RIA Advice

- ***Review & Update***
- ***Understand Bear Markets, Don't Fear Them***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

Follow Us On: *Twitter, Facebook, Linked-In, Sound Cloud,Seeking Alpha*

Wednesday, June 26th from 12:30-1:30 pm.

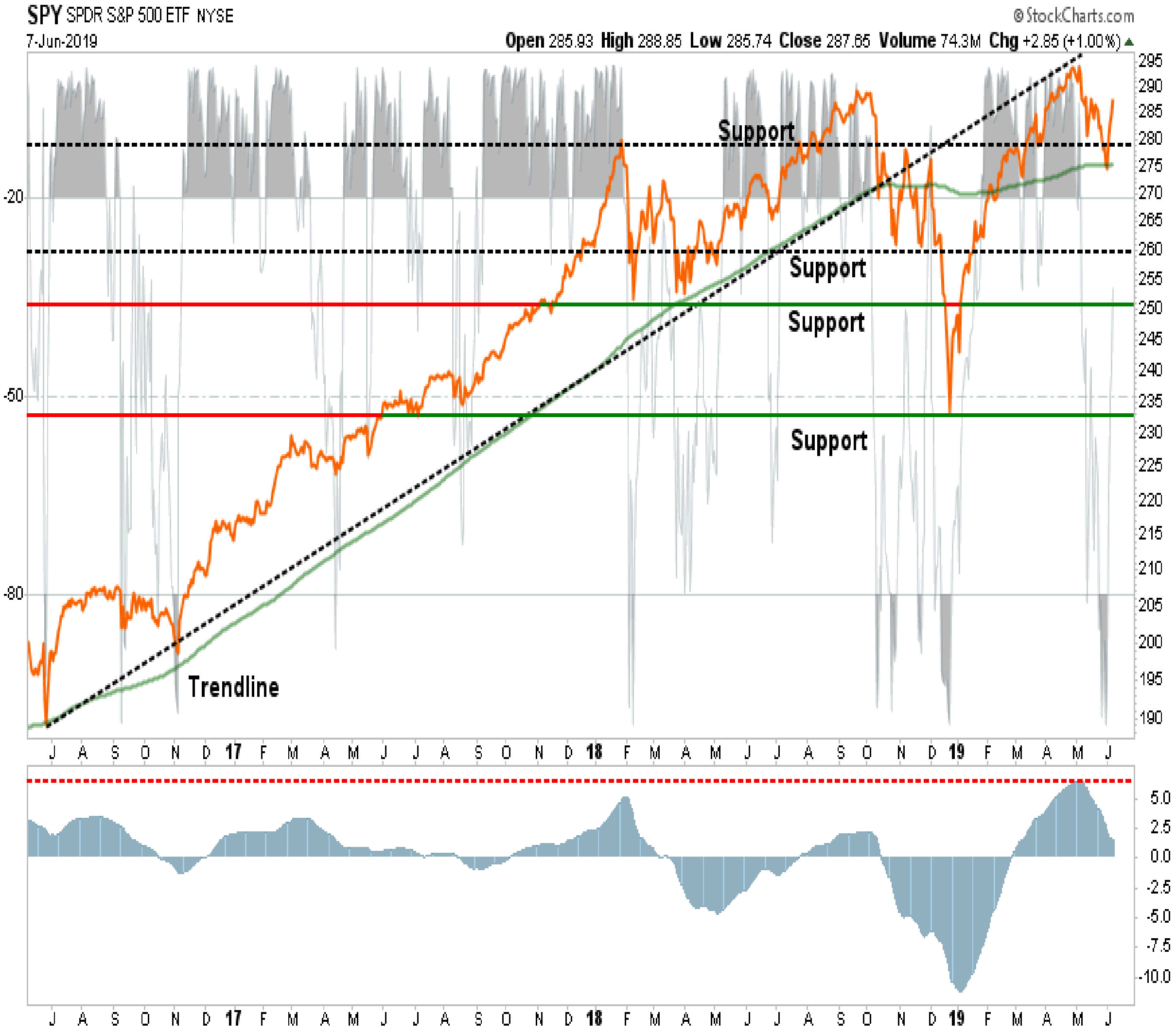
Review & Update

This week I want to step back and talk about some misconceptions with concerning markets, cycles, and investing. However, before we get to that, let me give you a quick review and update on where we are following the *"sellable rally,"* we have discussed over the last couple of weeks.

In review, [we said last week:]•

> ***"We remain primarily long-biased in our portfolios, but are also slightly overweight in cash, and portfolio weight in fixed income.*** *We are also carrying some hedge by having overweighted ?defensive?•stocks a couple of months ago which have continued to provide outperformance.•*
>
> ***There is a very good possibility this rally will continue next week as momentum and short-covering levels have been breached.*** *However, if the market fails to set a new high and turns lower, the risk of a downside break will grow as we progress into summer."*

The rally did continue on Monday and hit our initial targets. We alerted our **[RIA PRO subscribers]** **(FREE 30-day trial)** to this on•Monday.[To wit:]



- *As stated last time:*
    - *?The correction last week has set up a tradeable opportunity into June.?*
- *That tradeable rally is in process and we are approaching* ***our initial target of $290***
- *Short-Term Positioning: Bullish*
    - *Last Week: Hold full position* ***with a target of $290.***
    - *This Week:* ***Sell 1/2 of position on any rally next week that hits our target.***
    - *Stop-loss moved up to $280*
    - *Long-Term Positioning: Neutral*

That target was hit on Monday, and we sold 1/2 of our trading positions accordingly.•

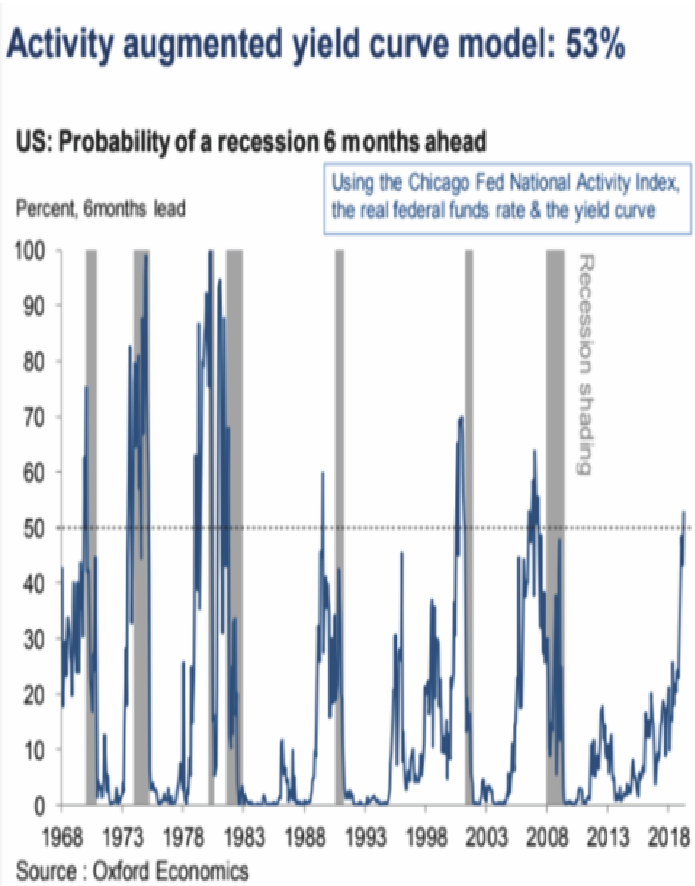
Image not found or type unknown

Since then, the market has languished around the 50-day moving average seemingly awaiting some catalyst to move it in one direction of the other. Fortunately, there are plenty of those on deck as next week the Fed will give us their latest musings on whether they are inclined to cut rates or not and Trump will be confronting China in the upcoming G-20 meeting.•

Pass the popcorn, please.•

As shown in the chart below, the short-term oversold condition has been reversed which limits upside, but the 50-day moving average has acted as support all week.•

The concern this coming week will continue to be adverse news from the Fed, the White House, or the economic data which has continued to take a turn for the worse. Global economic growth has plunged as well as Q2 and Q3 economic growth estimates.•



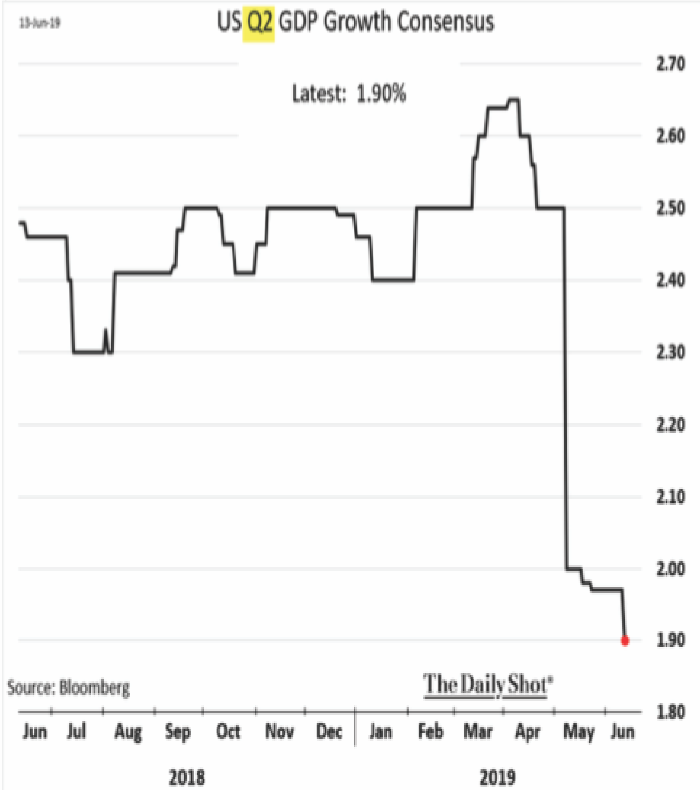
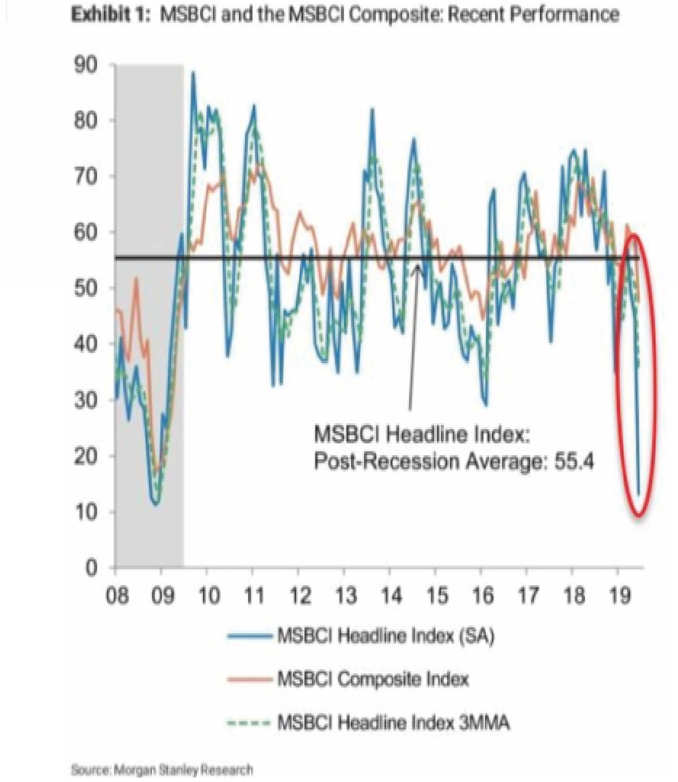
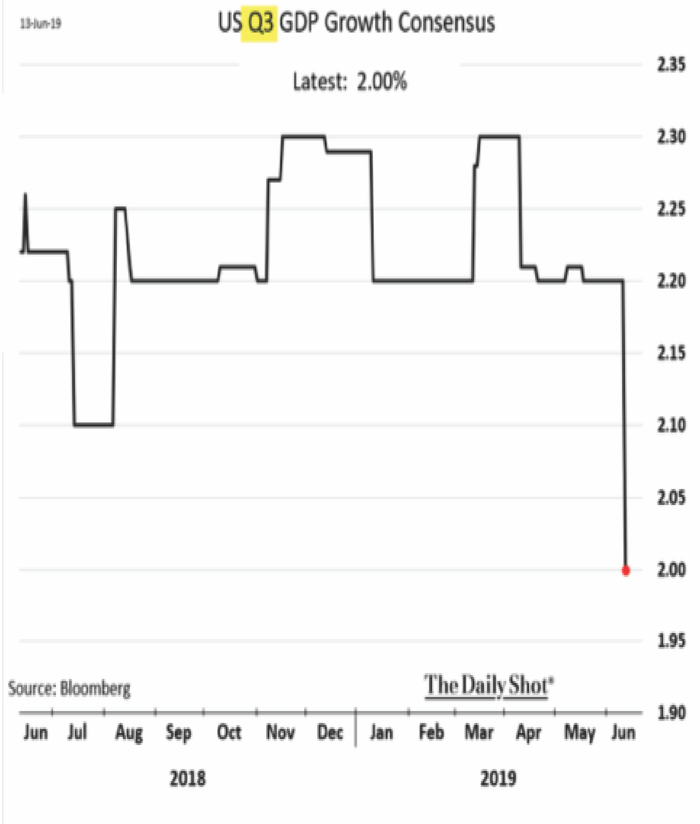
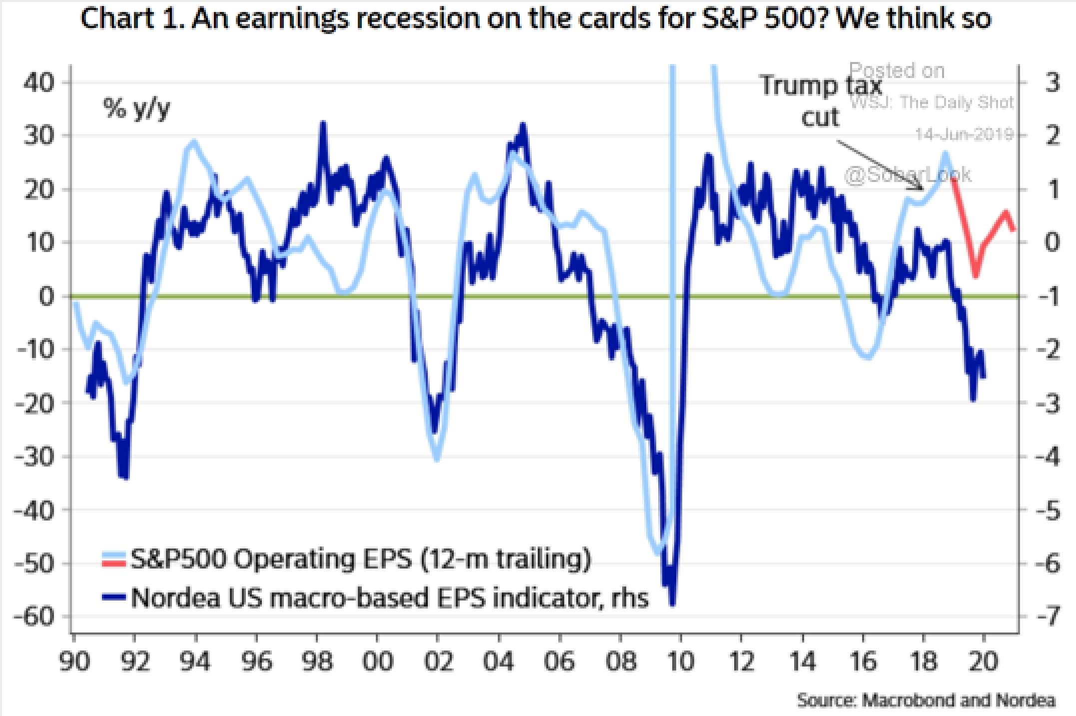


Exhibit 1: MSBCI and the MSBCI Composite: Recent Performance





This also puts forward earnings at risk of recession, which will not play well with a market trading at rather extreme historical valuations.•



"Oh my gosh, you are so bearish. You must just be all in cash and hiding in a bunker."•

Well, for those that are reading impaired, it must certainly sound that way.

However, in reality, we have consistently maintained long exposure to the markets, but continue to control our risks to protect against sudden losses of capital.

That brings us to today's missive.

Understand Bear Markets, Don't Fear Them

I am a value-oriented investor and prefer to buy assets when they are fundamentally cheap based on several factors including price to sales, free cash flow yield, and high return on equity. **However, being a strict value investor can also lead to a variety of investment mistakes, primarily emotional, when markets become both highly correlated and driven by speculative excess.**

Currently, there is little value available to investors in the market today as prices have been driven higher by repeated Central Bank interventions and artificially suppressed interest rates.•

What we do know is that despite these interventions, the markets will eventually mean revert to the point that *"value"* is once again present.•

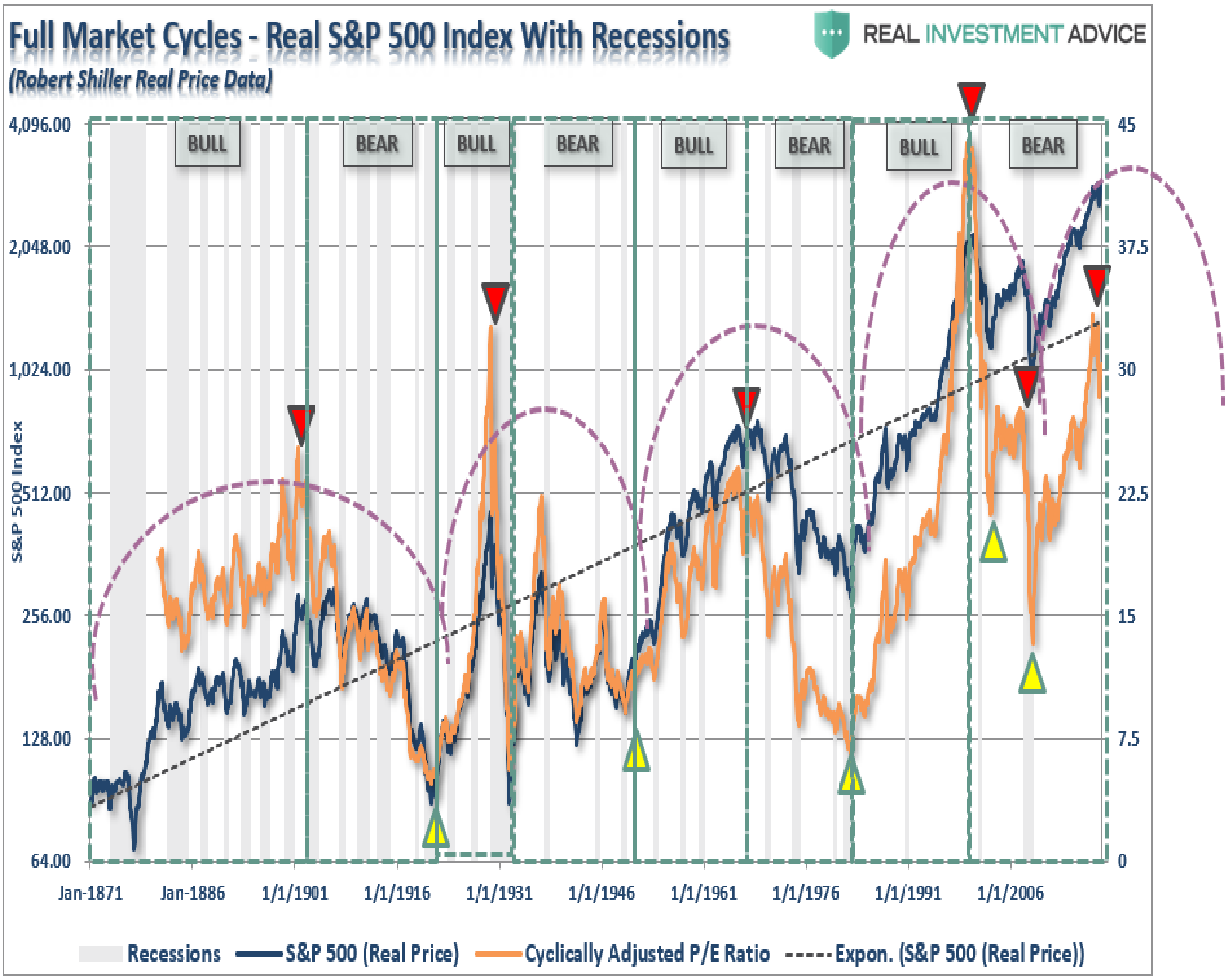
The problem for investors is two-fold:

1. *Knowing when to sell excessively valued markets which seemingly will not stop rising, and;*
2. *Knowing when to buy back into markets which seeming will not stop falling.*

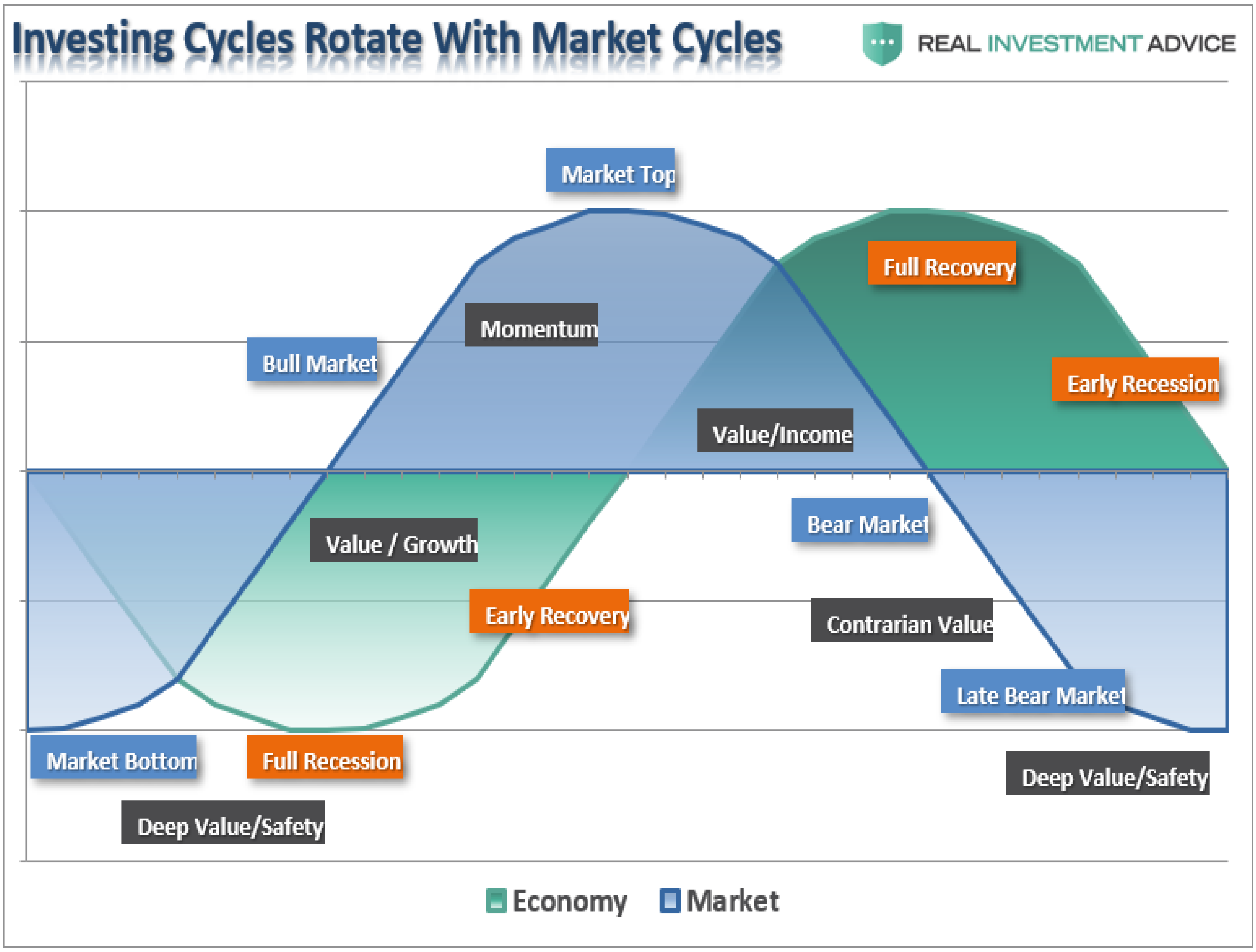
This is why a good portion of our investment management philosophy is focused on the control of *?risk?*•in portfolio allocation models through the• **lens of relative strength and momentum analysis.•**

The effect of momentum is arguably one of the most pervasive forces in the financial markets. Throughout history, there are episodes where markets rise, or fall, further and faster than logic would dictate. **However, this is the effect of the psychological, or behavioral, forces at work as•?*greed?*•and•?*fear?*•overtake logical analysis.**

I have discussed previously the effect of•?*[full market cycles?](#)*•as shown in the chart below.



What is also important to note is that these full market cycles are ultimately driven by the economic cycle. As shown in the next chart, the sector rotation•appears to lead the economic cycle.



Importantly, it should be noted that investment styles also shift during the broader cycle.

- ***During recessionary bottoms,*** *when assets are truly selling at•?bargain basement?•prices, deep discount value strategies tend to perform the best as investors are panic selling to find safety over risk.*
- ***As markets begin to recover,*** *investor?s begin to cautiously re-enter the markets and begin to seek some risk with a degree of safety. Value oriented investment strategies will still work during while these early recovery cycles and growth strategies began to gain momentum.*
- ***During the latter stages of the economic cycle****, growth and value give way to pure momentum as investor•?greed?•and•?exuberance?•began to view•?value?•as•?out of favor.?•*

It is during this last stage of the cycle that *?fundamentals appear not matter?•*as the fundamentally worst stocks lead the markets higher.

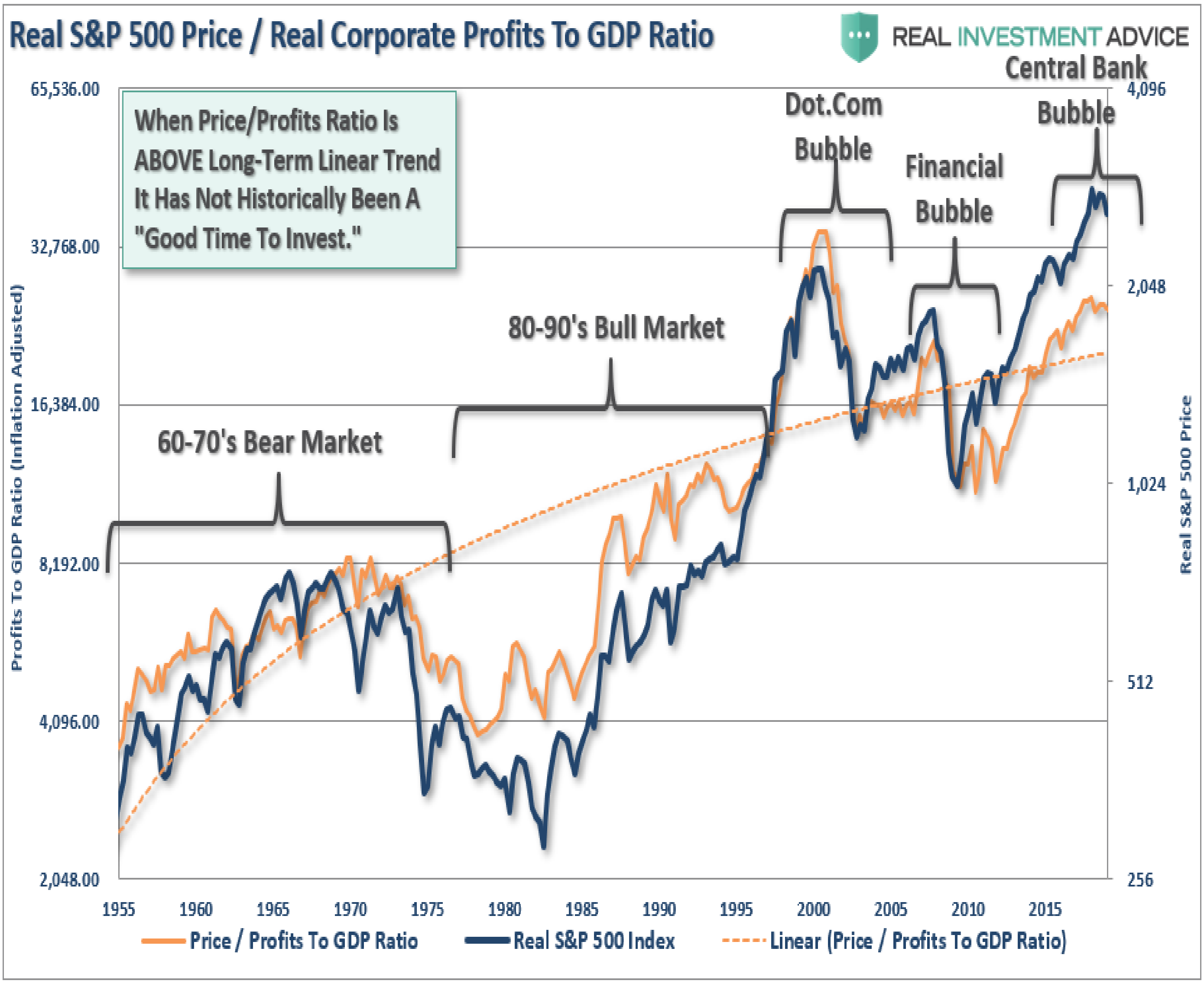
In other words, we begin hearing discussions of why*?This Time Is Different(TTID),? "The Fear Of Missing Out FOMO),"* and *?There Is No Alternative (TINA).?•*

Image not found or type unknown

Complacency Lives

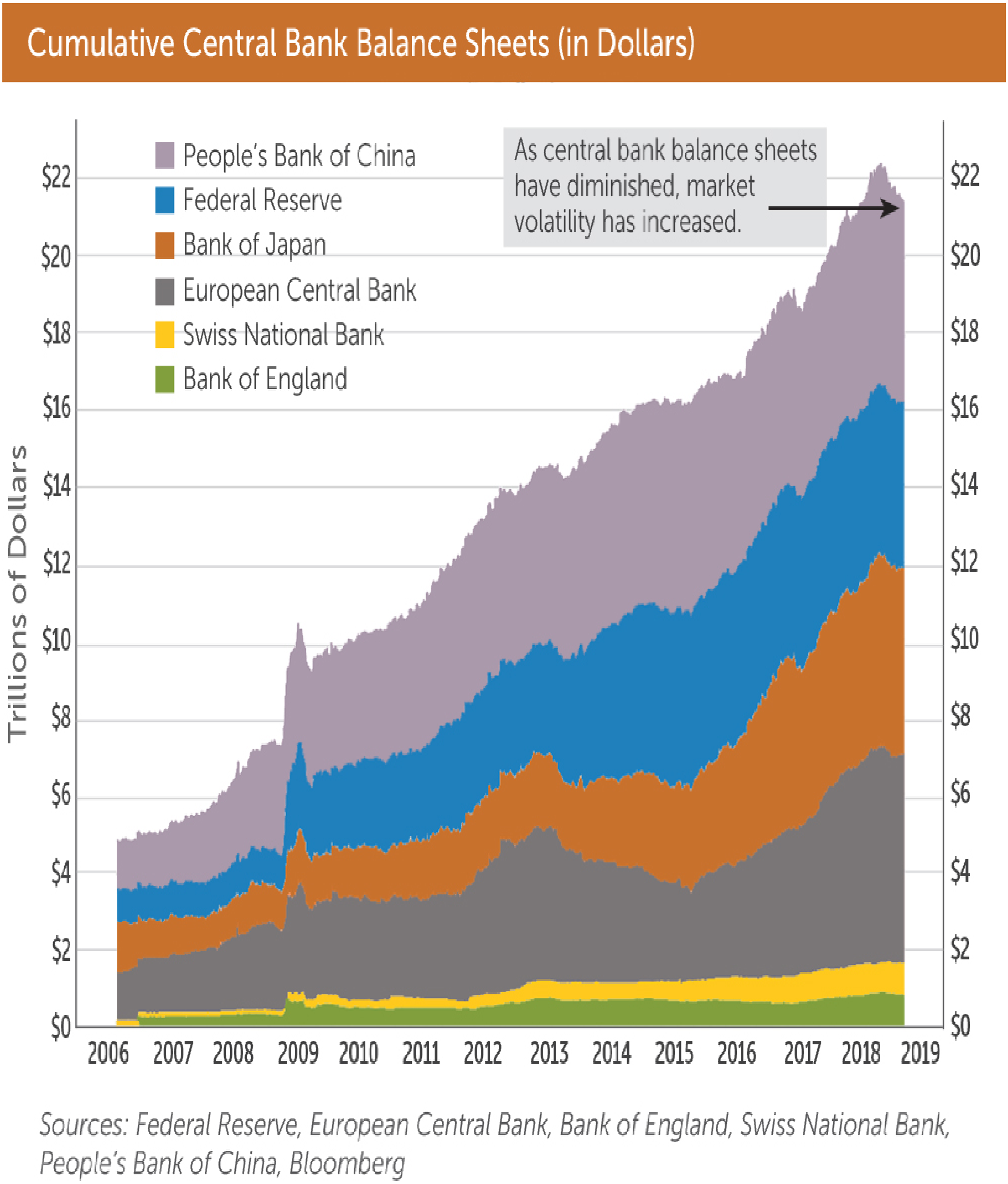
For now, complacency lives. Despite geopolitical turmoil, slowing economic data, weak corporate profitability, tariffs, and *"trade wars,"* the markets remain astonishingly close to their all-time highs. Furthermore, volatility, remains amazingly close to its historical lows despite a market that has gone nowhere for eighteen months.

Moreover, complacency also in how much investors are willing to pay for each dollar of profits from owning stocks relative to overall economic growth. As shown below, investors are paying much more for every dollar's worth of profits than what the economy should actually generate. *(Profits are a reflection of economic activity, not the other way around.)*



Clearly, paying excess valuations is not uncommon throughout history. However, so are the eventual reversions are investors reprice values during economic slowdowns and recessions.

But the driving force behind today?s multiple expansion has been the relentless expansion of global central bank balance sheets since the outbreak of the financial crisis nearly a decade ago. **Overall, global central bank balance sheets have expanded from just over $5 trillion prior to the crisis in 2007 to nearly $22 trillion today.**



There is little doubt we are currently in a bull market.**But as with all things, despite hopes from the mainstream media to the contrary, they do come to an end.** This should be of no real surprise to anyone that has managed money for any length of time.

But here is the most important point for investors.

*The speculative asset chase over the last decade, which is a direct result of Central Bank activity, has locked investors into a period of **near zero prospective total returns in virtually in every asset class** for the coming decade.*

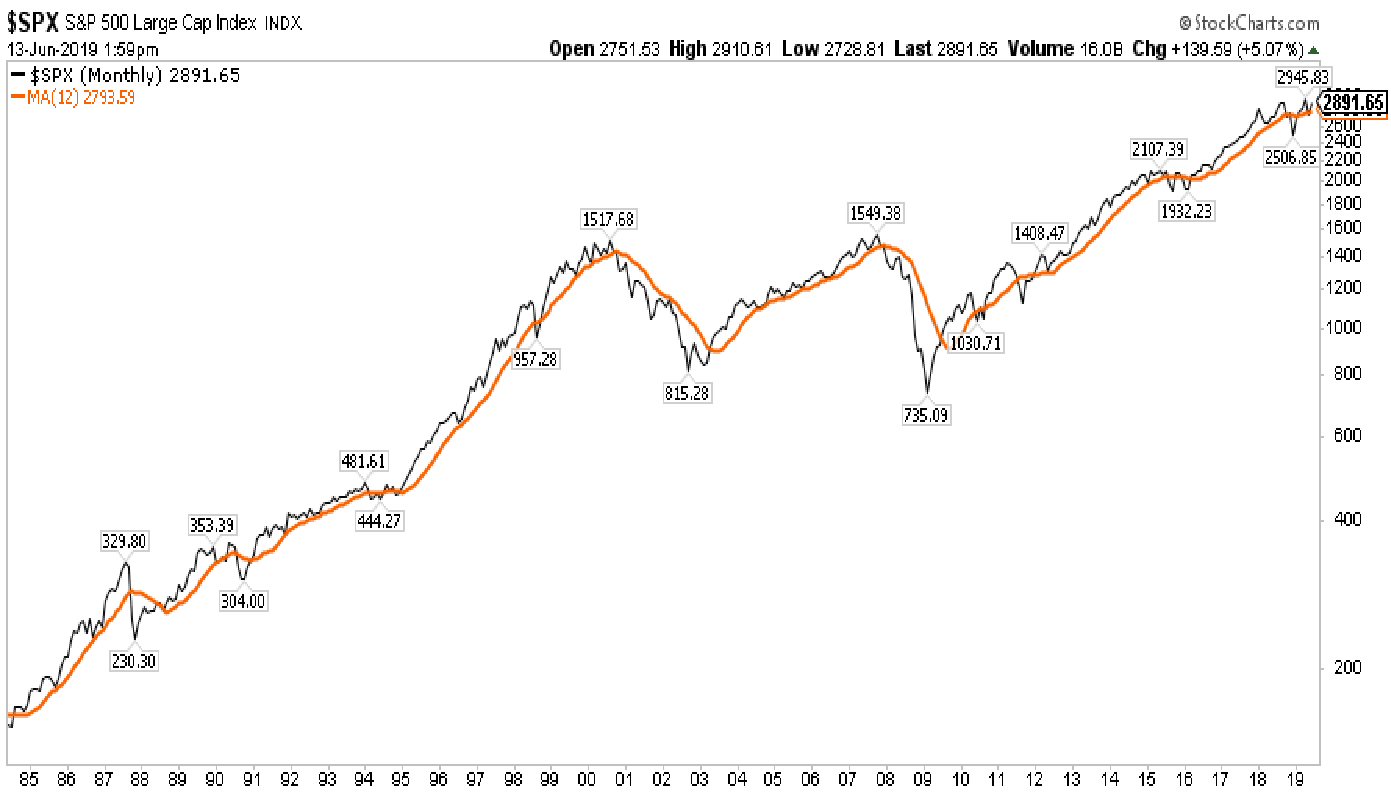
Read that again.

- *The 1999-2000 Dot.com bubble was about technology stocks. (7-Years to breakeven)*
- *The 2007-2008 debacle was centered around real estate and subprime debt. (7-years to breakeven)*
- *The 2020, or whenever it occurs, scenario will involve multiple bubbles in stocks, corporate debt, and real estate.*

There is little doubt that we are in both the late stages of an economic cycle and a momentum driven market. **Therefore, investment focus must be adjusted to current market dynamics•that requires a focus on relative strength and momentum as opposed to valuation-based strategies.**

There have been many studies published that have shown that relative strength momentum strategies, in which as assets? performance relative to its peers predicts its future relative performance, work well on both an absolute or time series basis. Historically, past returns•*(over the previous 12 months)*•have been a good predictor of future results•**This is the basic application of Newton?s Law Of Inertia,•that states?*an object in motion tends to remain in motion unless acted upon by an unbalanced force.?***

The chart below shows a simple example of a strategy using the 12-month moving average. The theory is you are long equities when the S&P 500 is above the 12-month moving average, and in cash when below it.



Momentum strategies, which are trend following strategies by nature, have been proven to work well across extreme market environments, multiple asset classes and over historical

time frames.

Unfortunately, few investors can actually use such a system for the following reasons:

- *Investors* ***are slow to react to new information•(they anchor)*** *which initially leads to under-reaction but eventually shifts to over-reaction during late cycle stages.*
- *Investors are ultimately driven by the ?herding? effect.* ***A rising market leads to ?justifications? to explain over-valued holdings. In other words, buying begets more buying.***
- *Lastly, as the markets turn,* ***the•?disposition?•effect•takes hold and winners are sold to protect gains, but losers are held in the hopes of better prices later.•***

The end effect is not a pretty one.

By applying momentum strategies to fundamentally derived investment portfolios it allows the portfolio to remain allocated during rising markets while managing the inherent risk of behavioral dynamics.

It is just really hard to do because of the *"psychological pull"* from the markets and the media.

However, this is why, despite the fact that I write like a *?bear,?*•the portfolio model has remained allocated like a•*?bull?* during the market?s advance. **Our job is simple, make money for our clients when markets are rising and avoid potentially catastrophic losses when trends change.**

Maintaining your portfolio through a disciplined investment process will reduce risk and increase long-term profitability. With markets currently hovering near all-time highs, despite a continuing erosion of underlying fundamental and technical strength, **the risk/reward ratio remains out of favor.**

1. *Tighten up stop-loss levels to current support levels for each position.*
2. *Hedge portfolios against major market declines.*
3. *Take profits in positions that have been big winners*
4. *Sell laggards and losers*
5. *Raise cash and rebalance portfolios to target weightings.*

Eventually, this cycle does end, and the reversion process back to value has historically been a painful one.•

But the important point is that you shouldn't ***"fear"*** bear markets.•

They are just part of the investment cycle and are required for the next *"great bull market"* to begin.•

If you need help, or have questions, we are always glad to help. Just email me.

See you next week.

Market & Sector Analysis

S&P 500 Tear Sheet

-

SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	18.43%	3.78%	15.74%	316.67%
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.66	0.34	2.88	7.58
Sortino	0.75	0.41	3.78	8.32
Volatility	13.96	15.34	12.93	(0.16)
Daily VaR-5%	(11.07)	(17.99)	18.45	(2.03)
Mnthly VaR-5%	(12.72)	(24.09)	(1.14)	(0.95)

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	1.86%	1.80%	1.89%	4.66%	2.18%	1.67%	(13.16%)	13.03%
P/E Ratio	20.56	20.59	17.89	(15.06%)	20.88	15.79	(14.3%)	13.27%
P/S Ratio	3.18	3.35	3.24	(3.48%)	3.57	2.55	(9.40%)	26.78%
P/B Ratio	3.62	3.90	4.00	2.41%	4.18	3.01	(4.32%)	32.67%
ROE	15.59%	16.67%	18.64%	10.54%	18.78%	14.99%	(0.77%)	24.29%
ROA	2.89%	3.12%	3.47%	10.06%	3.50%	2.81%	(0.86%)	23.60%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,432.2	2,387.8	(1.83%)
Sales	59,849	64,135	7.16%
SPS	24.6	26.9	9.15%
Earnings	8,457	9,563	13.08%
EPS TTM	4.1	4.9	17.87%
Dividend	1.5	1.6	9.33%

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	(20.83%)	4.85%	1.20	15.94	156.27	12.49	(89.8%)	9.4%	3.8%	6.23%	3.63	14.23
Materials	(13.35%)	2.81%	1.26	14.82	22.92	13.83	(35.4%)	11.3%	2.0%	6.72%	4.72	15.21
Industrials	(0.94%)	9.30%	1.12	17.12	22.21	14.76	(22.9%)	16.2%	2.0%	5.82%	5.21	14.90
Discretionary	6.21%	10.22%	1.01	24.06	27.38	20.08	(12.1%)	28.9%	1.3%	4.17%	4.89	20.46
Staples	14.55%	7.43%	0.60	20.21	22.83	17.63	(11.5%)	27.1%	2.8%	4.95%	3.88	18.51
Health Care	6.89%	14.25%	0.87	16.69	20.62	15.93	(19.1%)	30.2%	1.8%	5.97%	6.52	14.69
Financials	(0.91%)	13.08%	1.25	13.00	18.42	11.68	(29.4%)	11.6%	2.1%	7.71%	5.82	11.20
Technology	8.84%	21.48%	1.24	20.34	21.83	14.47	(6.8%)	39.0%	1.5%	4.92%	5.25	18.36
Telecom	(8.40%)	10.01%	0.86	18.69	27.29	17.44	(31.5%)	17.6%	1.0%	5.35%	6.29	17.42
Utilities	25.77%	3.36%	0.33	20.36	20.31	15.58	0.2%	10.5%	3.3%	4.95%	3.61	18.20
Real Estate	18.28%	3.13%	0.74	20.36	24.47	17.10	(16.8%)	10.0%	3.2%	4.93%	4.29	19.30

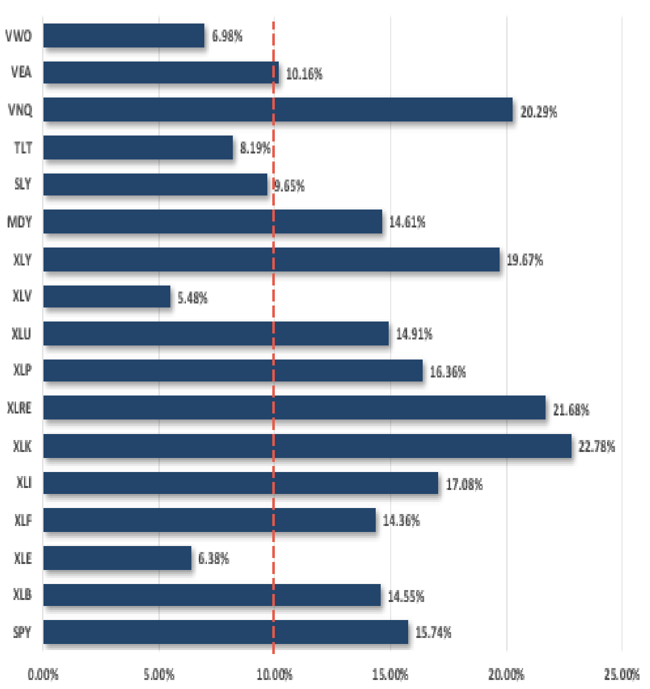
Momentum Analysis

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	289.26	0.24%	287.12	6	0.74%	276.36	9	4.67%	3.89%	(1.93%)	23.74%	Buy
Mid Cap	346.88	(2.28%)	349.15	50	(0.65%)	340.95	8	1.74%	2.40%	(7.28%)	21.95%	Buy
Small Cap	65.76	(4.11%)	67.18	39	(2.12%)	67.45	31	(2.50%)	(0.39%)	(15.96%)	16.80%	Sell

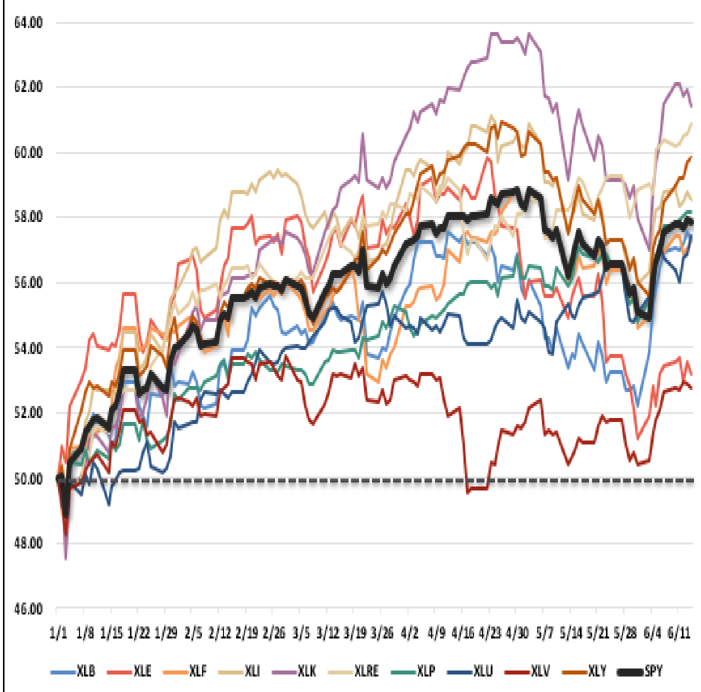
---

Performance Analysis

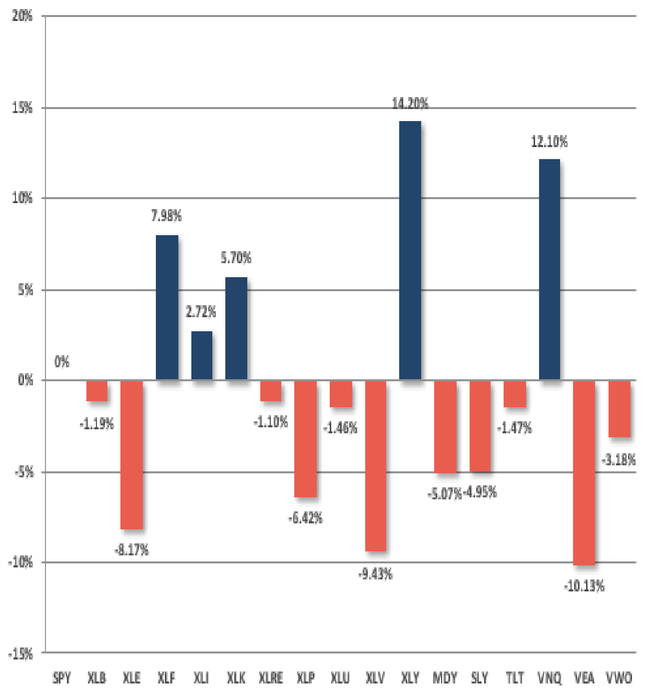
Year To Date Performance



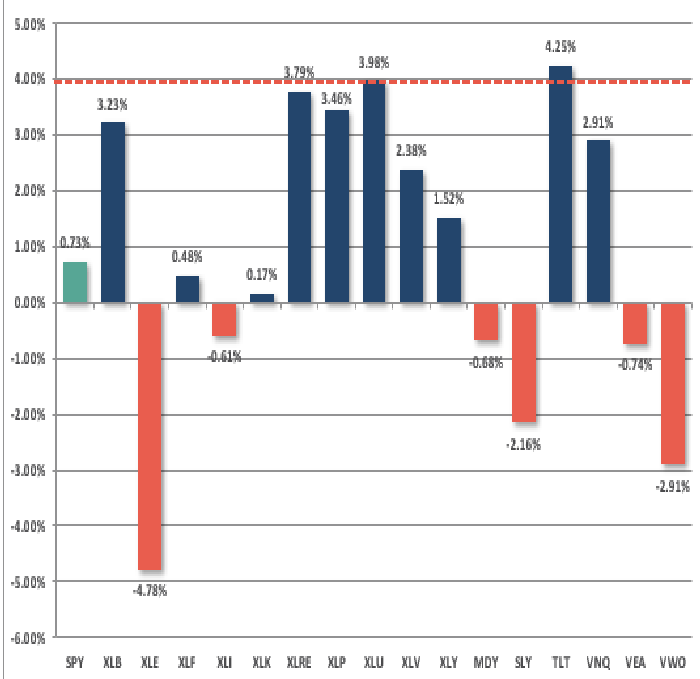
YTD Price - S&P Sectors Recalibrated To $50/share



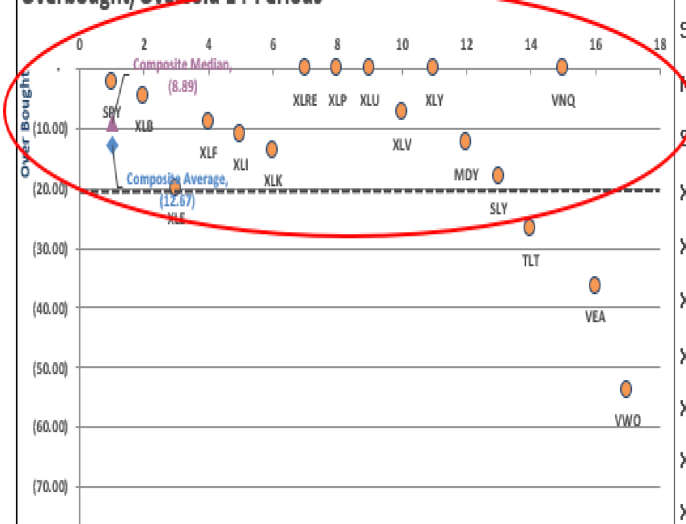
Year To Date Performance Relative To S&P 500



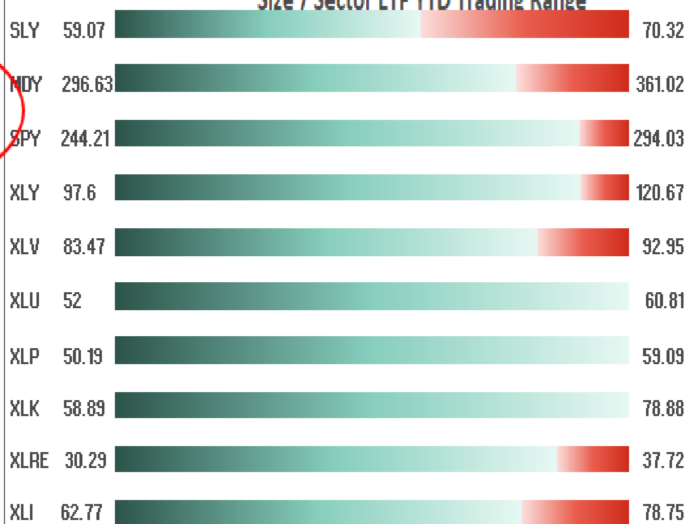
Price Deviation From 50-Day Moving Average



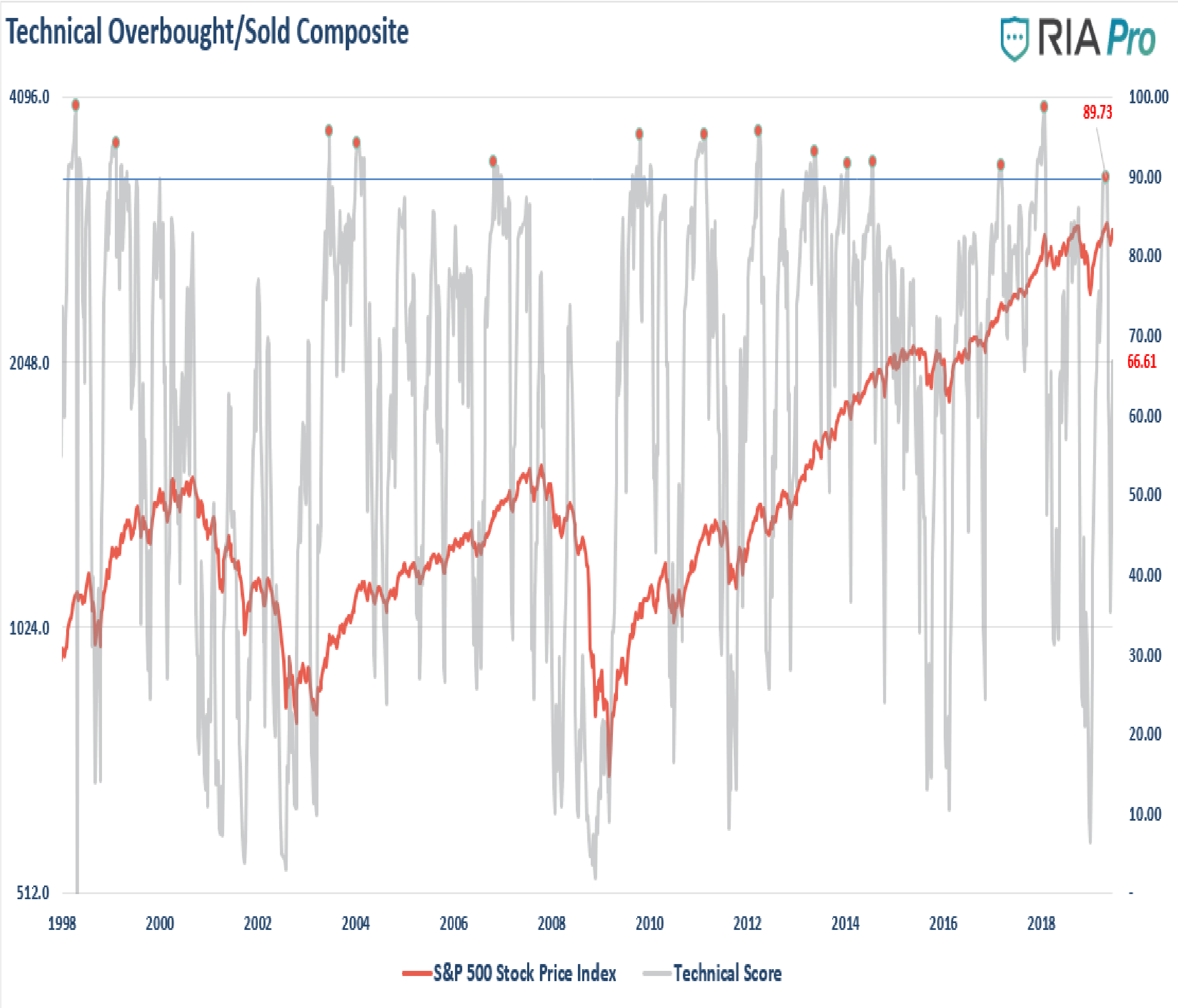
Overbought/Oversold 14-Periods



Size / Sector ETF YTD Trading Range



Technical Composite



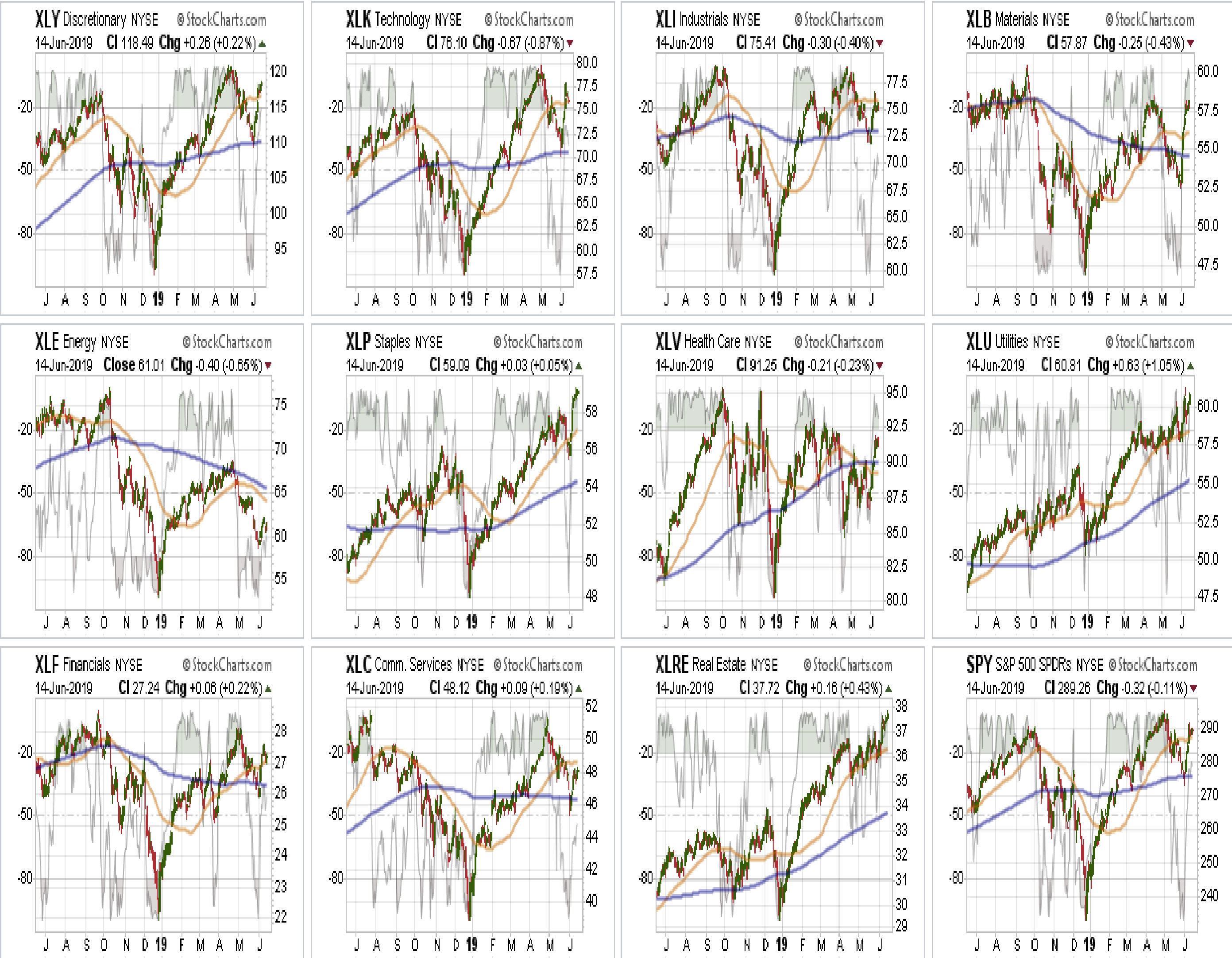
ETF Model Relative Performance Analysis

	RELATIVE PERFORMANCE	Ticker	ETF NAME	Current Price	1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	SHORT WMA	LONG WMA	% DEV - Short M/A	% DEV - Long M/A	Buy / Sell Signal
					Model Position Price Changes Relative to Index									
	BENCHMARK	IVV	ISHARS-SP500	291.25	0.55	1.16	3.59	16.81	3.90	288.21	276.39	1.06%	5.37%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	57.87	0.05	4.73	2.93	(1.30)	(7.02)	55.96	54.20	3.41%	6.76%	BUY
		XLE	SPDR-EGY SELS	61.01	(0.97)	(5.46)	(10.40)	(9.87)	(21.65)	64.55	64.22	-5.49%	-5.00%	BUY
		XLF	SPDR-FINL SELS	27.24	(0.10)	0.18	3.91	(1.34)	(4.74)	26.88	26.12	1.36%	4.28%	BUY
		XLI	SPDR-INDU SELS	75.41	(0.95)	(0.37)	(0.22)	1.44	(3.52)	75.63	72.47	-0.29%	4.06%	BUY
		XLK	SPDR-TECH SELS	76.10	(0.66)	(0.21)	0.20	7.13	2.20	75.56	70.09	0.72%	8.58%	BUY
		XLP	SPDR-CONS STPL	59.09	0.24	1.16	3.69	0.03	10.75	56.73	54.88	4.16%	7.67%	BUY
		XLU	SPDR-UTIL SELS	60.81	0.70	2.29	0.38	(1.71)	18.85	58.38	56.18	4.16%	8.24%	BUY
		XLC	SPDR-COMM SV SS	48.12	0.61	(2.96)	(1.14)			48.31	46.02	-0.39%	4.57%	BUY
		XLV	SPDR-HLTH CR	91.25	(0.28)	2.01	(2.89)	(9.78)	2.87	89.63	89.70	1.81%	1.73%	SELL
		XLY	SPDR-CONS DISCR	118.49	1.80	1.06	2.52	4.14	1.79	116.04	109.68	2.12%	8.03%	BUY
	SIZE	SLY	SPDR-SP SC 600	65.76	0.01	(2.26)	(2.62)	(6.59)	(15.16)	67.13	66.33	-2.04%	-0.86%	BUY
		MDY	SPDR-SP MC 400	346.88	(0.05)	(0.45)	(0.76)	(0.94)	(8.08)	348.38	337.44	-0.43%	2.80%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	105.98	(0.15)	0.05	(0.38)	0.07	(1.89)	105.36	101.37	0.59%	4.55%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	100.77	0.05	0.67	0.01	(3.32)	3.85	99.63	96.58	1.15%	4.34%	BUY
	Real Estate	XLRE	SPDR-RE SELS	37.72	0.23	1.78	1.77	5.10	15.88	36.25	34.36	4.04%	9.78%	BUY
	International	EEM	ISHARS-EMG MKT	41.10	(0.74)	0.85	(6.72)	(12.07)	(13.03)	42.53	41.52	-3.36%	-1.00%	BUY
		EFA	ISHARS-EAFE	65.16	(1.16)	(0.56)	(2.27)	(5.79)	(10.82)	65.42	63.33	-0.40%	2.90%	BUY
		IXUS	ISHARS-CR INT S	57.60	(1.15)	(0.38)	(3.45)	(6.93)	(11.82)	58.29	56.53	-1.19%	1.90%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	131.46	(0.76)	3.18	1.70	(8.21)	5.30	125.70	121.41	4.58%	8.28%	BUY
	International	BNDX	VANGD-TTL INT B	56.92	(0.37)	0.41	(1.42)	(11.72)	0.52	55.93	55.16	1.78%	3.19%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	86.29	(0.32)	(0.76)	(3.06)	(10.33)	(3.71)	86.16	84.77	0.15%	1.79%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.28										

Sector & Market Analysis:

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

Sector-by-Sector



Improving - None

We have recently discussed that relative performance of Staples and Financials were improving as the outperformance lead of Technology, Discretionary and• Communications were weakening. That performance rotation continues this week with Financials and Staples rotating into the outperformance quadrant.

Current Positions:

Outperforming - Technology, Discretionary, Communications, Financials, Staples

As noted above Technology, Discretionary and Communications are on the verge of turning from outperformance to underperformance of the S&P 500 on a relative basis. While the rally in the market, as we discussed last week, continued for a second week in a row, it has been defensive positioning continuing the outperformance.•

Take profits and rebalance across sectors accordingly.•

Current Positions: *1/2 weight XLY, Reduced from overweight XLK, Overweight XLP, Target weight XLF.*

Weakening - Real Estate and Industrials

Real Estate has continued to attract buyers particularly as interest continue to weaken. Performance improved again this past and Real Estate will likely move back into outperformance next week. We continue to carry our current weight in Real Estate, we also added to agency REIT's to out equity portfolio last week. We continue to looking for opportunities to overweight the sector. Industrials bounced this past week, but their relative performance continues to drag. We remain underweight industrials currently.•

Current Position: *XLRE, 1/2 XLI*

Lagging - Healthcare, Materials, Energy, and Utilities

While these sectors are currently lagging the performance of the S&P 500, on a short-term basis, that performance continues to improve, with the strong exception of energy, as defensive continues to attract capital flows.•

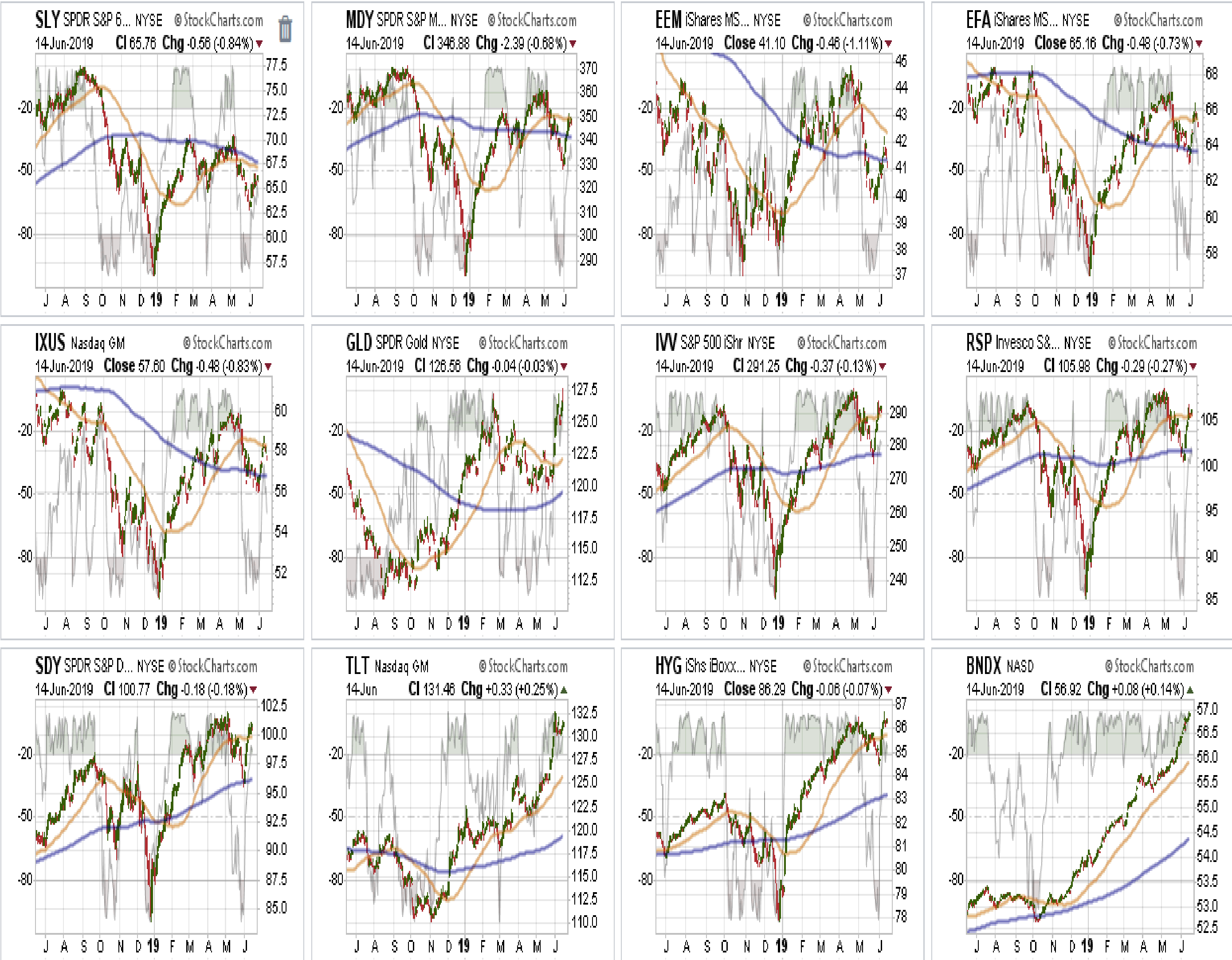
As noted, we have slightly overweighted healthcare and utilities to go along with our overweight positioning in staples and financials. While we are maintaining a 1/2 position in XLE, it is not performing well and we may be required to *"cut it loose"* if performance doesn't improve soon.•

> **IMPORTANT: Two weeks ago we noted that:**
>
> **"All sectors are VERY OVERSOLD currently. Look for a rally in the next week to begin rebalancing risks and weightings accordingly. This could be your best, last chance, for the rest of the summer."**
>
> **That oversold condition has been almost fully reversed. Take action if you have not done so.**

We may have some follow through rally this week, but use any further rise to take action accordingly.•

Current Positions: *1/2 XLB, 1/2 XLE, Overweight XLV, Overweight XLU*

Market By Market



The rally this past week was very concentrated and has all the earmarks of a short-term *"short-covering"* rally.•

Small-Cap and Mid Cap - Small-cap and Mid-cap previously both failed to hold above their respective 50- and 200-dma which keeps us from adding a position in portfolios. Last week, Midcap rallied back to its 200-dma but ran into a lot of resistance. We will need to patient to see if there is any follow through. As noted, these sectors are mostly tied to the domestic economy and their lack of performance is concerning relative to the economic backdrop.•

Current Position: *No position*

Emerging, International & Total International Markets•

As noted two weeks ago:

> *The re-institution 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.•*

Last week, we were stopped out of our emerging market position. We have no long exposure to international markets currently. However, industrialized international is challenging its 50-dma once again. It is too soon to take on exposure as the current trend remains concerning. However, we are watching for an opportunity to add exposure if the technicals warrant the risk.

Current Position: *No Position*

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.

The rally over the last two weeks has almost fully reversed the previous oversold condition. Make sure and rebalance weightings in portfolios if you have not done so already.

Current Position: *RSP, VYM, IVV*

Gold ? As noted last week, with rates dropping sharply and deflationary pressures on the rise, Gold finally got a bid over the last couple of week. Gold is now challenging its highs from February of this year and failed to breakout to highs. Gold has provided a good hedge in our portfolios against the recent decline and a breakout above current levels would suggest substantially higher prices.•

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

Bonds?

Bonds tested cycle highs and pulled back slightly before attempting a retest of highs this week. Bonds are extremely overbought, take some profits and rebalance weightings but remain long for now.

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

High Yield Bonds, representative of the *"risk on"* chase for the markets rallied sharply with the market this week as *"shorts*" were forced out of their holdings. Not surprisingly, the *"junk"* rally has taken the market from oversold back to fairly overbought. **Given the deteriorating economic conditions, this would be a good opportunity to reduce *"junk rated"* risk and improve credit quality in portfolios.•**

> **IMPORTANT: Two weeks ago we noted that:**
>
> **"All sectors are VERY OVERSOLD currently. Look for a rally in the next week to begin rebalancing risks and weightings accordingly. This could be your best, last chance, for the rest of the summer."**
>
> **That oversold condition has been almost fully reversed. Take action if you have not done so.**

Sector / Market Recommendations

The table below **shows thoughts on specific actions related to the current market environment.•**

(These are not recommendations or solicitations to take any action. This is for informational purposes only related to market extremes and contrarian positioning within portfolios. Use at your own risk and peril.)

-

		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLY	Discretionary	OB	Positive	Positive	Hold			X			Testing 50-DMA
XLK	Technology	OB	Positive	Positive	Hold			X			Testing 50-DMA
XLI	Industrials	improving	Positive	Neutral	Hold			X			Testing 50-DMA
XLB	Materials	OB	Positive	Neutral	Hold			X			Extreme Overbought
XLE	Energy	OS	Negative	Negative	Hold			X			Broke 200-DMA
XLP	Staples	OB	Positive	Positive	Hold			X			Extreme Overbought
XLV	Health Care	OB	Negative	Neutral	Hold			X			Testing March Resistance
XLU	Utilities	OB	Positive	Positive	Hold			X			Extreme Overbought
XLF	Financials	improving	Positive	Neutral	Hold			X			Testing April Resistance
XLC	Telecom	improving	Positive	Neutral	No Position					X	Technically Very Weak
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Extreme Overbought
SLY	Small Caps	Neutral	Negative	Negative	No Position					X	Failed At 200-DMA
MDY	Mid Caps	Neutral	Positive	Neutral	No Position					X	Testing Overhead Resistance
EEM	Emerging Mkt	Neutral	Positive	Negative	No Position					X	Failed At 200-DMA
EFA	International	Neutral	Positive	Negative	No Position					X	Testing 50-DMA
IXUS	Total International	Neutral	Positive	Negative	No Position					X	Testing 50-DMA
GLD	Gold	OB	Positive	Neutral	Hold			X			Tesing February Highs
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Testing 50-DMA
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Testing 50-DMA
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Testing 50-DMA
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Testing May Highs
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Testing Previous Highs
BNDX	Int'l Bond Aggregate	OB	Positive	Positive	No Position					X	Extreme Overbought

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

Portfolio/Client Update:

As noted at the beginning of May. we have shifted our focus from *?risk taking?*•to*?risk control.? ?Capital preservation strategies?*•now replace•*capital growth strategies,?*and*?cash?*•now becomes a favored asset class•for managing uncertainty.

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:** *Our onboarding indicators are "risk off" currently,* ***so new accounts will remain in cash for the time being.*** *Positions that were transferred in are on our global review list and will be monitored for an opportunity to liquidate to raise cash to transition into the specific portfolio models.*
- ***Equity Model:*** *We sold MU last week as the position was simply not performing despite the fact the company is extremely cheap at 3x earnings. We will buy this position back in the future when technicals improve. We are also publishing a report this week on a "bullish*

steepener" in rates as short-term rates fall faster than long term (think recession). Therefore we starting buying two agency REIT's, NLY and AGNC, to benefit from the uninversion of the yield curve. In the meantime we will collect at near 13% yield on both.•

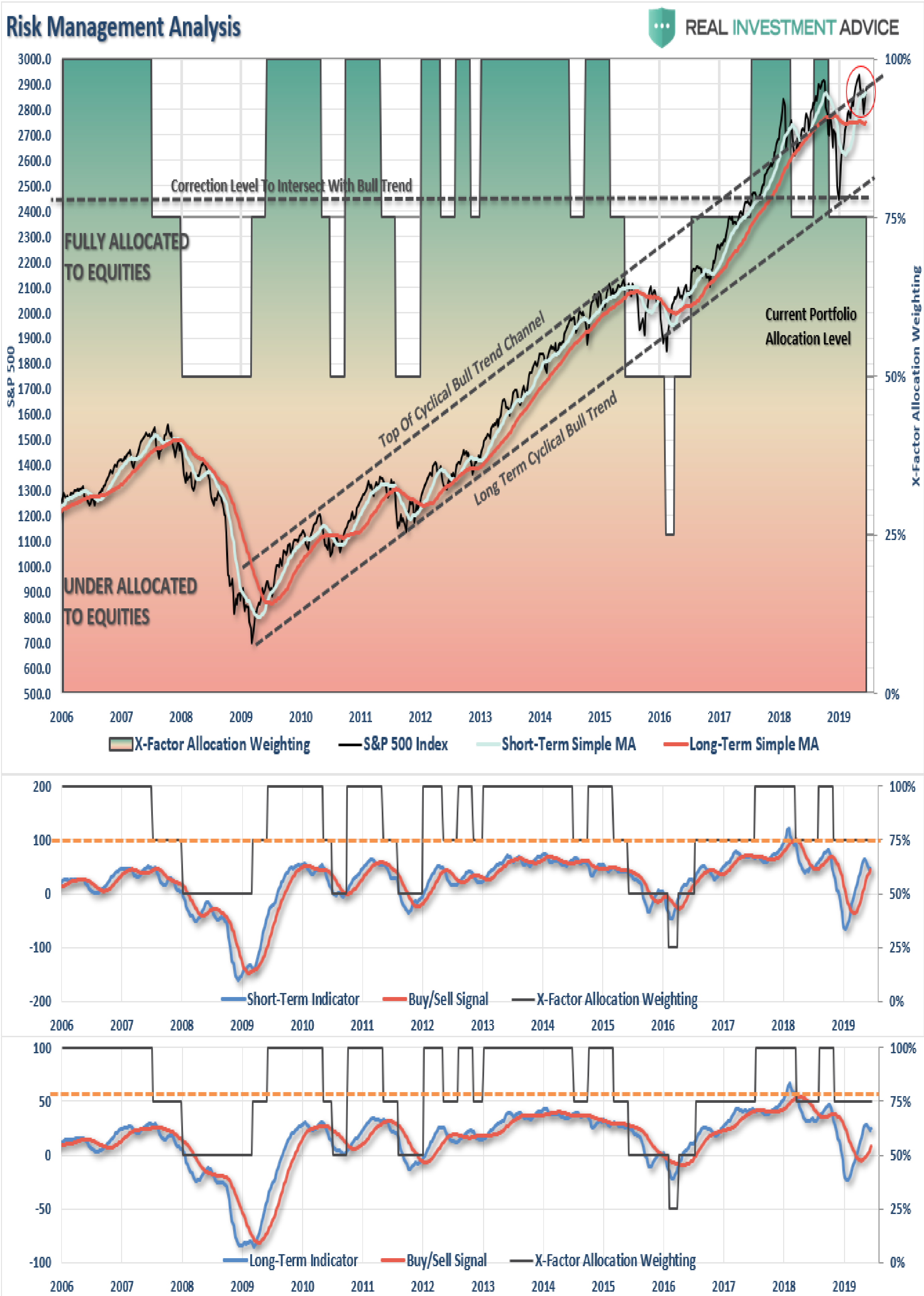
- ***ETF Model**: We overweighted our exposure to defensive areas by adding Real Estate and overweighting Staples and Utilities. We are looking at adding an agency REIT ETF (REM) to our portfolios in the coming week as we did with the equity portfolio.•*

Note for new clients:

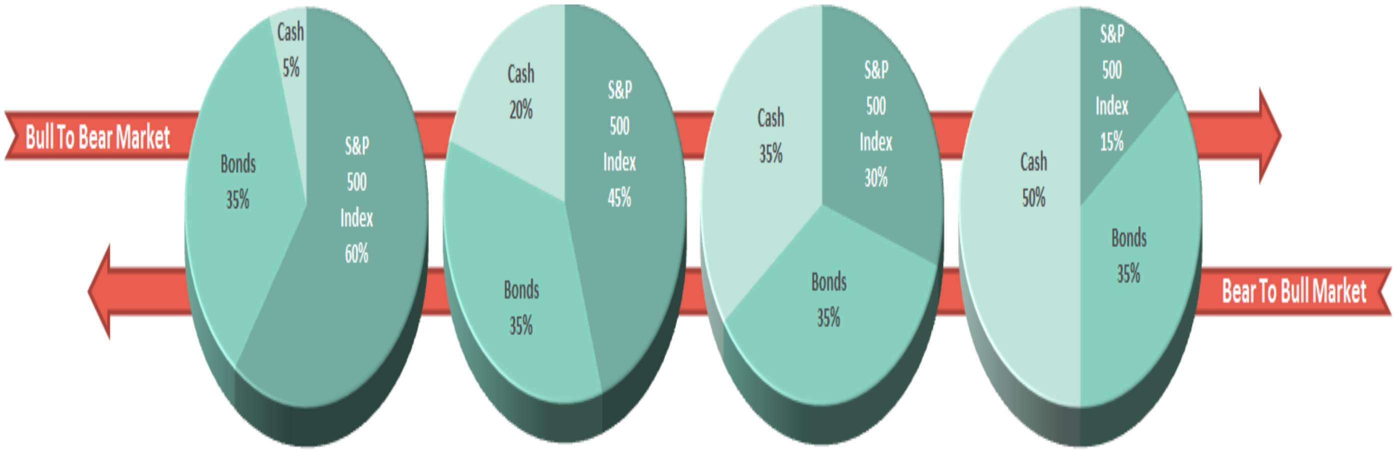
It is important to understand that when we add to our equity allocations, ALL purchases are initially?*trades?*•that can, and will, be closed out quickly if they fail to work as anticipated.• This is why we?*step?*•into positions initially. Once a?*trade?*•begins to work as anticipated, it is then brought 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


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

There are 4-steps to allocation changes based on 25% reduction increments. As noted in the chart above a 100% allocation level is equal to 60% stocks. ***I never advocate being 100% out of the market as it is far too difficult to reverse course when the market changes from a negative to a positive trend.*** *Emotions keep us from taking the correct action.*



Week Two Of The Bounce•

As noted last week:

> *"As reiterated in the main missive above this week, the "risks" still outweigh the "rewards" as we head deeper into the summer months. Importantly, don't mistake an oversold, short-covering, rally as a bullish sign. More often than not, it is a trap.*
>
> *We have remained patient over the last several weeks which has helped minimize some of the volatility."*

While the rally over the last couple of weeks was certainly welcomed, it was not impressive in terms of breadth or strength. Our suspicion is it will fail sooner than later UNLESS the Federal Reserve cuts rates and Trump inks a deal with China.

Given the unknowns, and the potential volatility of a "surprise" coming to fruition, continue following the same rules and guidelines from the last couple of weeks.•

- *If you are* ***overweightequities*** *- take some profits and reduce portfolio risk on the equity side of the allocation. Raise some cash and reduce equities to target weights.•*
- *If you are* ***underweight equities or at target -•*** *rebalance risks, look to increase cash rather than buying bonds at the moment, and rotate out of small, mid-cap, emerging, international markets.•*

As noted last week, with week two of the rally now in the books and the markets back to very oversold, it is time take some action this coming week.

If you need help after reading the alert; don?t hesitate to **contact me**.

401k Plan Manager Coming Soon

Thank you for all the emails of plans. We have been imputing them into the 401k plan manager *(we are going to roll out the beta shortly with a few samples for testing purposes.)*• We are currently covering more than 10,000 mutual funds initially, and will add ETFs and Stocks in the coming updates.

We are also adding some retirement planning and savings tools to keep you on track.

Our "live" 401k plan manager 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.•

We are building models specific to company plans. So, if you would like to see your company plan included specifically, send me the following:

- Name of company
- Plan Sponsor
- A print out of your plan choices. *(Fund Symbol and Fund Name)*

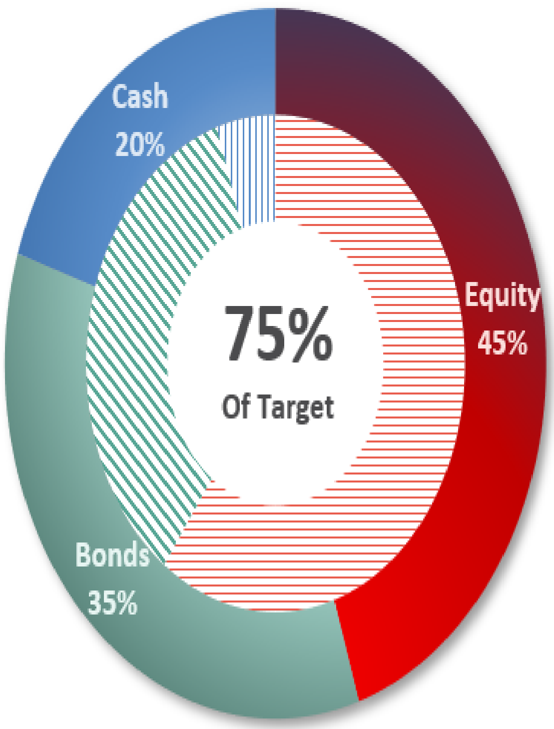
I have gotten quite a few plans, so keep sending them and I will include as many as we can.•

If would like to offer our service to your employees at a deeply discounted corporate rate please 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*