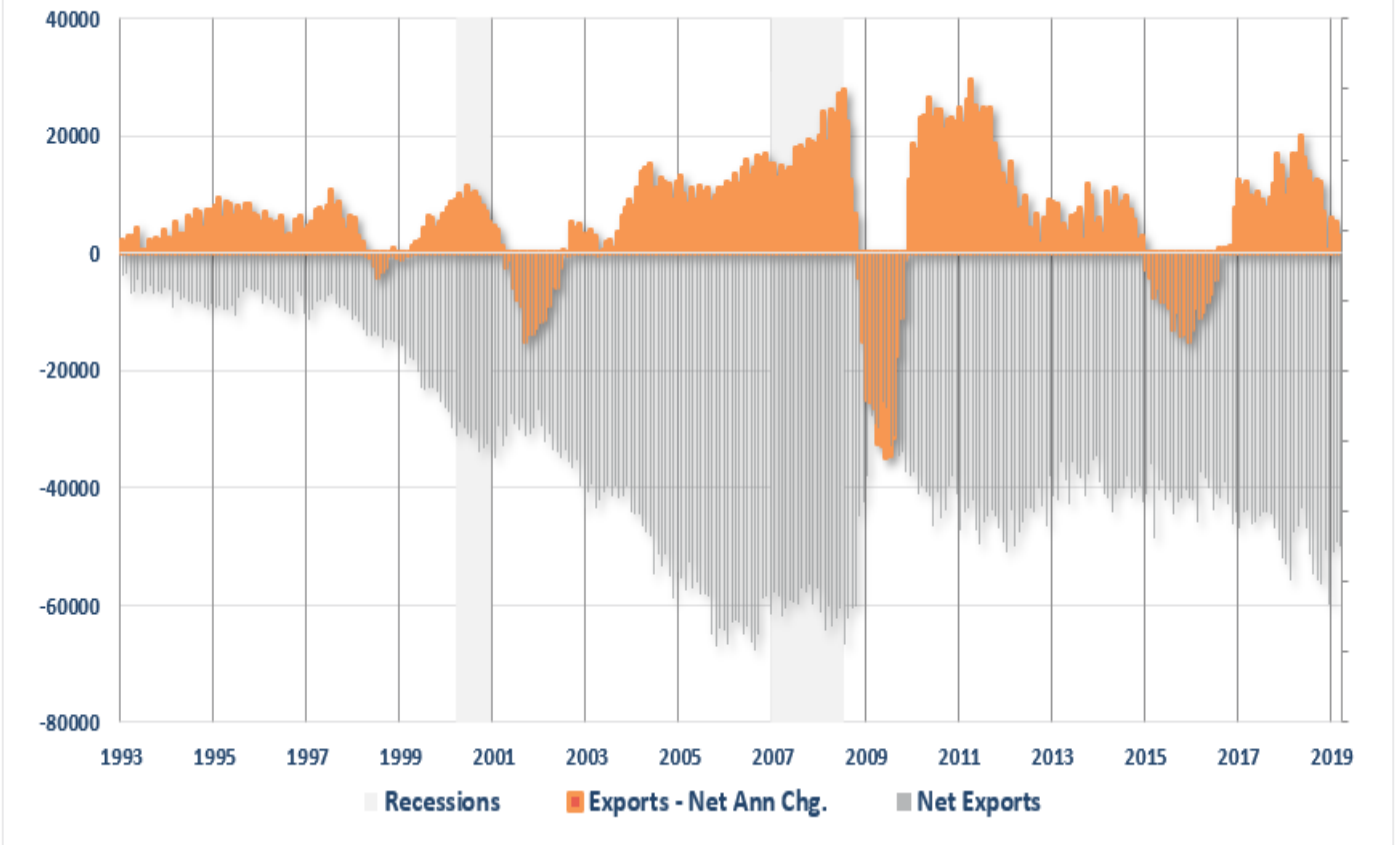
## The Trade Deficit - A Bounce In A Weak Trend



**Again, exports account for roughly 40-50% of corporate profitability and we are a very "flat and interconnected world."•**

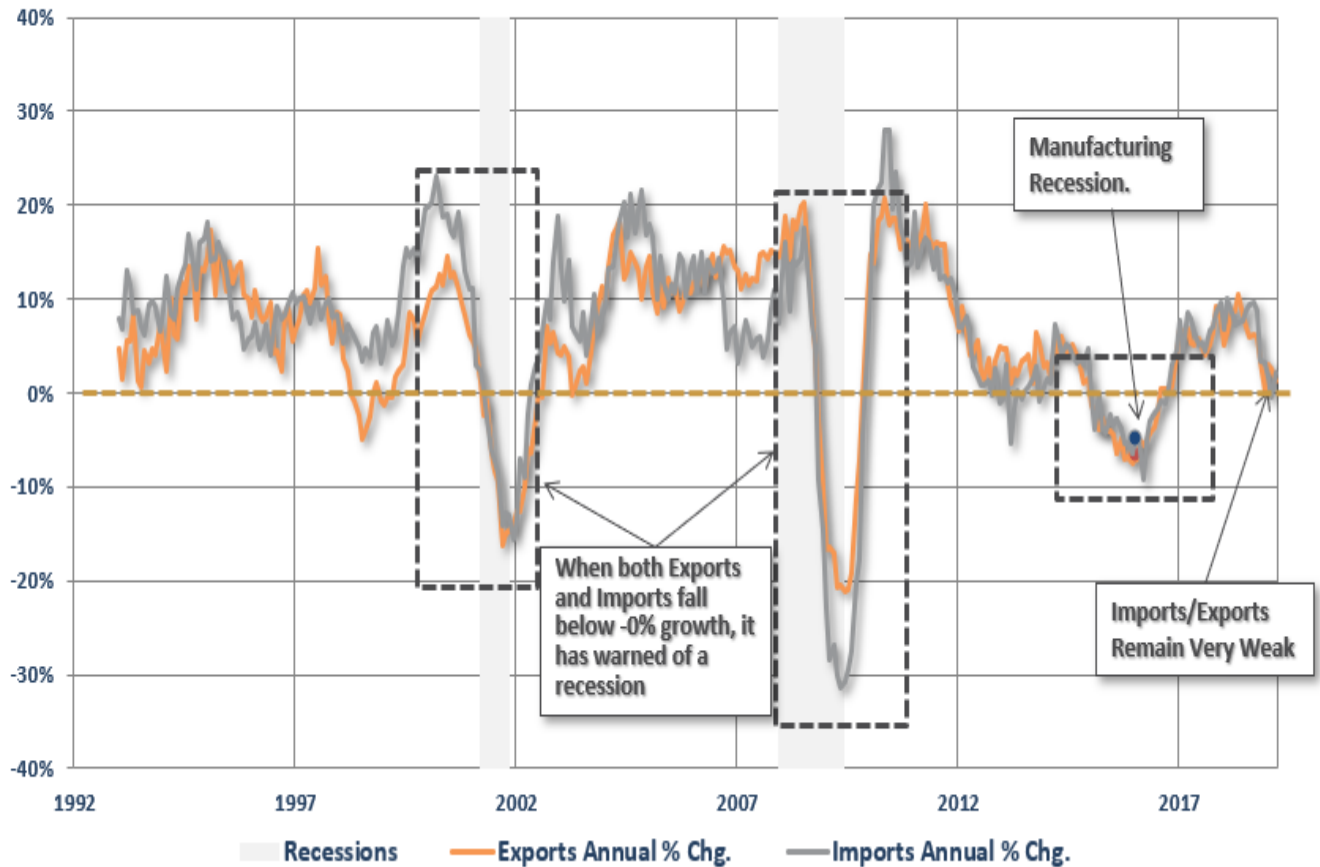
The attack on the trade is having a knock-off effect of pushing the dollar higher which is a direct negative to exporting companies. Furthermore, global economic weakness is gaining steam and the demand for exports is declining. Note in the chart below, that it is not "negative" net exports that signal recessions, **but it is when net exports peak and decline toward zero. (While 2012 was not an official recession, it was for all intents and purposes a manufacturing recession.)**

## Net Exports Send Warning



The chart below deconstructs net exports (*exports less imports, a direct input into the GDP calculation*) where you can see that both the demand for exports and imports is declining. **This is indicative of a weakening economic environment which will translate into weaker earnings for U.S. multi-national corporations.**•

## Annual % Change In Imports/Exports



Trump is picking the wrong time in the cycle to add additional costs to both consumers and exporters. **While imposing "tariffs" may sound like a good idea in theory, the reality is that it is the consumer that pays the price, literally.**

For Trump...time is short. • **A recession is coming and the Federal Reserve is already preparing for it.** Via [Mish Shedlock on Friday:](#)

*"Two Fed governors now propose targeting the long end of the yield curve if there is another recession.*

*Targeting yields on longer-term rates gets renewed attention from a second Fed governor. The proposed [QE Replacement Mechanism was Last Used in WWII](#).*

*"Federal Reserve Governor Lael Brainard on Wednesday became the second U.S. central banker to talk about the possibility of **targeting longer-term interest rates as a 'new' tool to combat the next recession.***

*Fed Vice Chairman Richard Clarida floated the idea [in a speech earlier this year](#), and [has done research on its use in Japan](#).*

*'Once the short-term interest rates we traditionally target have hit zero, we might turn to targeting slightly longer-term interest rates?initially one-year interest rates,*



for example, and if more stimulus is needed, perhaps moving out the curve to two-year rates,' Brainard said.

'Under this policy, the Fed would stand ready to use its balance sheet to hit the targeted interest rate, but unlike the asset purchases that were undertaken in the recent recession, there would be no specific commitments with regard to purchases of Treasury securities,' she added."

**Think Japan.**

Brainard and Clarida are worried about the short end of the curve. **Negative interest rates did not help the ECB nor Japan.** Then again, **pinning the 10-year yield at 0% did not help Japan either.**

The result is easy to spot: bubbles and busts of increasing amplitude over time.

**By the way, this talk is indicative of a Fed that is far more concerned about a recession than they want you to believe.**

[In 2007](#), the banks were preparing for a credit crisis. No one paid attention until it was too late. •

For the last 6-months, the Fed has consistently been leaking messages about rising [risk in the credit markets](#) and has been quietly prepping for a recession.

**Once again, no one is paying attention. •**

The problem for Trump has always been "time." He entered office at the tail-end of an economic cycle, and while his policy prescriptions have certainly helped extend the current cycle, they haven't, and won't, repeal it. •

**"Winter IS Coming." •**

The only question is whether investors are prepared for it?

If you need help, or have questions, we are always glad to help. [Just email me.](#)

See you next week.

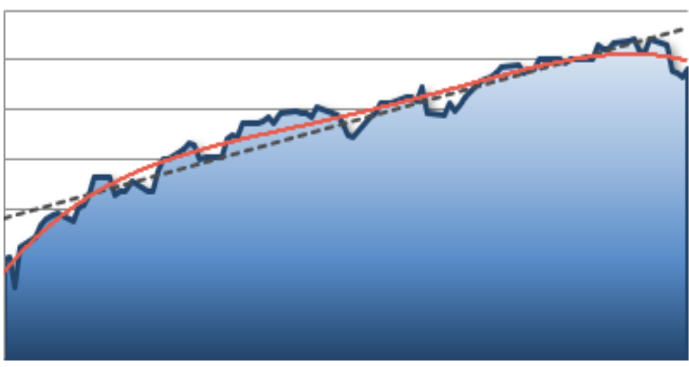
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## Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

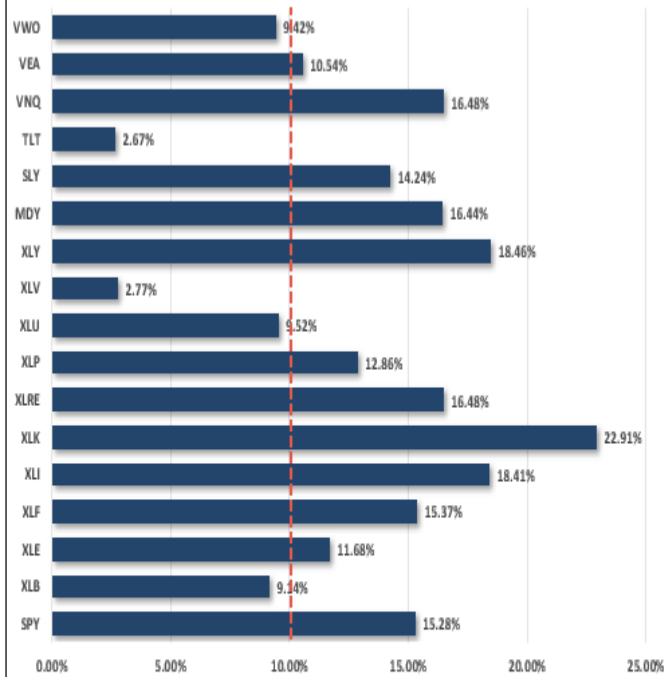
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### S&P 500 Tear Sheet

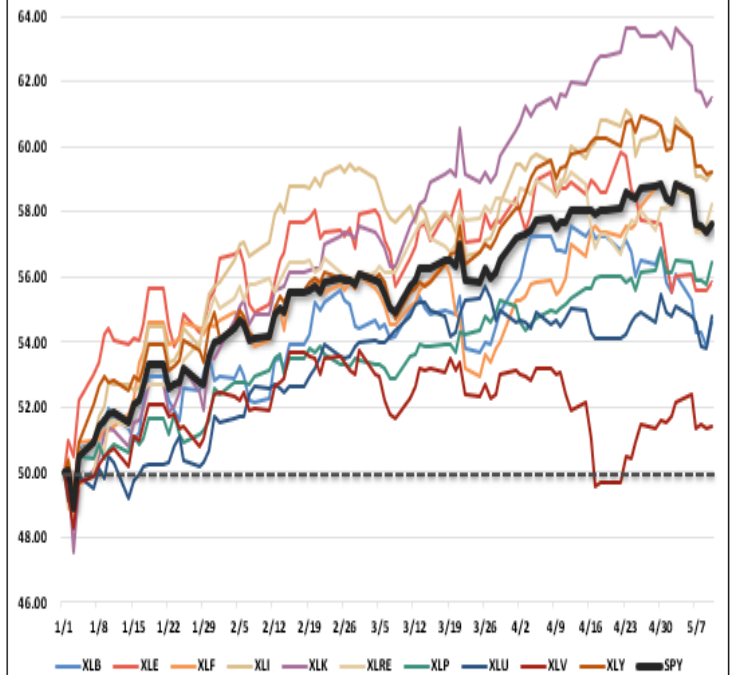
3 Month SPY Price									SPY RISK INFO		ZACKS		REAL INVESTMENT ADVICE	
									Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR	
									Price Return	20.11%	5.91%	15.28%	158.43%	
									Max Drawdown	-20.47%	-20.47%	-4.29%	-79.05%	
									Sharpe	0.70	0.50	4.00	7.03	
									Sortino	0.79	0.65	5.29	7.08	
									Volatility	13.66	14.86	12.17	(0.18)	
									Daily VaR-5%	(9.66)	(14.33)	31.13	(3.17)	
									Mnthly VaR-5%	(6.65)	(11.91)	50.28	(5.22)	
S&P 500 Fundamental Analysis									S&P 500 Market Cap Analysis					
Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low	Item	12-M Ago	Current	% Chg		
Dividend Yield	1.89%	1.84%	1.86%	0.88%	2.18%	1.67%	(14.58%)	11.28%	Shares	2,434.5	2,528.1	3.85%		
P/E Ratio	20.22	20.14	17.95	(12.20%)	20.87	15.79	(14.0%)	13.64%	Sales	60,157	64,586	7.36%		
P/S Ratio	3.10	3.24	3.40	4.56%	3.53	2.44	(3.83%)	38.98%	SPS	24.7	25.5	3.39%		
P/B Ratio	3.55	3.77	3.92	3.77%	4.16	2.99	(5.74%)	31.13%	Earnings	8,444	9,694	14.81%		
ROE	15.59%	16.59%	18.75%	11.51%	18.75%	15.00%	0.00%	25.01%	EPS TTM	4.1	4.8	17.94%		
ROA	2.89%	3.12%	3.46%	9.83%	3.52%	2.81%	(1.52%)	23.14%	Dividend	1.5	1.6	9.16%		
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	(17.70%)	5.14%	1.17	16.78	156.27	12.49	(89.3%)	9.2%	3.5%	6.35%	3.52	16.61		
Materials	(9.97%)	2.60%	1.29	15.03	21.86	13.82	(31.2%)	10.2%	1.7%	6.95%	4.11	16.41		
Industrials	1.51%	9.45%	1.12	17.35	22.22	14.73	(21.9%)	16.1%	1.9%	5.84%	5.20	16.35		
Discretionary	12.23%	10.34%	0.99	24.04	27.60	20.11	(12.9%)	28.4%	1.3%	4.24%	4.88	22.04		
Staples	14.50%	7.20%	0.60	19.63	22.83	17.63	(14.0%)	27.2%	2.8%	5.20%	3.85	19.38		
Health Care	8.09%	13.90%	0.90	16.24	20.62	15.93	(21.3%)	31.4%	1.8%	6.01%	6.42	15.23		
Financials	(2.41%)	13.23%	1.24	13.15	18.42	11.68	(28.6%)	11.7%	2.1%	7.54%	5.76	12.23		
Technology	11.23%	21.52%	1.21	20.24	21.83	14.47	(7.3%)	39.1%	1.5%	5.01%	5.20	20.25		
Telecom	3.14%	10.36%	0.89	19.83	27.29	17.43	(27.3%)	18.4%	0.9%	5.04%	6.32	19.05		
Utilities	18.51%	3.21%	0.32	19.53	20.31	15.58	(3.8%)	10.8%	3.4%	5.23%	3.59	18.55		
Real Estate	13.72%	2.99%	0.78	19.59	24.47	17.10	(20.0%)	9.9%	3.3%	5.11%	4.26	19.25		
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	288.10	2.74%	285.91	50	0.77%	276.73	45	4.11%	3.32%	(2.32%)	23.25%	Buy		
Mid Cap	352.44	0.45%	350.69	34	0.50%	344.24	31	2.38%	1.87%	(5.79%)	23.90%	Buy		
Small Cap	68.51	(1.48%)	67.98	14	0.79%	68.85	6	(0.49%)	(1.27%)	(12.45%)	21.69%	Sell		

## Performance Analysis

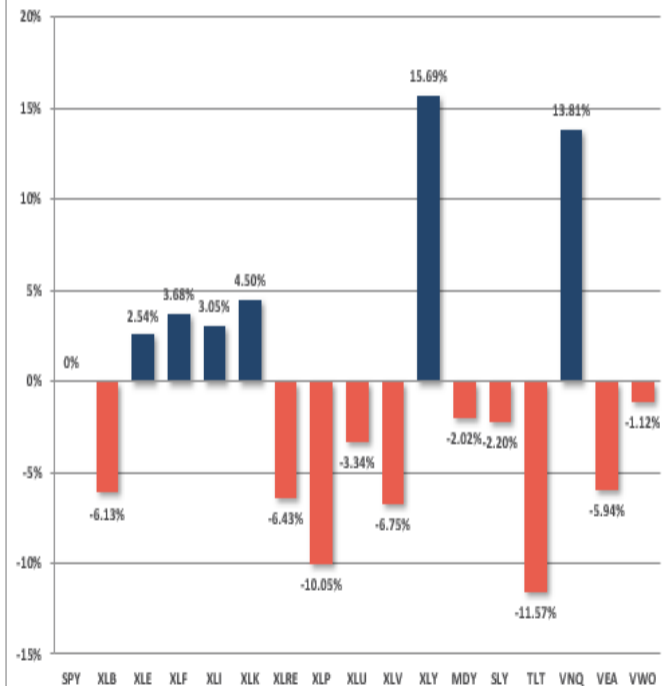
### Year To Date Performance



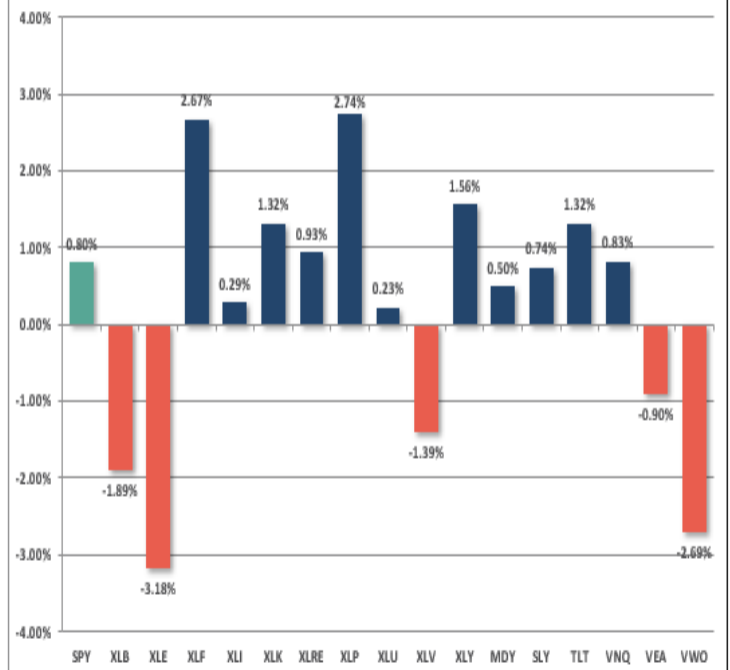
### YTD Price - S&P Sectors Recalibrated To \$50/share



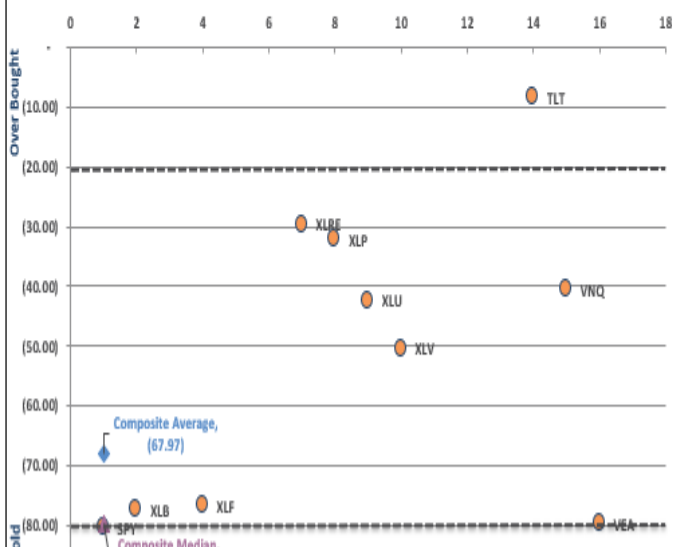
### Year To Date Performance Relative To S&P 500



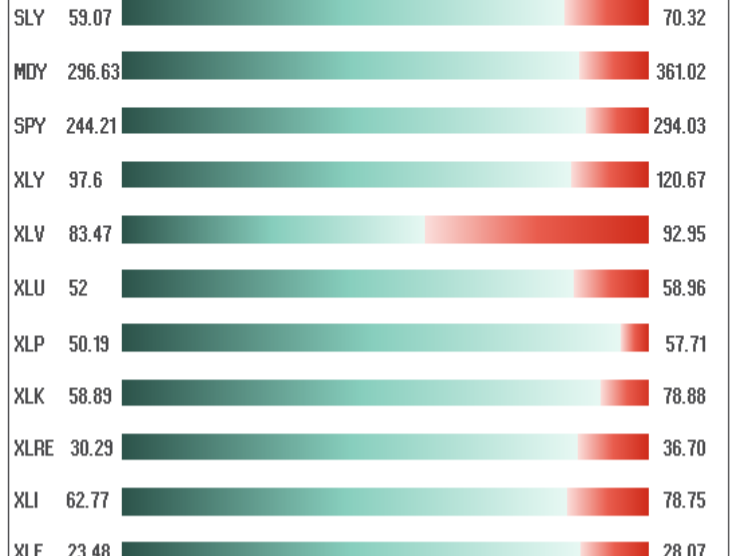
### Price Deviation From 50-Day Moving Average



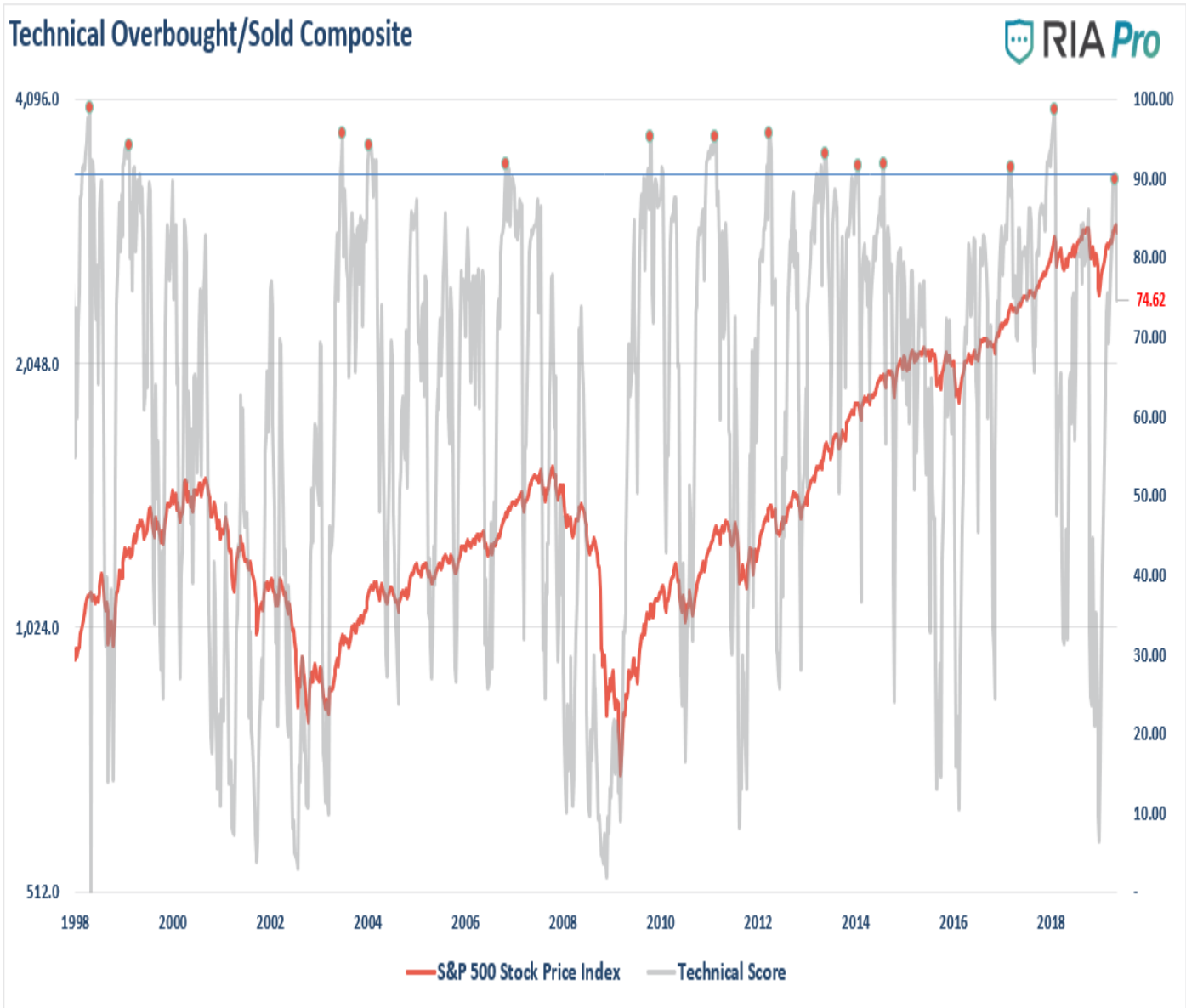
### Overbought/Oversold 14-Periods



### Size / Sector ETF YTD Trading Range



# NEW: Technical Composite



# ETF Model Relative Performance Analysis

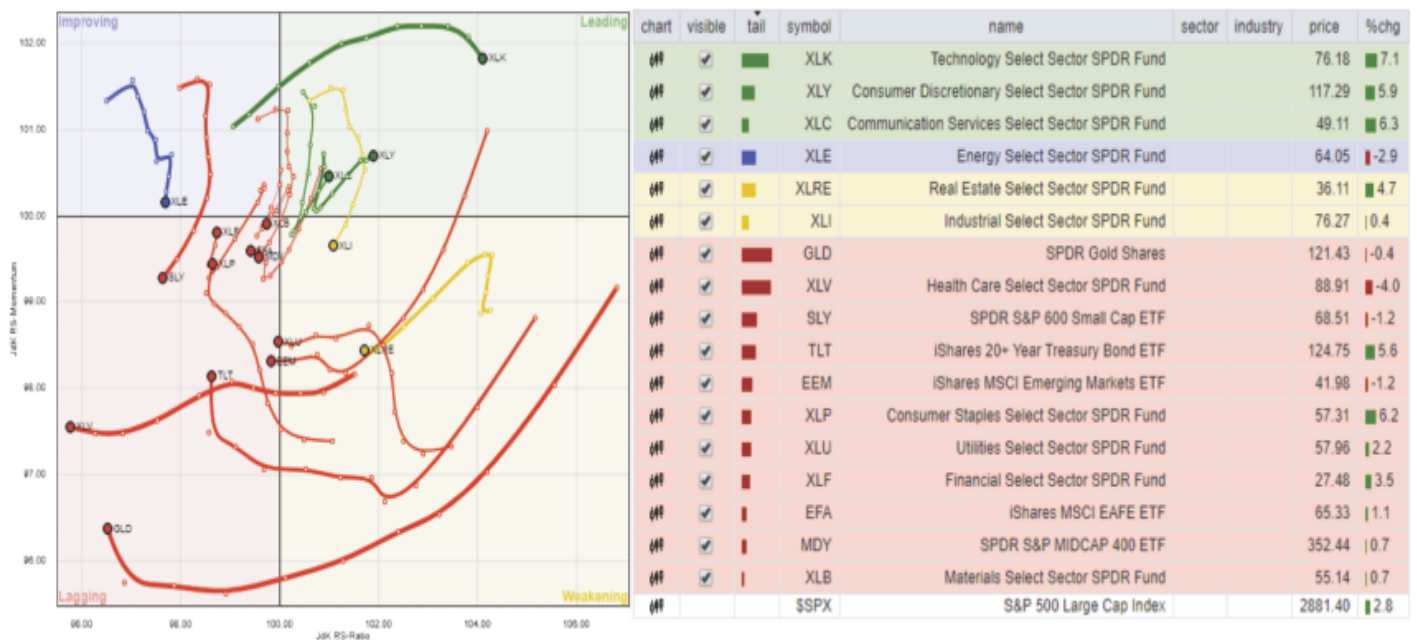
RELATIVE PERFORMANCE		TICKER	ETF NAME	Current Price	Model Position Price Changes Relative to Index					SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks					
BENCHMARK		IVV	ISHARS-SP500	290.00	(2.03)	(0.74)	3.88	9.31	5.66	285.84	276.78	1.45%	4.78%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	55.14	(0.67)	(4.39)	(2.67)	(5.87)	(12.03)	55.92	54.51	-1.39%	1.16%	BUY
		XLE	SPDR-EGY SELS	64.05	1.72	(4.46)	(7.01)	(9.09)	(22.18)	66.00	66.19	-2.96%	-3.23%	SELL
		XLF	SPDR-FINL SELS	27.48	(0.07)	1.99	0.09	(3.61)	(8.42)	26.68	26.24	3.00%	4.73%	BUY
		XLI	SPDR-INDU SELS	76.27	(0.69)	(0.57)	(3.12)	0.07	(3.57)	75.96	72.91	0.41%	4.61%	BUY
		XLK	SPDR-TECH SELS	76.18	(1.34)	(0.08)	5.54	9.58	3.36	74.04	69.91	2.89%	8.97%	BUY
		XLP	SPDR-CONS STPL	57.31	1.86	2.71	1.56	(4.71)	10.03	55.47	54.34	3.33%	5.47%	BUY
		XLU	SPDR-UTIL SELS	57.96	1.45	0.31	0.16	(2.19)	9.39	57.48	55.30	0.83%	4.81%	BUY
		XLC	SPDR-COMM SV SS	49.11	0.07	0.92	2.46			47.72	46.02	2.91%	6.71%	BUY
		XLV	SPDR-HLTH CR	88.91	0.64	(0.26)	(8.13)	(10.12)	1.42	90.55	90.34	-1.81%	-1.59%	BUY
		XLY	SPDR-CONS DISCR	117.29	(0.31)	(0.13)	2.69	5.66	6.16	114.32	109.48	2.60%	7.14%	BUY
	SIZE	SLY	SPDR-SP SC 600	68.51	(0.54)	0.22	(5.01)	(6.58)	(8.19)	68.24	67.44	0.39%	1.59%	BUY
		MDY	SPDR-SP MC 400	352.44	(0.35)	(0.80)	(2.87)	(3.30)	(5.78)	350.10	339.88	0.67%	3.70%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	105.99	0.11	(0.91)	(1.79)	(1.54)	(1.46)	105.17	101.51	0.78%	4.41%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	99.94	0.15	(0.59)	(2.42)	(4.18)	2.81	99.49	96.30	0.45%	3.78%	BUY
	Real Estate	XLRE	SPDR-RE SELS	36.11	1.37	(0.87)	(0.71)	0.22	8.87	35.57	33.69	1.53%	7.19%	BUY
	International	EEM	ISHARS-EMG MKT	41.98	(3.04)	(4.63)	(4.14)	(3.67)	(17.09)	43.20	41.62	-2.82%	0.88%	BUY
		EFA	ISHARS-EAFE	65.33	(0.45)	(0.93)	(1.20)	(3.56)	(14.63)	65.12	63.59	0.32%	2.74%	BUY
		IXUS	ISHARS-CR INT S	58.03	(0.96)	(1.89)	(1.84)	(3.62)	(15.28)	58.32	56.77	-0.49%	2.22%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	124.75	2.91	2.43	(1.61)	(0.96)	(1.03)	122.77	119.46	1.62%	4.43%	BUY
	International	BNDX	VANGD-TTL INT B	55.81	2.14	1.10	(2.23)	(7.18)	(3.35)	55.41	54.88	0.72%	1.70%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.23	1.64	(0.10)	(2.91)	(5.05)	(5.07)	86.04	84.76	0.22%	1.74%	BUY
	Cash	BSV	VANGD-SHT TRM B	79.46										

## Sector & Market Analysis:

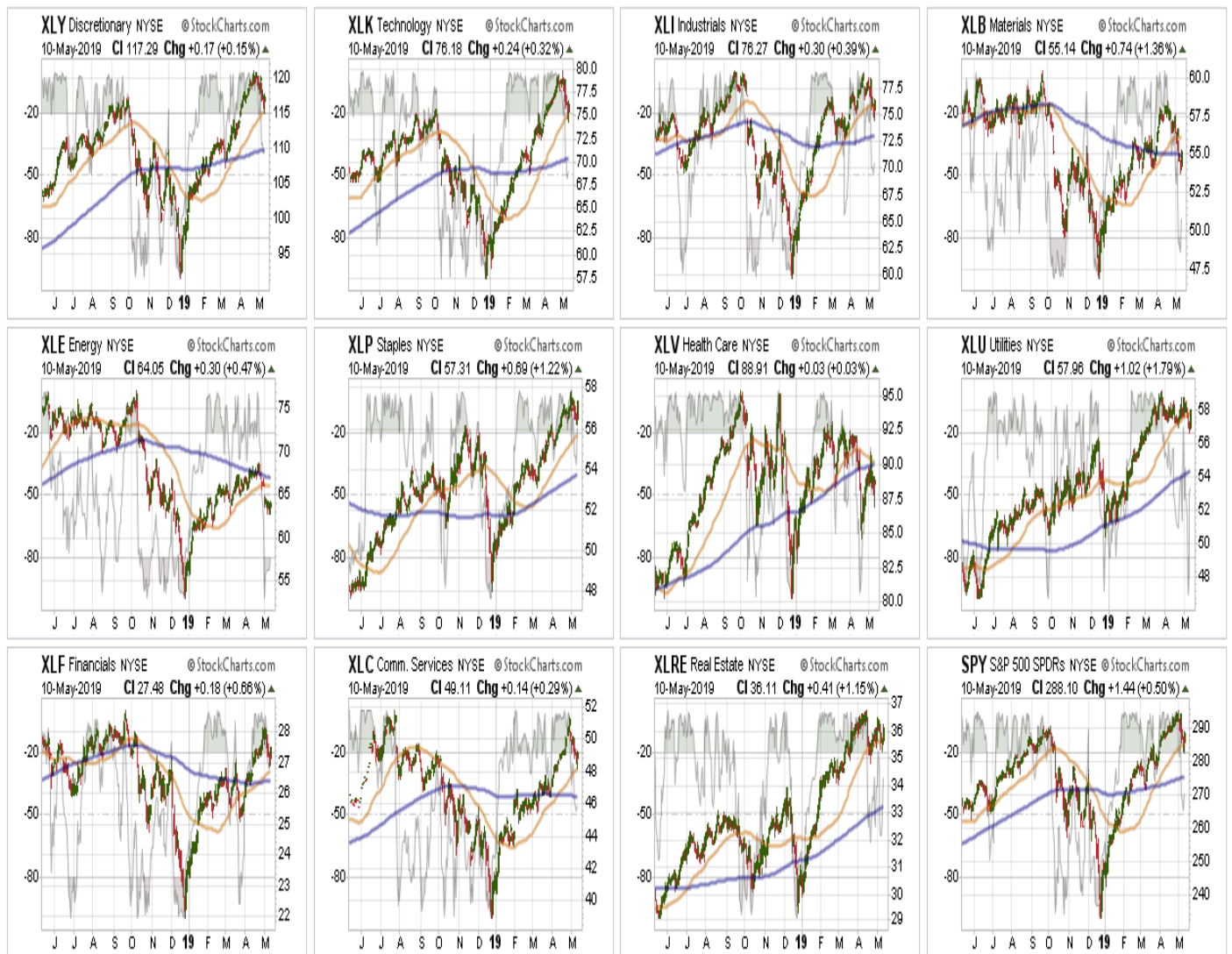
Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels

## Sector Rotation Graph





## Sector-by-Sector



Last week, I stated:

*"Notice in the Sector Rotation Graph above that leadership is becoming much more narrow in the market (Technology, Discretionary, and Communications) all of which are being driven by just 5-stocks currently - MSFT, AAPL, GOOG, AMZN and FB.*

***The crowding of the majority of sectors into the LAGGING quadrant suggests we are likely close to experiencing a fairly significant rotation among sectors. Such would suggest a "risk off" rotation over the next couple of months which would likely coincide with a bid to more defensive sectors of the market. (Healthcare, Utilities, Real Estate, Bonds, Value vs. Growth)"***

The number of sectors crowding into the lagging quadrant suggests a correction process is underway, and current leadership will turn lower. •

### **Improving - Energy**

While Energy remains in the improving category, it only does so barely. If oil prices don't pick up next week, it will join the majority of other sectors in the lagging camp. We recommended taking profits and rebalancing risk last week. That recommendation remains as the sector broke back below its 50-dma. •

**Current Positions:** 1/2 Position in XLE

### **Outperforming - Technology, Discretionary, Communications**

Communications joined the "outperforming group" last week, however, with the exception of Technology, the outperformance of these sectors is marginal. As noted above, the outperformance of ALL THREE sectors is being driven by just 5-stocks. This isn't really a sign of a strong market. Therefore, with all **THREE of these sectors GROSSLY overbought so it is a good idea to take profits and rebalance portfolio risks accordingly.**

**Two weeks ago, we trimmed Technology and increased our weight in Healthcare.**

**Current Positions:** XLY, XLK - Stops moved from 200 to 50-dma's.

### **Weakening - Real Estate and Industrials**

Despite the "bullish" bias to the markets, the more defensive sectors of the markets, Real Estate has continued to attract buyers. **That remained the same this week, particularly as bond yields declined following the resurgence of the trade war with China.** However, Real Estate is still somewhat overbought but is correcting that condition and will provide a decent entry opportunity for positioning as a defensive play against a likely rotation out of Technology and Discretionary holdings. •

Industrials performance lead over the S&P 500 is weakening but the sector is still performing well with Materials on the hopes of a trade resolution. Take some profits, rebalance portfolios, raise stops but remain long for now

**Current Position:** XLI, will add XLRE opportunistically

### **Lagging - Healthcare, Staples, Financials, Materials and Utilities**



As noted last week, "Materials is also on the verge of slipping back into underperforming the S&P 500 and also suggests, as recommended last week, to take some profits." • That performance lag continued this week and Materials did indeed slip back into underperformance. •

Staples, while lagging the S&P 500, remain a sector where money is hiding. Staples remain on a buy signal but are extremely overbought and extended. Take profits and rebalance in portfolios. • The same goes for Utilities as well. •

Financials as noted last week are performing okay, so we are giving the sector some room and will re-evaluate holdings again next week.

As noted last week, we are still looking for a defensive rotation over the next couple of months. We remain overweight in Healthcare again this week. •

**Current Positions: XLF, XLV, XLP, XLU**

## Market By Market



**Small-Cap and Mid Cap** - Small-cap failed to hold above it's 200-dma last week which keeps us from adding a position in the position. However, Mid-cap did hold support and is performing better currently. We will add 1/2 position to Mid-Cap on Monday with a stop at the 200-dma. •

**Current Position:** *Adding 1/2 Position SLY, MDY*

## **Emerging, International & Total International Markets•**

As noted last week,

*"EEM did pull back to the 50-dma last week, and held support, so positions can be added with a very tight stop at the 50-dma currently. The rising dollar is a risk to emerging markets, so a break below the 50-dma will suggest a reduction in weightings."•*

The reinstitution of the "Trade War" kept us from adding weight to international holdings. We are keeping a tight stop on our 1/2 position of emerging markets but "tariffs" are not friendly to the international countries.•

**Current Position:** *1/2 position in EEM*

**Dividends, Market, and Equal Weight** - These positions are our long-term "core" positions for the portfolio given that over the long-term markets do rise with respect to economic growth and inflation. Currently, the short-term bullish trend is positive and our core positions are providing the "base" around which we overweight/underweight our allocations based on our outlook.•

Core holdings remain currently at target portfolio weights but all three of our core positions are grossly overbought. A correction is coming, it is now just a function of time.•

**Current Position:** *RSP, VYM, IVV*

**Gold ?** Last week gold held support and picked up performance as international tensions are rising. It isn't just trade bringing some fear back into the markets, but rising tensions with Iran, North Korea, and China. Gold miners aren't performing as well as Gold currently, but we will give GDX a little breathing room here.•

**Current Position:** *GDX (Gold Miners), IAU (Gold)*

## **Bonds•**

As noted three weeks ago, we said bonds were setting up for a nice entry point to add additional bond exposure. Bonds bounced off the 50-dma holding important support last week. Bonds are not overbought yet, so keep a close watch on holdings.•

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

High Yield Bonds, representative of the "risk on" chase for the markets, continued to correct again last week but still remain overbought. As noted last week, *"If the S&P 500 corrects over the next couple of months, it will pull high-yield (junk) bonds back towards initial support at the 50-dma."* That initial target was hit last week, however, it appears junk may push lower over the summer months. Last week, we recommended taking profits and rebalancing risk accordingly. International bonds, which are also high credit risk, have been consolidating over the last couple of weeks, but remains very overbought currently which doesn't offer a decent reward/risk entry point.•

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.)

											RIA Pro			
		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes			
XLY	Discretionary	Declining	Positive	Positive	Take Profits			X			Take Profits			
XLK	Technology	Declining	Positive	Positive	Take Profits			X			Take Profits			
XLI	Industrials	Declining	Positive	Neutral	Hold			X			Hold Position			
XLB	Materials	OS	Positive	Neutral	Warning			X			Broke 200-DMA			
XLE	Energy	OS	Improving	Negative	Take Profits			X			Broke 200-DMA			
XLP	Staples	OB	Positive	Positive	Take Profits			X			Take Profits			
XLV	Health Care	Improving	Warning	Neutral	Hold			X			Overweight Position			
XLU	Utilities	OS	Positive	Positive	Hold			X			Hold Position			
XLF	Financials	OB	Positive	Positive	Hold			X			Hold Position			
XLC	Telecom	Declining	Positive	Neutral	No Position					X	Looking To Add			
XLRE	Real Estate	Neutral	Positive	Positive	No Position					X	Looking To Add			
SLY	Small Caps	Declining	Improving	Negative	Hold					X	Failed At 200-DMA			
MDY	Mid Caps	OB	Positive	Neutral	Look To Add		X				Add 1/2 Position			
EEM	Emerging Mkt	OS	Positive	Improving	Hold			X			Hold			
EFA	International	Declining	Positive	Improving	Hold					X	Broke 50-DMA			
IXUS	Total International	Declining	Positive	Improving	Hold					X	Broke 50-DMA			
GLD	Gold	OS	Positive	Neutral	Warning			X			Holdiing Support			
RSP	SP500 Equal Wgt	Declining	Positive	Positive	Hold			X			Reduce to Target Weight			
SDY	SP500 Dividend	Declining	Positive	Positive	Hold			X			Reduce to Target Weight			
IVV	SP500 Market Wgt	Declining	Positive	Positive	Hold			X			Reduce to Target Weight			
TLT	20+ Yr. Bond	Improving	Positive	Positive	Hold			X			Hold			
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Look To Add On Pullback			
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position					X	Look To Add On Pullback			
LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING							X	No Position						

## Portfolio/Client Update:

Last week, the market began the long-awaited correction due to another round of "trade war 'chicken' with China." With our near term buy signals in place, we didn't need to take a lot of action after recent profit taking, but are now looking forward to opportunistically adding positions as the overbought conditions of the market are worked off.●

There are indeed some short-term risks in the market as we head into summer, so any positions added to portfolios in the near future will carry both tight stop-loss levels and will be trading positions initially until our thesis is proved out.●

- **New clients:** We will use the recent correction to onboard clients and move into specified models accordingly.●
- **Equity Model:** After taking profits recently, we will look to opportunistically add to our stronger positions with this recent pullback and are looking at adding both core equity holdings as well as some additional trading positions.

- **ETF Model:** We will look to increase our equity exposure to target levels after the recent correction.

**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.**

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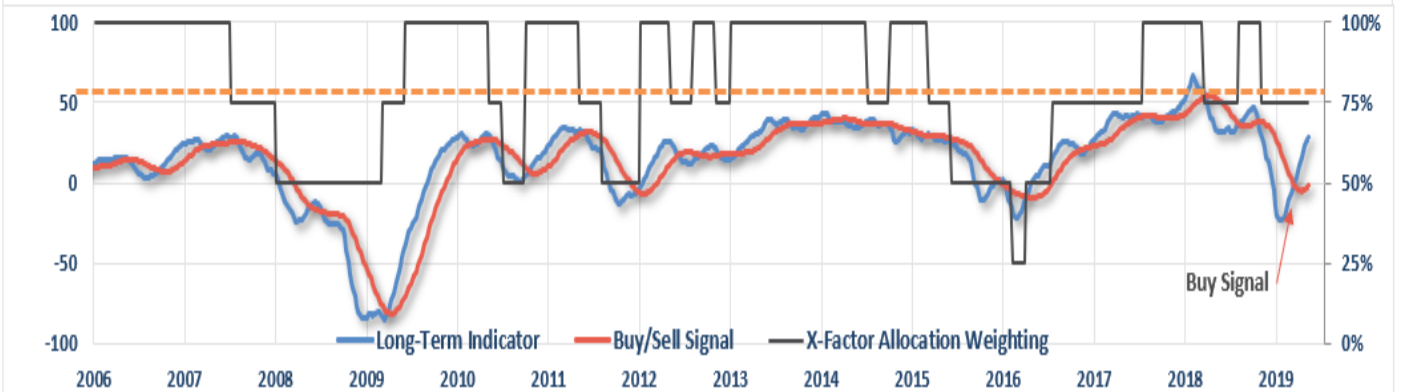
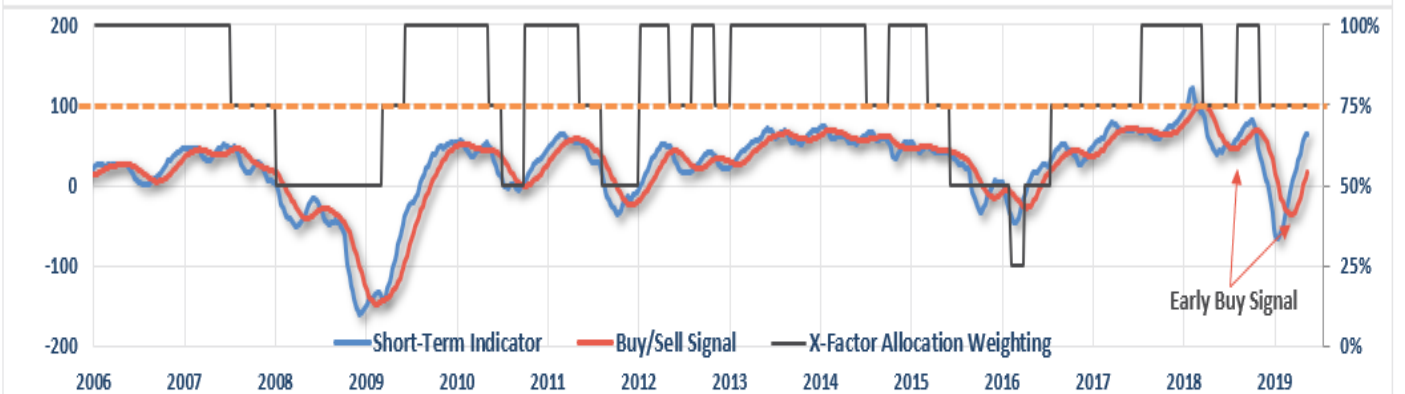
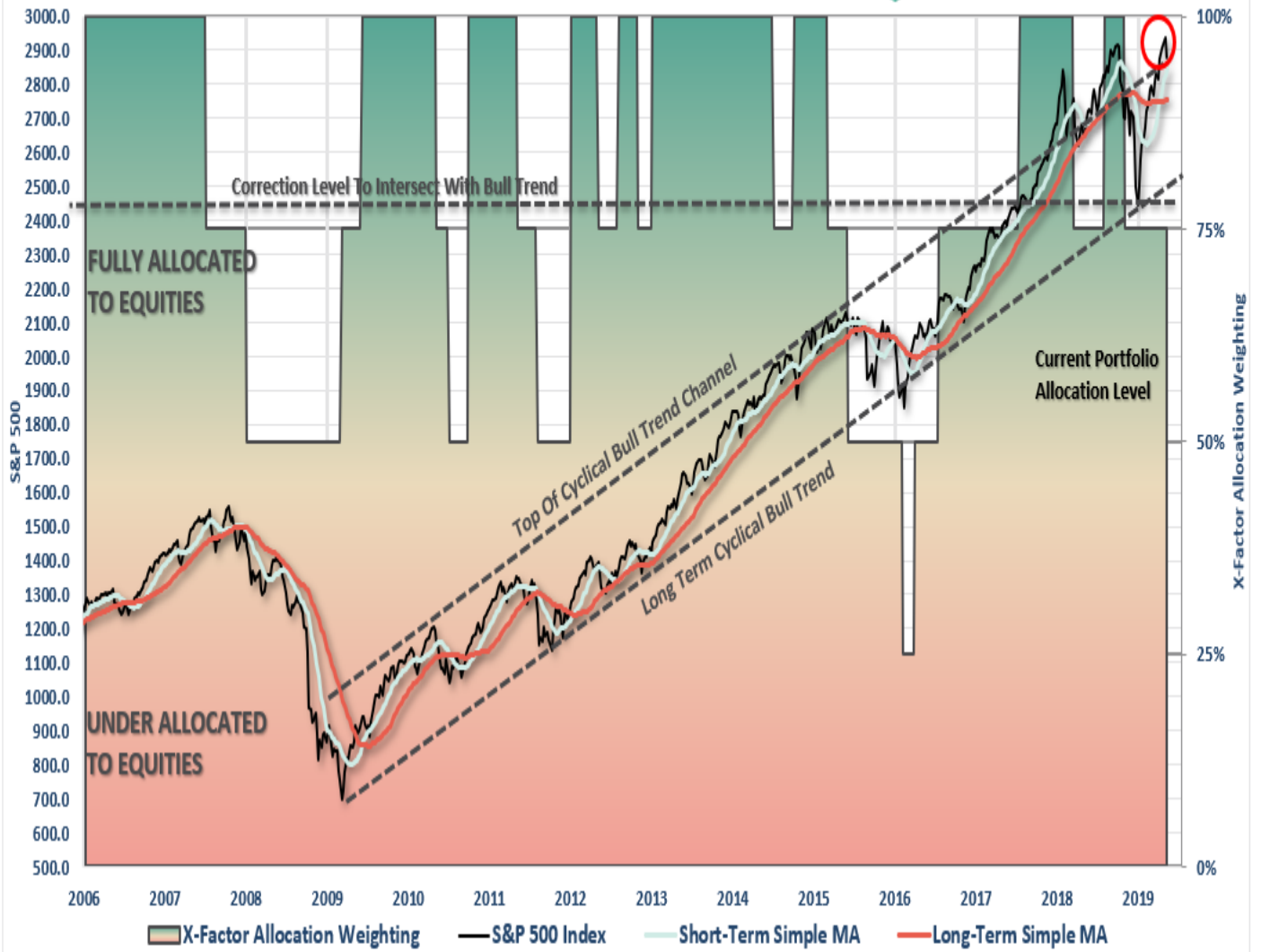
# THE REAL 401k PLAN MANAGER

*A Conservative Strategy For Long-Term Investors*

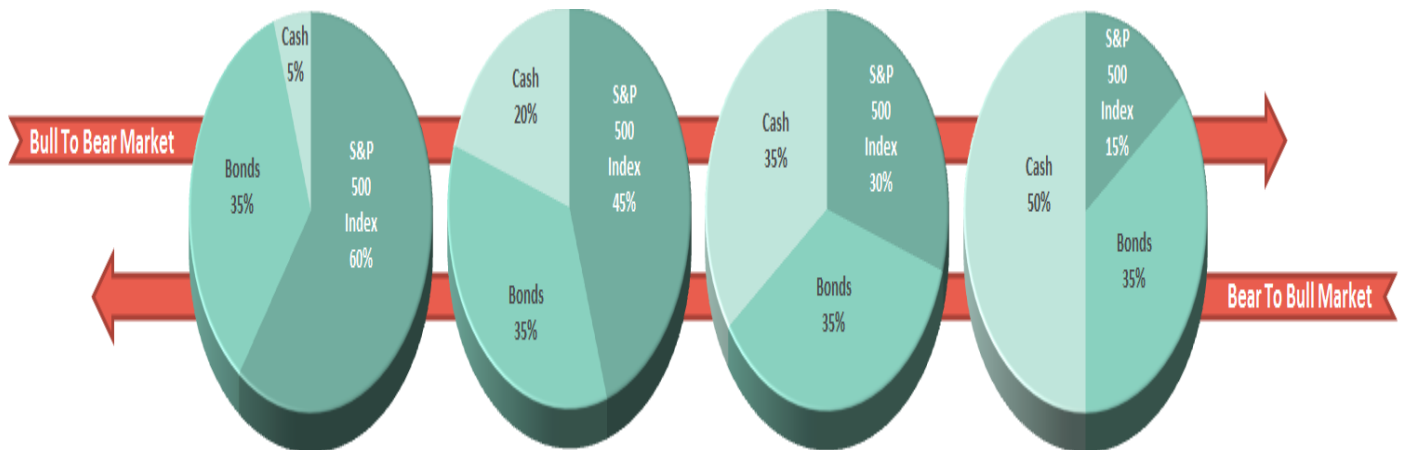
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# Risk Management Analysis

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.**



## Trade War Returns

The market sold off last week as the "trade war" returned. •

As we have discussed over the last several weeks, the market was very overbought and in need of a rest. •

"As stated above, given the run higher this year, a retracement this summer is highly likely which will provide the best opportunity to tactically take portfolios to 100% of target. •

As is always the case, by the time these more 'bullish' actions occur, the risk/reward opportunity in the short-term is not generally favorable. In this case, in particular, the angle of ascent of the markets from the December lows has been more abnormal than not.

*That opportunity is coming soon, and is why 'patience' is required when investing."*

With that opportunity to add exposure to portfolios forming, we are now on alert next week for some resolution to "trade negotiations" that pulls the pressure off the market. With the markets holding support on Friday, this is good news and once we see how Monday opens we may be able to increase exposures to equities next week. •

Again, as noted last week,

***"With both 'buy' signals now in place, we WILL move target allocations to 100% equity exposure on any corrective actions which reduces the extreme overbought short-term condition without violating important support."*** •

In the meantime, we can prepare for this opportunity by continuing our actions we have recommended over the last several weeks. •



- If you are **overweight equities** - take some profits and reduce portfolio risk on the equity side of the allocation. However, hold the bulk of your positions for now and let them run with the market.
- If you are **underweight equities or at target** - remain where you are until the market gives us a better opportunity to increase exposure to target levels.

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

### **Exciting News - the 401k Plan Manager is "Going Live"**

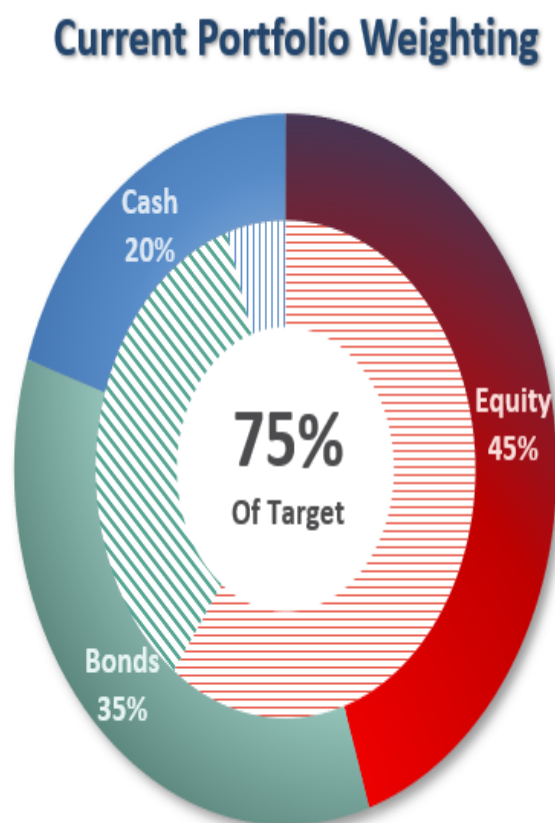
We are making a "LIVE" version of the 401-k allocation model which will soon be available to [RIA PRO subscribers](#). You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more. •

**This service will also be made available to companies for employees. If would like to offer our service to your employees at a deeply discounted corporate rate [please contact me](#).**

Stay tuned for more details over the next couple of weeks.

## **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%	<b>Cash + All Future Contributions</b> <i>Primary concern is the protection of investment capital</i> <i>Examples: Stable Value, Money Market, Retirement Reserves</i>
35.00%	<b>Fixed Income (Bonds)</b> <i>Bond Funds reflect the direction of interest rates</i> <i>Examples: Short Duration, Total Return and Real Return Funds</i>
45.00%	<b>Equity (Stocks)</b> <i>The vast majority of funds track an index. Therefore, select on ONE fund from each category. Keep it Simple.</i> 10% Equity Income, Balanced or Conservative Allocation 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	Equity	
	Money Market	Large Cap	Vanguard Total Stock Market
Fixed Income	Retirement Savings Trust		Vanguard S&P 500 Index
	Fidelity MIP Fund		Vanguard Capital Opportunities
	G-Fund		Vanguard PrimeCap
	Short Term Bond		Vanguard Growth Index
			Fidelity Magellan
	Pimco Total Return		Fidelity Large Cap Growth
	Pimco Real Return		Fidelity Blue Chip
	Pimco Investment Grade Bond		Fidelity Capital Appreciation
	Vanguard Intermediate Bond		Dodge & Cox Stock
	Vanguard Total Bond Market		Hartford Capital Appreciation
	Babson Bond Fund		American Funds AMCAP
	Lord Abbett Income		American Funds Growth Fund Of America
	Fidelity Corporate Bond		Oakmark Growth Fund
	Western Asset Mortgage Backed Bond		C-Fund (Common Assets)
	Blackrock Total Return		ALL TARGET DATE FUNDS 2020 or Later
	Blackrock Intermediate Bond	Balanced Funds	Vanguard Balanced Index
	American Funds Bond Fund Of America		Vanguard Wellington Fund
	Dodge & Cox Income Fund		Vanguard Windsor Fund
	Doubleline Total Return		Vanguard Asset Allocation
	F-Fund		Fidelity Balanced Fund
International	American Funds Capital World G&I		Fidelity Equity Income
	Vanguard Total International Index		Fidelity Growth & Income
	Blackrock Global Allocation Fund		American Funds Balanced
	Fidelity International Growth Fund		American Funds Income Fund
	Dodge & Cox International		ALL TARGET DATE FUNDS 2020 or Sooner
	Invesco International Core Equity	Small/Mid Cap	Vanguard Mid Cap Growth
	Goldman Sachs International Growth Opp.		Fidelity Mid Cap Growth
			Artisan Mid Cap
<p>The above represents a selection of some of the most common funds found in 401k plans. <u><b>If you do not see your SPECIFIC fund listed simply choose one that closely resembles the examples herein.</b></u> All funds perform relatively similarly within their respective fund classes.</p>			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