

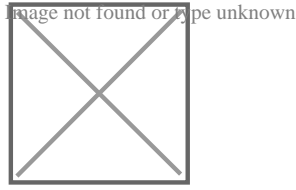
# Real Investment Report

## The “Art Of The Deal” Versus The “Art Of War”



- *Review & Update*
- *The "Art Of The Deal" vs. The "Art Of War"*
- *Margin Debt & Market Reversions*
- *Sector & Market Analysis*
- *401k Plan Manager*

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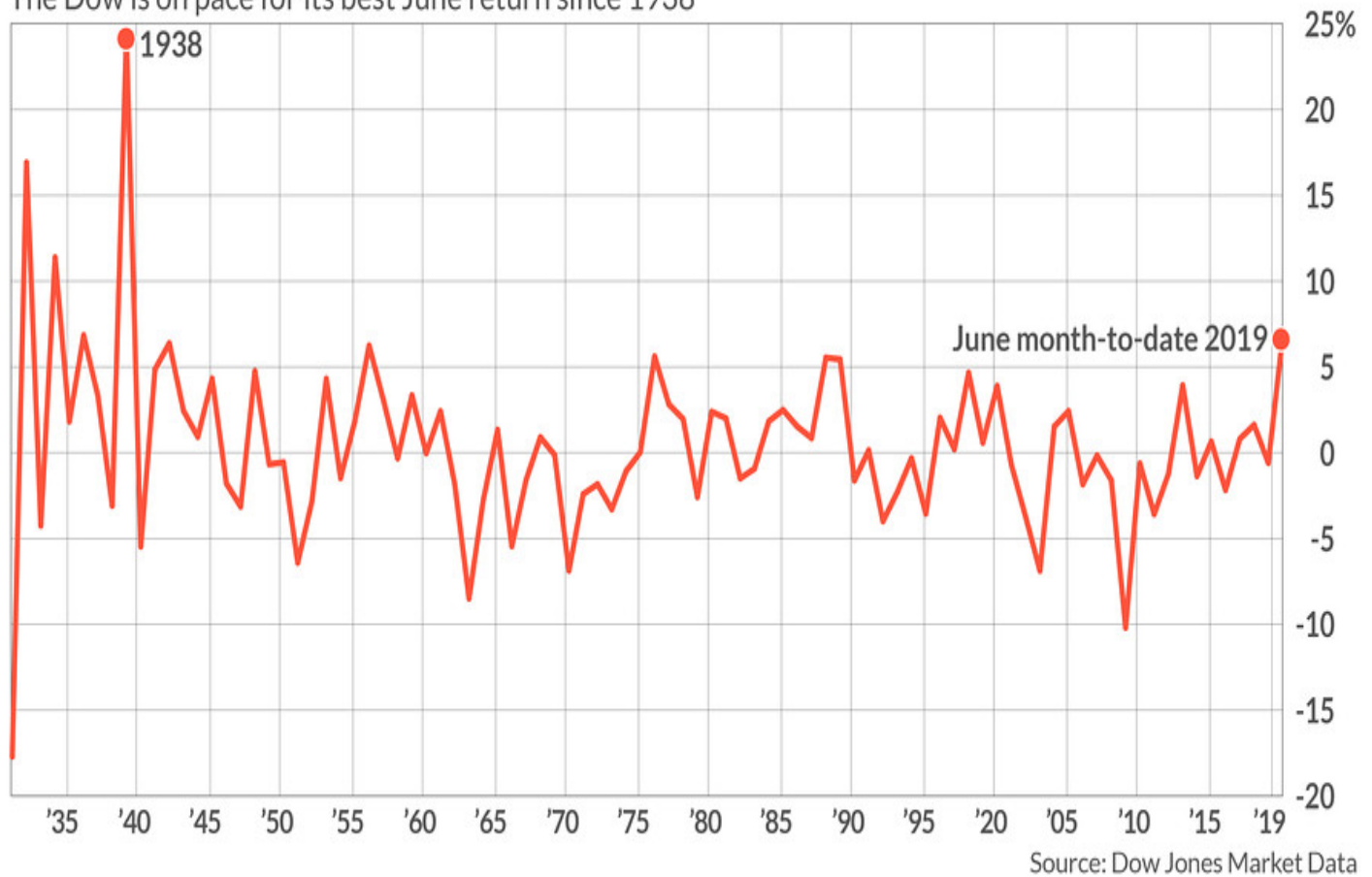
## Review & Update

On Thursday and Friday, the markets mustered a *"Pre-G20 rally"* in anticipation of a positive outcome from the meeting between President Trump and Xi. I will discuss the outcome of this meeting in just a moment. •

The good news is that June was one of the best performing months for the Dow Jones Industrial Average over the past 80-years. ••

### A jolt in June

The Dow is on pace for its best June return since 1938



That certainly was an impressive rally if you bought into the markets on June 1st. •

Unfortunately, what the headlines don't tell you is that the *"strongest June rally in the last 80 years"* failed to recover the losses from one of the worst May months on record as well. •

**In other words, most investors simply recovered previous losses.**

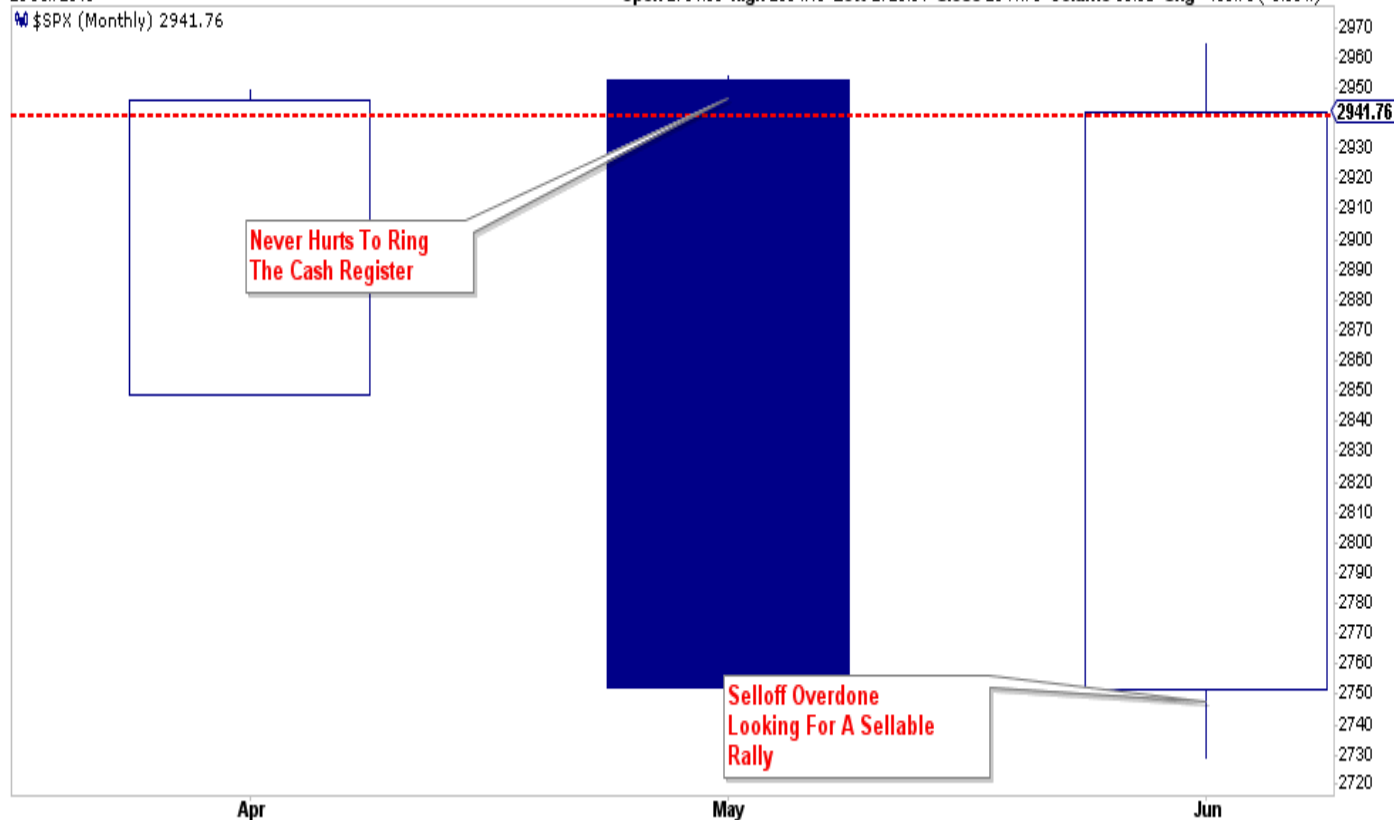
\$SPX S&P 500 Large Cap Index INDXX

28-Jun-2019

© StockCharts.com

Open 2751.53 High 2964.15 Low 2728.81 Close 2941.76 Volume 39.9B Chg +189.70 (+6.89%)▲

\$SPX (Monthly) 2941.76



However, as noted, the rally was [something we had expected](#) and discussed repeatedly in this weekly missive.●

*"In the very short-term, the markets are oversold on many different measures. **This is an ideal setup for a reflexive rally back to overhead resistance.**"*

The question now is "how much more rally is there to go?"

As we noted [in last Tuesday's update](#):

*"Steve Deppe also made an important observation Twitter **that when the S&P 500 has gained at least 2% in a week and finished at a new weekly high ? the case on Friday ? the S&P was lower six weeks later 70% of the time.**"*

#	Week Ending	SPX Close	VIX Close	RUT% Below ATH	SPX Weekly Return	SPX New ATH Weekly Close	SPX FWD 1 Week Return	SPX FWD 2 Week Return	SPX FWD 3 Week Return	SPX FWD 4 Week Return	SPX FWD 6 Week Return	SPX FWD 12 Week Return	SPX Max FWD 12 Week Drawdown	SPX Max FWD 12 Week Drawdown *Close	SPX Max FWD 12 Week Drawup	SPX Max FWD 12 Week Drawup *Close
1	6/21/2019	2950.46	15.31	-10.98%	2.20%	Yes	?	?	?	?	?	?	?	?	?	?
2	1/26/2018	2872.87	11.08	0.65%	2.23%	Yes	-3.85%	-8.82%	-4.90%	-4.37%	-3.00%	-7.06%	-11.84%	-9.91%	-0.08%	-3.00%
3	1/5/2018	2743.15	9.22	1.11%	2.60%	Yes	1.57%	2.45%	4.73%	0.69%	-0.40%	-3.73%	-7.67%	-5.65%	4.73%	4.73%
4	12/9/2016	2259.53	11.75	3.03%	3.08%	Yes	-0.06%	0.19%	-0.92%	0.77%	0.52%	5.47%	-1.15%	-0.92%	6.26%	5.47%
5	7/17/2015	2126.64	11.95	-1.37%	2.41%	Yes	-2.21%	-1.07%	-2.31%	-1.65%	-6.48%	-5.25%	-12.21%	-9.66%	0.29%	-1.07%
6	2/13/2015	2096.99	14.69	0.65%	2.02%	Yes	0.63%	0.36%	-1.23%	-2.08%	-1.72%	0.91%	-2.73%	-2.08%	1.38%	0.99%
7	10/31/2014	2018.05	14.03	-2.87%	2.72%	Yes	0.69%	1.08%	2.25%	2.45%	-0.78%	1.67%	-2.25%	-0.78%	3.74%	3.50%
8	12/20/2013	1818.32	13.79	0.31%	2.42%	Yes	1.27%	0.72%	1.32%	1.12%	-1.97%	1.25%	-4.42%	-1.97%	3.59%	3.28%
9	10/18/2013	1744.5	13.04	2.81%	2.42%	Yes	0.88%	0.98%	1.50%	3.08%	3.51%	5.61%	-0.23%	0.88%	6.02%	5.61%
10	7/12/2013	1680.19	13.84	3.10%	2.96%	Yes	0.71%	0.68%	1.75%	0.67%	-0.99%	0.61%	-3.14%	-2.81%	2.96%	1.77%
11	5/17/2013	1667.47	12.45	2.17%	2.07%	Yes	-1.07%	-2.20%	-1.44%	-2.44%	-3.67%	1.44%	-6.43%	-4.50%	2.53%	2.53%
12	5/3/2013	1614.42	12.85	0.20%	2.03%	Yes	1.19%	3.29%	2.18%	1.01%	0.76%	4.78%	-3.35%	-1.36%	5.23%	4.81%
13	4/12/2013	1588.85	12.06	-1.01%	2.29%	Yes	-2.11%	-0.42%	1.61%	2.82%	3.82%	2.71%	-3.32%	-2.11%	6.19%	4.95%
14	10/5/2007	1557.59	16.91	-1.27%	2.02%	Yes	0.27%	-3.66%	-1.43%	-3.08%	-6.35%	-5.08%	-9.73%	-7.50%	1.19%	0.27%
15	3/24/2000	1527.46	23.31	-4.94%	4.30%	Yes	-1.89%	-0.73%	-11.19%	-6.08%	-6.21%	-4.12%	-12.32%	-11.19%	0.47%	-0.73%
16	12/24/1999	1458.34	21.12	-0.94%	2.63%	Yes	0.75%	-1.16%	0.47%	-1.16%	-2.33%	0.42%	-9.14%	-8.57%	1.37%	0.75%
17	7/2/1999	1391.22	18.66	-6.26%	5.77%	Yes	0.87%	1.98%	-2.46%	-4.49%	-4.57%	-8.18%	-9.16%	-8.18%	2.09%	1.98%
18	4/23/1999	1356.85	22.76	-11.35%	2.87%	Yes	-1.60%	-0.87%	-1.40%	-1.96%	-2.14%	4.56%	-5.86%	-4.66%	4.56%	4.56%
19	4/9/1999	1348.35	21.77	-16.66%	4.22%	Yes	-2.18%	0.63%	-0.98%	-0.25%	-1.34%	3.18%	-5.27%	-4.06%	3.18%	3.18%
20	1/29/1999	1279.64	26.25	-12.28%	4.44%	Yes	-3.14%	-3.87%	-3.16%	-3.23%	1.17%	6.03%	-5.29%	-3.87%	6.57%	6.03%
21	1/8/1999	1275.09	23.28	-11.45%	3.73%	Yes	-2.50%	-3.91%	0.36%	-2.80%	-2.81%	1.46%	-5.46%	-3.91%	3.82%	1.90%
22	12/25/1998	1226.27	21.48	-16.72%	3.22%	Yes	0.24%	3.98%	1.39%	-0.09%	1.07%	5.95%	-1.70%	-0.09%	7.96%	5.95%
23	11/27/1998	1192.33	22.09	-17.44%	2.47%	Yes	-1.31%	-2.17%	-0.36%	2.85%	6.94%	3.93%	-4.65%	-2.17%	7.67%	7.32%
24	6/26/1998	1133.2	19.36	-7.54%	2.96%	Yes	1.17%	2.75%	4.73%	0.67%	-3.86%	-9.98%	-17.05%	-14.06%	5.06%	4.73%
25	4/3/1998	1122.7	21.82	1.81%	2.49%	Yes	-1.07%	0.00%	-1.32%	-0.15%	-1.24%	0.94%	-4.30%	-2.84%	1.72%	0.94%
26	3/20/1998	1099.16	18.69	1.17%	2.86%	Yes	-0.34%	2.14%	1.05%	2.14%	1.99%	-0.03%	-2.25%	-0.76%	3.08%	2.14%
27	2/6/1998	1012.46	20.51	-4.20%	3.28%	Yes	0.75%	2.15%	3.64%	4.27%	8.56%	10.72%	-0.61%	0.75%	11.90%	10.89%
28	12/5/1997	983.79	22.65	-5.80%	2.97%	Yes	-3.09%	-3.76%	-4.81%	-0.89%	-2.26%	6.66%	-7.21%	-5.70%	6.90%	6.66%
29	10/3/1997	965.03	21.54	2.37%	2.10%	Yes	0.20%	-2.16%	-2.42%	-5.22%	-3.80%	-2.96%	-11.37%	-5.22%	2.20%	1.94%
30	9/19/1997	950.51	22.74	1.61%	2.88%	Yes	-0.56%	1.53%	1.73%	-0.67%	-3.78%	0.30%	-10.02%	-3.78%	3.76%	3.50%
31	7/25/1997	938.79	20.82	0.65%	2.57%	Yes	0.89%	-0.56%	-4.05%	-1.62%	-1.04%	0.57%	-4.84%	-4.19%	4.72%	3.00%
Average:							-0.50%	-0.35%	-0.52%	-0.66%	-1.08%	0.76%	-6.17%	-4.36%	4.04%	3.29%
Median:							0.07%	0.10%	-0.64%	-0.46%	-1.53%	1.09%	-5.28%	-3.89%	3.75%	3.23%
Min:							-3.85%	-8.82%	-11.19%	-6.08%	-6.48%	-9.98%	-17.05%	-14.06%	-0.08%	-3.00%
Max:							1.57%	3.98%	4.73%	4.27%	8.56%	10.72%	-0.23%	0.88%	11.90%	10.89%
% Higher:							50.00%	53.33%	46.67%	40.00%	30.00%	70.00%	0.00%	6.67%	96.67%	90.00%

Much like an engine, markets operate on "fuel." In other words, when there is a lot of "pent up" demand for equities, prices rise as demand is filled, and buyers are willing to pay higher prices to "get in." The opposite is also true.

Also, prices are also confined by long-term moving averages. These moving averages, act like gravity, so when prices deviate by more than 5% from the long-term averages, reversions tend to occur. •

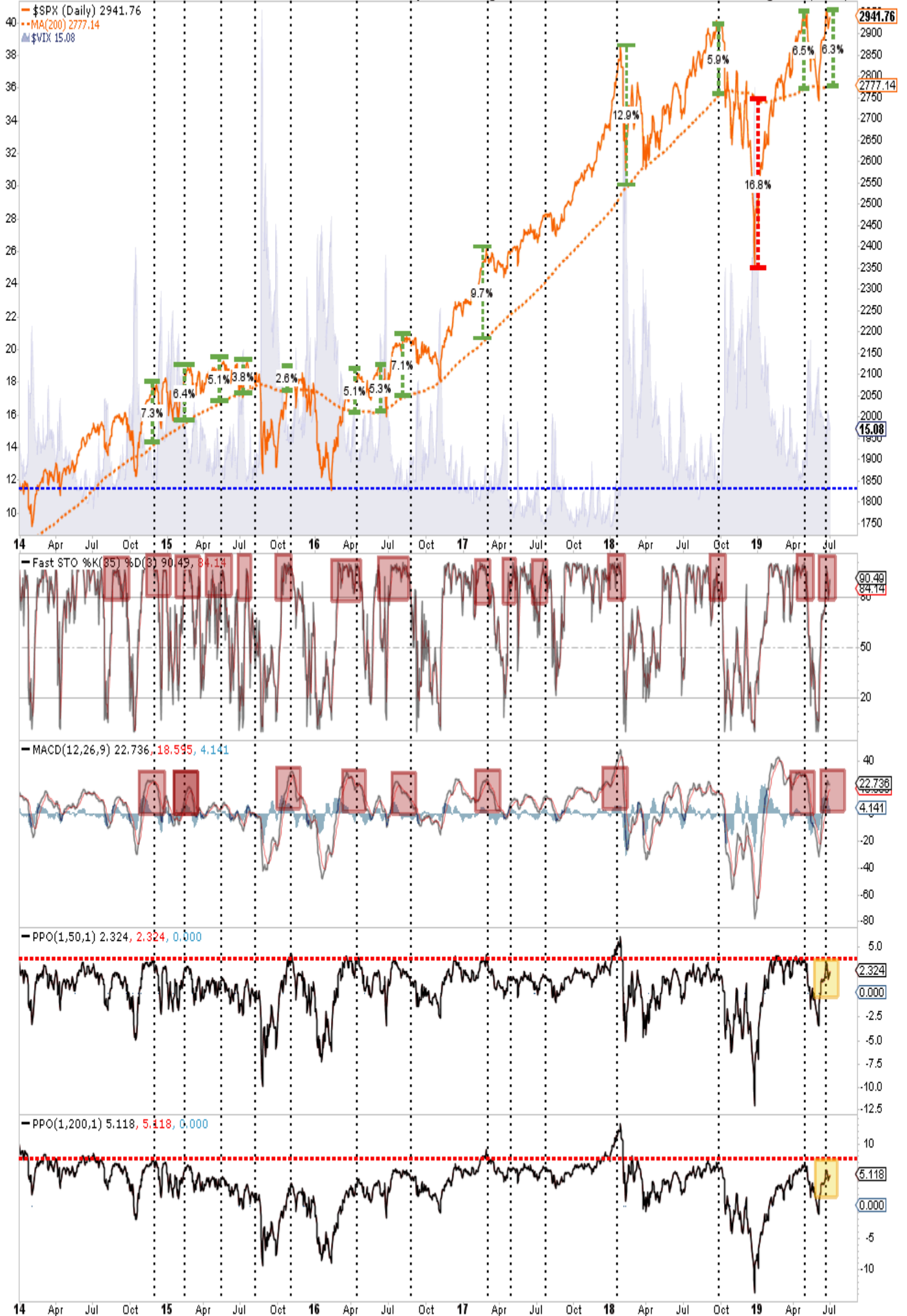
As shown in the chart below, the market is currently very overbought, little pent-up demand, and is more than 6% above its 200-dma.

# \$SPX S&P 500 Large Cap Index INDEX

28-Jun-2019

© StockCharts.com

Open 2932.94 High 2943.98 Low 2929.05 Close 2941.76 Volume 2.7B Chg +16.84 (+0.58%) ▲



Interestingly, this was exactly [the same analysis we ran in May when we suggested taking profits then](#). To wit:

***"?From a portfolio management standpoint, the reality is that markets are very extended currently and a decline over the next couple of months is highly likely. •While it is quite likely the year will end on a positive, particularly after last year's loss, taking some profits now, rebalancing risks, and using the coming correction to add exposure as needed will yield a better result than chasing markets now.?"***

Since May:

- *The economic backdrop has weakened materially.*
- *Earnings expectations continue to fall. .*
- *While asset prices are near record highs, corporate profits are the same level as in 2014.*
- *The Fed has NOT cut rates yet and is still reducing their balance sheet.*
- *Global economic growth continues to weaken. •*
- *Existing tariffs are continuing to work their way through the system*
- *Recession risks have risen markedly in recent months. •*


In other words, the supportive backdrop for equity investors is hinged on the "hope" of the Fed cutting rates and a resolution to the "trade war." •

Monday is that start of Q3 for money managers so a rally is expected that could well push markets to new highs temporarily. •

This is why we remain long equities currently, we are hedged with an overweight position in cash, are maintaining our fixed income exposure and have recently added plays to participate with a "steepening" yield curve. •

However, there are bigger risks still at play and worth watching.

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ADVICE**

Are your investments prepared  
for the next bear market?

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CONSULTATION  
TODAY**

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## Art Of The Deal Versus The Art Of War

This weekend, all eyes are focused on the meeting between President Trump and President Xi Jinping. If this were a pay-per-view event, it might well rival the "Silva vs. Franklin" matchup at UFC 147 for total viewership. *(That's a joke, it was one of the lowest viewed PPV ever for the UFC)*

Kidding aside, there was a tremendous amount of "hope" currently built into the market for a "trade war truce" this weekend. However, as we suggested previously, **the most likely outcome was a truce...but no deal.** ••

That is exactly what happened. As noted by [CNBC](#):

*?Both sides confirmed in separate comments that they did not plan to levy any new tariffs against each other's products at the present time. For one, Chinese state-run press agency Xinhua described the meeting result as the presidents agreeing 'to restart trade consultations between their countries on the basis of equality and mutual respect.'*

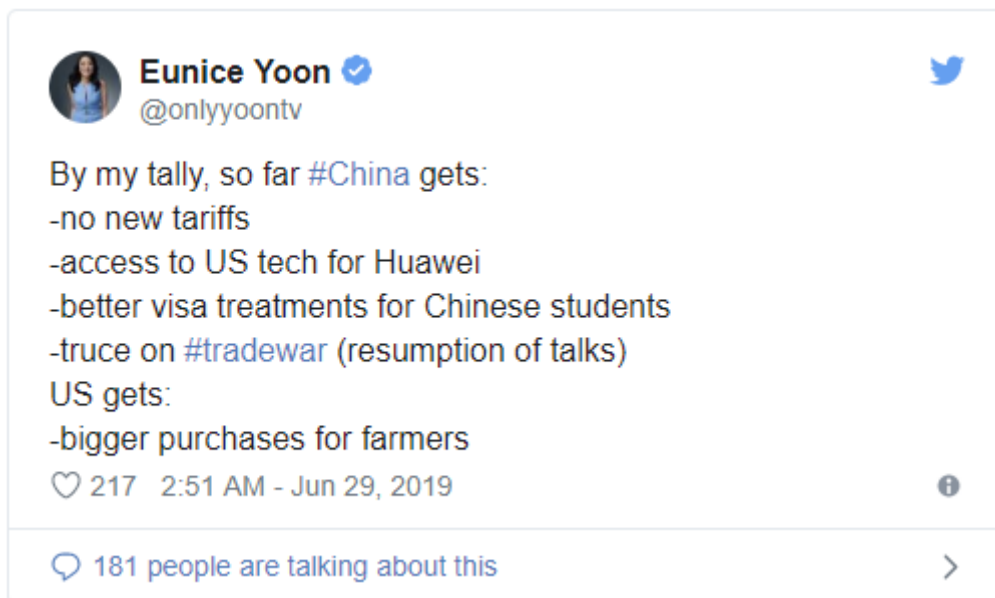
*Speaking after the bilateral, Trump said it had gone as well as it could have, and that negotiations with China would continue. 'We are right back on track,' the president said.?*

**While the markets will likely react positively next week to the news that "talks will continue," the impact of existing tariffs from both the U.S. and China continue to weigh on domestic firms and consumers.●**

More importantly, while the continued "jawboning" may keep "hope alive" for investors temporarily, these two countries have been "talking" for over a year with little real progress to show for it outside of superficial agreements.●

**Importantly, we have noted that Trump would eventually "cave" into the pressure from the impact of the "trade war" he started.**

This was evident in this weekend's agreement:



By agreeing to continue talks without imposing more tariffs on China, China gains ample running room to continue to adjust for current tariffs to lessen their impact. More importantly, Trump gave up a major bargaining chip - Huawei.

*?One of the things I will allow, however, is ? **a lot of people are surprised we send and we sell to Huawei a tremendous amount of product that goes into a lot of the various things that they make** ? and I said that that's OK, that we will keep selling that product.?*

No, a lot of people weren't surprised, just Trump as there has been pressure applied by U.S. technology firms to lift the ban on Huawei. While he may have appeased his corporate campaign donors for now, Trump gave up one of the more important "pain points" on China's economy.●

This gives China much needed room to run.

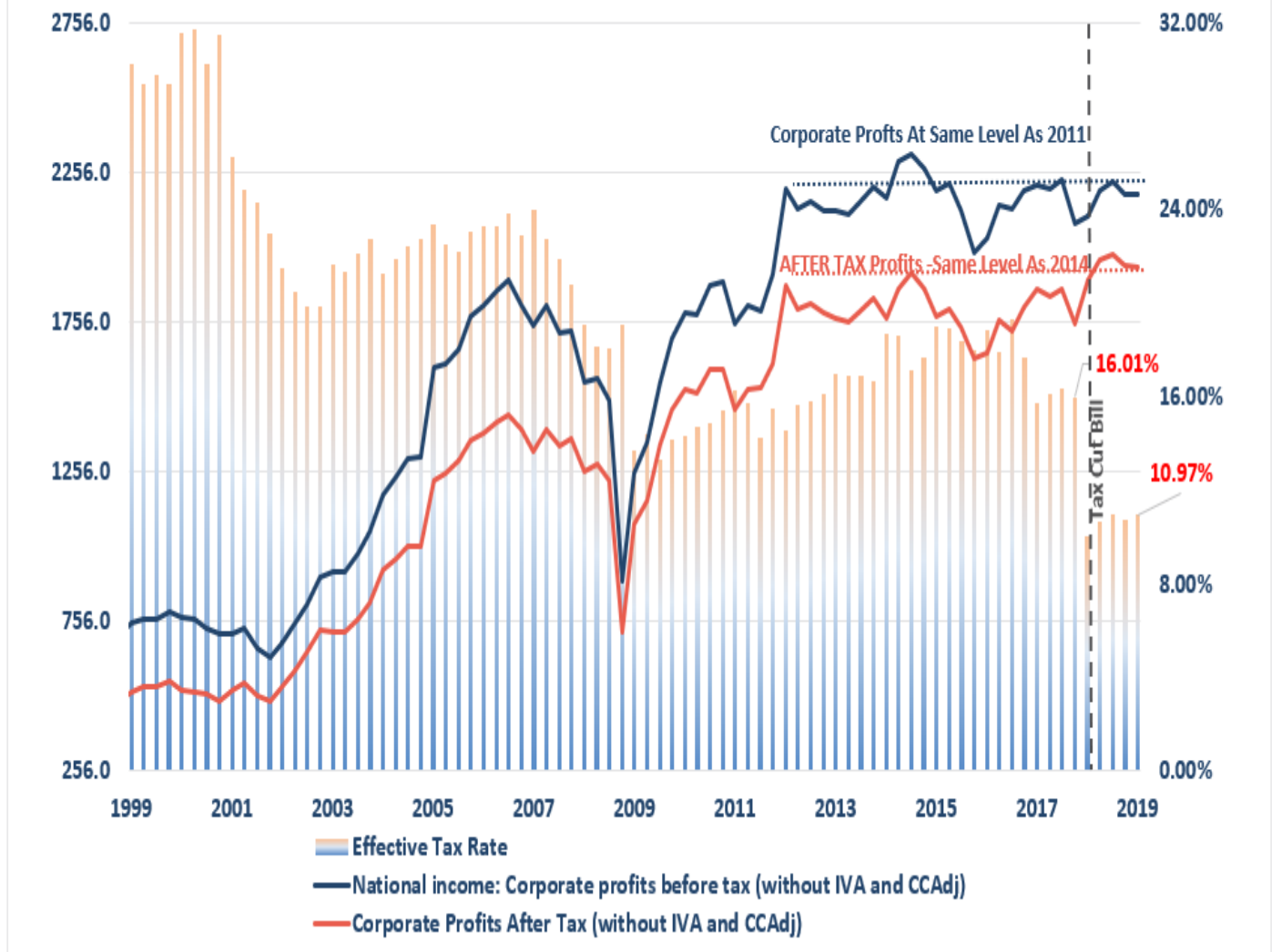
Let's [review what we said](#) a couple of months ago as to why their will ultimately be no deal. •

*"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%. (**Update:** Trump [says the U.S. should have Mario Draghi](#) at the helm of U.S. monetary policy.)*
- 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 off electoral losses rise. China knows this and are 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. •*

In the meantime, as noted in #3 above, corporate profits continued to come under pressure. **As noted previously, corporate profits have declined over the last two quarters and are at the same level as in 2014 with the stock market higher by almost 60%. •**

## Corporate Profits Before & After Tax



But, if you think China is going to acquiesce any time soon to Trump's demands, you haven't been paying attention. China has launched a [national call in their press](#) to unify support behind China's refusal to give into Trump's demands. To wit:

*"Lying behind the trade feud is America's intention to stifle China's development. The U.S. wants to be a permanent leader in the world, **and there is no way for China to avoid the storm through compromise.**"*

**History proves that compromise only leads to further dilemmas.** During previous trade tensions between the U.S. and Japan, Japan made concessions. As a result, its political stability and economic development were adversely affected, with structural reform being suspended and hi-tech companies being severely damaged.

China, with a population of 1.4 billion, is the world's largest manufacturing base. Industrial upgrading and hi-tech innovation are crucial to China's economic development. **China needs to leave more resources to its descendants by protecting the environment, and reaping the dividends of further opening-up.** These are the core interests of China, **and it will never give them up.**

**The only way for a country to win a war is through development, not compromise.** To achieve development, China will **open its door wider to the world and fight to the**

**end.?**

These are Xi Jinping's mandates, dictated directly from his party, for the meeting with the United States president in Osaka.

**The only possible outcome for Trump was exactly what happened. Nothing. Just an agreement to talk more.**

While Trump may be following his ["Art Of The Deal?"](#) tactics, Xi is clearly operating on the foundation of Sun Tzu's ["The Art Of War.?"](#)

•

*"If your enemy is secure at all points, be prepared for him. If he is in superior strength, evade him. If your opponent is temperamental, seek to irritate him. Pretend to be weak, that he may grow arrogant. If he is taking his ease, give him no rest. If his forces are united, separate them. If sovereign and subject are in accord, put division between them. Attack him where he is unprepared, appear where you are not expected."*

China has been attacking the "rust-belt" states, which are crucial to Trump's 2020 re-election, states with specifically targeted tariffs. As noted by [MarketWatch](#):

*"China has lashed back with tariffs on \$110 billion in American goods, focusing on agricultural products in a direct and painful shot at Trump supporters in the U.S. farm belt."*

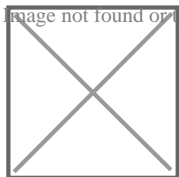
While Trump is operating from a view that was a ghost-written, former best-seller, in the U.S. popular press, **Xi is operating from a centuries-old blueprint for victory in battle.**

China clearly won this round, and the pressure is now squarely on Trump to get a deal done before the 2020 election.

That isn't likely going to happen.

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## Warning Signs

While markets remain solely focused on the outcome of the G-20 meeting and expectations the Fed will cut rates at the July meeting (*which is not assured by any means*), warning signs of potential risk continue to mount.

One of the more important indicators we have discussed previously is the reversal of yield curve inversions. My colleague [Albert Edwards](#) confirmed that analysis this past week:

"However, while the inversion was certainly a memorable event, the question on everyone's lips is how do risk assets perform once the curve flattens and/or inverts. According to backtests from Goldman, since the mid-1980s, **significant stock drawdowns (i.e. market crashes) began only when term slope started steepening after being inverted.**

In other words, as we noted then, "[Curve Inversion Is Bad, But It's The Steepening After That Kills.](#)"

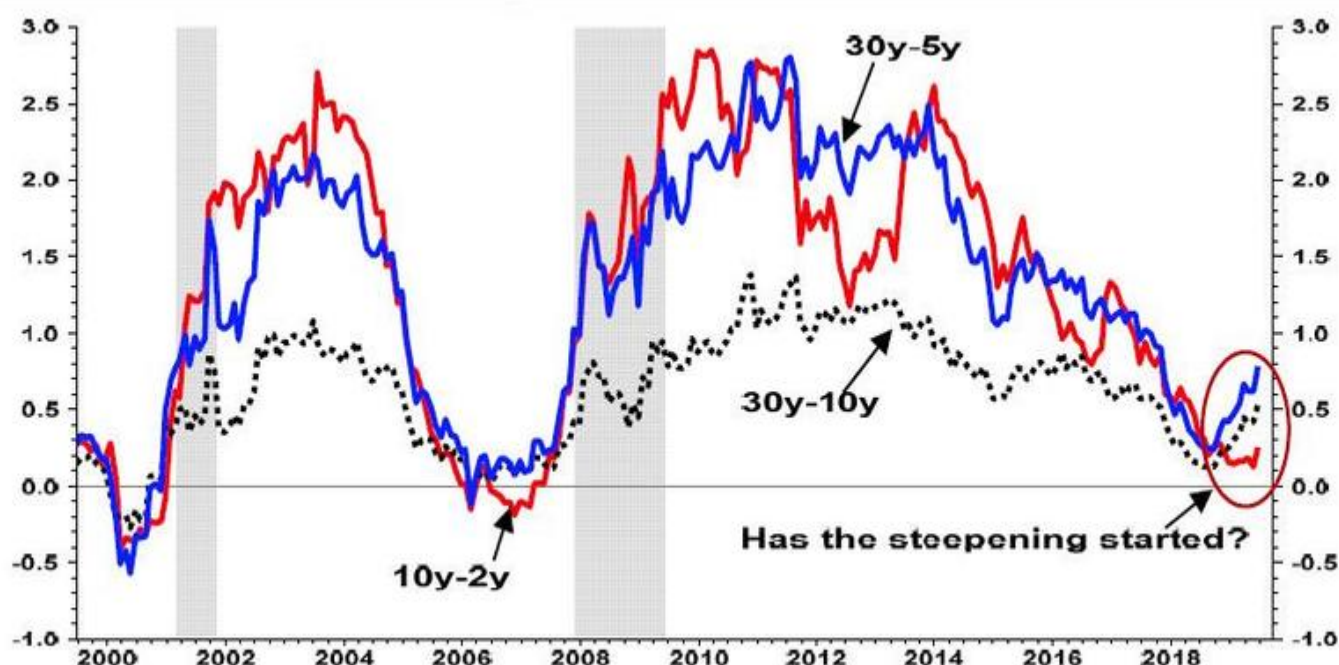
Fast forward to today, when in his latest bearish missive, SocGen's permabear Albert Edwards picks up where we left off, and in a note titled "the final recession shoe has now fallen", he notes that while inversion of the US yield curve is seen as a reliable precursor to US recessions, "it has a long and variable lead time", and instead "**a far more immediate and present danger of recession occurs when after inversion, a rapid steepening occurs.**"

Sound familiar?

In any case, as we first commented in early 2019, Edwards notes that this subsequent steepening "**usually informs investors the cycle is over and it is time to flee for the hills.**"

Well, for those who haven't figured out the punchline yet, **rapid curve steepening is now occurring**, and as Edwards gleefully concludes, this '**suggests recession may indeed either be imminent or else it has already arrived.**'"

### Steepening of the US yield curve is well underway in longer maturities

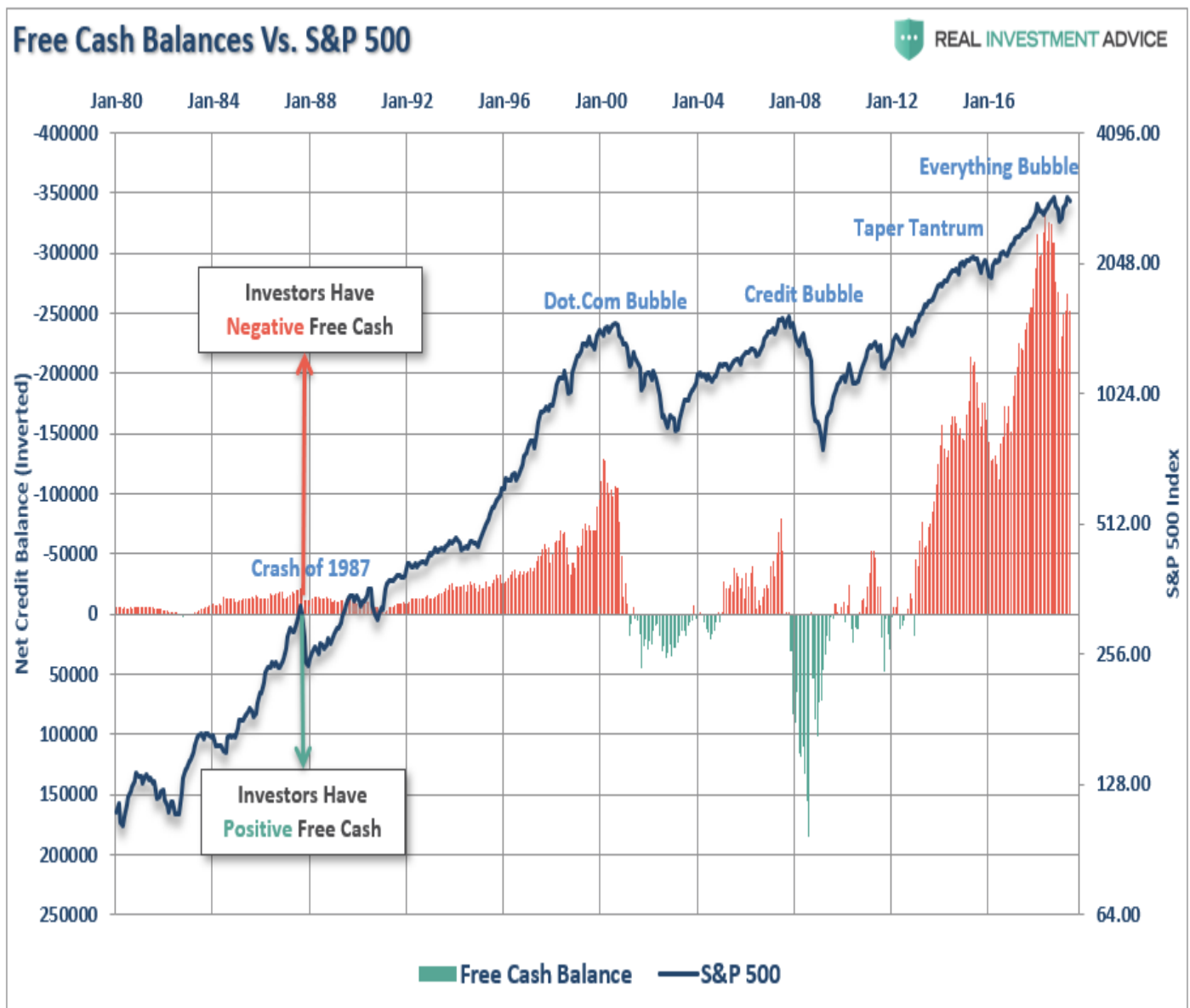


Source: Datastream

Another concern we have also discussed previously is the issue with margin debt. •

While the consolidation of the market over the last 18-months has led to a slight reduction in the amount of outstanding margin debt, there has been very little overall deleveraging of the market.

The chart below analyzes margin debt in the larger context that includes free cash accounts and credit balances in margin accounts. The chart below is based on nominal data, not adjusted for inflation and has retained the NYSE data through November 2017 and switched to the FINRA data moving forward.



It is important to understand that leverage is a "double-edged sword."•

When markets are rising, the leverage adds to the "buying power" of investors lifting asset prices higher. However, it also works in reverse, but more like an explosion rather than a slow burn.•

However, as Jesse Felder noted this past week:

*"The latest margin debt figures were released last week and they show leveraged investors continue to delever. In fact, margin debt is now falling **at an annual rate of 15%, a level of derisking that has always been accompanied by a minimum 20% decline in the S&P 500 over the past half century.***

*This makes this latest episode of derisking fairly unique. **There have only been a couple of other precedents in which stocks rose or were flat year-over-year while margin debt fell at at least a 15% rate: May of 1969 (margin debt down 15%/stocks up 10%) and June of 1973 (margin debt down 18%/stocks flat). January of 2001***

*(margin debt down 20%/stocks down 1%) also comes very close."*

It is worth noting that those three previous periods on slightly preceded much more meaningful declines.

- *The 1969 event gave way to a near **40% decline** in 1970-1971*
- *1973 preceded the 1974 "black bear" market which eclipsed a **50% decline** in total.*
- *Of course, January 2001 was the precursor to the "dot.com" crash which also entailed a **50% decline**.*•

Are you seeing a pattern here?

While the current contraction in margin debt is somewhat unique, it may only be the case temporarily. As shown in the chart below (I have inverted margin debt to the S&P 500) the amount of contraction needed to reverse the leverage in the market will require a similar 50% decline in asset prices as seen previously.



Yes, this time could absolutely be different.

But from a portfolio management perspective, it probably isn't the best "bet" to make.

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

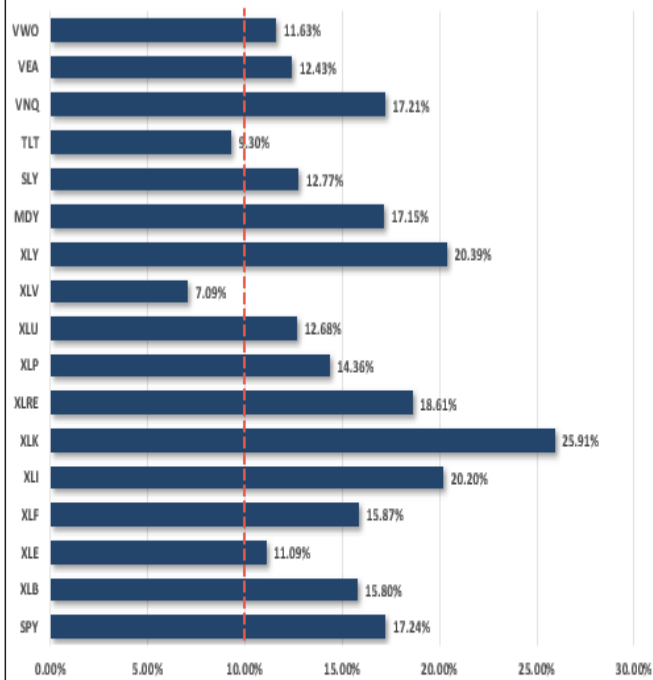
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## S&P 500 Tear Sheet

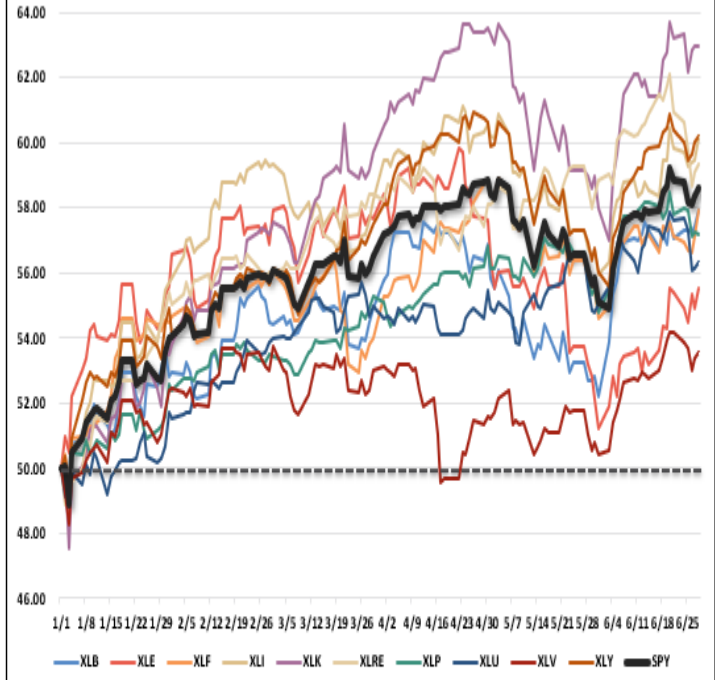
270									Sharpe	0.72	0.61	3.05	3.98
250									Sortino	0.87	0.80	4.01	4.02
									Volatility	13.98	15.33	12.67	(0.17)
									Daily VaR-5%	(9.63)	(13.05)	20.29	(2.56)
230									Mnthly VaR-5%	(12.72)	(24.09)	(1.14)	(0.95)
S&P 500 Fundamental Analysis									S&P 500 Market Cap Analysis				
Item	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	1.86%	1.80%	1.86%	3.15%	2.18%	1.67%	(14.54%)	11.24%	Shares	2,429.9	2,385.3	(1.83%)	
P/E Ratio	20.58	20.09	18.21	(10.32%)	20.88	15.80	(12.8%)	15.27%	Sales	59,771	64,018	7.11%	
P/S Ratio	3.18	3.35	3.29	(1.60%)	3.57	2.55	(7.73%)	29.22%	SPS	24.6	26.8	9.11%	
P/B Ratio	3.61	3.90	4.05	3.80%	4.16	3.01	(2.67%)	34.62%	Earnings	8,446	9,549	13.05%	
ROE	15.59%	16.67%	18.63%	10.51%	18.77%	14.99%	(0.78%)	24.24%	EPS TTM	4.1	4.9	17.91%	
ROA	2.89%	3.12%	3.47%	10.00%	3.50%	2.81%	(0.87%)	23.51%	Dividend	1.5	1.6	9.31%	
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	(16.50%)	5.08%	1.20	16.80	156.27	12.49	(89.3%)	9.4%	3.6%	6.01%	3.67	14.07	
Materials	(8.71%)	2.79%	1.24	15.06	22.97	13.86	(34.5%)	11.3%	2.0%	6.69%	4.54	15.15	
Industrials	7.54%	9.36%	1.12	17.63	22.21	14.76	(20.7%)	16.2%	1.9%	5.72%	5.23	14.83	
Discretionary	10.80%	10.20%	1.01	24.30	27.38	20.08	(11.3%)	28.9%	1.3%	4.12%	4.92	20.37	
Staples	12.23%	7.29%	0.60	20.05	22.83	17.62	(12.2%)	27.1%	2.8%	4.97%	3.88	18.46	
Health Care	11.58%	14.19%	0.87	17.02	20.62	15.93	(17.5%)	30.2%	1.8%	5.89%	6.54	14.64	
Financials	4.44%	12.88%	1.25	13.26	18.42	11.68	(28.0%)	11.6%	2.0%	7.56%	5.84	11.16	
Technology	17.12%	21.59%	1.24	20.92	21.83	14.47	(4.1%)	39.1%	1.5%	4.77%	5.27	18.28	
Telecom	(5.55%)	10.16%	0.86	18.98	27.29	17.44	(30.5%)	17.6%	1.0%	5.30%	6.32	17.36	
Utilities	18.14%	3.32%	0.33	20.16	20.31	15.58	(0.7%)	10.5%	3.3%	4.99%	3.62	18.16	
Real Estate	12.33%	3.06%	0.74	19.98	24.47	17.10	(18.3%)	10.0%	3.2%	5.02%	4.29	19.26	
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	293.00	1.03%	287.76	16	1.82%	276.45	19	5.98%	4.09%	(1.12%)	25.34%	Buy	
Mid Cap	354.59	(0.32%)	348.02	2	1.89%	339.88	18	4.33%	2.40%	(5.22%)	24.66%	Buy	
Small Cap	67.63	(1.08%)	66.76	1	1.30%	66.93	1	1.05%	(0.24%)	(13.57%)	20.12%	Sell	

Performance Analysis

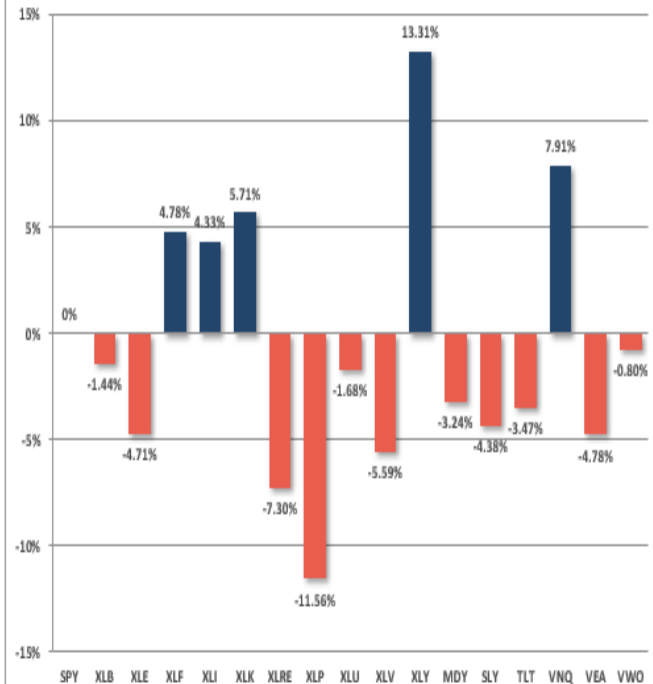
### Year To Date Performance



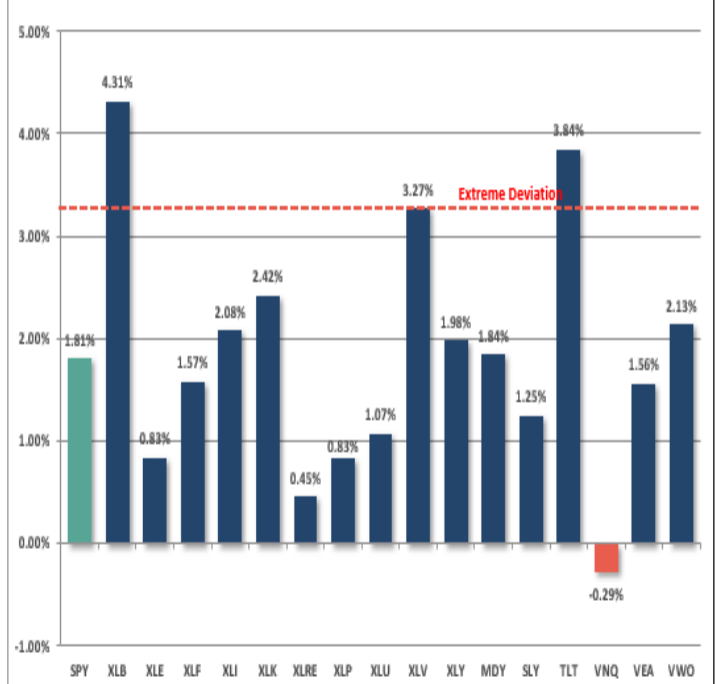
### YTD Price - S&P Sectors Recalibrated To \$50/share



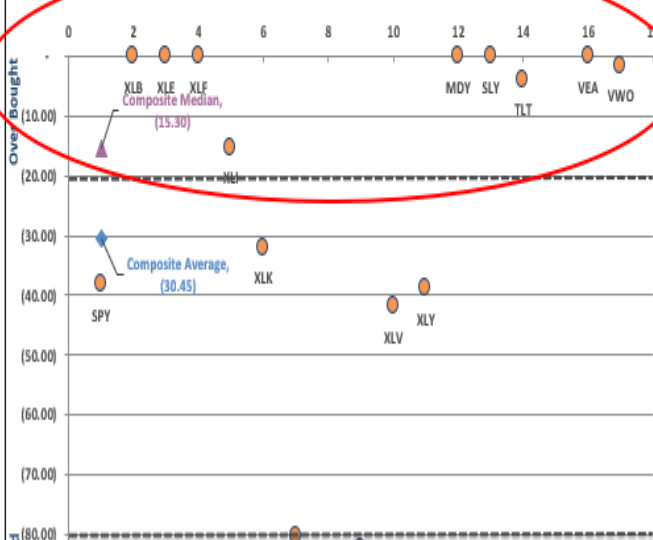
### Year To Date Performance Relative To S&P 500



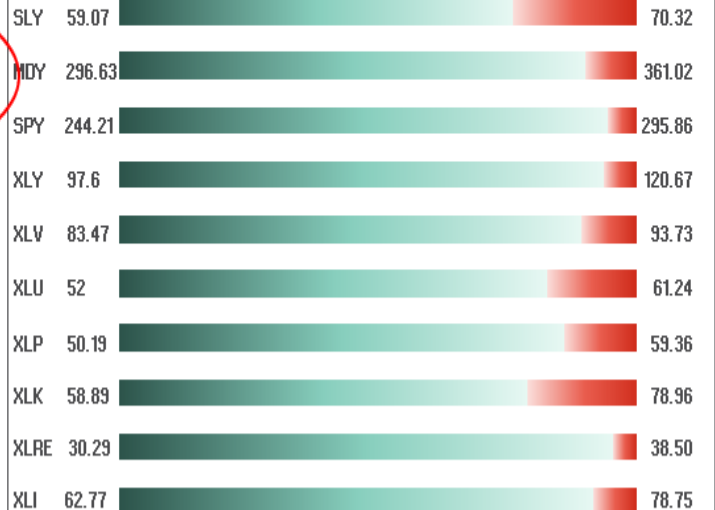
### Price Deviation From 50-Day Moving Average



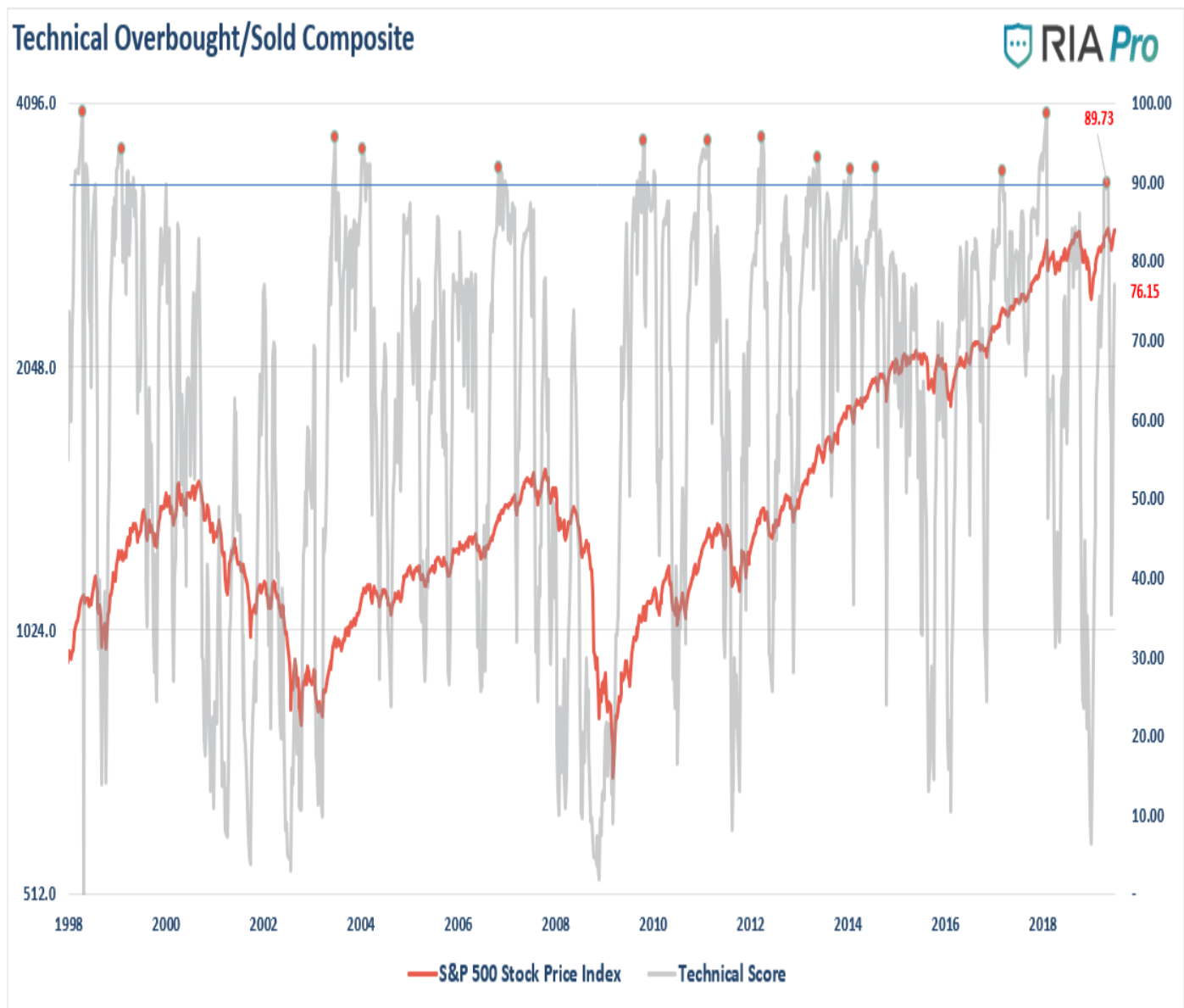
### Overbought/Oversold 14-Periods



### Size / Sector ETF YTD Trading Range



# Technical Composite



# ETF Model Relative Performance Analysis

RELATIVE PERFORMANCE		Ticker	ETF NAME	Current Price	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	294.75	(0.28)	6.29	1.48	13.20	7.95	289.74	277.68	1.73%	6.15%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	58.50	1.72	4.61	(0.30)	(1.29)	(7.21)	56.39	54.54	3.73%	7.25%	BUY
		XLE	SPDR-EGY SELS	63.71	0.51	2.11	(7.25)	(10.46)	(24.05)	64.04	63.96	-0.51%	-0.39%	BUY
		XLF	SPDR-FINL SELS	27.60	1.67	(0.18)	2.28	(0.55)	(4.15)	27.08	26.20	1.91%	5.34%	BUY
		XLI	SPDR-INDU SELS	77.42	0.72	1.16	(0.95)	0.87	0.14	76.04	72.85	1.81%	6.27%	BUY
		XLK	SPDR-TECH SELS	78.04	(0.07)	2.26	1.31	9.62	4.39	76.22	70.61	2.38%	10.52%	BUY
		XLP	SPDR-CONS STPL	58.07	(0.83)	(1.87)	2.98	(0.73)	4.74	57.25	55.11	1.43%	5.38%	BUY
		XLU	SPDR-UTIL SELS	59.63	(1.95)	(3.92)	1.15	(1.18)	6.81	58.73	56.56	1.53%	5.43%	BUY
		XLC	SPDR-COMM SV SS	49.22	(0.09)	(1.77)	0.38			48.62	46.22	1.23%	6.49%	BUY
		XLV	SPDR-HLTH CR	92.64	(0.89)	(0.15)	(0.78)	(7.70)	3.05	89.84	89.93	3.12%	3.01%	SELL
		XLY	SPDR-CONS DISCR	119.20	0.01	1.15	(0.05)	0.78	1.11	117.02	110.48	1.87%	7.90%	BUY
	SIZE	SLY	SPDR-SP SC 600	67.63	1.70	0.67	(2.87)	(7.53)	(14.41)	67.11	66.27	0.78%	2.05%	BUY
		MDY	SPDR-SP MC 400	354.59	1.38	1.12	(1.59)	(2.66)	(8.07)	349.42	338.47	1.48%	4.76%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	107.80	0.16	0.77	(0.75)	(0.87)	(2.15)	105.86	101.87	1.83%	5.83%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	100.88	0.06	(1.07)	(1.57)	(3.60)	0.88	99.98	97.03	0.90%	3.97%	BUY
	Real Estate	XLRE	SPDR-RE SELS	36.77	(2.37)	(5.47)	(0.88)	1.81	4.46	36.52	34.69	0.68%	6.00%	BUY
	International	EEM	ISHARS-EMG MKT	42.91	0.60	(0.89)	(4.84)	(7.85)	(8.92)	42.45	41.70	1.09%	2.90%	BUY
		EFA	ISHARS-EAFE	65.73	0.83	(2.62)	(2.27)	(5.50)	(9.80)	65.45	63.49	0.43%	3.52%	BUY
		IXUS	ISHARS-CR INT S	58.64	0.67	(2.32)	(2.81)	(6.08)	(10.43)	58.29	56.70	0.60%	3.42%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	132.81	1.33	(5.55)	5.60	(3.38)	1.16	126.95	122.50	4.62%	8.42%	BUY
	International	BNDX	VANGD-TTL INT B	57.30	0.49	(4.82)	1.56	(7.50)	(3.21)	56.17	55.32	2.02%	3.58%	BUY
	High Yield	HYG	ISHARS-IBX HYCB	87.18	0.11	(3.61)	(0.61)	(9.28)	(5.48)	86.32	84.92	0.99%	2.66%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.53										

## 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 - Healthcare

Our overweight bet on "healthcare" continued to pay off as the anticipated rotation OUT of the previous leaders of Technology and Discretionary led to buying of underperforming assets like Healthcare. We are remaining long for now, but are looking for signs we need to take profits. •

**Current Positions:** Overweight XLV

## Outperforming - Staples, Real Estate, Financials, Utilities

As noted last week, the rotation in defensive positioning has continued and these sectors are currently leading overall market performance. We are maintaining our target portfolio weight in Financials for now. Take profits and rebalance across sectors accordingly. •

**Current Positions:** Overweight XLP, XLU, Target weight XLF, XLRE

## Weakening - Technology, Discretionary, Communications

As noted above the previous *"leaders"* are now lagging in terms of relative performance. We stated previously, that the lack of leadership suggested the breakout to *"new highs"* in the S&P 500 wasn't likely sustainable. The market failed at the initial test of new highs and leadership continues to lag.

**Current Position:** *1/2 weight XLY, Reduced from overweight XLK, Target weight.*

### **Lagging - Energy, Materials, Industrials**

This economically sensitive sectors have held up okay this past week but continue to lag on a relative performance basis. For now, we are maintaining our *"underweight"* holdings in all three of these sectors for now until there is a resolution to the "trade war."•

**Current Position:** *1/2 weight XLE, XLB, XLI*

***IMPORTANT: The oversold condition that existed at the beginning of June has been fully reversed back to an extreme "overbought." Take some action to rebalance portfolio risk if you have not done so previously.***

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

### **Market By Market**



**Small-Cap and Mid Cap** - While small-cap did finally break above its 50- and 200-dma's to join Mid-caps in a late-stage catchup rally, the move was quite unimpressive on a relative strength basis. With small and mid-caps back to extremely overbought conditions, this is likely a great opportunity to rebalance portfolio risk and reducing weighting to an underperforming asset class for now until things improve.●

**Current Position:** No position

## Emerging, International & Total International Markets

As noted last week:

*"Both emerging and industrialized markets popped last week on rumors of more QE and lower interest-rates from the ECB. We were previously stopped out of our positions but will look to add some weight back to portfolios if the recent move back above the 50- and 200-dma can hold."*

We are still watching these positions for a potential add to portfolios but the extreme overbought condition keeps us sidelined for the movement. A pullback that reduces the overbought condition but does not violate support will provide the right entry point.●●

**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 three weeks has 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 previously, the Fed's comments on potentially cutting rates sent both Bonds and Gold soaring higher. 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**

Despite the rally in stocks, bonds continue to get an attractive bid as rates fall and investors are seeking safety over risk. 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 extremely overbought. **Given the deteriorating economic conditions, this would be a good opportunity to reduce "junk rated" risk and improve credit quality in portfolios.** •

**IMPORTANT:** The oversold condition has been 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
XLV	Discretionary	OB	Positive	Positive	Hold			X			Testing Highs
XLK	Technology	OB	Positive	Positive	Hold			X			Testing Highs
XLI	Industrials	OB	Positive	Neutral	Hold			X			Broke Above 50-DMA
XLB	Materials	OB	Positive	Neutral	Hold			X			Extreme Overbought
XLE	Energy	OB	Negative	Negative	Hold			X			Testing Resistance
XLP	Staples	OB	Positive	Positive	Hold			X			Extreme Overbought
XLV	Health Care	OB	Negative	Neutral	Hold			X			Testing Highs
XLU	Utilities	OB	Positive	Positive	Hold			X			Extreme Overbought
XLF	Financials	OB	Positive	Neutral	Hold			X			Testing April Resistance
XLC	Telecom	OB	Positive	Neutral	No Position					X	Broke Above 50-DMA
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Extreme Overbought
SLY	Small Caps	OB	Negative	Negative	No Position					X	Broke Above 50-DMA
MDY	Mid Caps	OB	Positive	Neutral	No Position					X	Broke Above 50-DMA
EEM	Emerging Mkt	OB	Positive	Negative	No Position					X	Broke Above 50-DMA
EFA	International	OB	Positive	Negative	No Position					X	Broke Above 50-DMA
IXUS	Total International	OB	Positive	Negative	No Position					X	Broke Above 50-DMA
GLD	Gold	OB	Positive	Neutral	Hold			X			Extreme Overbought
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Testing Highs
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Testing Highs
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Testing Highs
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Extreme Overbought
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Extreme Overbought
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:

No change this past week. Despite the market testing highs, as noted in the main body of this missive, **it is NOT confirmed by other major markets**. Also, with the yield spread widening in conjunction with a monthly "sell" signal, historical outcomes for excessive risk exposure have not been kind. •

Our focus continues to remain focused on *?risk control? and ?Capital preservation strategies? over ?capital growth and risk taking strategies.?*

There are indeed some short-term risks while we await the Fed and the G-20 and the next couple of weeks should give us some clarity about where the markets are headed. In the meantime, we continue to carry tight stop-loss levels and will be trading positions initially until our thesis is proved out. •

- **New clients:** *Our onboarding indicators have reversed back to "risk on" so new accounts will be onboarded selectively into their models where risk can be controlled. Positions that were transferred in are on our global review list and being monitored. We will use this*

*rally to liquidate those positions to raise cash to transition into the specific portfolio models.*

- **Equity Model:** We added CVS to our portfolio with a stop loss at recent lows.
- **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.**

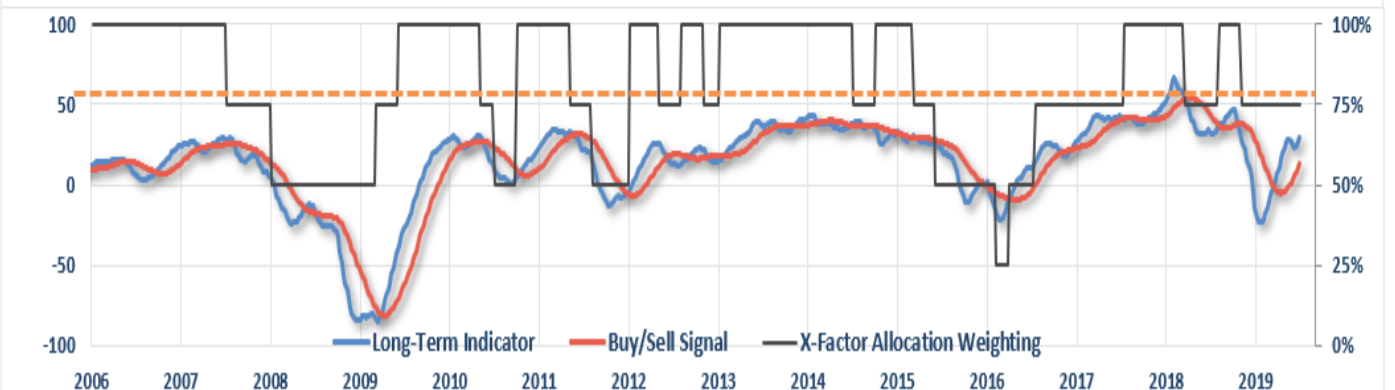
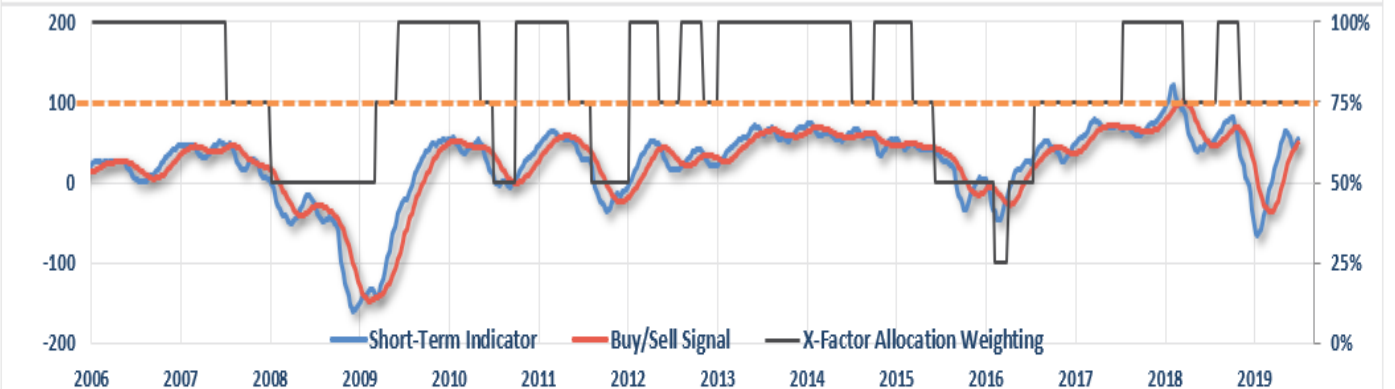
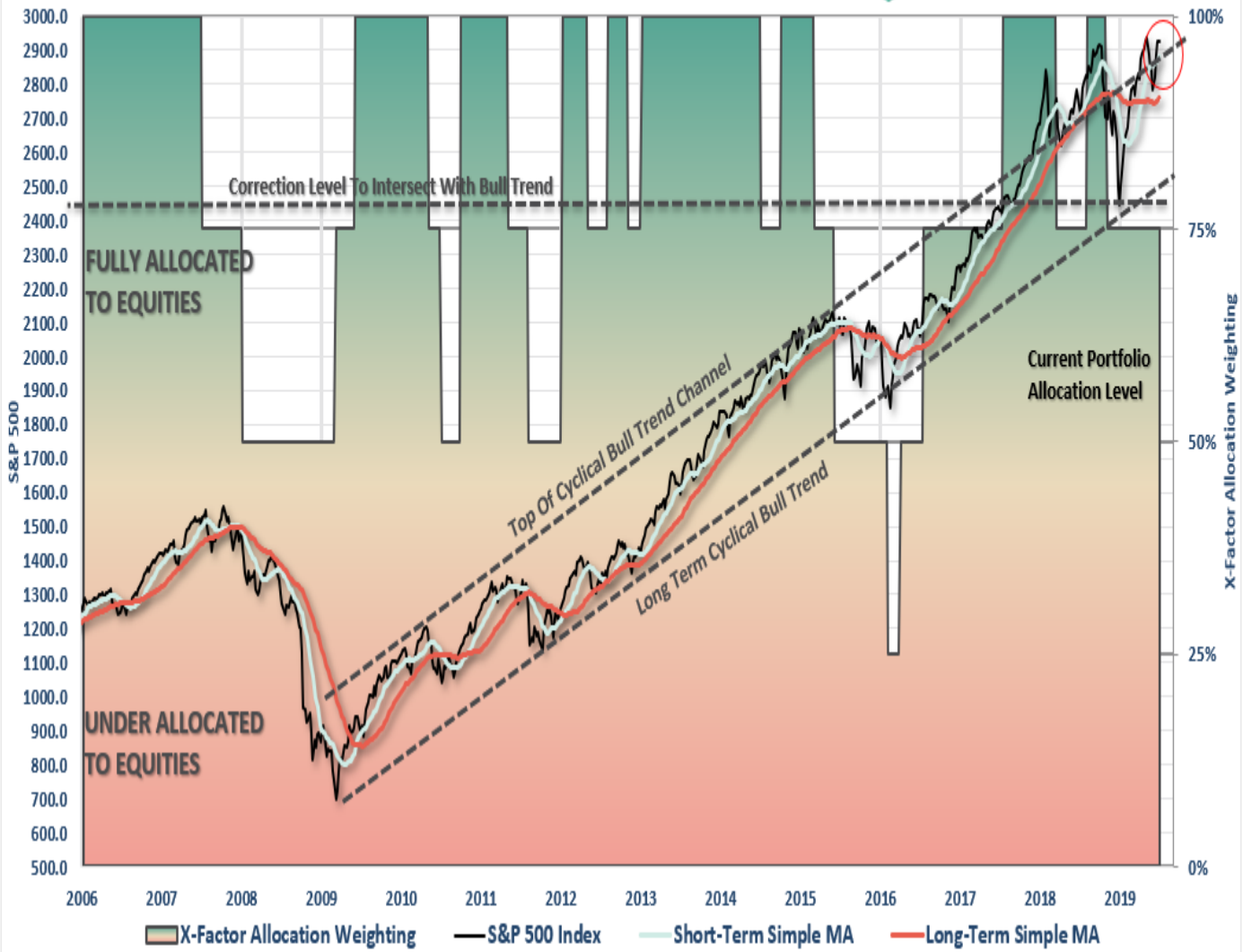
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# THE REAL 401k PLAN MANAGER

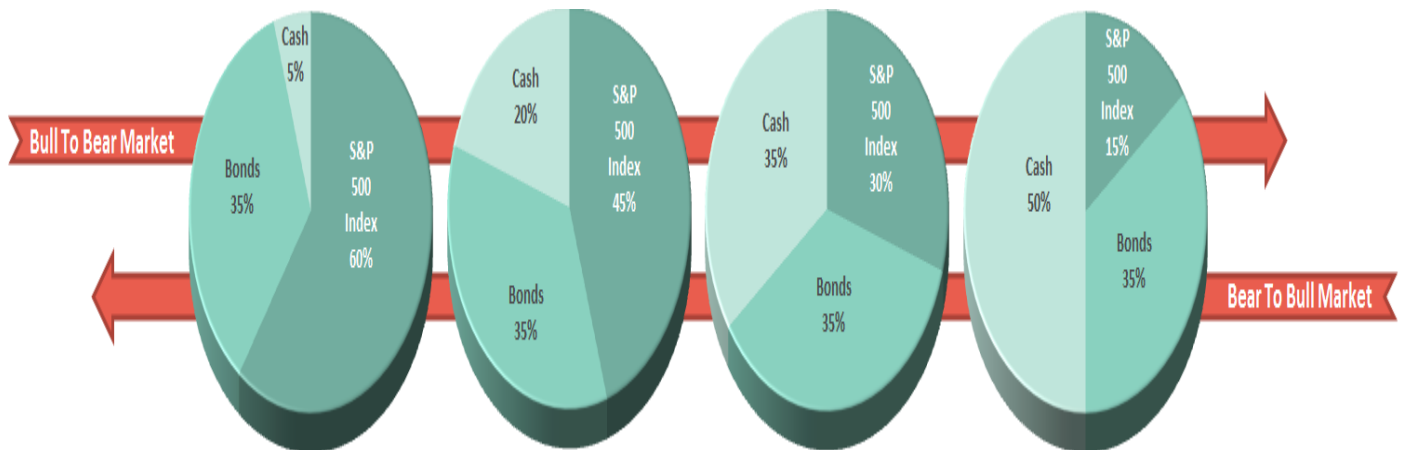
*A Conservative Strategy For Long-Term Investors*

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# Risk Management Analysis



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.***



## Still Wondering If New Highs Will Stick

I encourage you to read the main body of this week's missive. •

However, in a nutshell, while the S&P 500 hit new highs previously, the market failed to hold them and sold off early last week. On Thursday and Friday, the markets rallied back towards highs but failed to set them heading into the G-20 meeting this weekend.

With most positive outcomes from the G-20 already priced in, it leaves a lot more downside risk currently than upside reward. We are better off waiting for some resolution and seeing how the market reacts rather than trying to "guess" at what will happen. •

As stated previously, July and August tend to be challenging months for the market, so we want to be careful, particularly with the economic backdrop weakening and bond yields dropping so sharply. •

Take the following actions on Monday.

- If you are **overweight equities** - take some profits and reduce portfolio risk on the equity side of the allocation. Raise some cash and reduce equities to target weights. Have a plan in place in case new highs fail to hold.
- If you are **underweight equities or at target** - rebalance risks, look to increase cash rather than buying bonds at the moment, and use the current rally to rotate out of small, mid-cap, emerging, international markets. •

Lastly, the markets are back to extremely overbought conditions, this is a good time to take some action and clean up areas of your portfolio which have not been performing well. •

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

**401k Plan Manager Beta Launch Coming Next Week**

We are planning to roll out the beta launch next week to our [RIA PRO subscribers \(sign up for a 30-day free trial\)](#)

Thank you for all the emails of plans. We have input a few of them into the 401k plan manager just for testing purposes. Once we get the bugs all worked out, we will put in the rest of the plans we have in inventory and release the full version.

We are currently covering more than 10,000 mutual funds and have now added all of our Equity and ETF coverage as well. • You will be able to compare your portfolio to our live model, see changes live, receive live alerts to model changes, and much more. •

The "live" 401k plan manager will soon be available to [RIA PRO subscribers for the beta test](#). • However, we will maintain the free version in the weekly newsletter for the rest of this year as well. •

**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*)

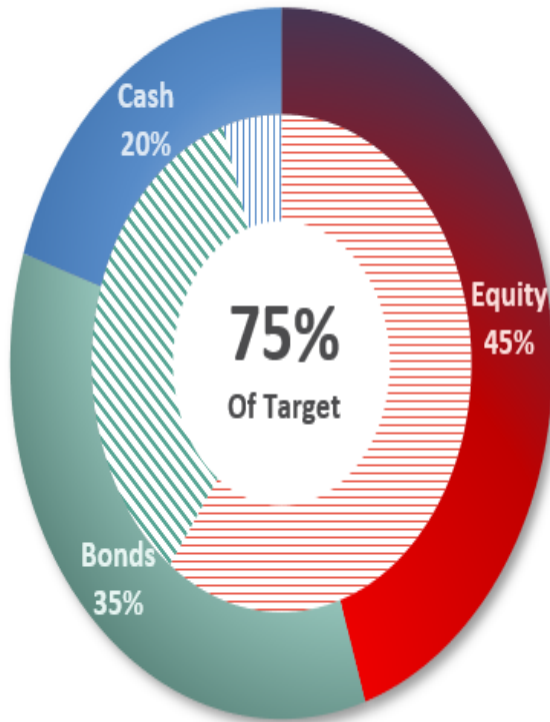
I have gotten quite a few plans, so keep sending them and I will include as many as we can. •

**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*