RIA Advice

- ***Review & Market Update***
- ***Why The Fed Could Cut By 50bps***
- ***Why It Won't Matter***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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Market Review & Update

Last week, we laid out the bull and bear case for the market:

The Bull Case For 3300

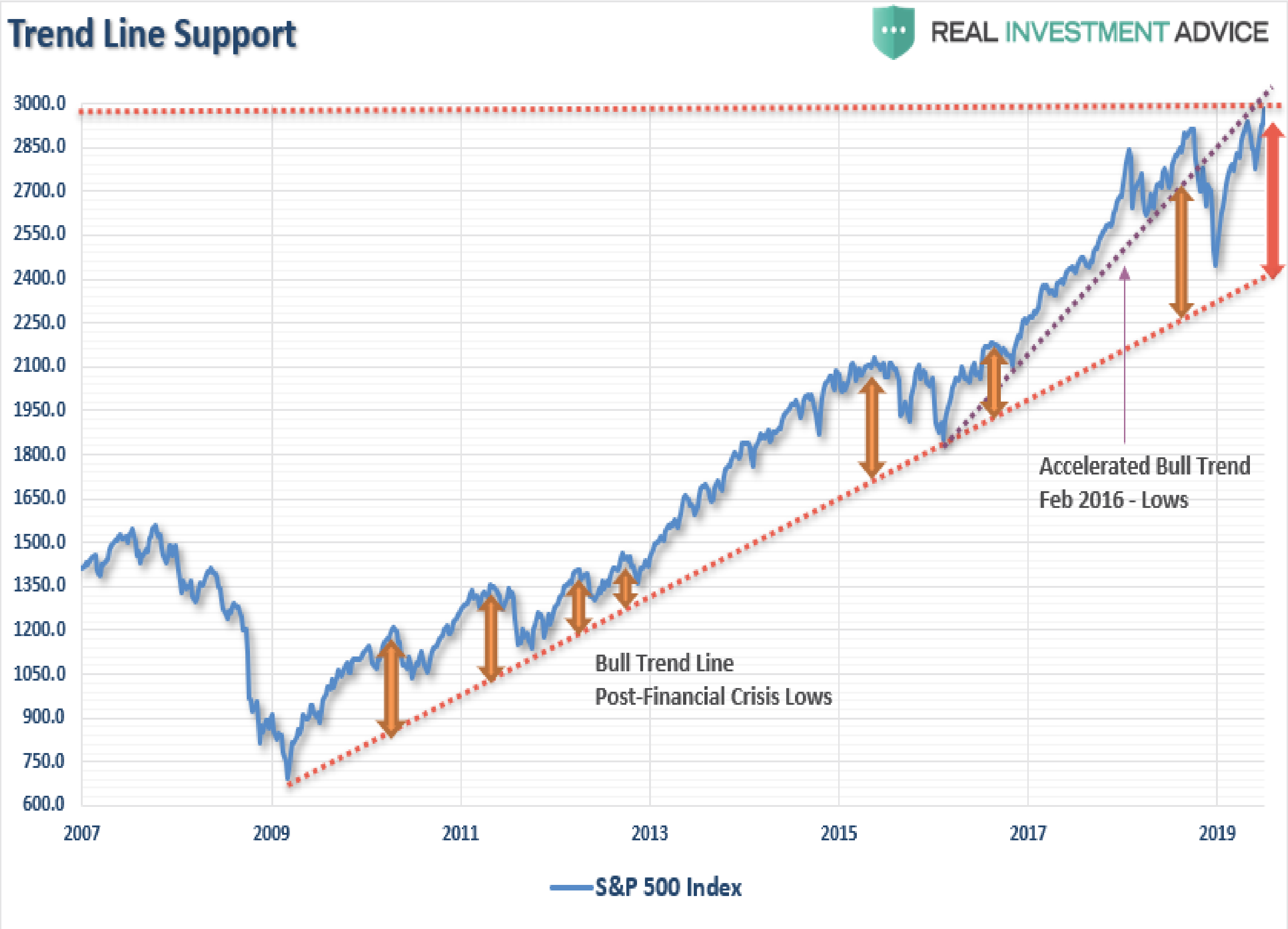
- *Momentum*
- *Stock Buybacks*
- *Fed Rate Cuts*
- *Stoppage of QT*
- *Trade Deal*

The Bear Case Against 3300

- *Earnings Deterioration*
- *Recession*
- *No Trade Deal/Higher Tariffs*
- *Credit-Related Event (Junk Bonds)*
- ***Mean Reversion***
- *Volatility / Loss Of Confidence*

We laid out the case for a near-term mean reversion because of the massive extension above the long-term mean. To wit:

> *"There is also just the simple issue that markets are very extended above their long-term trends, as shown in the chart below. A geopolitical event, a shift in expectations, or an acceleration in economic weakness in the U.S. could spark a mean-reverting event which would be quite the norm of what we have seen in recent years."*



This analysis led us to take action for our [RIAPRO subscribers last week (30-Day Free Trial),] as we added a 2x-short S&P 500 index fund to **Equity Long-Short Account** to hedge our longs against a potential mean reversion. ***(on Friday that portfolio was UP .03% while the market FELL by 0.62%)***

> ***"This morning, we are adding a small 2x S&P 500 short position to the trading portfolio to hedge our core long positions against a retracement over the next few weeks.*** *We will remove the short if the market can regain its footing and move higher, or the market sells off and reaches oversold conditions."*

This is the purpose of hedging, as it reduces volatility over time, which inherently reduces the risk of emotionally based trading mistakes.

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The correction this past week was not surprising as we wrote previously:

> *"With a majority of short-term technical indicators extremely overbought, look for a correction next week. What will be important is that any correction does not fall below*

the early May highs."

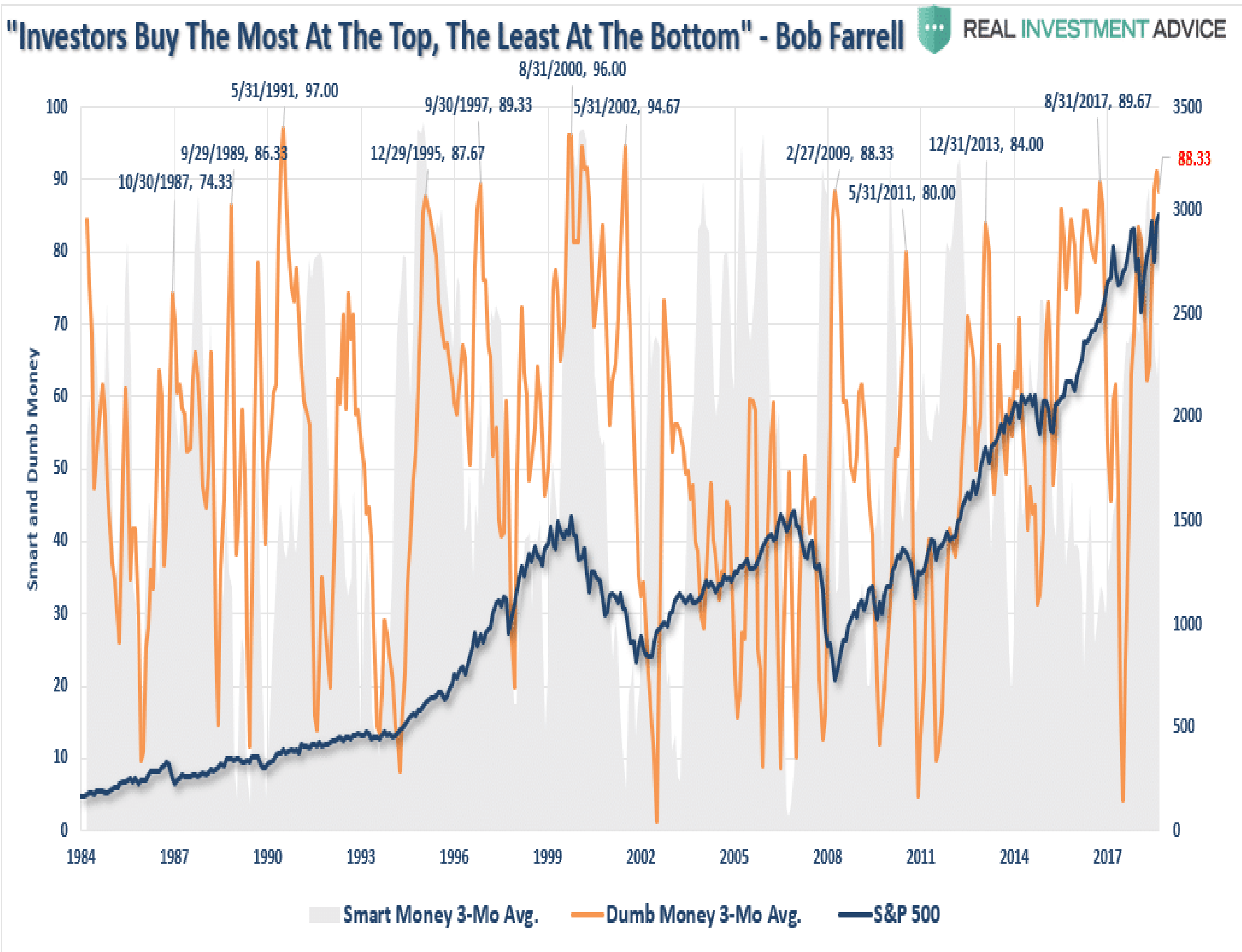
While the market is still hanging above the May highs, further corrective actions are likely next week as the short-term oversold conditions have not been resolved as of yet. The deviation above the long-term mean is also only starting to reverse as well.

Importantly, once we get past the end of the month, and assuming the Fed does indeed cut rates and no *"trade deal"* with China, the markets will return their focus to economics and earnings. As we stated previously:

> ***"Such continues to suggest the August/September time frame for a larger corrective cycle is still in play."***

More importantly, as Chris Kimble noted on Friday, the market is continuing to ignore the economic warnings being sent by bonds and commodities.

Moreover, the *"Dumb Money"* is now all the way back in.



These last two charts confirm the old Wall Street axiom:

> ***"Individuals buy• the most at the top, and the least at the bottom."•***

This is why we are hedging our risk, carrying a higher level of cash, and holding onto our bonds as if they were the last lifeboat on the Titanic.

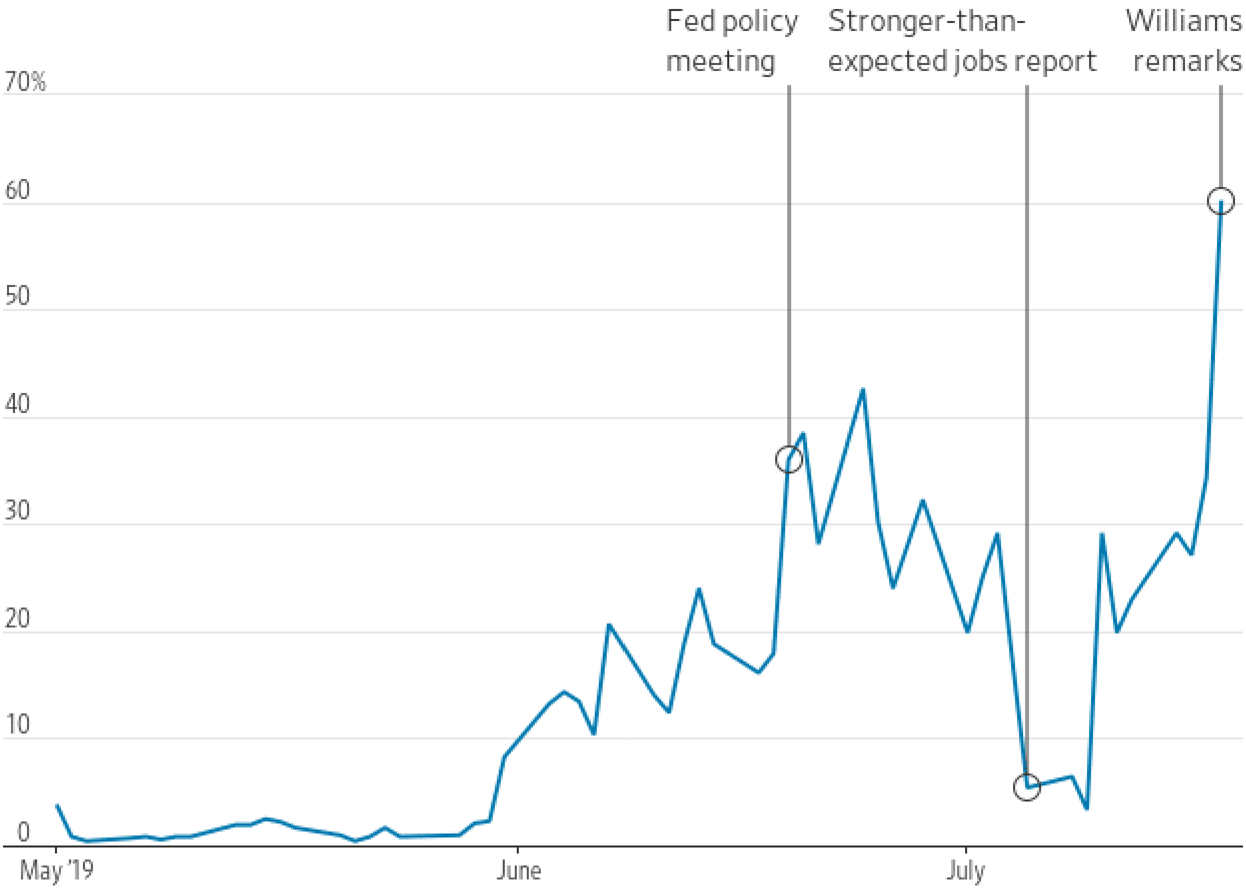
Why The Fed Will Cut By 50bps

It is now widely expected the Fed will cut rates at the end of the month following comments by Fed officials last week. Per the WSJ:

> *"**New York Fed President John Williams**•on Thursday stoked expectations for a hefty cut. Already-low interest rates are a big reason to [cut aggressively](#) at the first sign of*

> *economic distress, he said.* ***'Don?t keep your powder dry?that is, move more quickly to add monetary stimulus than you otherwise might.'*** *But a bank spokesman later walked that back, saying Mr. Williams didn?t intend to suggest the central bank might make a large cut this month."*

Market-implied probability of the Fed lowering rates by 0.5 percentage point in July



Source: CME FedWatch Tool

Interestingly, that statement was quickly walked [back by the NY Fed:]

> *"However, in an unprecedented move,* ***the NY Fed subsequently released a statement stating that President Williams's speech on Thursday afternoon was not intended to send a signal that the Fed might make a large interest rate cut this month but rather it was "an academic speech on 20 years of research****."*
>
> *Why did the NY Fed do this?*
>
> *Simple: as BofA explains, '****the FOMC was uncomfortable with the market moving toward a 50bp cut and wanted to push the market back to a 25bp baseline.'*** *In other words, as Meyer puts it, '****Williams unintentionally misguided the markets.'"***

With the markets pushing record highs, recent employment and regional manufacturing surveys showing improvement, and retail sales rebounding, it certainly suggests the Fed should remain patient on hiking rates for now at least until more data becomes available. **Patience would also seem logical given very limited room to lower rates before returning to the *"zero bound."***

However, there is also support for rate cuts. This is the point we will discuss today.

It's Beige

Let's begin with the Fed's Beige Book report.

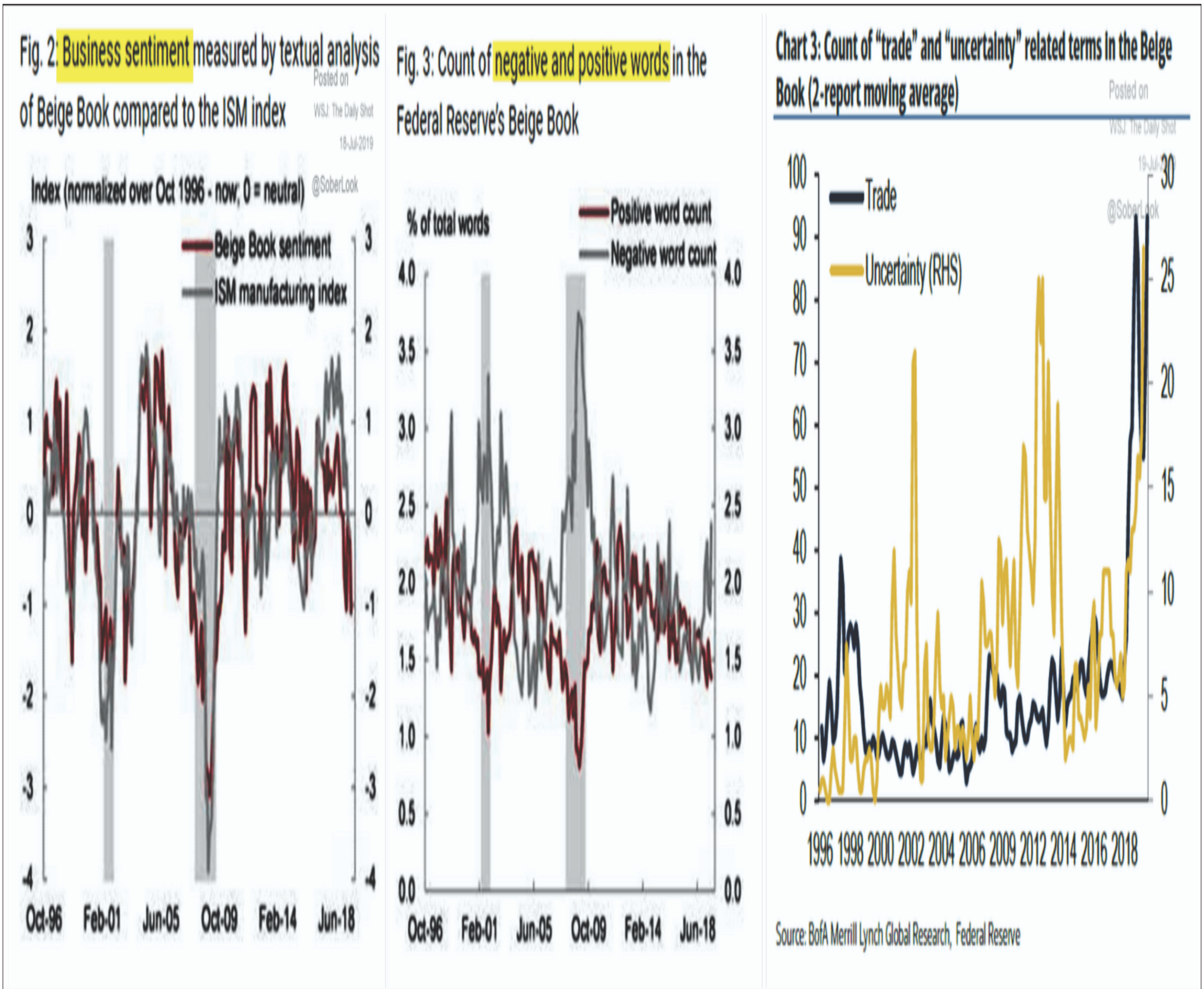
- *Labor markets remained tight, with contacts across the country experiencing difficulties filling open positions.* ***The reports noted continued worker shortages across most sectors, especially in construction, information technology, and health care.*** *(Tighter job market leads to higher costs, which impacts profitability.)*

- ***Compensation grew at a modest-to-moderate pace, although some contacts emphasized significant increases in entry-level wages.*** *Most District reports also noted that* ***employers expanded benefits packages*** *in response to the tight labor market conditions. (Note: cost of labor is rising, which will impede corporate profit margins. Increases in labor costs ALWAYS precede the onset of a recession.)*

- ***Tariffs were mentioned 49 times*** *in the report.*

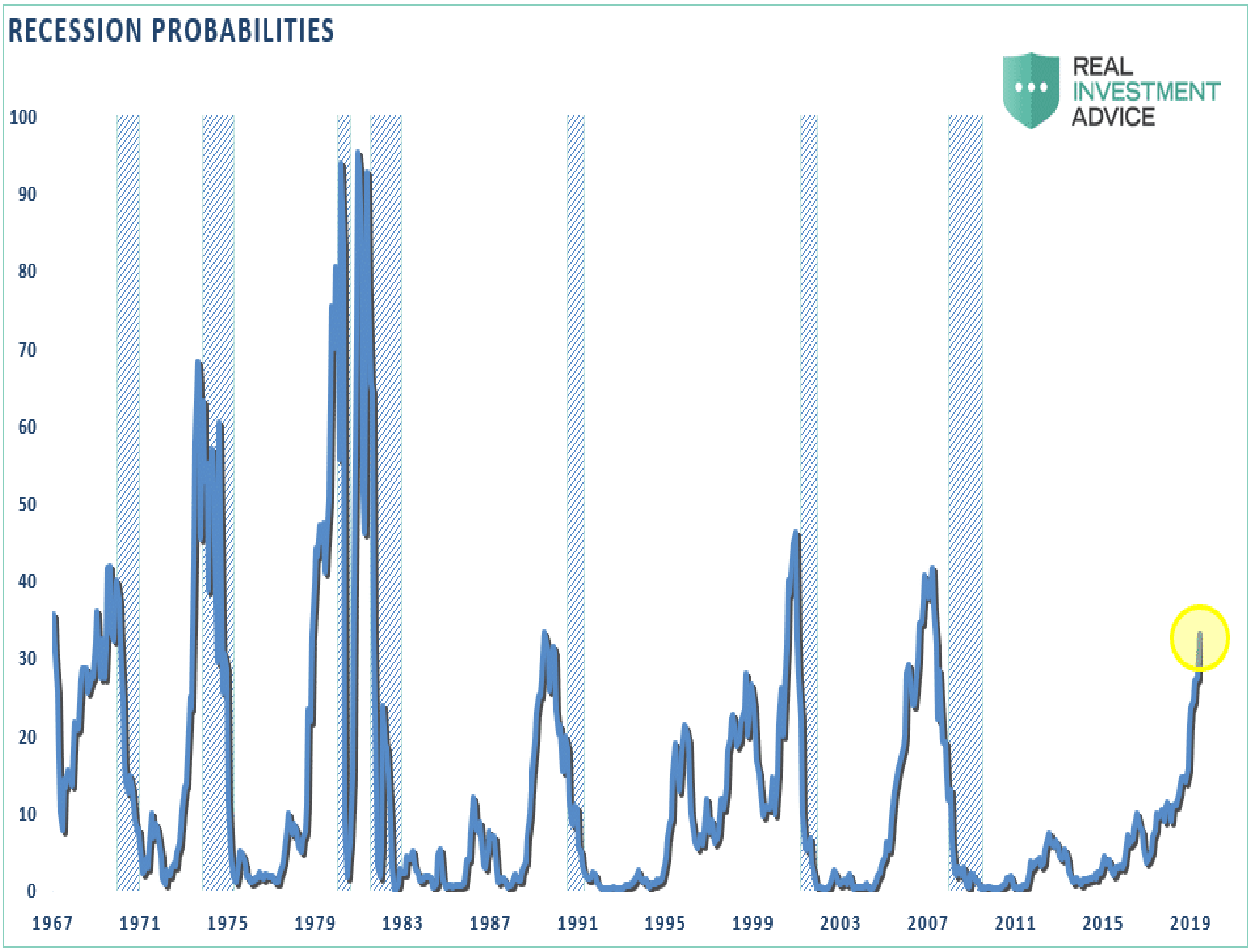
- ***Districts generally saw some increases in input costs, stemming from higher tariffs and rising labor costs.*** *However,* ***firms' ability to pass on cost increases to final prices was restrained by brisk competition.*** *(Note: higher input costs without the ability to pass it on impacts profitability.)*

Click to Enlarge



Recession Probabilities•

The Fed's own recession probabilities index has spiked to levels historically coincident with the onset of a recession. *(Yes, this time could be different, but probably not a bet the Fed is willing to take.)*

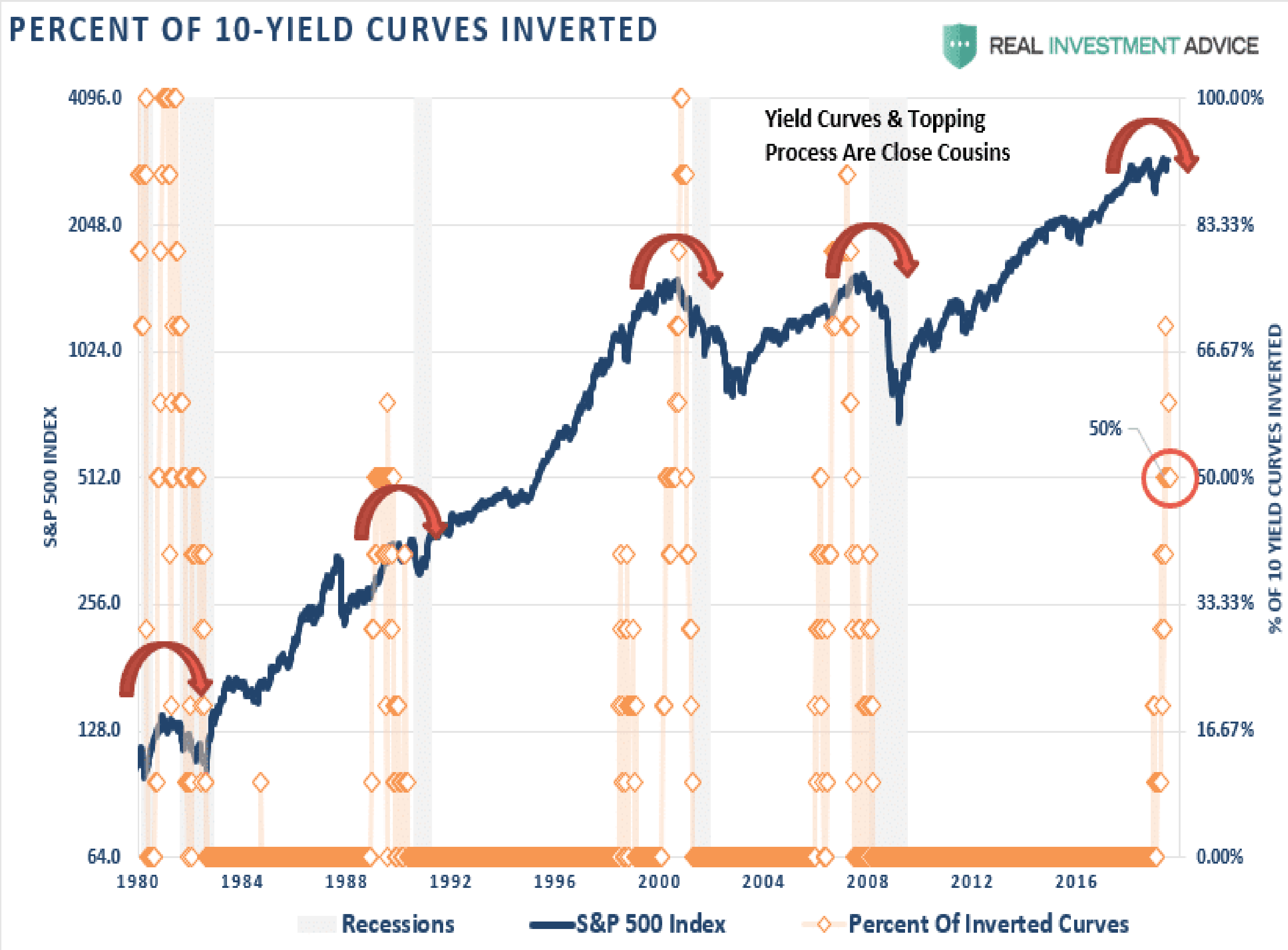


Yield Curve Inversions

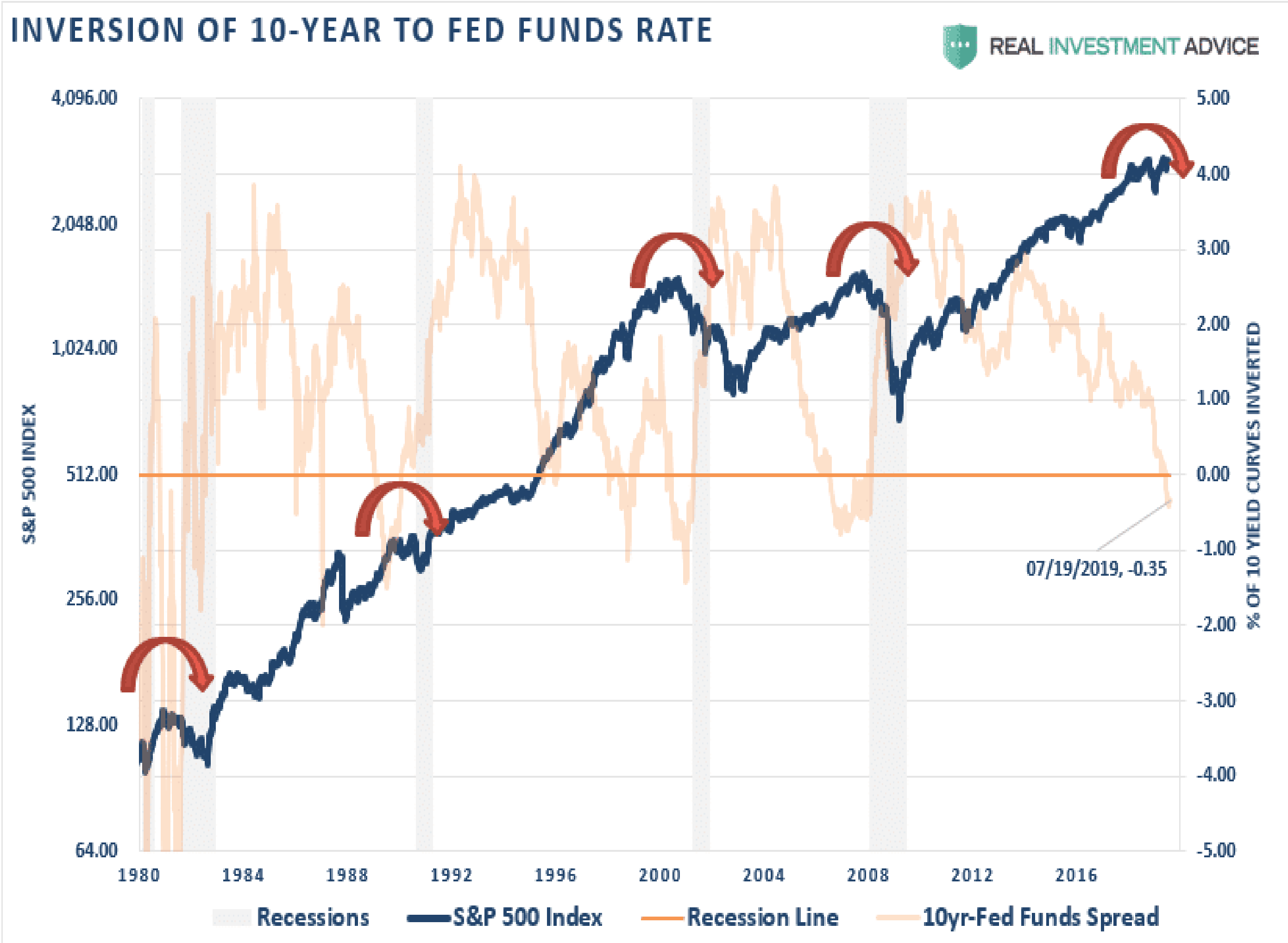
Interest rates are a direct reflection of economic growth. As I wrote in December 2018• in["Why Gundlach Is Still Wrong About Higher Rates:"]

> *"Given the structural backdrops to the economy, there is an inability to increase rates of productivity substantially, output, wage growth, savings, or consumption, which would lead to stronger rates of economic growth. In fact, we are currently running some of the weakest rates of economic growth, productivity, and wages on record."*

Currently, 50% of the 10-yield curves we track are inverted and have remained so for more than 3-months. Historically, when inversions last for one-quarter or more in duration, recessions have not been too far behind.

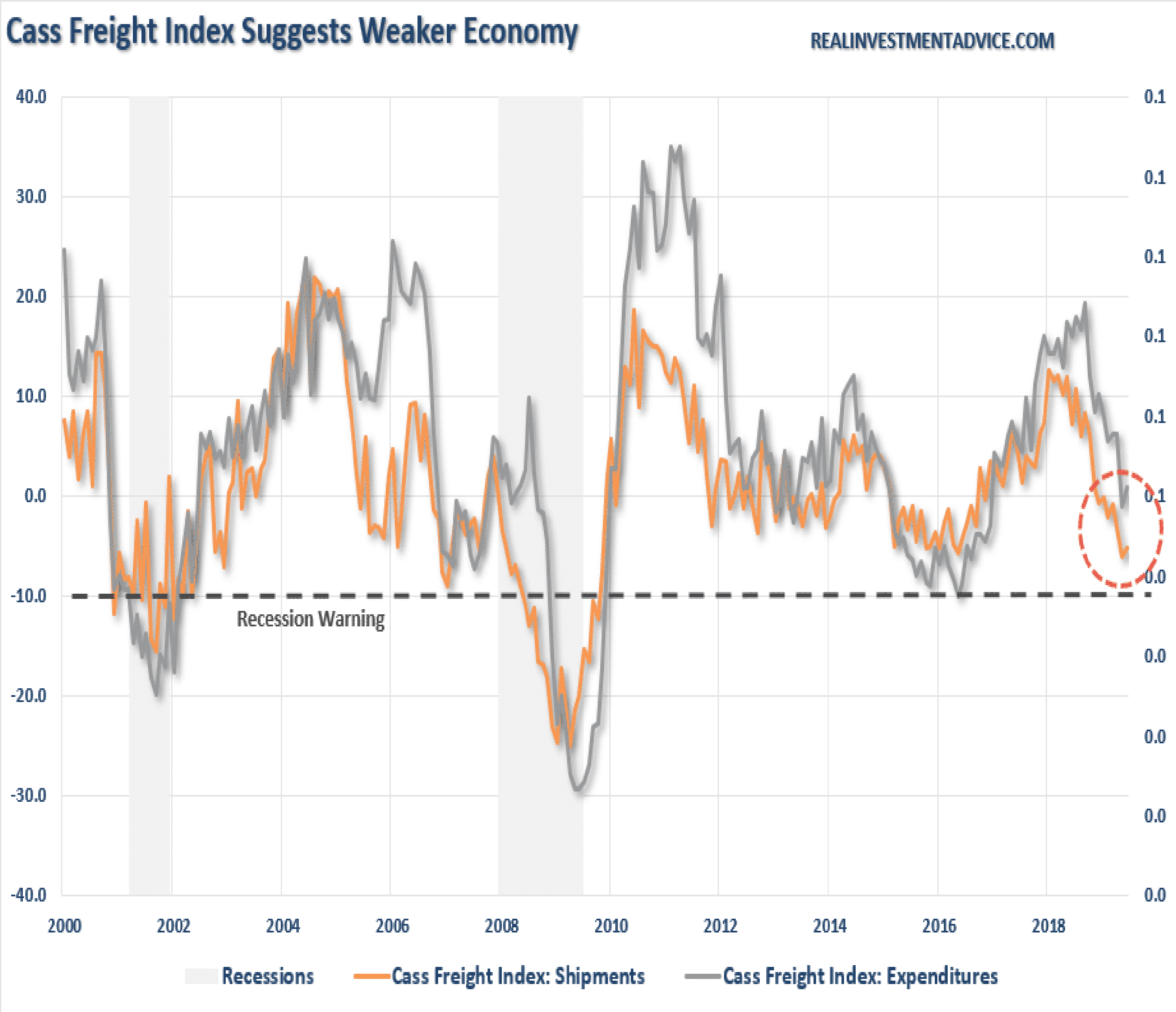


However, one of the biggest reasons the Fed is about to cut rates by up to one-half point is to un-invert the Fed Funds to the 10-year Treasury rate. The inversion between the ultra-short and long-end of the curve is impairing loan activity. The Fed clearly understands that if they don't resolve this inversion, the probability of a recession grows rapidly.



Cass Freight Index

There is also substantial *"hard data"* evidence the economy in under severe pressure. While *"sentiment-based"* surveys, or *"soft data,"* has rebounded recently, data like the *"Cass Freight Index"* is ringing alarm bells.



Leading Economic Indicators Drop

However, it is the Leading Economic Indicator (LEI) index, which has our attention currently.

As Mish Shedlock noted on Thursday:

> ***"The Conference Board's LEI index turned negative in June.*** *The yield curve finally made a negative contribution. The conference board provides this press release on Leading Economic Indicators for June.*
>
> *'**The US LEI fell in June, the first decline since last December, primarily driven by weaknesses in new orders for manufacturing, housing permits, and unemployment insurance claims. For the first time since late 2007, the yield spread made a small negative contribution.**? - Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board*

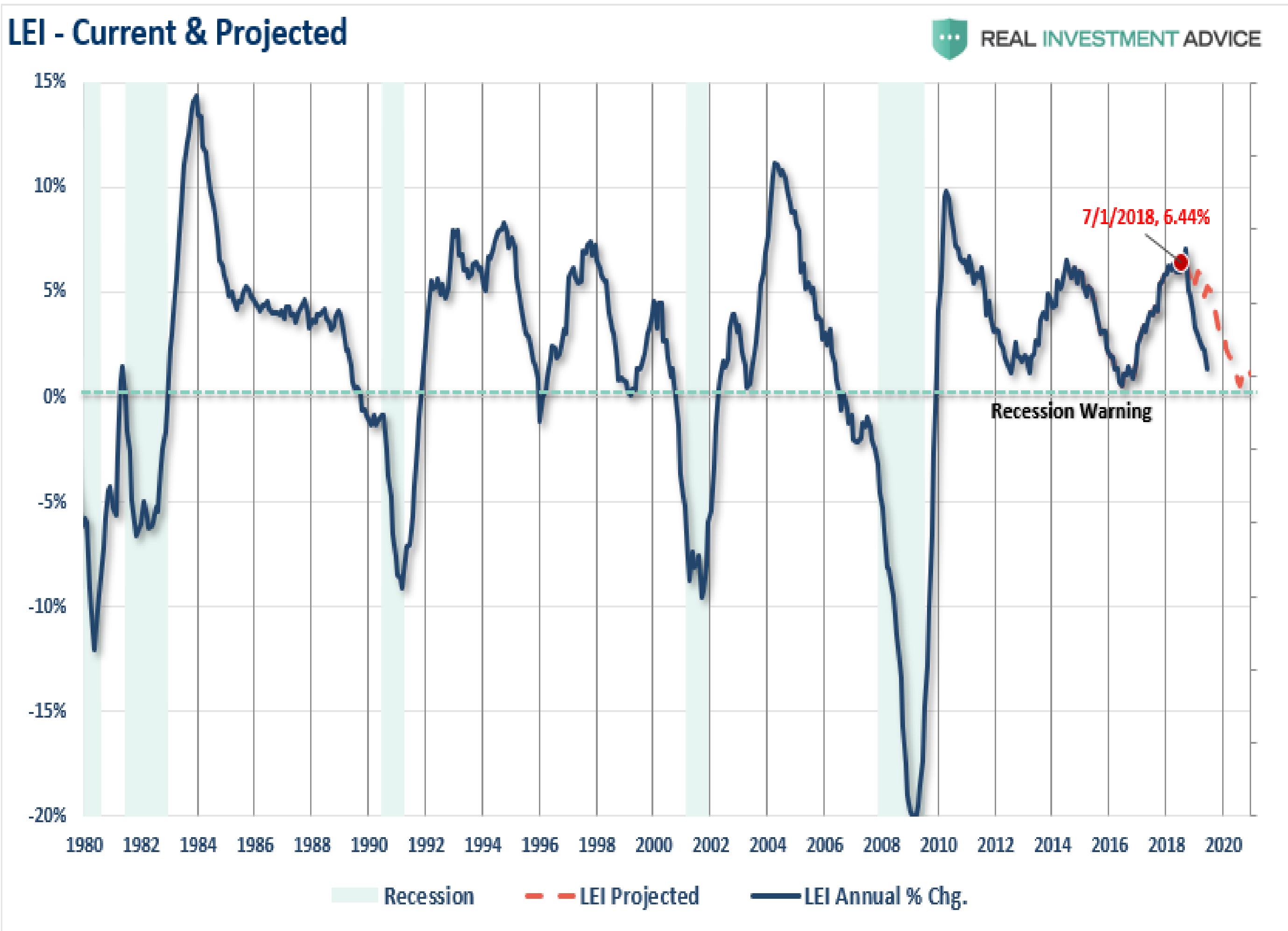
The consensus estimate was for LEI of +0.1, the read was a -0.3

Leading Indicators Turn Negative
Lagging Indicators Negative Third Month

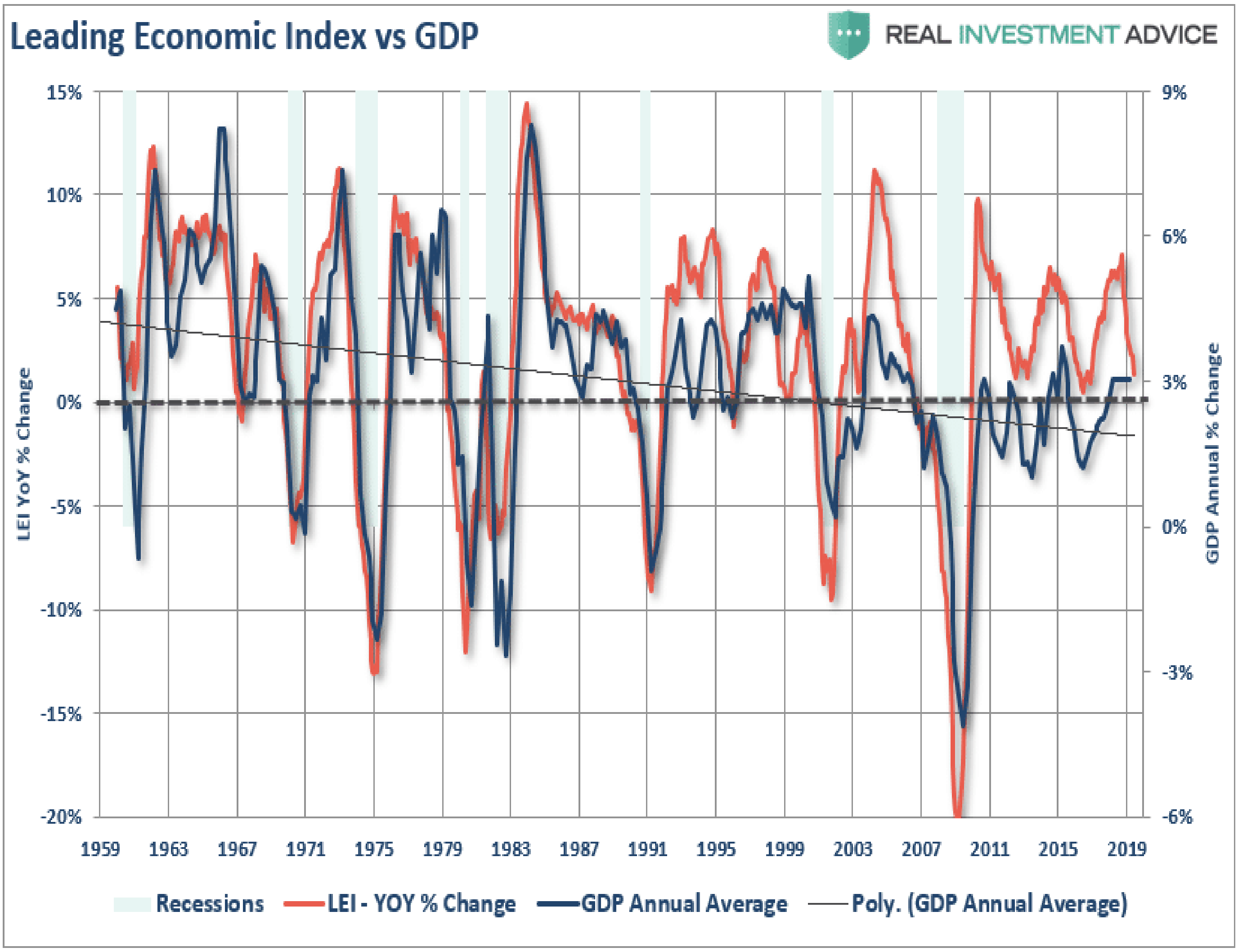
	Jan	Feb	Mar	Apr	May	Jun
Leading Economic Indicators	0.0	0.2	0.1	0.1	0.0	**-0.3**
Coincident Economic Indicators	0.0	-0.1	0.1	0.1	0.2	**0.2**
Lagging Economic Indicators	0.5	0.3	0.2	-0.1	-0.2	**-0.2**
coincident-lagging ratio	98.9	98.5	98.4	98.6	99.0	**99.0**

MishTalk

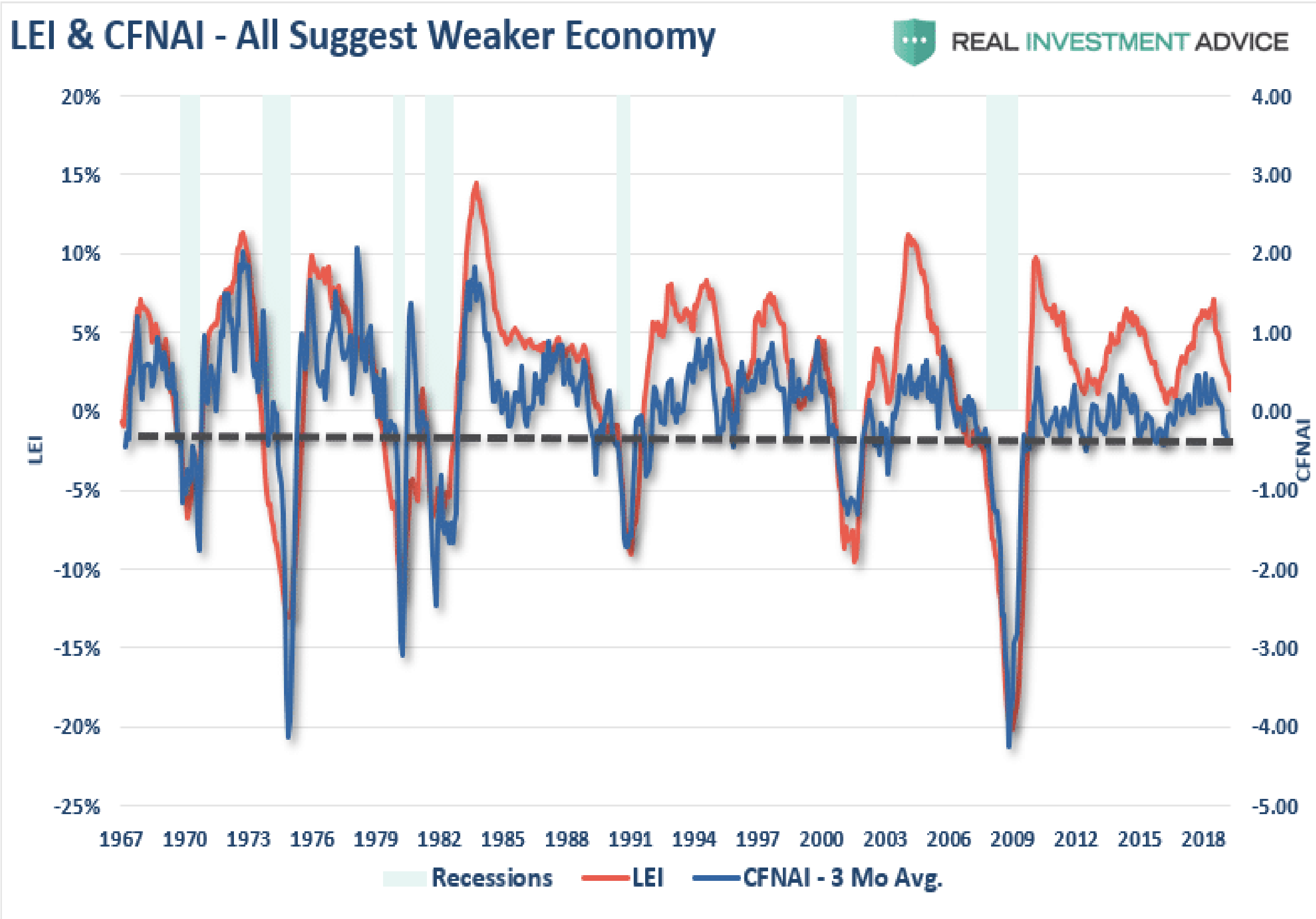
This decline is not surprising to us. In July of 2018, as noted in the chart below, we laid out a predicted path of reversion in the LEI index. As you can see, the reversion has been even sharper than we originally estimated.



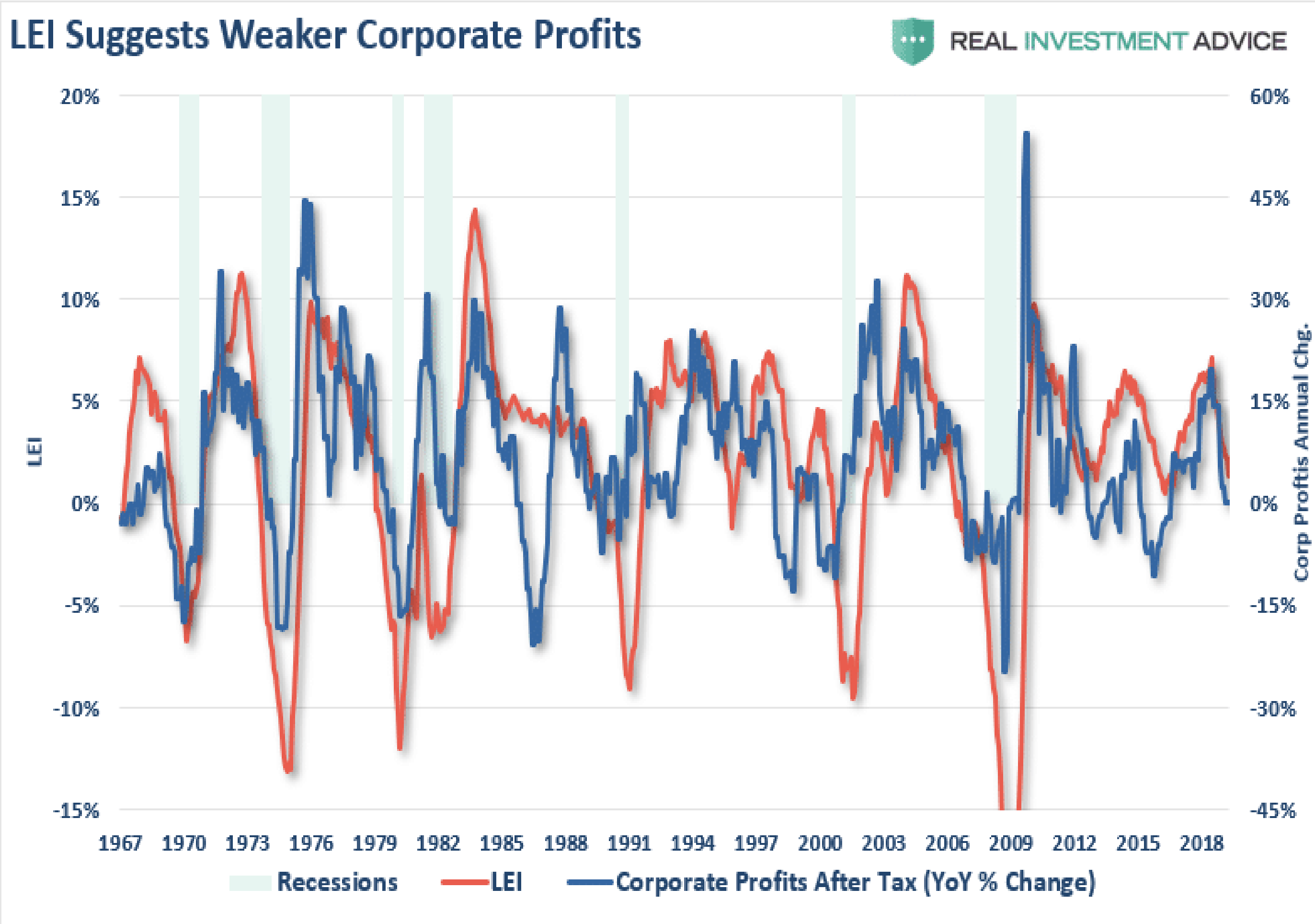
What is more concerning, and a reason the Fed is likely acting now, is there is a high correlation between the LEI and GDP, economic activity, and corporate profits. When compared to nominal GDP, the LEI index is suggesting a sharp slowdown is just ahead.



The **Chicago Fed National Activity Index (CFNAI)** is one of the broadest measures *(80-sub components)* of economic activity. The LEI and CFNAI, not surprisingly, also have a high correlation, which suggests further weakness is ahead.



Of course, if GDP, and underlying economic activity, is slowing down, it should not be surprising that corporate profits also decline.



The LEI is certainly not a perfect indicator for recessionary activity and has provided many false signals since the 2009 lows.**However, the recessionary correlation is the highest when the LEI is signaling a recessionary warning at the same time the Fed Funds/10-Year yield inversion in place.**

I think the Fed is beginning to panic as they were never able to get yields up to high enough levels to be effective in the next recession. Of course, this is exactly what we said would happen numerous times previously:

> *"The Fed surely understands that economic cycles do not last forever, and after eight years of a 'pull forward expansion,'•it is highly likely we are closer to the next recession than not.* ***While raising rates would likely accelerate a potential recession, and a significant market correction, from the Fed?s perspective, it might be the 'lesser of two evils.'*** *Being caught at the 'zero bound' at the onset of a recession leaves few options for the Federal Reserve to stabilize an economic decline."*

Janet Yellen was smart enough to *"exit"* and stick Jerome Powell with the *"tab."*

While the market rallied back from its 20% decline last year on *"hopes"* of an end to the *"trade war"* and *"rate cuts,"* the market is missing an important part of the picture.

Rate cuts may not work.

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Why It Won't Matter

My friend Patrick Watson recently penned the problem for the Fed:

> *"This used to be pretty simple. When the economy slowed, the Fed would cut rates.•This encouraged borrowing and investment. People bought houses. Businesses expanded and hired people. The economy would recover.*
>
> *Now, it doesn?t seem to work that way. Peter Boockvar succinctly explained why in one of his recent letters. The problem is that 'easy money' stops working when it becomes normal, as it now is.*
>
> *Lower rates don?t encourage borrowing unless potential borrowers think it?s a limited-time opportunity. Which they don?t anymore, and shouldn?t, since the Fed shows no sign of ever going back to what was once normal."*

Exactly correct.

Also, *"stimulus"* works best when the *"patient"* is in the worse possible condition, not when the patient is healthy. As I wrote in "QE - Then, Now, & Why It May Not Work:

> *If the market fell into a recession tomorrow, the Fed would be starting with roughly a* ***$4 Trillion*** *balance sheet with interest rates 2% lower than they were in 2009. In other words, the ability of the Fed to ?bailout? the markets today, is much more limited than it was in 2008.*
>
> *However, there is more to the story than just the Fed?s balance sheet and funds rate. The entire backdrop is completely reversed. The table below compares a variety of financial and economic factors from 2009 to the present."*

	Then 1/1/2009	Now 1/1/2019	Change
Fed Funds	0.15%	2.40%	2.25%
10-Year Treasury	2.52%	2.68%	0.16%
Nominal GDP	-1.75%	5.34%	7.09%
Inflation Rate	-0.12%	1.52%	1.64%
Unemployment Rate	7.80%	4.00%	-3.80%
Jobless Claims (4-wk Avg.)	543500	229000	-314500
Shiller CAPE-10	19	28	9
Government Debt (Trillion)	$11.10	$22.00	$10.90
Private Non-Residential Fixed Inv.	-1.25%	8.61%	9.86%
Existing Home Sales	3820000	4370000	550,000
New Home Sales	336000	657000	321,000
Consumer Sentiment	61.2	91.2	30
NFIB Survey	83.9	101.2	17.3
PCE	-1.47%	3.98%	5.45%
Retail Sales	-11.48%	4.01%	15.49%
Leading Economic Indicators	76	111.3	35.3
Total Vehicle Sales (Million)	9.79	17.13	7.34
RIA Economic Composite	4.23	37.75	33.52

Feb Balance Sheet	$915 Billion	$4 Trillion	$3.85 Trillion

> ***"The critical point here is that QE and rate reductions have the MOST effect when the economy, markets, and investors have been 'blown out,' deviations from the 'norm' are negatively extended, confidence is hugely negative.***
>
> *In other words, there is nowhere to go but up."*

Let me be clear; it is certainly possible that asset prices could rise in the short-term given the *"training"* investors have received over the last decade to *"Buy The F***ing Dip."***However, given the economic and fundamental backdrop, rate cuts will not change the onset, duration, or intensity of the coming recession.**

Yes, participate with the *"rate cut rally."*•

We will be.

Just make sure you have a strategy to *"leave the party before the cops arrive."*

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

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Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	20.32%	6.13%	18.91%	208.31%
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.75	0.48	3.05	5.29
Sortino	0.89	0.55	4.03	6.34
Volatility	13.97	15.30	12.23	(0.20)
Daily VaR-5%	(9.83)	(16.15)	19.57	(2.21)
Mnthly VaR-5%	(10.34)	(19.16)	12.52	(1.65)

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	1.89%	1.85%	1.83%	(1.00%)	2.17%	1.67%	(15.70%)	9.73%
P/E Ratio	20.90	20.74	18.39	(12.77%)	21.65	16.37	(15.0%)	12.36%
P/S Ratio	3.16	3.27	3.32	1.58%	3.56	2.62	(6.86%)	26.75%
P/B Ratio	3.54	3.84	3.98	3.37%	4.16	3.01	(4.28%)	32.36%
ROE	15.82%	17.26%	18.62%	7.28%	18.77%	14.98%	(0.78%)	24.26%
ROA	2.94%	3.25%	3.47%	6.52%	3.50%	2.81%	(0.85%)	23.58%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,427.2	2,380.9	(1.90%)
Sales	59,771	64,034	7.13%
SPS	24.6	26.9	9.21%
Earnings	8,435	9,537	13.07%
EPS TTM	4.1	4.9	17.96%
Dividend	1.5	1.6	6.85%

S&P 500 Asset Allocation

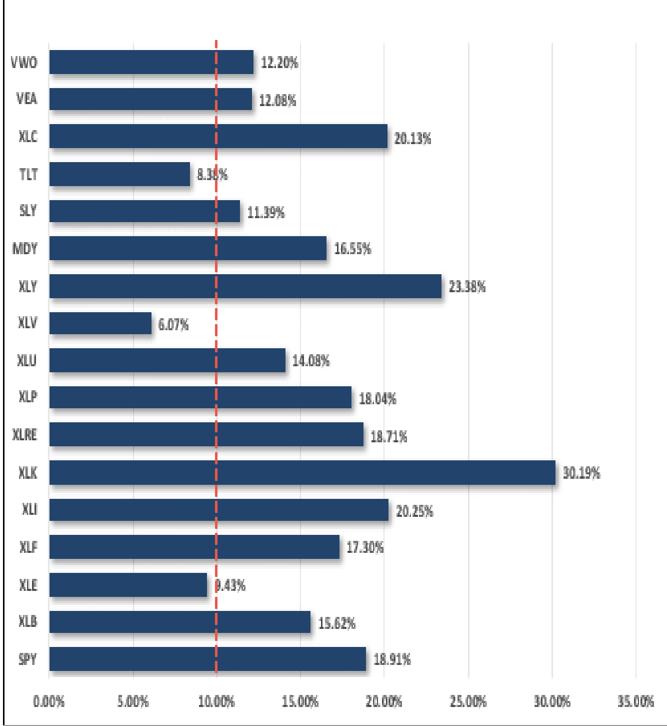
Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(17.53%)	4.87%	1.21	16.52	156.27	12.49	(89.4%)	9.4%	3.7%	6.08%	3.66	15.41
Materials	(21.62%)	2.73%	1.22	13.07	22.97	13.86	(43.1%)	11.3%	1.9%	7.66%	4.10	15.70
Industrials	3.23%	9.18%	1.14	17.60	22.20	14.76	(20.7%)	16.2%	1.9%	5.68%	5.22	15.90
Discretionary	8.80%	10.39%	1.02	24.89	27.38	20.08	(9.1%)	28.9%	1.2%	3.97%	4.93	21.83
Staples	13.89%	7.35%	0.61	20.67	22.83	17.62	(9.5%)	27.1%	2.7%	4.79%	3.90	19.37
Health Care	5.94%	13.91%	0.87	16.84	20.62	15.93	(18.3%)	30.2%	1.8%	5.86%	6.58	15.52
Financials	2.70%	13.01%	1.23	13.51	18.45	11.71	(26.8%)	11.6%	2.0%	7.35%	5.86	11.98
Technology	16.10%	21.63%	1.25	21.51	21.75	14.42	(1.1%)	39.1%	1.4%	4.58%	5.28	19.87
Telecom	(6.25%)	10.45%	0.86	19.38	27.57	17.47	(29.7%)	17.5%	1.0%	5.08%	6.29	17.78
Utilities	17.70%	3.32%	0.33	20.38	20.31	15.58	0.4%	10.5%	3.3%	4.85%	3.63	18.66
Real Estate	11.82%	3.07%	0.72	19.96	24.47	17.10	(18.4%)	10.0%	3.2%	4.91%	4.31	19.43

Momentum Analysis

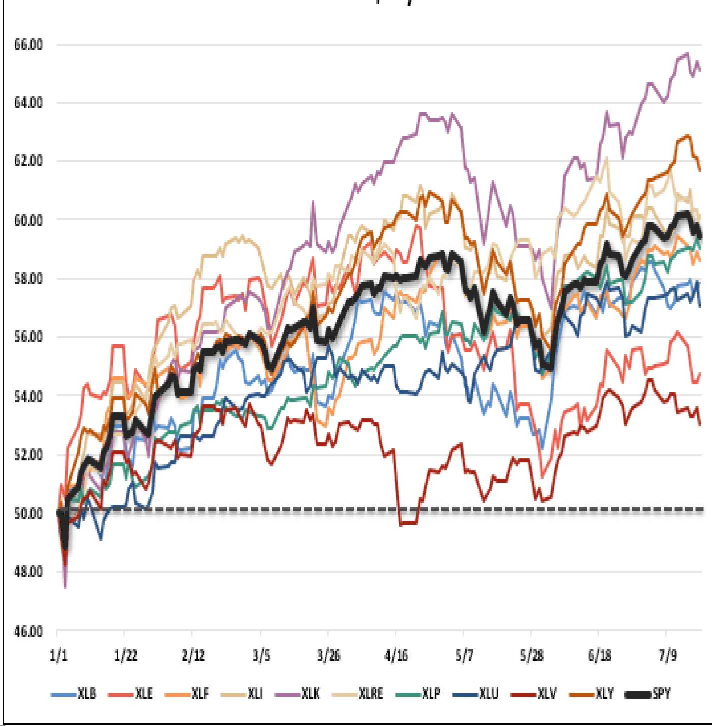
Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	297.17	3.15%	289.88	31	2.52%	277.29	34	7.17%	4.54%	(1.32%)	27.13%	Buy
Mid Cap	352.76	0.09%	347.57	17	1.49%	339.56	33	3.89%	2.36%	(5.70%)	24.01%	Buy
Small Cap	66.80	(2.50%)	66.28	16	0.78%	66.49	16	0.46%	(0.32%)	(14.63%)	18.65%	Sell

Performance Analysis

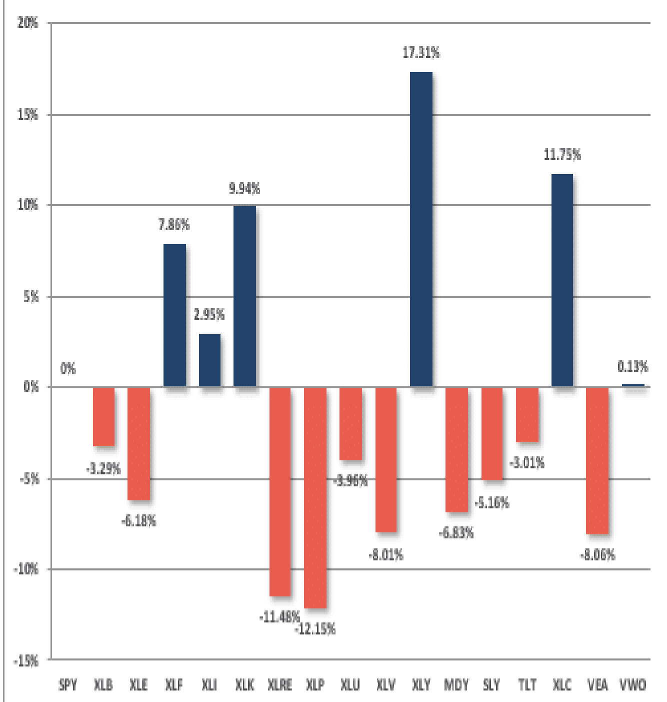
Year To Date Performance



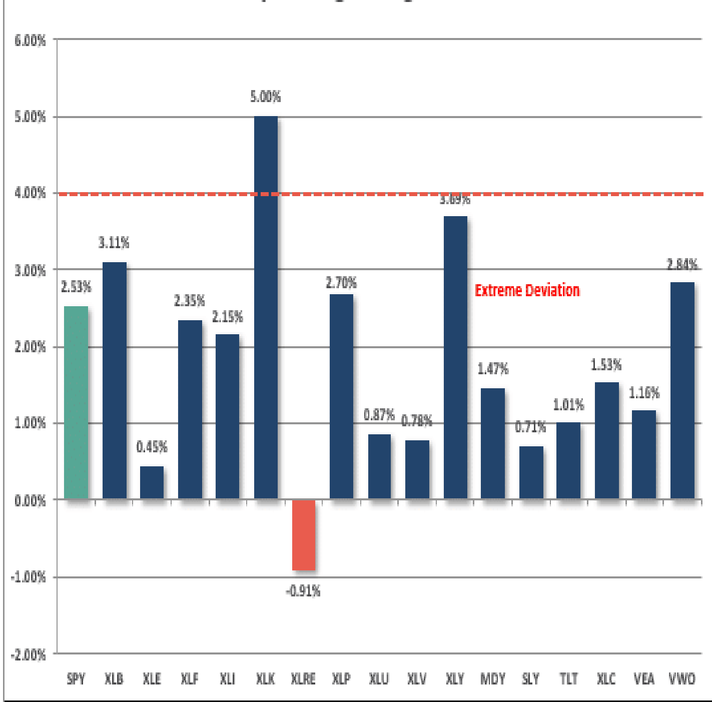
YTD Price - S&P Sectors Recalibrated To $50/share



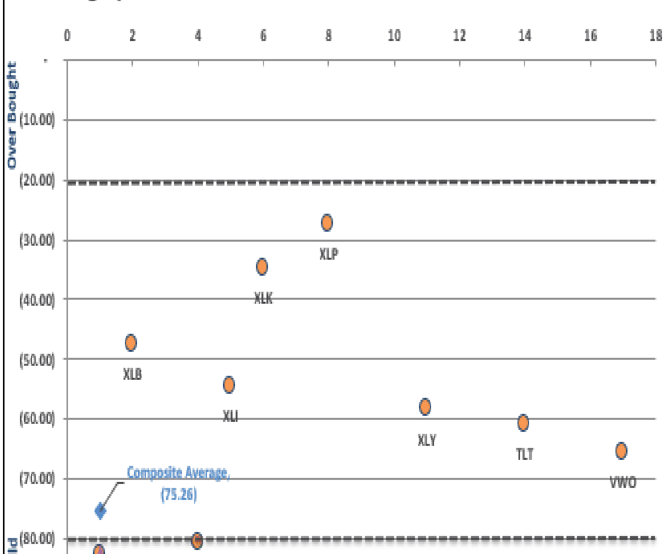
Year To Date Performance Relative To S&P 500



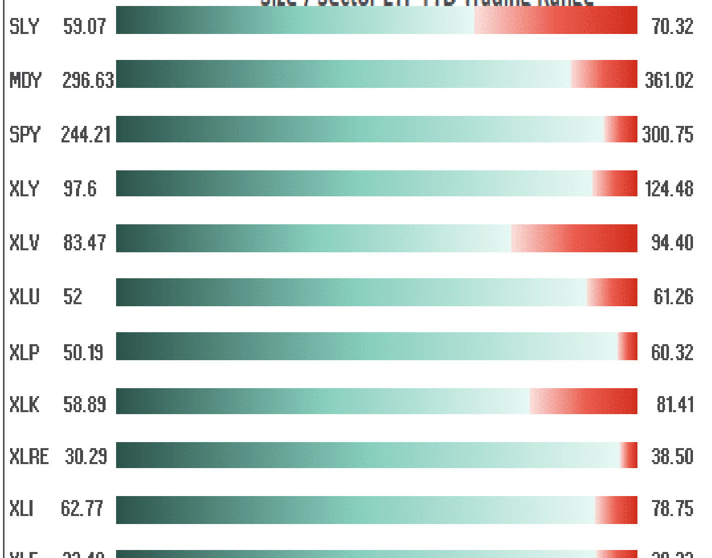
Price Deviation From 50-Day Moving Average



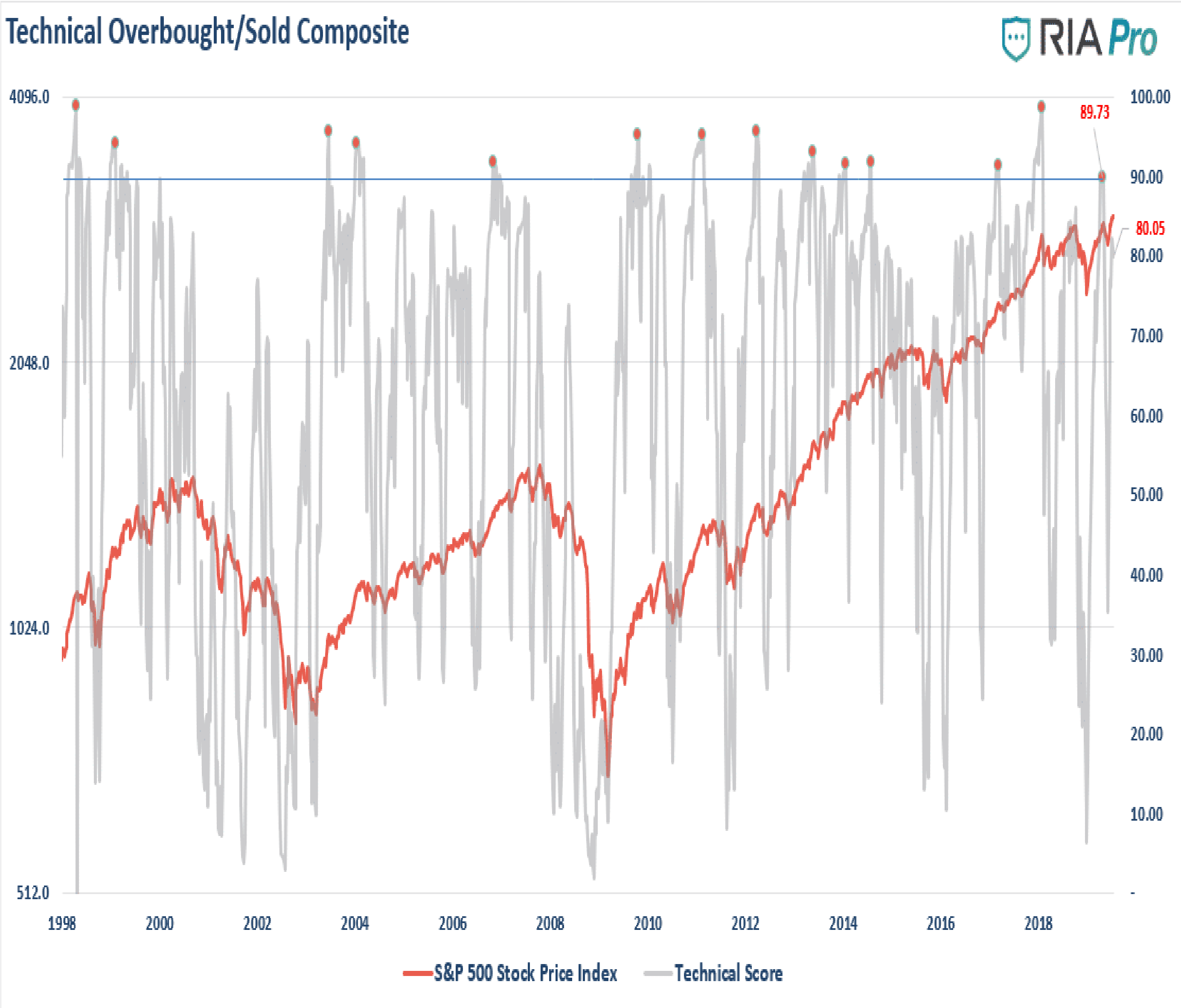
Overbought/Oversold 14-Periods



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: 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
	BENCHMARK	IVV	ISHARS-SP500	298.90	(1.19)	1.13	1.16	10.01	6.14	291.98	280.00	2.37%	6.75%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	58.41	1.26	0.16	1.19	(0.85)	(5.93)	56.60	54.90	3.20%	6.40%	BUY
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	62.76	(1.42)	(2.39)	(6.39)	(13.29)	(22.33)	63.15	63.63	-0.61%	-1.37%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	27.94	(0.15)	1.52	(0.29)	(2.76)	(4.76)	27.37	26.32	2.08%	6.15%	BUY
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	77.45	(0.01)	(0.65)	(1.25)	(2.26)	(2.09)	76.17	73.39	1.67%	5.53%	BUY
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	80.69	0.63	1.91	1.55	11.02	5.08	77.11	71.75	4.64%	12.46%	BUY
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	59.94	1.37	0.95	4.03	2.62	7.26	58.06	55.44	3.23%	8.12%	BUY
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	60.37	0.79	(2.14)	2.75	0.66	9.32	59.41	57.10	1.62%	5.73%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	49.59	(2.03)	(0.74)	(3.47)	(2.14)	(8.65)	49.07	46.73	1.07%	6.12%	BUY
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	91.76	0.45	(3.23)	1.93	(8.90)	(0.37)	90.54	90.11	1.34%	1.83%	BUY
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	122.16	(0.36)	1.08	0.07	3.95	2.79	118.12	111.88	3.42%	9.19%	BUY
TACTICAL	SIZE	SLY	SPDR-SP SC 600	66.80	(0.12)	(0.95)	(4.45)	(9.18)	(17.12)	66.91	66.21	-0.16%	0.90%	BUY
TACTICAL	SIZE	MDY	SPDR-SP MC 400	352.76	(0.02)	(0.54)	(3.00)	(4.66)	(9.06)	349.65	339.96	0.89%	3.77%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	108.48	0.04	(0.62)	(0.57)	(2.20)	(1.99)	106.37	102.62	1.98%	5.71%	BUY
CORE	Dividend	SDY	SPDR-SP DIV ETF	101.11	0.07	(1.12)	(1.16)	(3.84)	0.52	100.24	97.53	0.87%	3.67%	BUY
CORE	Real Estate	XLRE	SPDR-RE SELS	36.80	(0.99)	(3.69)	1.09	(2.16)	7.09	36.85	35.09	-0.14%	4.88%	BUY
CORE	International	EEM	ISHARS-EMG MKT	42.86	1.21	(0.92)	(3.49)	(9.78)	(8.64)	42.16	41.94	1.66%	2.20%	BUY
CORE	International	EFA	ISHARS-EAFE	65.51	0.75	(0.91)	(2.58)	(5.46)	(9.90)	65.37	63.77	0.21%	2.73%	BUY
CORE	International	IXUS	ISHARS-CR INT S	58.65	0.93	(0.72)	(2.44)	(6.21)	(9.72)	58.17	56.97	0.82%	2.95%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	131.69	2.32	(0.93)	5.20	(1.14)	2.92	128.93	124.09	2.14%	6.12%	BUY
FI	International	BNDX	VANGD-TTL INT B	57.68	1.99	(0.25)	2.25	(4.62)	(1.05)	56.60	55.58	1.90%	3.78%	BUY
FI	High Yield	HYG	ISHARS-IBX HYCB	86.59	0.80	(1.97)	(1.60)	(7.76)	(5.00)	86.41	85.20	0.21%	1.63%	BUY
FI	Cash	BSV	VANGD-SHT TRM B	80.38										

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, Materials

Improving - Healthcare, Materials

We have maintained an overweight position in Health Care as part of our defensive positioning. As noted last week, Materials have now begun to improve its performance relative to the S&P 500 as well. We are currently carrying 1/2 weight in Materials due to the *"trade war,"* and without a resolution, there remains a risk to the sector.

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

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. The defensive lead has begun to wear off a bit over the last week, and Real Estate has pulled back a bit. 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

The previous *"leaders"* have been lagging in terms of relative performance, but have rallied over the last week a bit. Discretionary, Communications, and Technology have broken out to new highs but are extremely overbought currently. We will look to increase our exposure on short-term weakness.

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

Lagging - Energy, Industrials

Energy began to improve this last week but failed at resistance and oil prices dropped. We are maintaining our half-weight in the sector but are close to being stopped out. Industrials have been relatively weak in terms of relative performance and are continuing to struggle with multiple tops. There is no rush to increase exposure currently, but we are watching for a decisive breakout. For now, we are maintaining our *"underweight"* holdings in these two sectors until more evidence of improvement is available.

Current Position: *1/2 weight XLE & XLI*

OVERALL RECOMMENDATION

> ***The entire market is back to an extreme "overbought." Take some action to rebalance portfolio risk if you have not done so previously.***

That remains good advice heading into next week.

Market By Market

Small-Cap and Mid Cap - While small-cap did finally break above its 50- and 200-dma is 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

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. Patience will be rewarded either by avoiding portfolio drag or gaining a more advantageous 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 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 several weeks has fully reversed the previous oversold condition. Make sure and rebalance weightings in portfolios if you have not done so already. **#Hedge**

Current Position: *RSP, VYM, IVV*

Gold ? Gold continued to consolidate at elevated levels despite the market rally and hopes for a Fed rate cut. Fed Williams comments of a potential 50bps cut sent the metal soaring on Friday. This continues to be bullish set up for "gold bulls." We are holding out positions for now and continue to look for a better entry point on a pullback to add to holdings.

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

Bonds?

Bonds took a hit last week as money rotated out of bonds and back into equities but found support at the 50-dma. You can add to your bond holdings if you need to as a Fed rate cut is going to be supporting for higher bond prices.

Stay long current positions for now, and look for an opportunity to add to holdings.

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

High Yield Bonds, representative of the *"risk-on"* chase for the markets have been consolidating despite the rally in equities. This is not the time to add to holdings just yet, but a good time to like take profits and reduce risk short-term. **Given the deteriorating economic conditions, this would be a good opportunity to reduce *"junk-rated"* risk and improve credit quality in portfolios.•**

OVERALL RECOMMENDATION

> ***The entire market complex is back to an extreme "overbought." Take some action to rebalance portfolio risk if you have not done so previously.***

That remains good advice heading into next week.

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	RIA Pro Notes
XLY	Discretionary	OB	Positive	Positive	Hold			X			Extreme Overbought
XLK	Technology	OB	Positive	Positive	Hold			X			Extreme Overbought
XLI	Industrials	OB	Positive	Neutral	Hold			X			Extreme Overbought
XLB	Materials	OB	Positive	Neutral	Hold			X			Extreme Overbought
XLE	Energy	OB	Negative	Negative	Warning			X			Failed At 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 Highs
XLC	Telecom	OB	Positive	Neutral	No Position					X	Testing Highs
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Testing Support
SLY	Small Caps	OB	Negative	Negative	No Position					X	Underperforming/Downtrend
MDY	Mid Caps	OB	Positive	Neutral	No Position					X	Testing Resistance
EEM	Emerging Mkt	OB	Positive	Negative	No Position					X	Very Overbought
EFA	International	OB	Positive	Negative	No Position					X	Very Overbought
IXUS	Total International	OB	Positive	Negative	No Position					X	Testing Highs
GLD	Gold	OB	Positive	Neutral	Hold			X			Extreme Overbought
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Extreme Overbought
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Extreme Overbought
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Extreme Overbought
TLT	20+ Yr. Bond	Reversing	Positive	Positive	Hold			X			Correcting 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 to holdings.

We noted last week that the market was extremely overbought and due for a correction. We saw some of that rotation on Friday, and our portfolios continue to perform well due to the defensive tilt.

For our newer clients, we have changed our focus to *?risk control? and ?capital preservation strategies?* over *?capital growth and risk-taking strategies.?* While we do recognize the need to participate when markets are rallying, this is a dangerous environment to be heavily long in.

There is also a massive deviation between value and growth, which generally exists at the peaks of bull market cycles. We are actively searching for a *"deep value"* fund manager to add a fairly concentrated position into for portfolios. The reversion of value provides a significant risk hedge in the short-term and a long-term capital gain opportunity. We will discuss this more in detail in a future update when we locate the right manager.

In the meantime, we continue to carry tight stop-loss levels, and any new positions will be *"trading positions"* initially until our thesis is proved out.

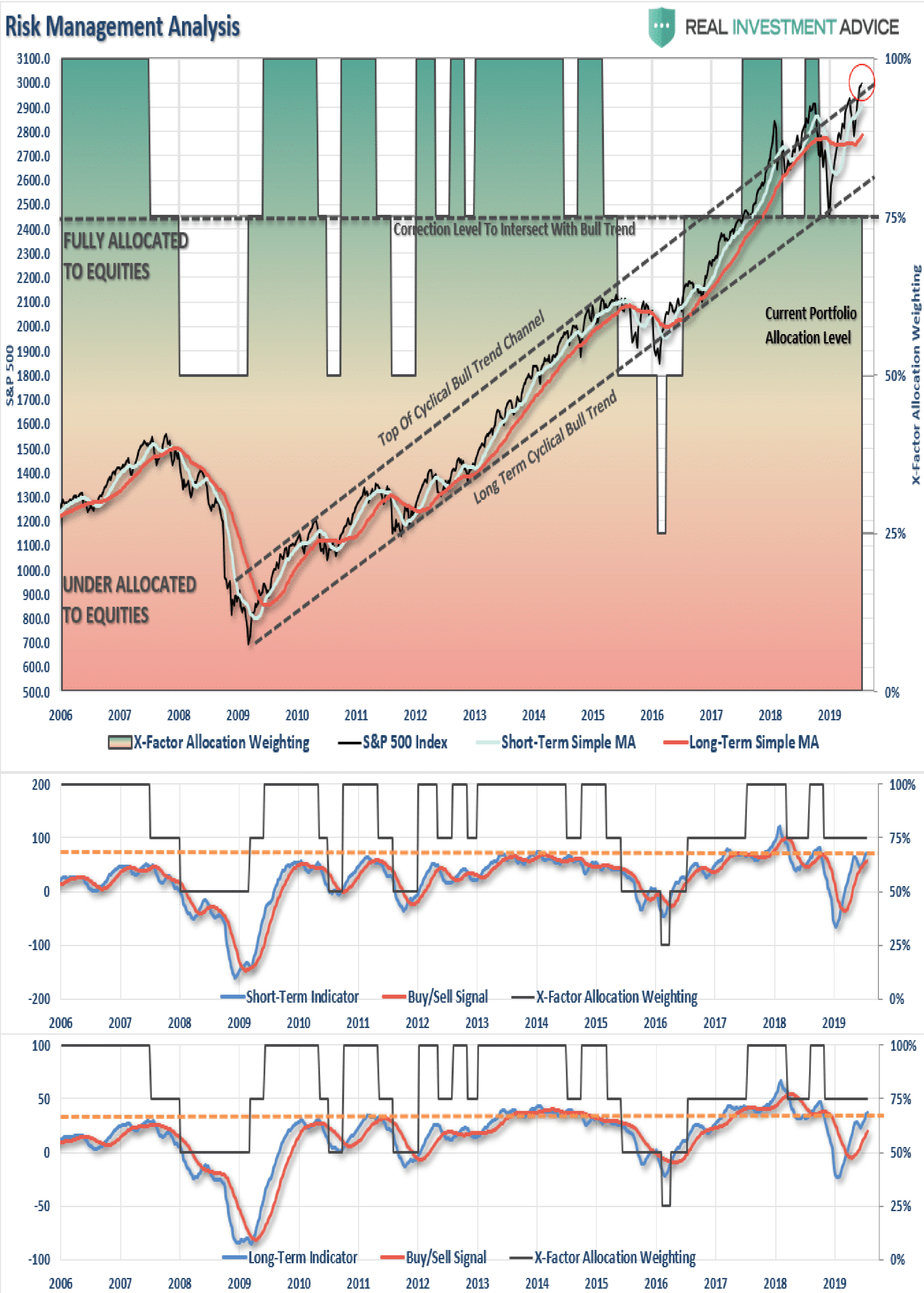
- **New clients:** *Our onboarding indicators have reverted to "risk-on"* ***so new accounts will be onboarded selectively into their models where risk can be controlled.*** *Positions that were transferred in are on our global review list and being monitored. We will use this rally to liquidate those positions to raise cash to transition into the specific portfolio models.*
- ***Equity Model:*** *No changes this past week. We are looking to taking profits across the breadth of our portfolio as we are currently sporting gains of 20-40% in many positions just since the beginning of the year. We have already taken profits once back in May, and taking profits a second time will allow us to remove our stop-loss levels for now and look for deep corrections to rebuild holdings.*
- ***ETF Model****: No change but we are reviewing our holdings for rebalancing needs.*

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.**

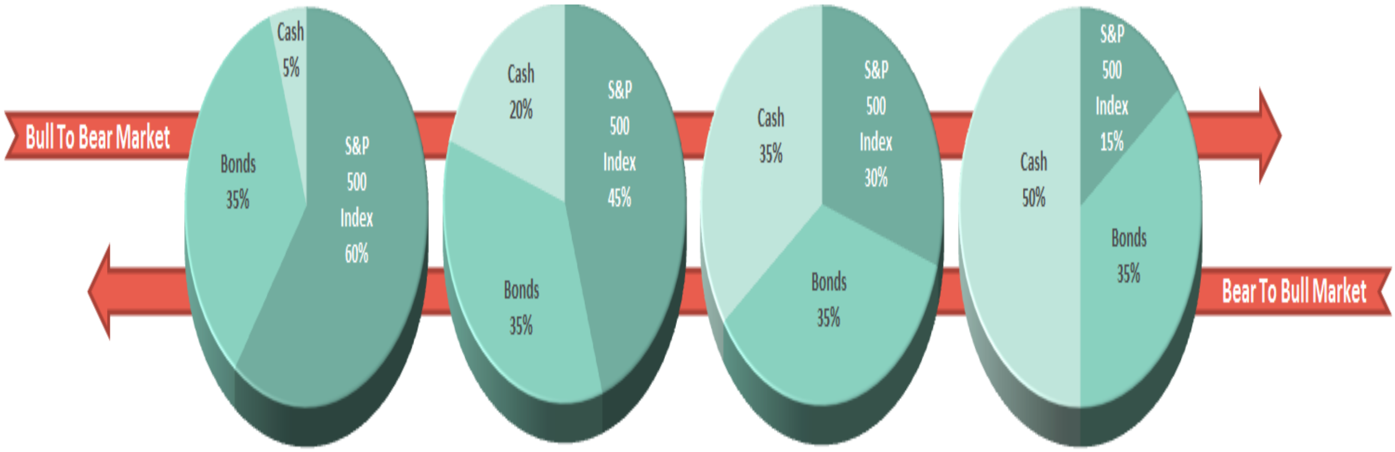
THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



Risk Management Analysis
REAL INVESTMENT ADVICE
FULLY ALLOCATED TO EQUITIES
UNDER ALLOCATED TO EQUITIES
Correction Level To Intersect With Bull Trend
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.*



Market Stumbles As Overbought Condition Bites

As noted last week, the market breakout was straining the deviation from the long-term moving average. Such a situation rarely last for very long.

That corrective process started at the end of last week despite Fed officials trying to assure the markets a rate cut is coming.

As noted last week:

> *"With Q2 reporting season going into full swing next week, as noted above, there is a potential short-term risk to share prices which could provide a better entry point to add to equity exposure. Be patient for that confirmation.*
>
> *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.*

That remained the case this week.• If you have not taken any actions in your plan, do the following on Monday.

- *If you are* ***overweight•equities****- Hold current positions but remain aware of the risk. Take some profits and rebalance risk to some degree if you have not already.•*
- *If you are* ***underweight equities or at target -•****rebalance risks, look to increase holdings in domestic equities opportunistically if the markets can hold support at the May highs next week.•*

With the markets back to extremely overbought conditions, patience will likely be rewarded.

If you need help after reading the alert; do not hesitate to **contact me**.

401k Plan Manager Beta Is Live

We have rolled out a very early beta launch to our RIA PRO subscribers

Be part of our ***"Break It Early Testing Associate"*** group by using **CODE: 401**

The code will give you access to the entire site during the BETA testing process, so not only will you get to help us work out the bugs on the 401k plan manager, you can submit your comments about the rest of the site as well.

We have several things currently in development we will be adding to the manager, but we need to start finding the *"bugs"* in the plan so far.

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.

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

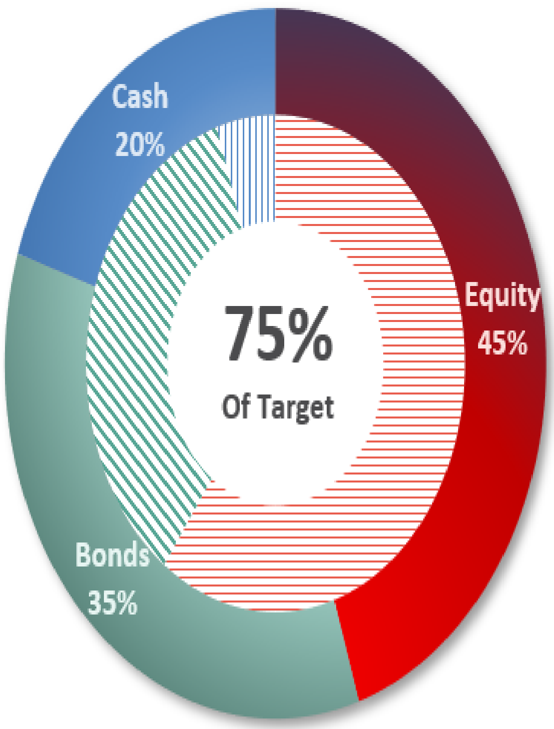
I have gotten quite a few plans, so keep sending them and I will include as many as we can.

If you 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

Model performance is based on a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. This is strictly for informational and educational purposes only and should not be relied upon for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.•

Year	60/40 Benchmark Return	60/40 Model Return
2007	6.14%	6.27%
2008	-16.78%	-9.85%
2009	14.20%	20.20%
2010	10.22%	10.36%
2011	5.09%	5.73%
2012	9.33%	11.00%
2013	13.93%	19.03%
2014	10.06%	10.94%
2015	0.82%	1.63%
2016	7.81%	6.32%
2017	14.12%	14.72%
2018	-5.13%	-3.44%

Portfolio vs Benchmark Statistics	
Number of Up Years	10
Number of Down Years	2
Best One Year Return Of Benchmark	14.20%
Best One Year Return Of Model	20.20%
Worst One Year Return Of Benchmark	-16.78%
Worst One Year Return Of Model	-9.85%
Benchmark Return 2007-Present	88.49%
Model Return 2007-Present	135.70%
Total Alpha Generated	47.22%
Mean Annual Return Of Benchmark	6.08%
Mean Annual Return Of Model	8.16%
Beta Of Model vs Benchmark	0.86
Jensens Alpha	2.53%
Sharpe Ratio	0.20