- *Quick Review*
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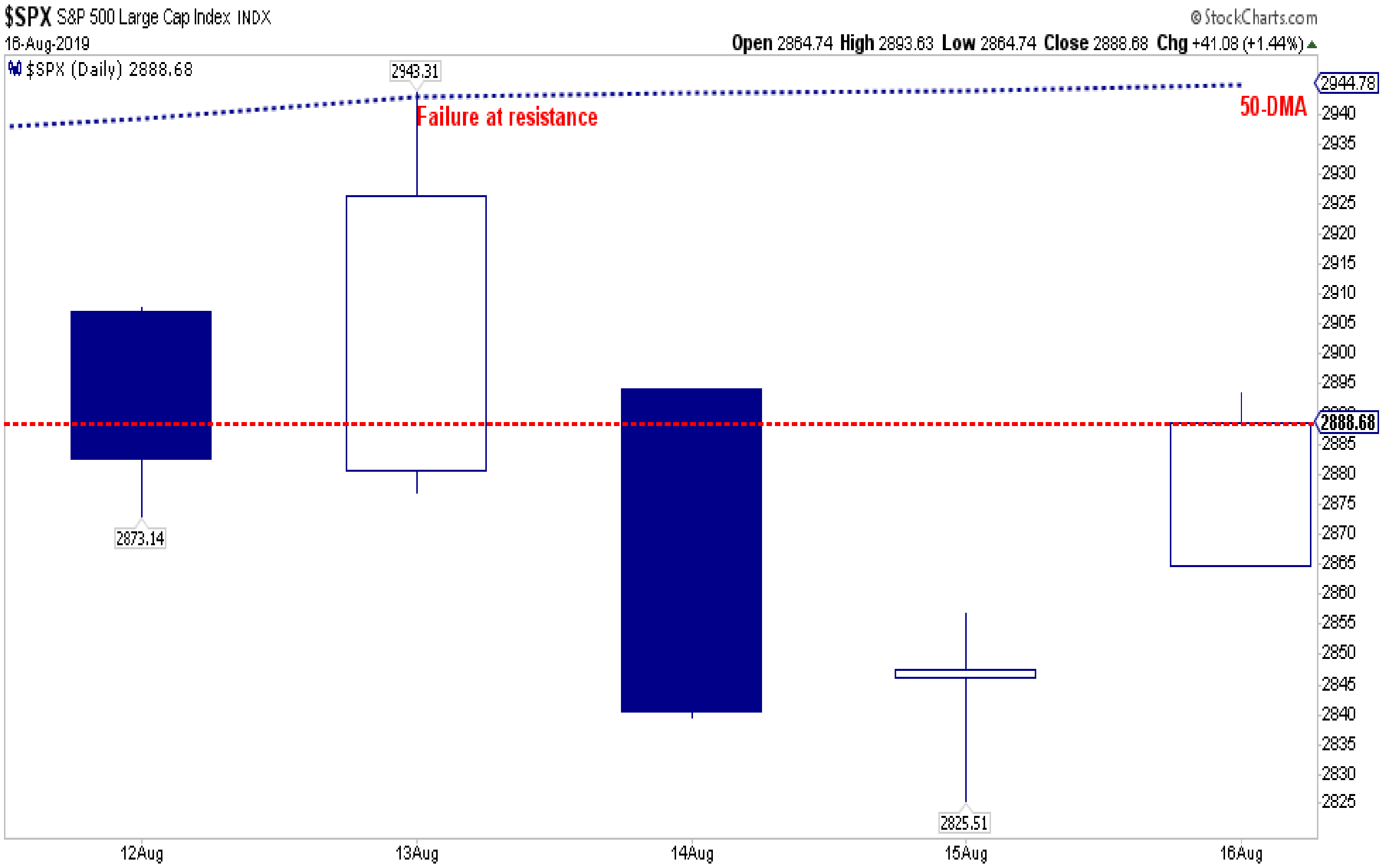
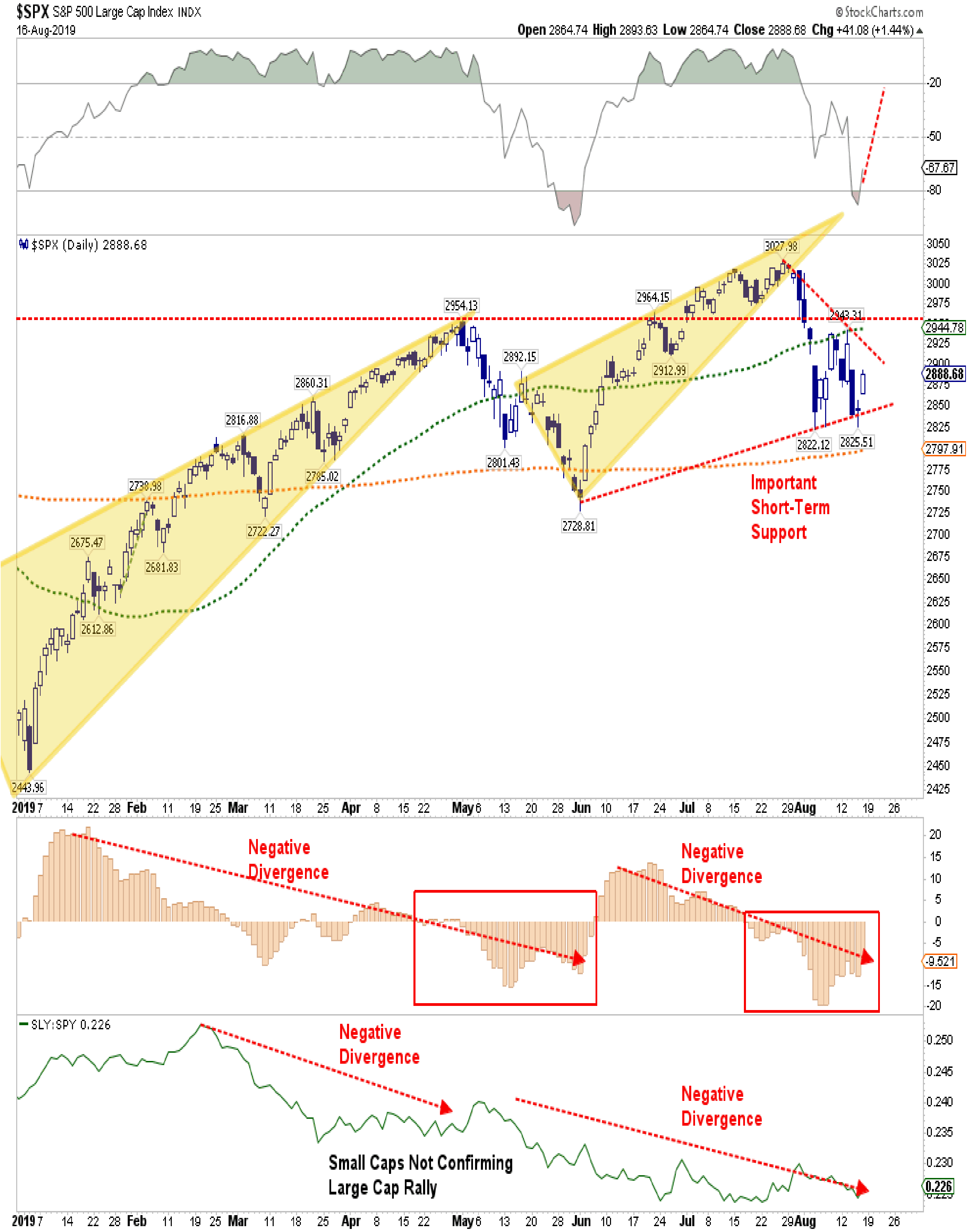
Quick Review

Do you love volatility yet?•

Last week the market swung wildly back on forth on *"trade talks," "tariff relief,"* inverted yield curves, and recession fears to finish the week on *"hopes"* banks will rescue the markets once again.



The bounce on Friday, was not unexpected as the market had gotten very oversold on a short-term basis. As shown in the chart below, the bounce off support gives the market a little room to the upside before several levels of resistance kick in.•



This oversold condition is why we took on a leveraged long position on the S&P 500 which we discussed with our **RIAPRO subscribers on Thursday morning:**

"I added a 2x S&P 500 position to the Long-Short portfolio for an 'oversold trade' and a bounce into the end of the week. We will re-evaluate the holding tomorrow."

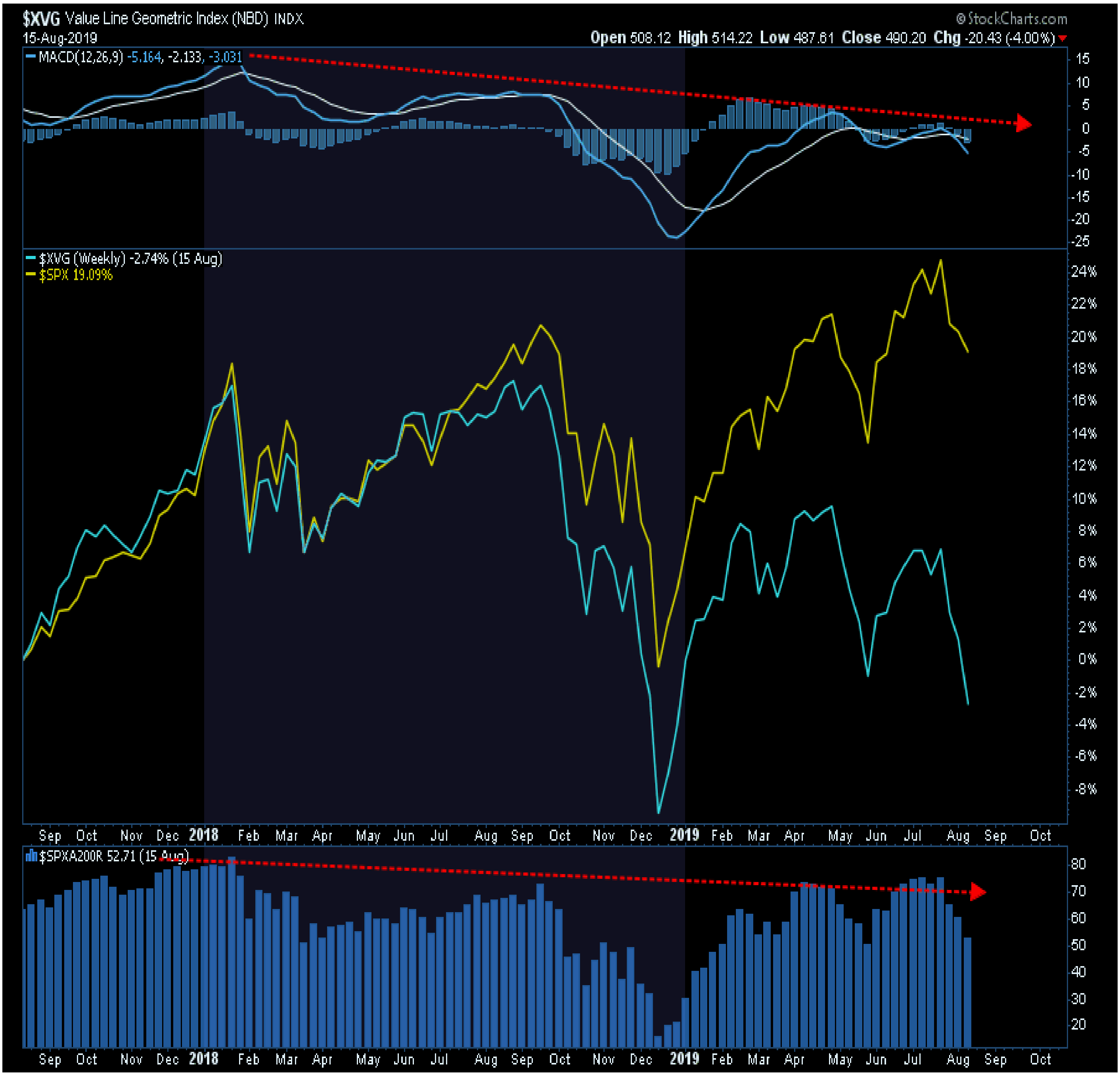
We are holding the position over the weekend, as there is still room in the current advance for further gains.•Also, given the President is fearful of a market decline, we expect there will be some announcement over the weekend on *"trade relief"* to support the markets.

However, **this does NOT negate our commentary from last week suggesting this remains a *"sellable rally."*** **To wit:**

> *"The market is oversold on a short-term basis, and **a rally from current support back to the 50-dma is quite likely.***
>
> *Again, **that rally should be used to reduce risk.** I wrote about this on Tuesday in•?5-Reasons To Be Bullish (Or Not) On Stocks:?*
>
> *?For longer-term investors, it is worth considering the historical outcomes of the dynamics behind the financial markets currently.•**The is a huge difference between a short-term bullish prediction and longer-term bearish dynamics.** As Howard Ruff once stated:*
>
> *?It wasn?t raining when Noah built the ark.?*
>
> *Notice that while the market has been rising since early 2018, the momentum indicators are negatively diverging. Historically, such divergences result in markedly lower asset prices.•**In the short-term, the market remains confined to a rising trend which is running along the 200-dma.**•At this juncture, the market has not violated any major support points and does currently warrant a drastically lower exposure to risk.**However, the•?sell signals?•combined with negatively diverging indicators, suggest a•?reduction?•of risk, and hedging, is warranted on any rally."***

With sell signals in place, maintaining higher levels of cash, hedging, and holding fixed income continues to provide benefits.•

This is particularly the case given the narrowing participation in the broader market. While the S&P 500 is still holding up, that is due to crowding into the largest of market-capitalization-weighted stocks. If you look at the Valueline Geometric Index, there is substantially more damage being done beneath the surface which is supportive of falling yields as money seeks safety. **The negative divergences continue to suggest a higher level of caution.**



While the market did "bounce" on Friday, the media was quick to suggest it was something more than just a *"bounce."* Here is the WSJ:

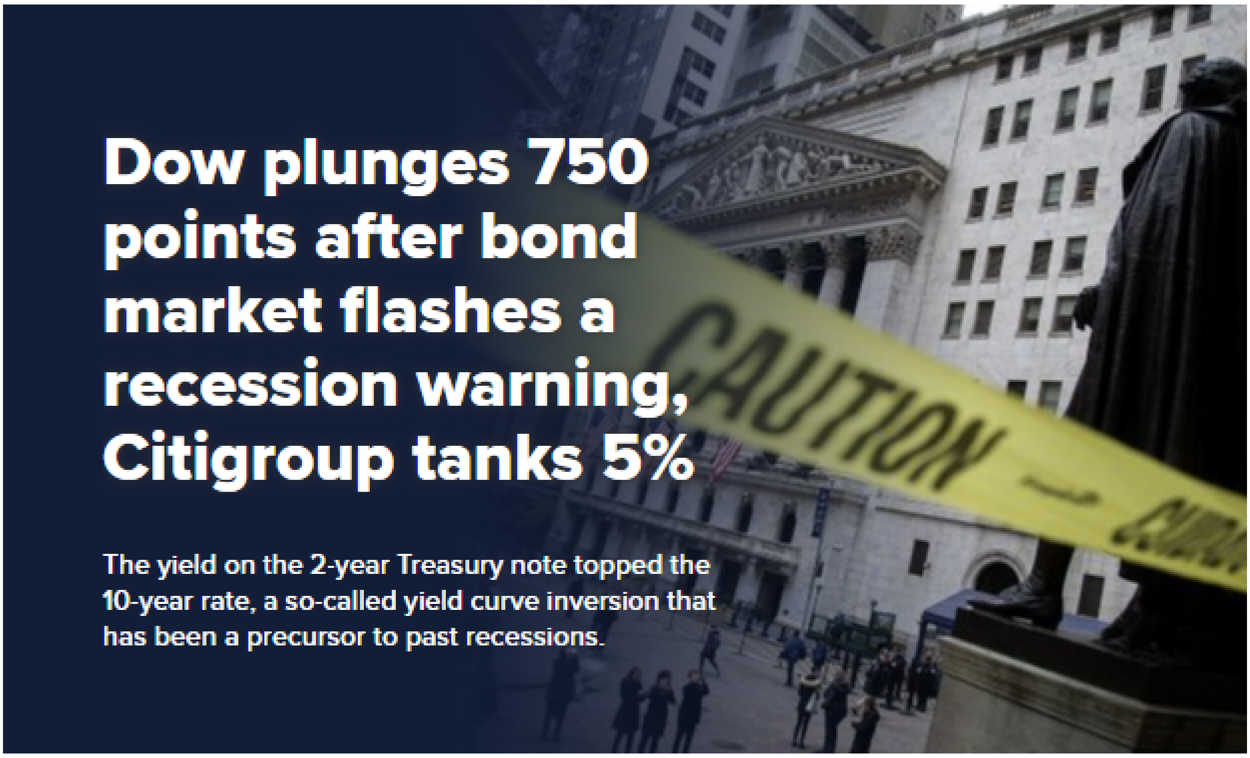
> *"The move came on top of gains on Thursday* ***and seemed to reflect a belief that, just maybe, the U.S. economy isn?t in as much trouble as some investors had feared."***

Be careful falling into that trap.

Let's get into our analysis for this week.

Listen To The Yield Curve Message

On Wednesday, CNBC ran the following headline:



> *?Stocks plunged on Wednesday, giving back Tuesday?s solid gains,* ***after the U.S. bond market flashed a troubling signal about the U.S. economy.?*** *•? CNBC*

On Thursday, CNBC runs the following headline:

Growth forecasts are rising and the economy looks nowhere near as bad as the bond market predicts

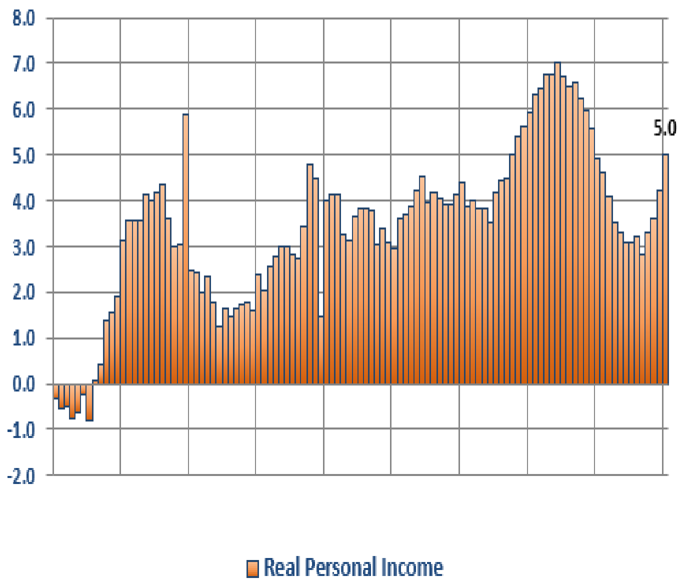
> *"Economists ratchet up their GDP forecasts for the third quarter to a median 2.1% after a batch of better-than-expected data, according to to the CNBC/Moody?s Analytics Rapid Update.* ***The data paints a picture of an economy that looks nowhere near as bad as recent action in the bond market would suggest, and economists say it?s the strength of the U.S. consumer driving the economy.*** *The manufacturing sector does show signs of strain, but the consumer is two-thirds of the economy and it*

is pulling its weight."

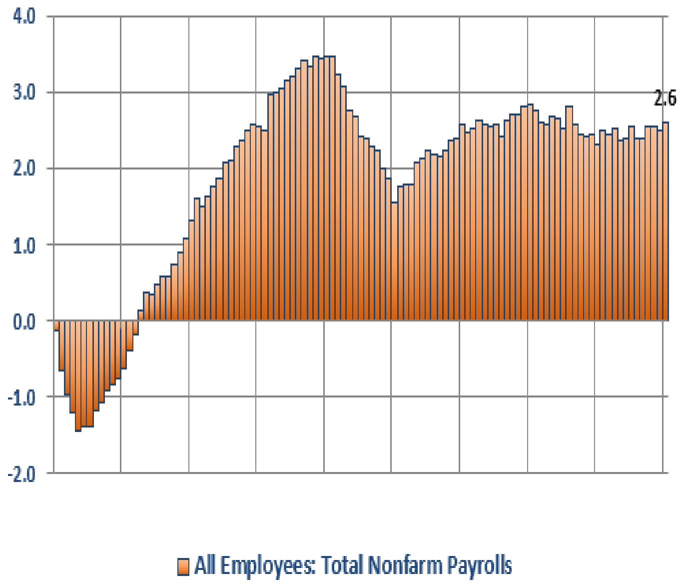
So, which message is correct?•

Let's start with the economic data, which is showing a stronger than expected economy. The 6-charts below are the major measures of the economy most viewed by economists.

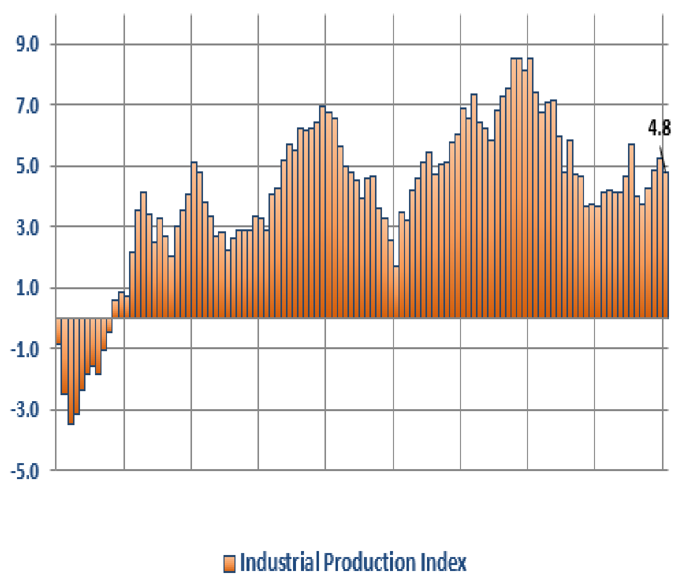
Real Personal Income



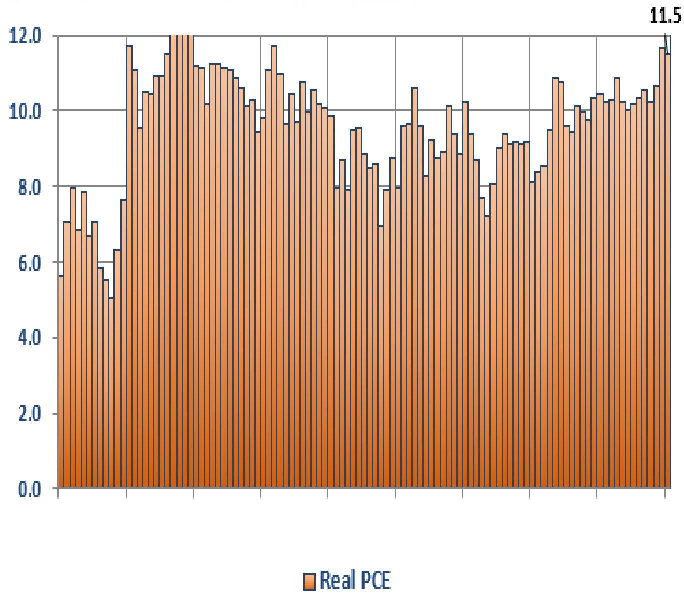
Employment



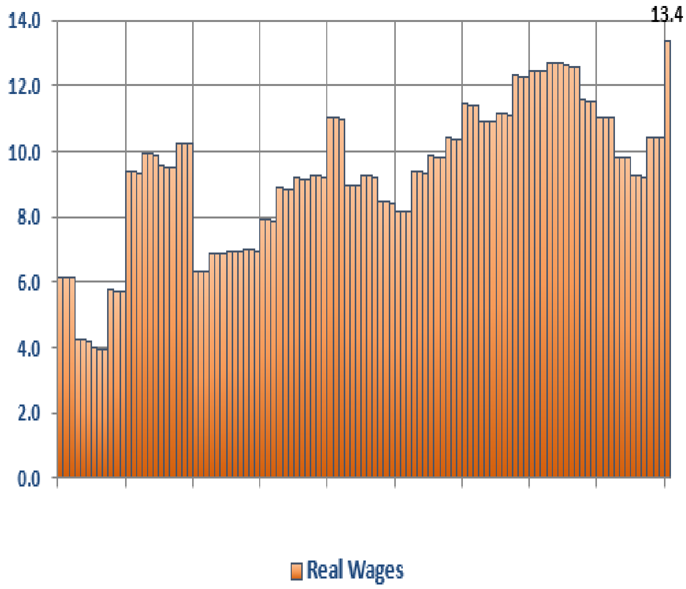
Industrial Production



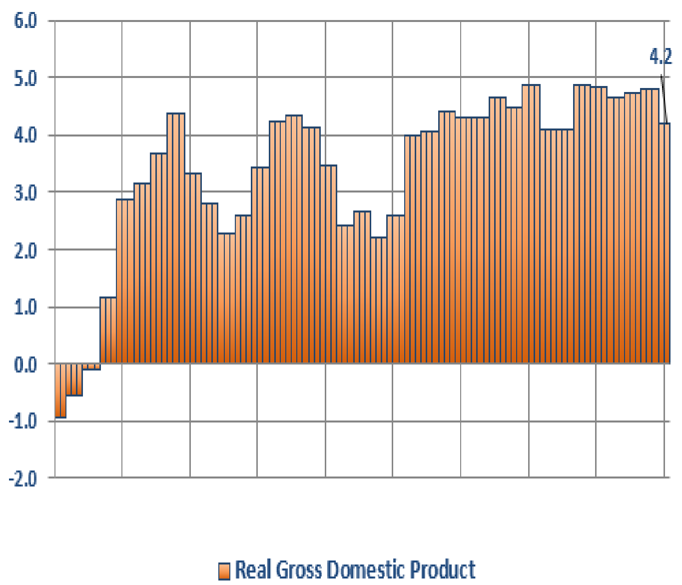
Real Consumer Spending (PCE)



Real Wages



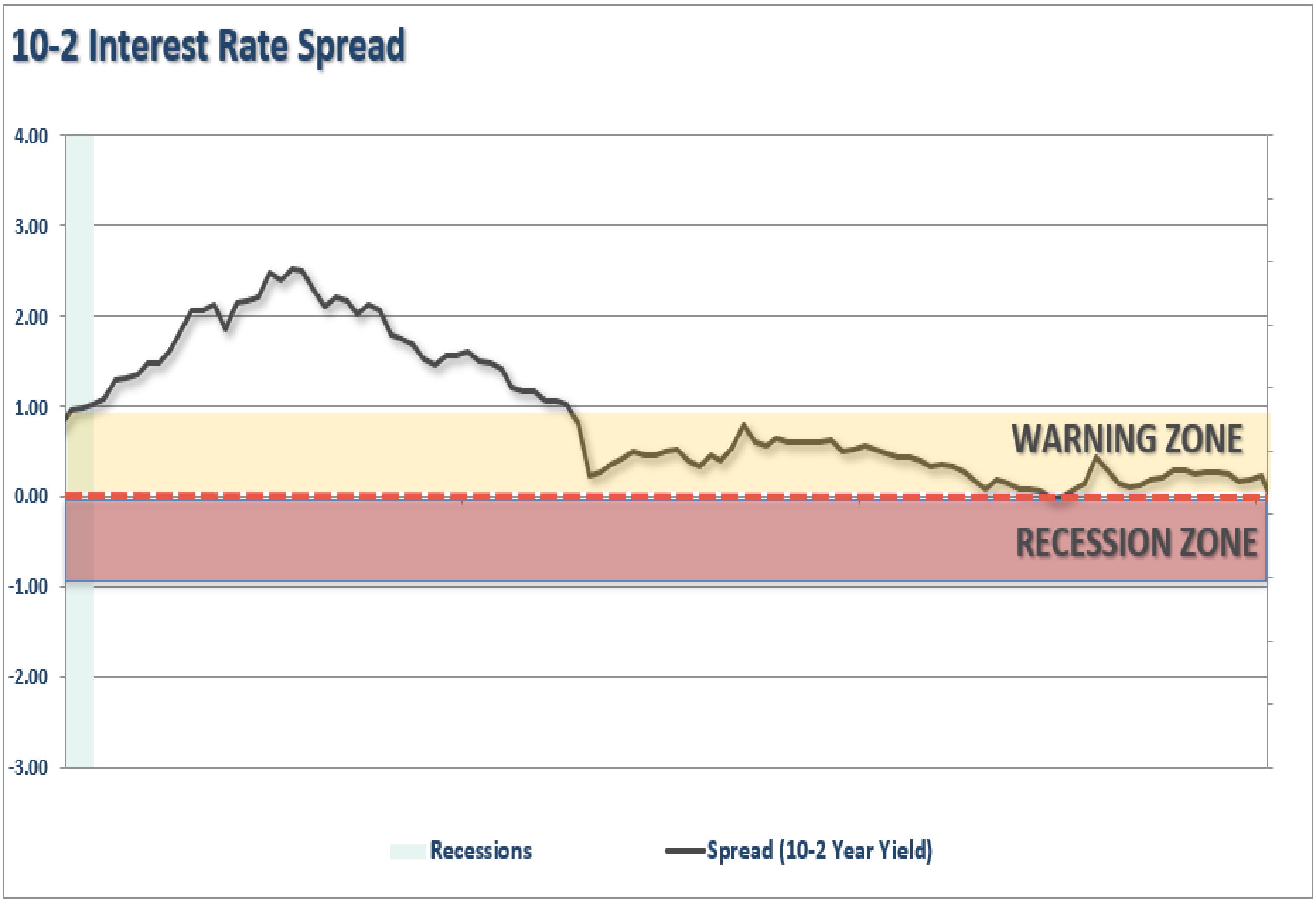
Real GDP



Clearly, there are NO signs of recession currently:

- *5% annualized real personal income growth*
- *2.6% annualized employment growth*
- *4.8% annualized industrial production growth*
- *11.5% annualized real personal consumption expenditure growth*
- *13.4% annualized growth in real wages*
- *4.8% annualized real GDP.*

Yet, the yield curve is close to inverting.



So, which indicator is right?

As an investor, should you be betting on the economic data, or the *"yield curve?"*•

My apologies, I forgot to add the X-Axis to the charts above. *(Not really, it was intentional)*

That time frame is 1991 though 1999.

I don't need to remind you what happened next.

Now, which indicator would you follow?• The yield curve?

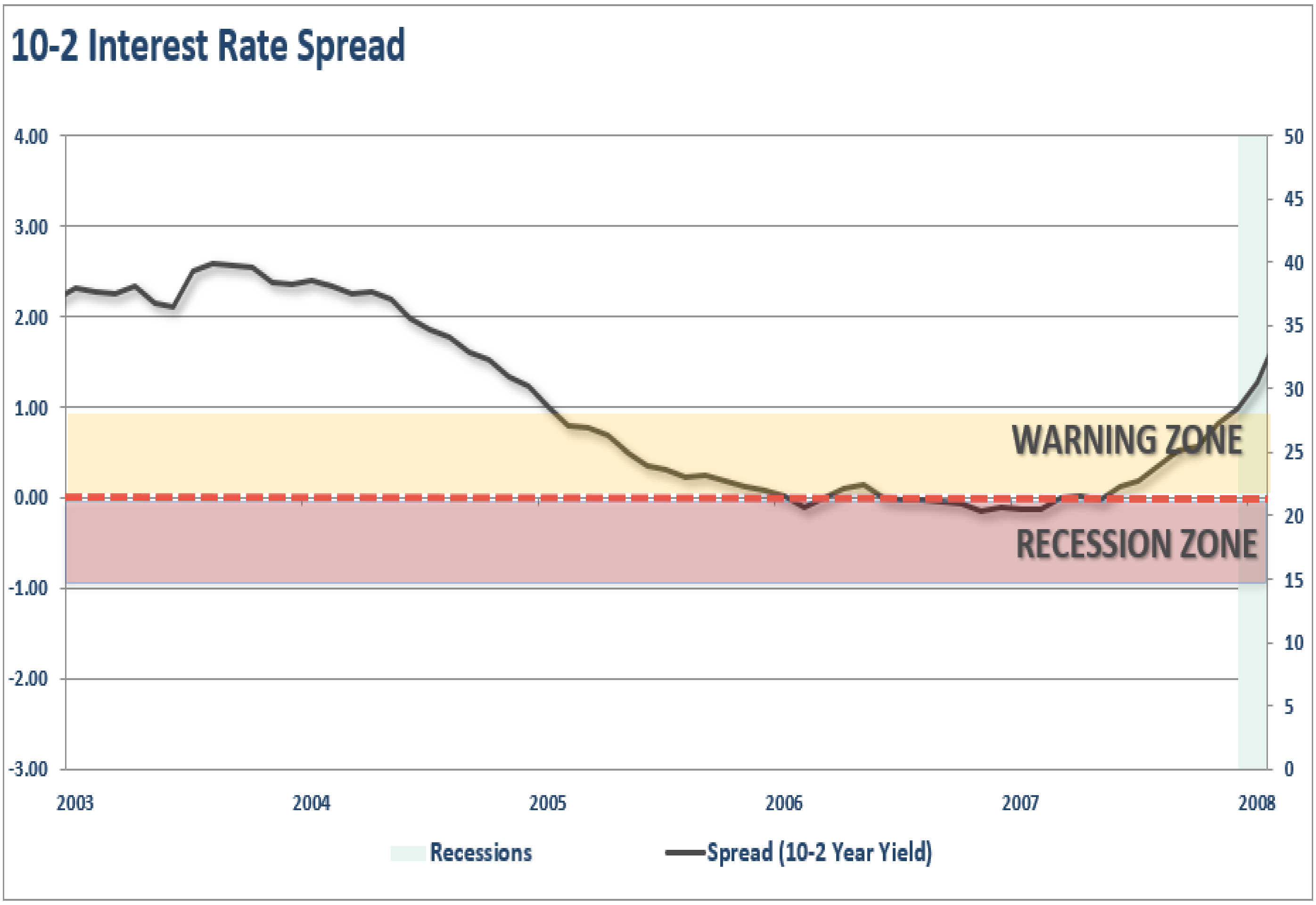
How about the stats in **December 2007?**

- *1.4% annualized real personal income growth*
- *0.8% annualized employment growth*
- *2.2% annualized industrial production growth*

- *4.6% annualized real personal consumption expenditure growth*
- *5.7% annualized growth in real wages*
- *2.0% annualized real GDP.*

Again, there is clearly no recession in sight, right?

Here is the yield curve from 2003-2008

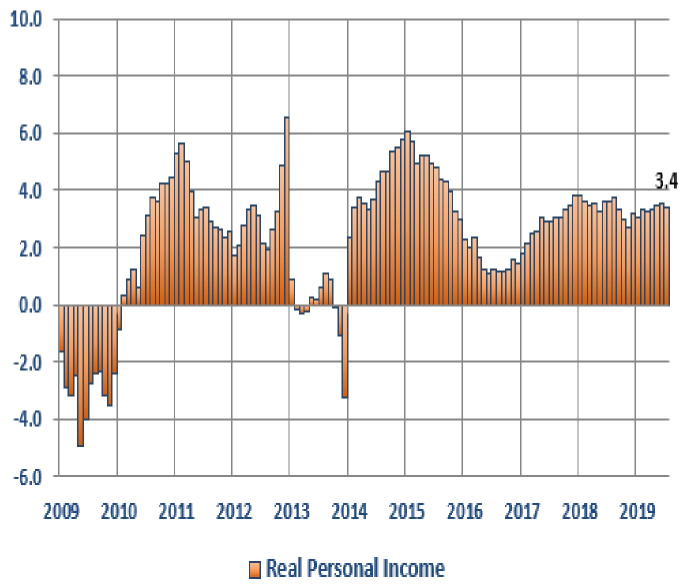


So, how about today.

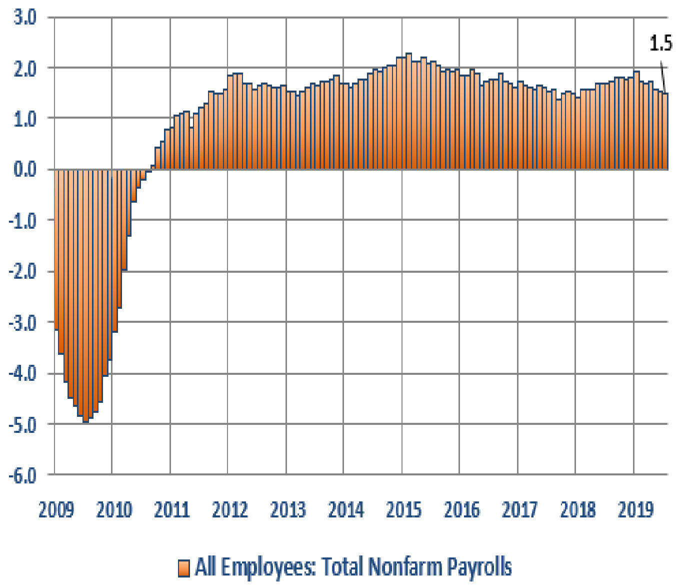
CNBC says the consumer is strong, and the yield curve is wrong.•

Here is the 6-panel chart of the current economic cycle to compare to the chart above.

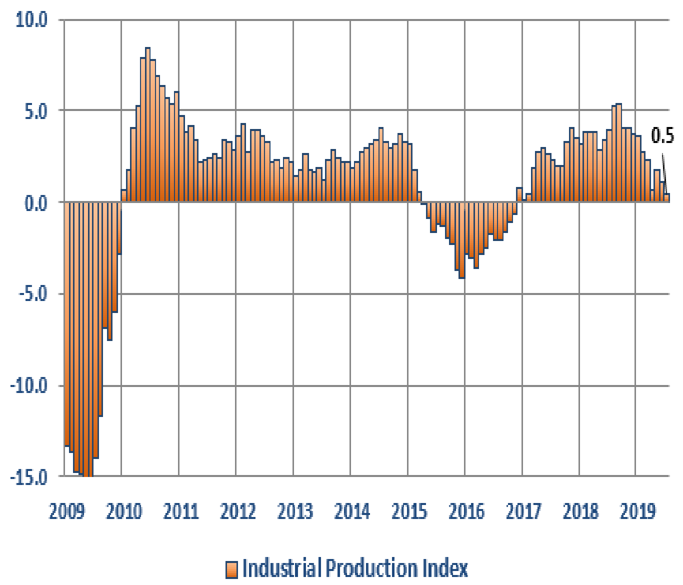
Personal Income



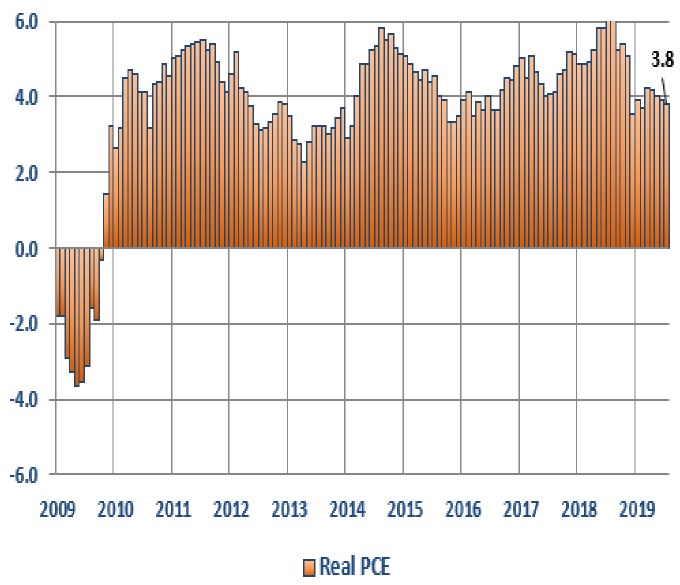
Employment



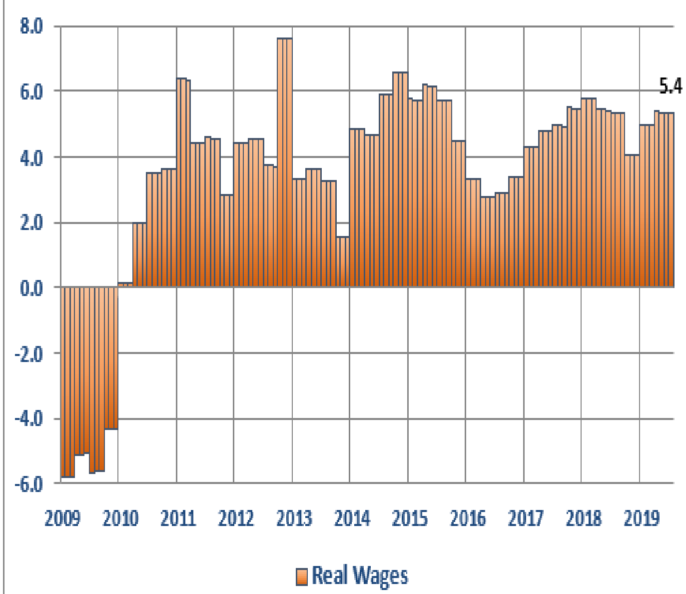
Industrial Production



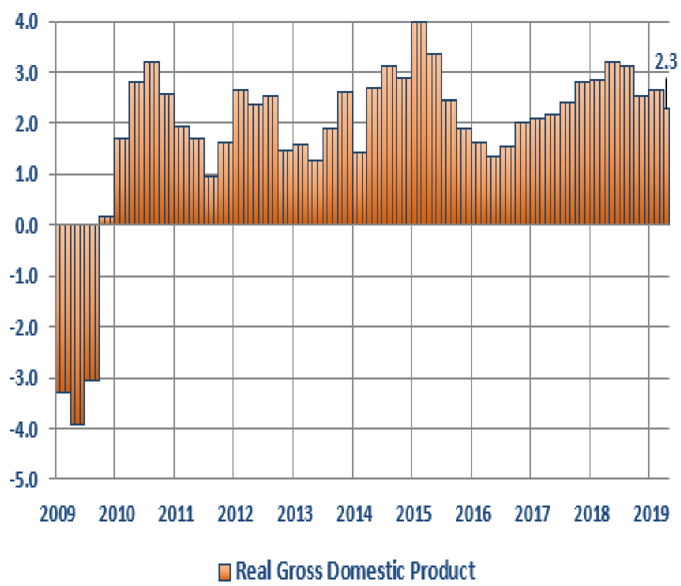
Real Consumer Spending (PCE)



Real Wages



Real GDP



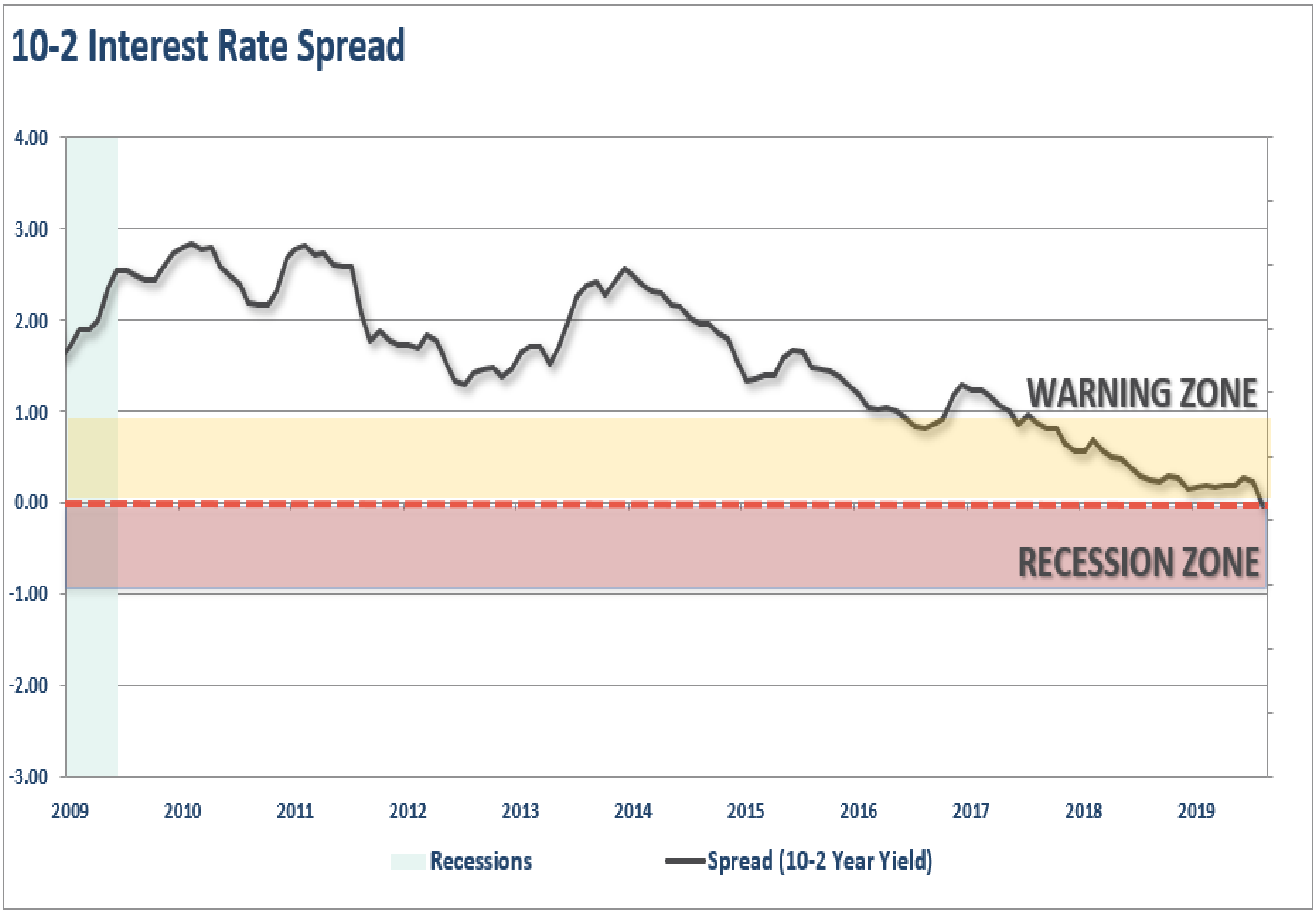
(It is worth comparing the markedly weaker economic growth statistics between today and the late 90's. This goes a long way in explaining the disparity of wealth in the country today and surging debt levels.)

Here are the final stats as of the latest reports:

- *3.4% annualized real personal income growth*
- *1.5% annualized employment growth*
- *0.5% annualized industrial production growth*
- *3.8% annualized real personal consumption expenditure growth*
- *5.4% annualized growth in real wages*
- *2.3% annualized real GDP.*

To CNBC's point, based on this lagging, and currently unrevised, economic data, there is *"NO recession in sight,"* so you should be long equities, right?

Here is that pesky yield curve again. *(2009-Present)*

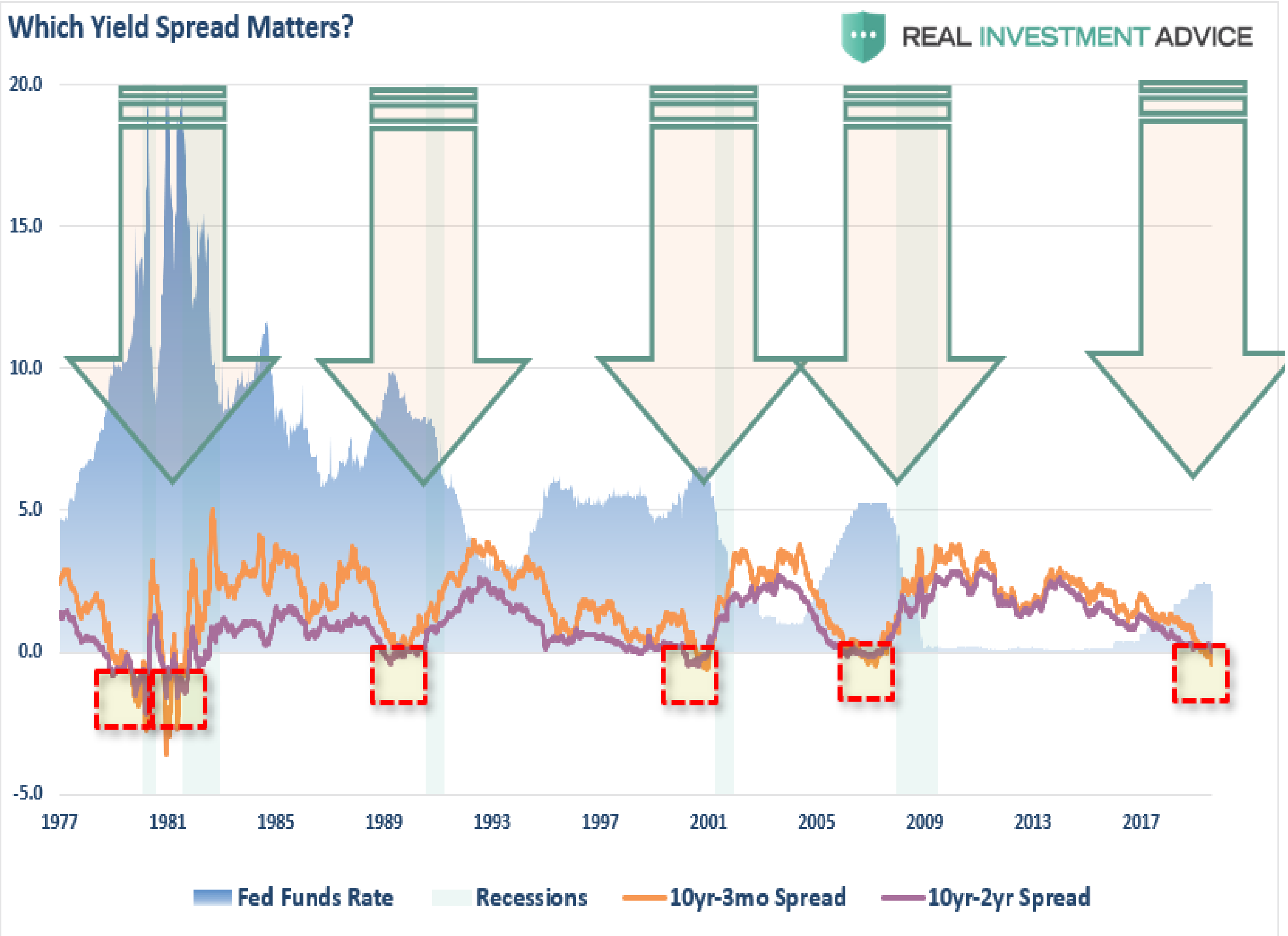


Which indicator should you follow?

The yield curve is an easy answer.

While everybody is *"freaking out"* over the *"inversion,"* **it is when the yield-curve *"un-inverts"* that is the most important.**

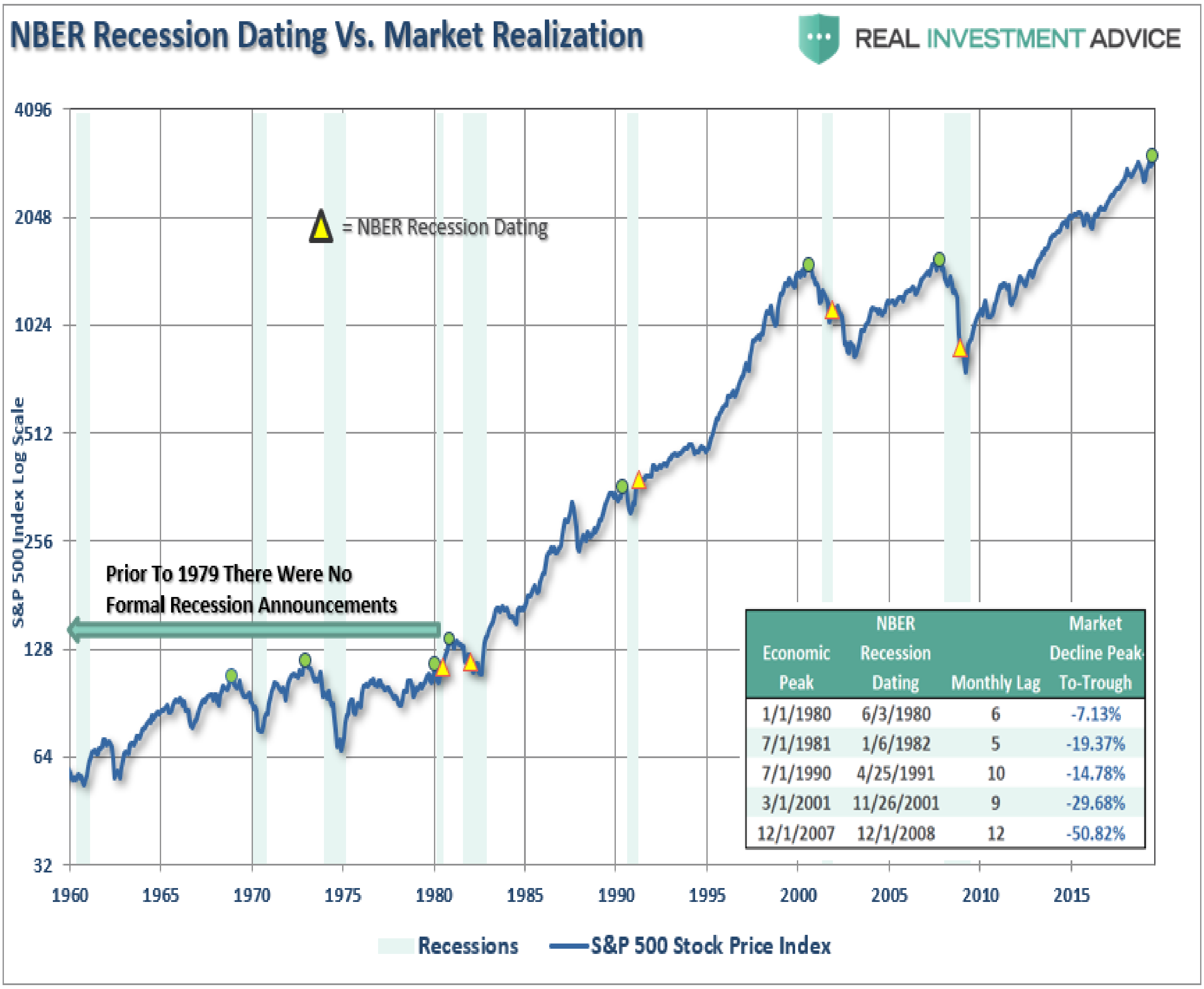
The chart below, shows that when the Fed is aggressively cutting rates, the yield curve un-inverts as the short-end of the curve falls faster than the long-end. ***(This is because money is leaving "risk" to seek the absolute "safety" of money markets, i.e. "market crash.")***



As noted above, the current economic data is only a *"guess"* about the current economy. In the next 12-months, we will see the *"revised"* data, but the yield curve is already telling you it will be weaker.

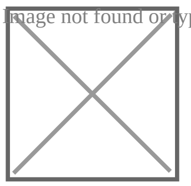
Just as in December 2007, there was *"no recession."* It wasn't until December 2008 that the data was revised, and the National Bureau of Economic Research (NBER) announced the recession had begun a full year earlier in December 2007.•

By the time the announcement was made, it did little to help investors avoid the damage. The chart below is the historical track record of recession dating and market turns.•



Despite commentary to the contrary, the yield curve is a *"leading indicator"* of what is happening in the economy currently, as opposed to economic data which is *"lagging"* and subject to massive revisions.

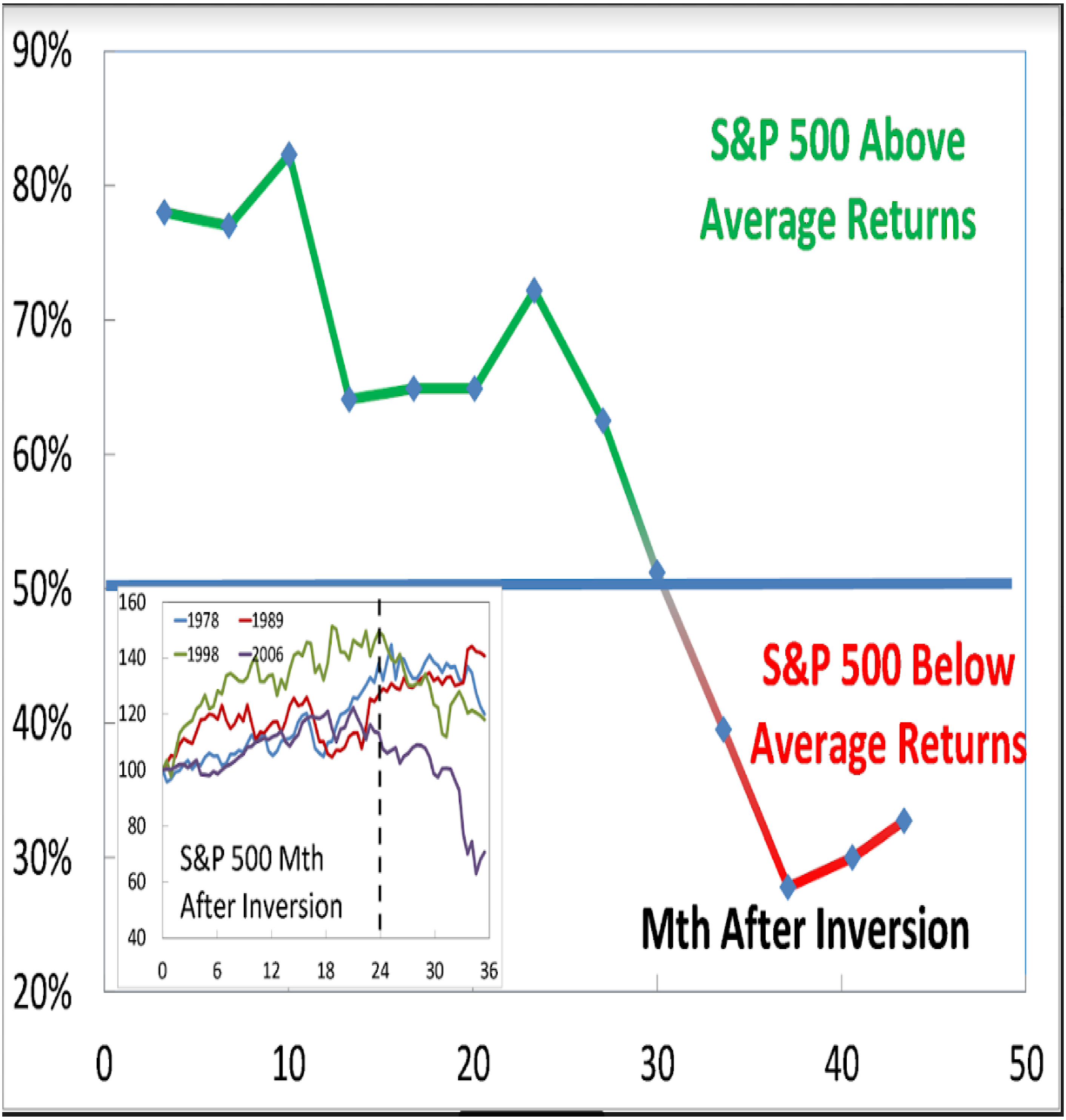
More importantly, while the consumer may be continuing to support growth currently, such can, and will, change dramatically when job losses begin to occur. Consumers are fickle beasts, and when a change in psychology occurs, it will happen very rapidly.



No One Ever Says Sell

Mark Kolanovic of J.P. Morgan penned:

?Historically, equity markets tended to produce some of the strongest returns in the months and quarters following an inversion. Only after [around] 30 months does the S&P 500• return drop below average,?



While the statement is not incorrect, it is advice that will ultimately lead to disappointment.•

As discussed, in 1998 there was•*?no recession in sight?* and investors were repeatedly advised to ignore the yield curve because•*?this time was different.?*•Over the next two years, that advice held true as bullish optimism seemed well-founded. It was in early 2000 that Jim Cramer issued his *Top 10-Stock Picks*•for the next decade.•

The problem was that no one ever said *?sell.?*•

While gains were made during the period between the initial yield curve inversion and the peak of the market, **all of those gains, plus much more, were wiped out in the ensuing decline.** By the time the selling was done, portfolio values had reverted to where they were roughly a decade earlier.

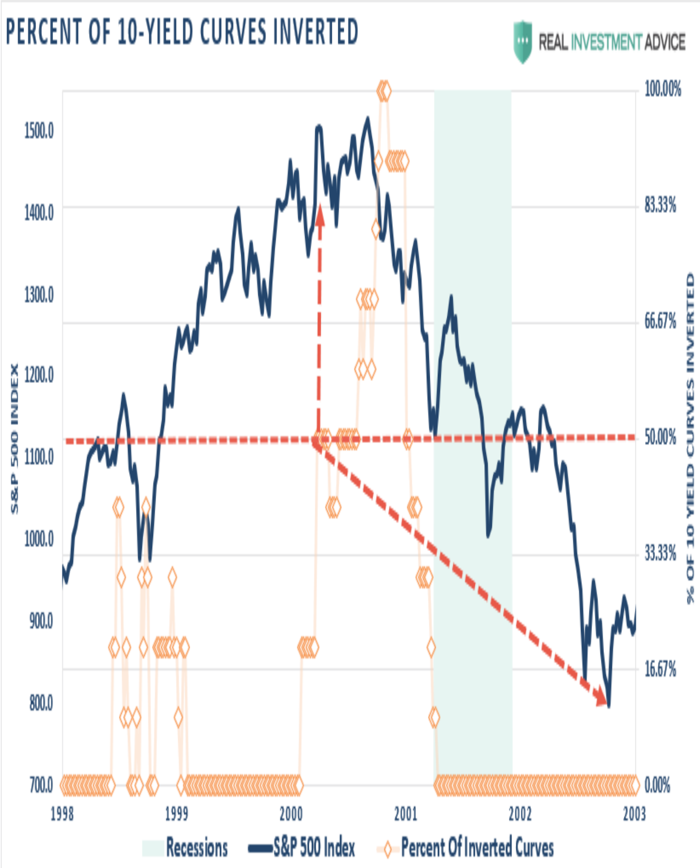
Since the majority of mainstream financial advice never suggest selling, investors had no clue that if they had gone to cash in 1998, they saved themselves both much grief, and years of losses to recover.

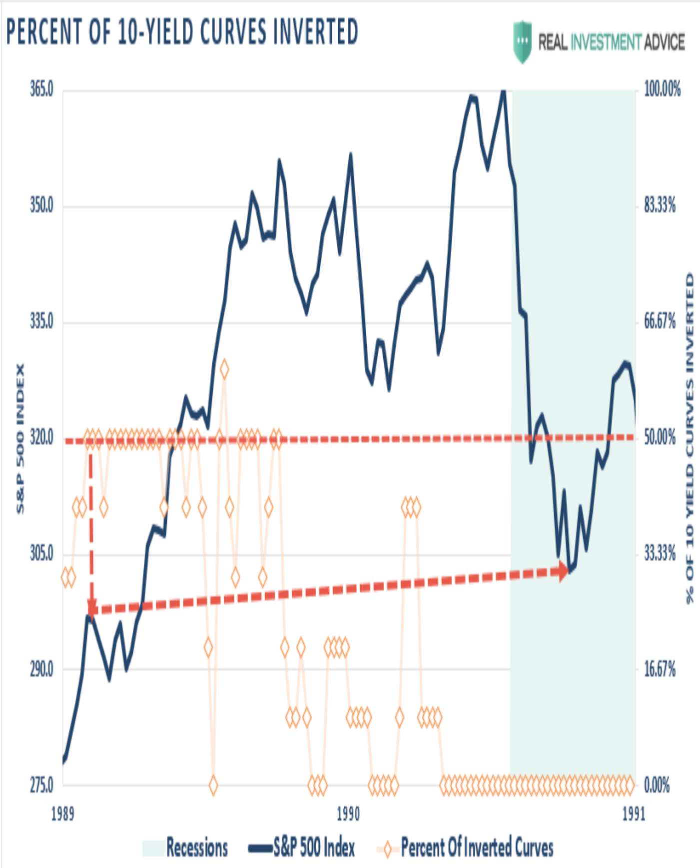
Following the ?*Dot.com?*•crash, the entire tragic event was considered an anomaly; a **?once-in-a-100-year event**•which would not be replicated anytime again soon.•

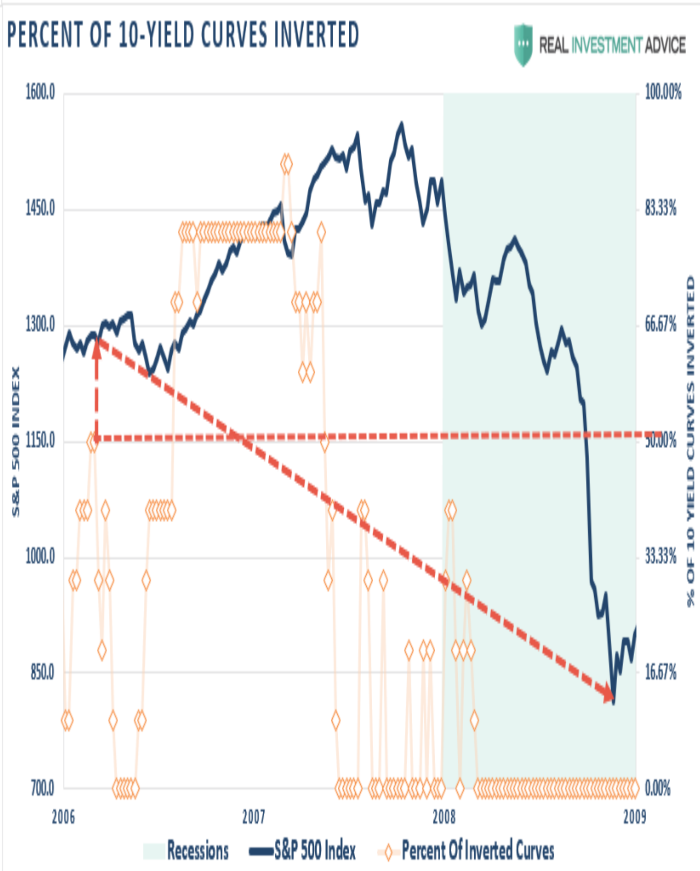
Unfortunately, just 4-years later, in 2006, investors were once again told to ignore the yield curve inversion as it was a *?Goldilocks economy?*•and ?*sub-prime mortgages were contained.?* While many of the individuals who had told you to stay invested leading up to 2000 peak were mostly gone from the industry, a whole new crop of media gurus, and advisors, once again told investors to *?ignore the yield curve.?*

For a second time, had investors just sold when the yield curve inverted, the amount of damage that would have avoided more than paid off for the small amount of gains missed as the market cycle peaked.

This quad-panel chart below shows the 4-previous periods where 50% of 10-different yield curves were inverted. I have drawn a horizontal red dashed line from the first point where 50% of the 10-yield curves we track inverted. I have also denoted the point where you should have sold and the subsequent low.



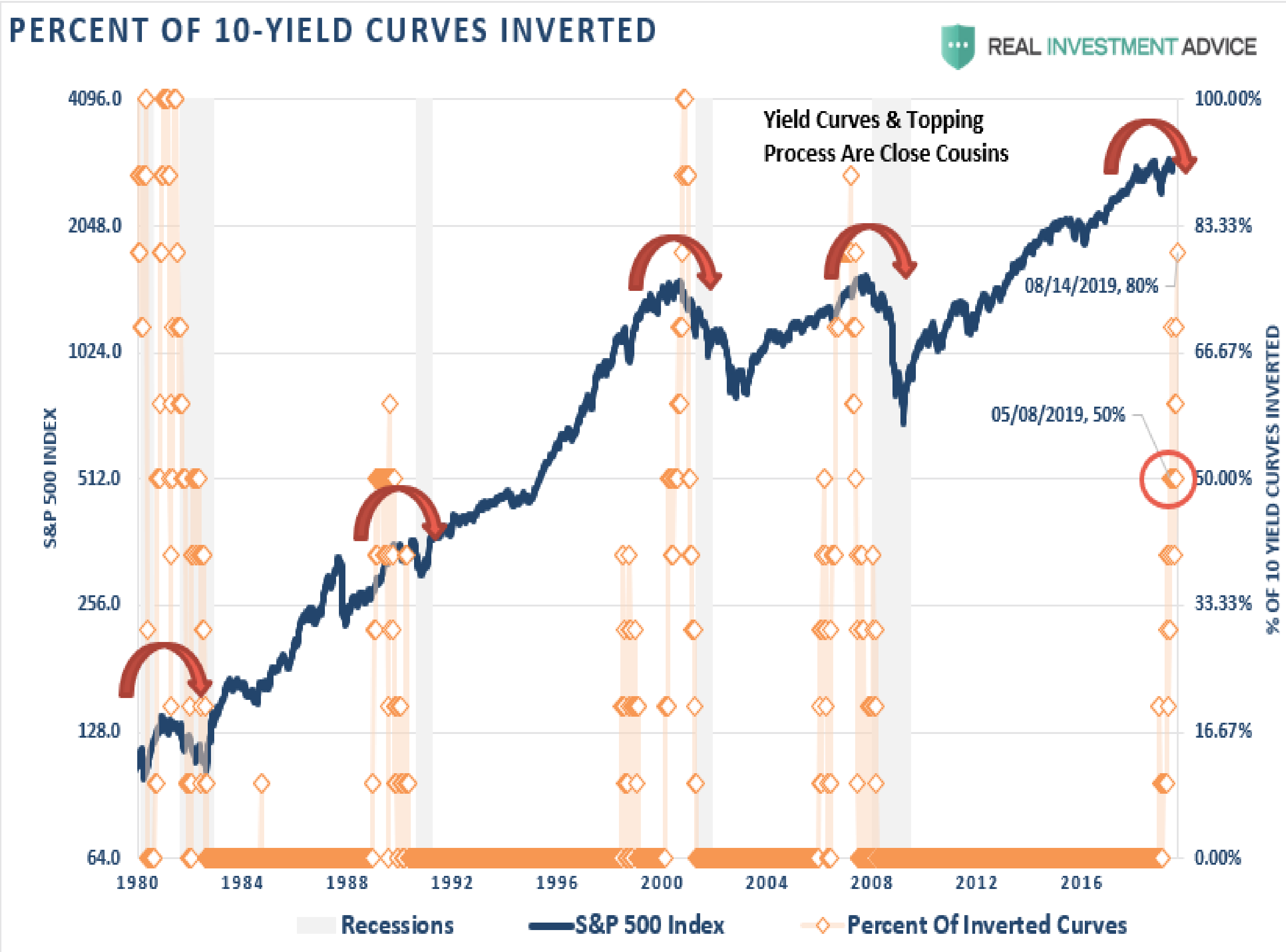




As you can see, in every case, the market did rally a bit after the initial reversion. However, had you reduced your equity-related risk, not only did you bypass a lot of market volatility *(which would have led to investor mistakes)* but ended up better off than those trying to *"ride it out."*

That?s just history

Oh, as we noted last week, we just hit the 80% mark of inversions on the 10-spreads we track. *(Historically, there has never been a point where 80% of yield curves were inverted that a recession wasn't pending.)*



This time is unlikely to be different.

More importantly, with economic growth running at less than 1/2 the rate of the previous two periods, it will take less than half the amount of time for the economy to slip into recession.•

The yield curve is sending a message which shouldn?t be ignored, and it is a good bet that *?risk-based?* investors will act sooner rather than later. Of course, it is simply the contraction in liquidity which causes the decline that will eventually exacerbate the economic contraction.

While it is unwise to use the•*?yield curve?*•as a•*?market timing?* tool, it is just as unwise to completely dismiss the message it is currently sending.

Moreover, I am certainly **NOT** suggesting you sell everything and go to cash today. **However, history is pretty clear that you will likely not miss much if you did.**

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

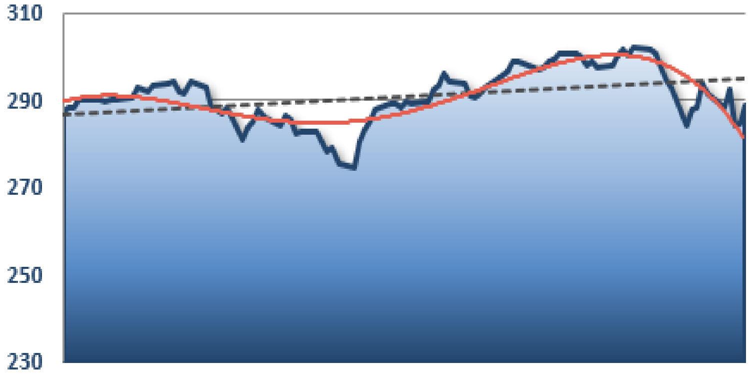
See you next week.

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

S&P 500 Tear Sheet •

3 Month SPY Price



SPY RISK INFO

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	16.97%	1.69%	15.58%	823.76%
Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%
Sharpe	0.65	0.13	1.88	13.77
Sortino	0.76	0.27	2.31	7.50
Volatility	14.52	16.25	13.70	(0.16)
Daily VaR-5%	(12.43)	(20.88)	5.55	(1.27)
Mnthly VaR-5%	(10.62)	(21.20)	11.52	(1.54)

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%	1.78%	1.89%	5.93%	2.17%	1.67%	(12.78%)	13.41%
P/E Ratio	20.27	19.74	17.78	(11.02%)	20.84	15.80	(14.7%)	12.51%
P/S Ratio	3.19	3.37	3.15	(6.92%)	3.55	2.55	(11.13%)	23.38%
P/B Ratio	3.61	3.99	3.83	(4.33%)	4.14	3.01	(7.62%)	27.21%
ROE	15.83%	17.29%	18.64%	7.26%	18.82%	14.99%	(0.96%)	24.38%
ROA	2.94%	3.25%	3.50%	7.16%	3.53%	2.81%	(0.82%)	24.59%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	2,408.7	2,344.8	(2.65%)
Sales	61,300	64,620	5.42%
SPS	25.4	27.6	8.29%
Earnings	8,818	9,525	8.02%
EPS TTM	4.4	4.9	11.38%
Dividend	1.5	1.6	6.79%

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	(23.08%)	4.48%	1.20	14.88	127.61	12.35	(88.3%)	9.1%	4.1%	6.80%	3.45	15.89
Materials	(23.79%)	2.73%	1.22	13.88	22.97	13.86	(39.6%)	9.4%	1.9%	7.28%	4.20	15.26
Industrials	(2.70%)	9.17%	1.14	16.71	22.23	14.78	(24.8%)	16.6%	2.0%	6.05%	5.18	16.18
Discretionary	2.25%	10.07%	1.02	23.41	27.46	20.11	(14.7%)	29.0%	1.3%	4.24%	4.89	22.31
Staples	9.24%	7.53%	0.60	20.49	22.83	17.62	(10.2%)	28.1%	2.7%	4.91%	3.92	19.64
Health Care	0.12%	14.07%	0.87	16.13	20.62	15.93	(21.8%)	32.3%	1.8%	6.20%	6.62	15.14
Financials	(4.50%)	12.70%	1.23	12.54	18.45	11.71	(32.0%)	11.6%	2.2%	7.96%	5.82	12.33
Technology	10.49%	21.96%	1.25	20.98	21.74	14.43	(3.5%)	39.4%	1.5%	4.80%	5.34	20.33
Telecom	(4.40%)	10.45%	0.87	19.43	27.57	17.47	(29.5%)	16.8%	1.0%	5.17%	6.54	17.98
Utilities	16.13%	3.45%	0.31	20.60	20.31	15.58	1.4%	10.4%	3.2%	4.94%	3.63	18.61
Real Estate	14.61%	3.24%	0.72	20.90	24.47	17.10	(14.6%)	9.7%	3.1%	4.87%	4.33	19.62

Momentum Analysis

Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	288.85	0.42%	294.31	7	(1.85%)	279.29	54	3.42%	5.38%	(4.43%)	23.57%	Buy
Mid Cap	341.68	(1.01%)	351.09	7	(2.68%)	340.69	1	0.29%	3.05%	(8.67%)	20.12%	Buy
Small Cap	65.34	(0.09%)	66.71	7	(2.05%)	66.30	7	(1.44%)	0.62%	(16.50%)	16.06%	Buy

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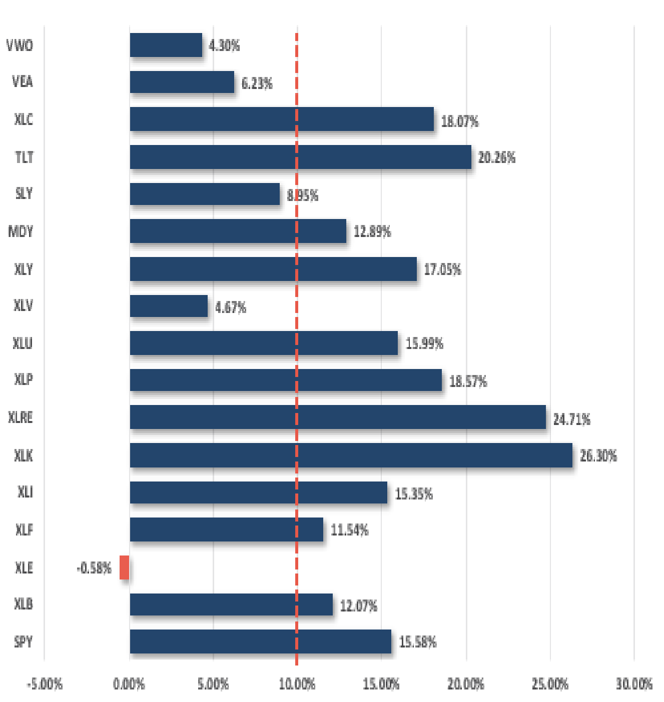
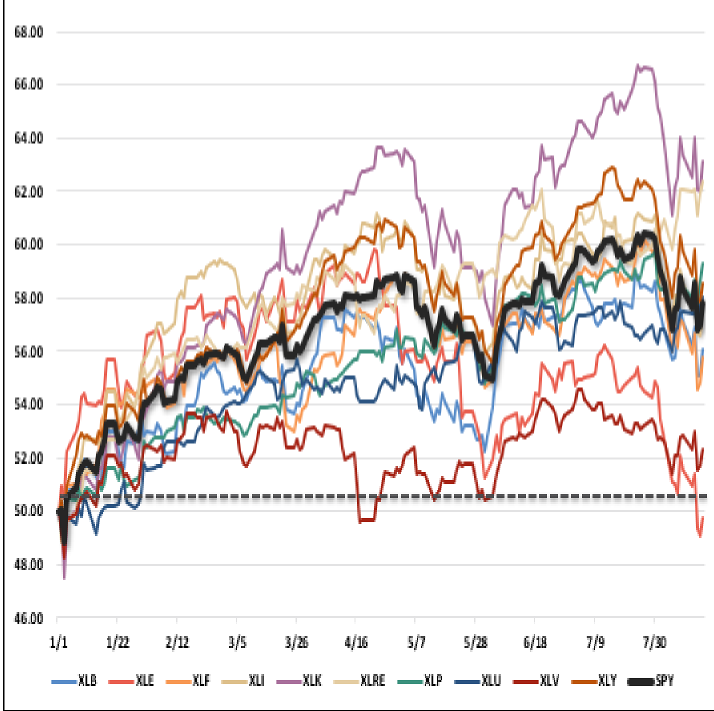
Performance Analysis

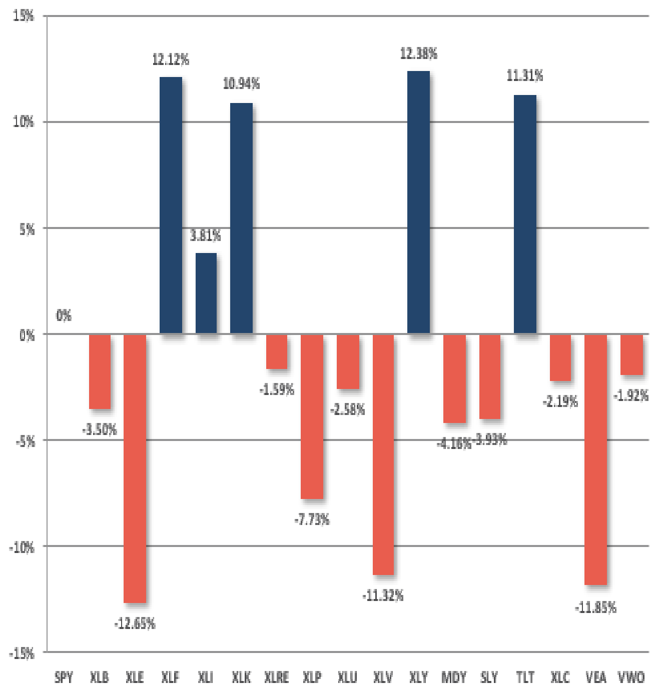
Year To Date Performance



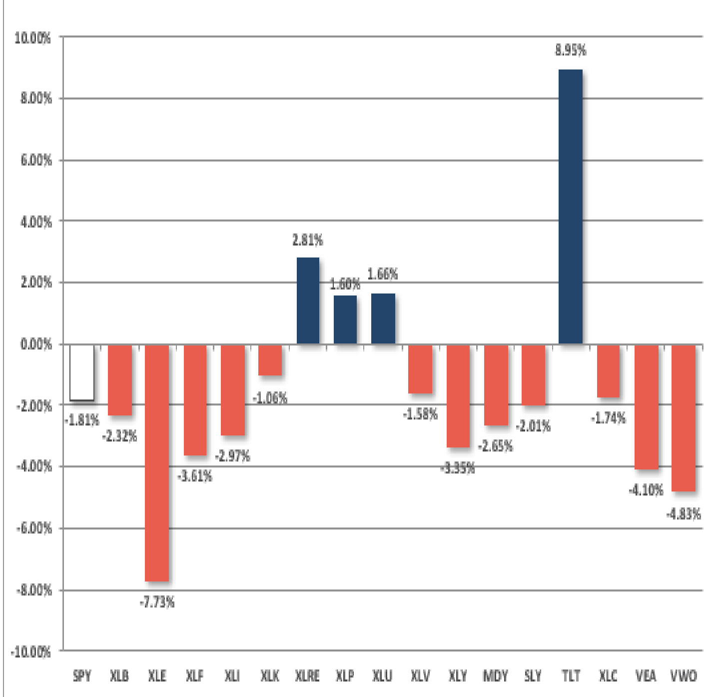
YTD Price - S&P Sectors Recalibrated To $50/share



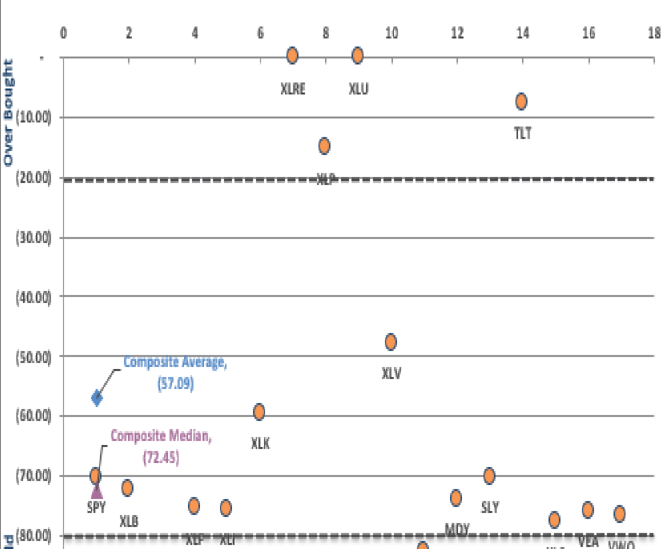
Year To Date Performance Relative To S&P 500

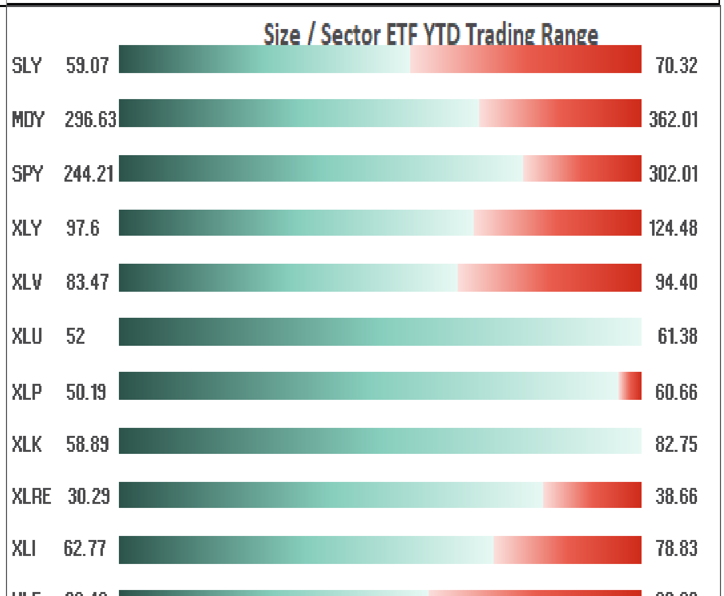


Price Deviation From 50-Day Moving Average

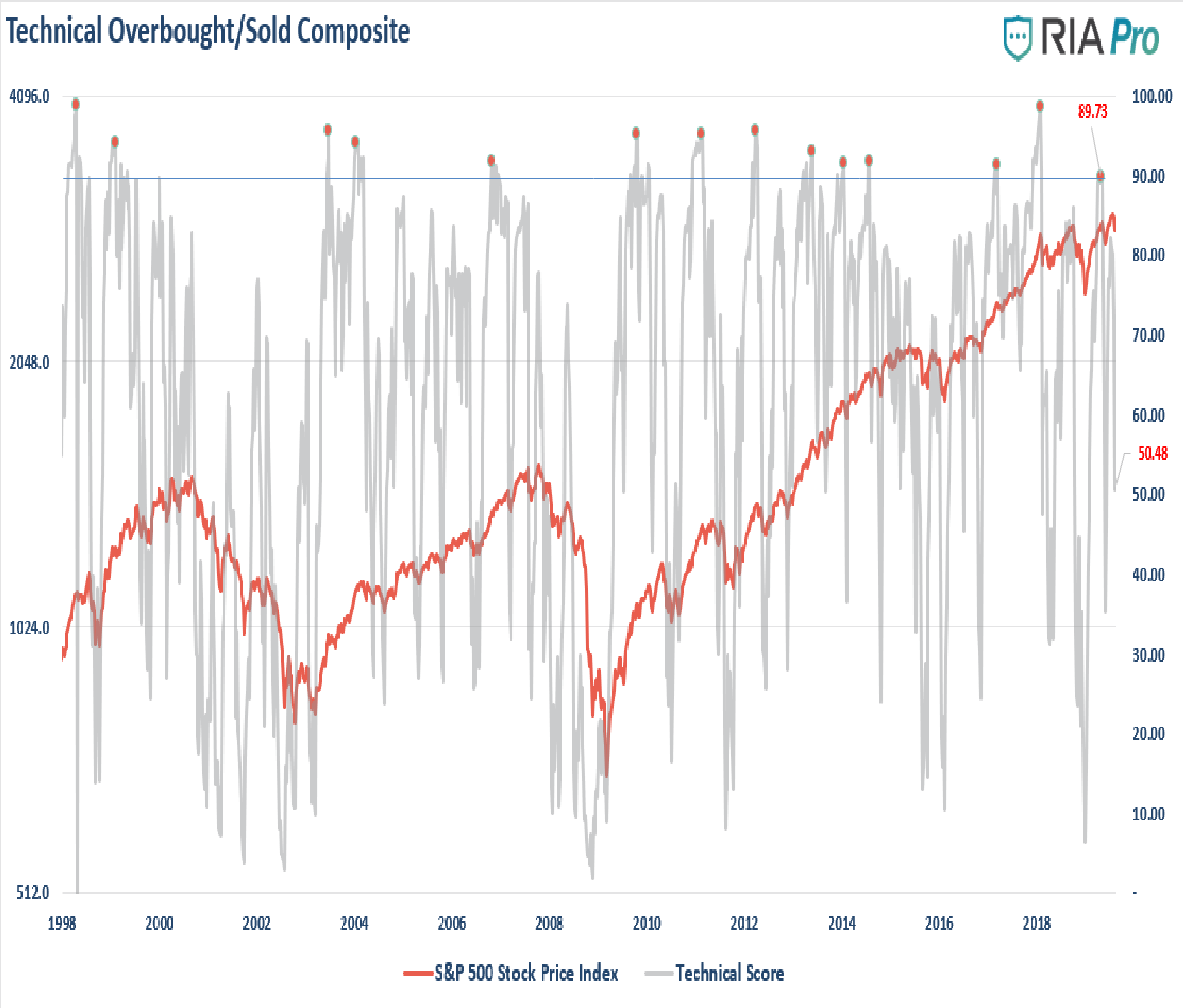


Overbought/Oversold 14-Periods





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	290.58	(0.95)	(2.78)	2.04	2.93	1.23	293.12	283.47	-0.87%	2.51%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	56.62	(0.98)	(0.28)	3.22	0.05	(4.33)	57.18	55.53	-0.98%	1.97%	BUY
TACTICAL	SECTORS	XLE	SPDR-EGY SELS	57.02	(2.57)	(6.36)	(9.51)	(17.12)	(22.70)	61.68	63.30	-7.56%	-9.92%	SELL
TACTICAL	SECTORS	XLF	SPDR-FINL SELS	26.57	(1.26)	(2.12)	(3.12)	(3.38)	(6.91)	27.39	26.59	-2.98%	-0.07%	BUY
TACTICAL	SECTORS	XLI	SPDR-INDU SELS	74.30	(0.54)	(1.28)	(1.34)	(5.69)	(3.83)	75.99	74.29	-2.23%	0.01%	BUY
TACTICAL	SECTORS	XLK	SPDR-TECH SELS	78.28	0.68	(0.20)	4.75	6.80	5.78	77.87	73.43	0.52%	6.60%	BUY
TACTICAL	SECTORS	XLP	SPDR-CONS STPL	60.21	2.45	3.23	2.63	8.08	8.20	58.79	56.02	2.41%	7.47%	BUY
TACTICAL	SECTORS	XLU	SPDR-UTIL SELS	61.38	1.79	4.46	0.55	4.51	11.35	60.12	57.65	2.10%	6.47%	BUY
TACTICAL	SECTORS	XLC	SPDR-COMM SV SS	48.74	(0.83)	1.07	(0.46)	2.39	(0.97)	49.16	47.47	-0.86%	2.69%	BUY
TACTICAL	SECTORS	XLV	SPDR-HLTH CR	90.55	0.02	1.46	(0.94)	(5.51)	(1.83)	91.31	90.17	-0.83%	0.42%	BUY
TACTICAL	SECTORS	XLY	SPDR-CONS DISCR	115.89	(1.08)	(2.35)	0.12	1.38	1.77	118.45	113.73	-2.16%	1.90%	BUY
TACTICAL	SIZE	SLY	SPDR-SP SC 600	65.34	(0.28)	0.60	(1.92)	(8.97)	(15.60)	66.31	66.46	-1.47%	-1.69%	SELL
TACTICAL	SIZE	MDY	SPDR-SP MC 400	341.68	(0.42)	(0.36)	(1.53)	(5.54)	(7.93)	348.35	342.95	-1.92%	-0.37%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	104.09	(0.52)	(1.26)	(1.49)	(3.56)	(2.84)	106.44	103.72	-2.21%	0.36%	BUY
CORE	Dividend	SDY	SPDR-SP DIV ETF	98.30	(0.26)	0.00	(2.45)	(3.94)	(1.17)	100.17	98.21	-1.87%	0.09%	BUY
CORE	Real Estate	XLRE	SPDR-RE SELS	38.66	1.44	7.84	3.15	8.58	12.74	37.38	35.61	3.44%	8.56%	BUY
CORE	International	EEM	ISHARS-EMG MKT	39.54	0.12	(4.96)	(3.07)	(9.87)	(7.56)	41.57	42.02	-4.89%	-5.90%	SELL
CORE	International	EFA	ISHARS-EAFE	62.25	(0.15)	(2.19)	(5.95)	(6.60)	(7.46)	64.77	64.08	-3.89%	-2.86%	BUY
CORE	International	IXUS	ISHARS-CR INT S	55.42	(0.21)	(2.72)	(4.75)	(7.01)	(7.57)	57.63	57.25	-3.84%	-3.19%	BUY
FI	Intermediate Duration	TLT	ISHARS-20+YTB	146.13	5.29	13.75	12.32	20.22	19.56	133.00	126.40	9.87%	15.61%	BUY
FI	International	BNDX	VANGD-TTL INT B	59.08	2.01	5.21	3.08	4.96	6.68	57.36	55.97	2.99%	5.56%	BUY
FI	High Yield	HYG	ISHARS-IBX HYCB	86.10	0.77	2.22	(1.52)	(2.36)	(1.16)	86.45	85.63	-0.40%	0.55%	BUY
FI	Cash	BSV	VANGD-SHT TRM B	81.02										

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

Defensive positioning has returned to the fore in terms of relative performance as volatility returned to the markets over the last week. We are continuing to maintain our exposure to Health Care for now as defense continues to shield against volatility risk.

Current Positions: *Target weight XLV*

Outperforming - Staples, Utilities, Materials

Interestingly, despite the *"trade war"* rhetoric, Materials turned higher, however, it was still defensive sectors ruling the advance. After taking profits, we are maintaining our holdings in these sectors.

Current Positions: *Overweight XLP, Target weight XLU, 1/2 XLB*

Weakening - Technology, Discretionary, Communications, Real Estate

While Technology, Discretionary and Communication did turn higher, the performance was relatively weak. We did add slightly to our Technology position and added 1/2 weight to XLC. Real Estate continues to hold up from defensive positioning.

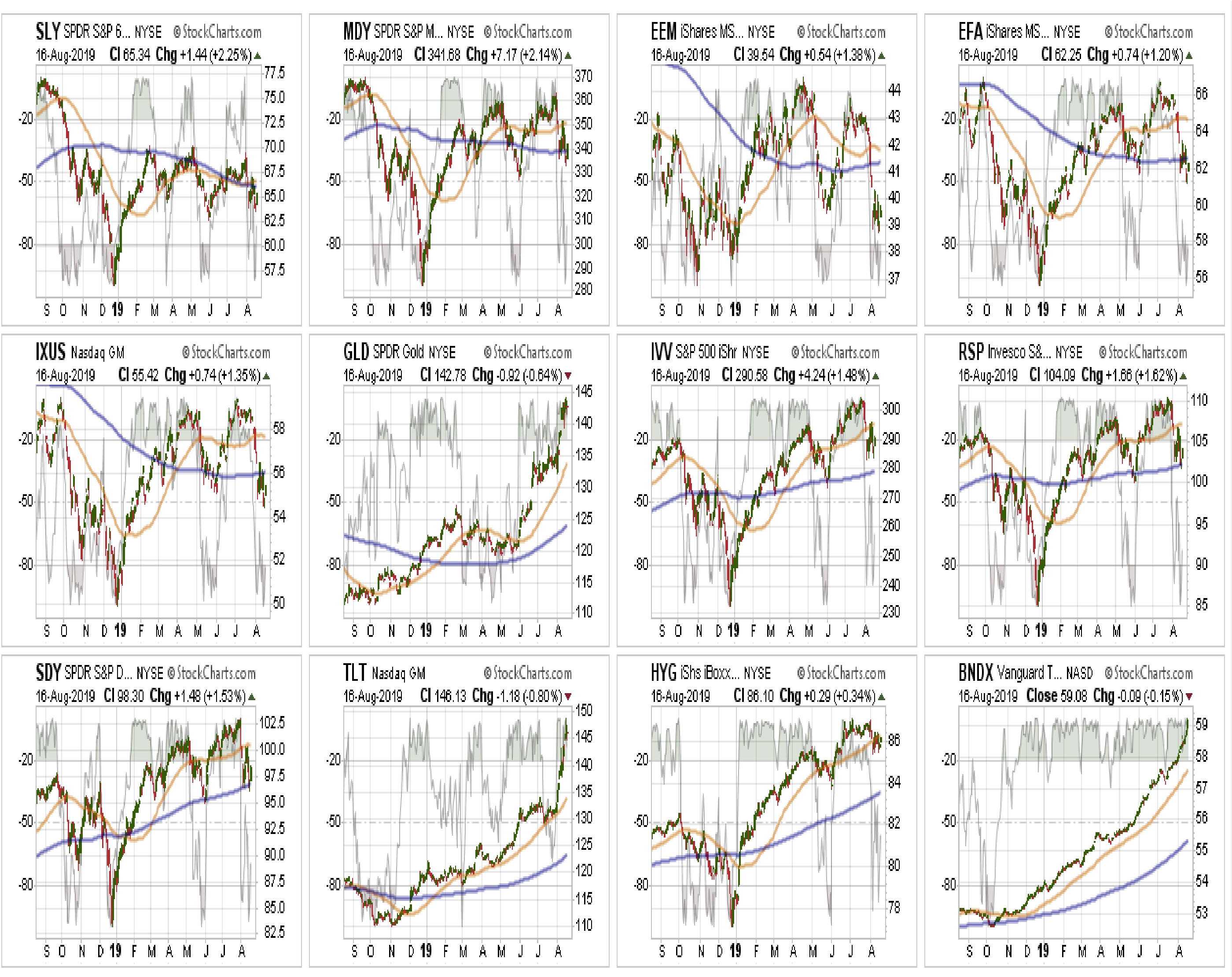
Current Position: *1/2 weight XLY and XLC, Target weight XLK, XLRE*

Lagging - Energy, Industrials, Financials

Energy is in a lot of trouble as oil prices remain weak due to a global slow down. Industrials broke support last week, and failed at resistance. We were stopped out of XLE last week, but are maintaining our *"underweight"* holdings in XLI for now. We also reduced our holdings in the Financial sector as both the Fed lowering rates, and an inverted yield curve, are not beneficial their profits.

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

Market By Market



Small-Cap and Mid Cap - Small- and Mid-caps did pop with a short-covering rally on Friday, but remain very negative. Small-caps have violated their 200-dma with the 50-dma crossing back below the 200-dma. Mid-caps only marginally held onto its 200-dma after violating it but the trend is negative so I suspect it will fail soon. Both of these markets are oversold, so a bounce is likely. That bounce should be sold into.

We noted a month ago that with small and mid-caps extremely overbought, it was "*a great opportunity to rebalance portfolio risk and reducing weighting to an underperforming asset class for now until things improve."* That turned out to be good advice.

Current Position: *No position*

Emerging, International & Total International Markets

We have been out of Emerging and International Markets for several weeks due to lack of performance. However, the addition of tariffs are not good for these markets and prices have collapsed over the last few weeks. As we noted previously, *"patience will be rewarded either by avoiding portfolio drag or gaining a more advantageous entry point."* Not having exposure to these areas continues to pay off for now.

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.

Current Position: *RSP, VYM, IVV*

Gold ? Gold continued to push higher due to the deteriorating economic backdrop. 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. We haven't gotten one yet.

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

Bonds?

Like Gold, bonds continued to attract money flows as investors search for *"safety."* There has also been a massive short-covering rally with all those *"bond bears"* being forced to cover. However, as noted previously, bonds are EXTREMELY overbought. We are looking to increase our duration and credit quality on a pullback in price. We aren't expecting much of a correction, so we will likely scale into additional holdings during a correction process.•

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 and last week broke through the 50-dma. High yield bonds are setting up for either a bigger correction, or a decent trading opportunity. We will wait and see how it plays out.

High yield bonds are NOT a long-term play. Junk bonds are almost pure risk due to the inherent bankruptcy risk. It is still 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.•**

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	OS	Positive	Positive	Hold			X			Testing Support
XLK	Technology	OS	Positive	Positive	Hold			X			Testing Resistance
XLI	Industrials	OS	Positive	Neutral	Hold			X			Testing Support
XLB	Materials	OS	Positive	Neutral	Hold			X			Testing Support
XLE	Energy	OS	Negative	Negative	Warning			X			Very Negative
XLP	Staples	Rising	Positive	Positive	Hold			X			Pushing To Highs
XLV	Health Care	Neutral	Negative	Neutral	Hold			X			Testing Support
XLU	Utilities	OB	Positive	Positive	Hold			X			Pushing To Highs
XLF	Financials	OS	Positive	Neutral	Hold			X			Testing Support
XLC	Telecom	OS	Positive	Neutral	No Position			X			Testing Support
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Broke Out To Highs
SLY	Small Caps	OS	Negative	Negative	No Position					X	Testing Support
MDY	Mid Caps	OS	Positive	Neutral	No Position					X	Testing Resistance
EEM	Emerging Mkt	OS	Positive	Negative	No Position					X	Broke Support
EFA	International	OS	Positive	Negative	No Position					X	Broke Support
IXUS	Total International	OS	Positive	Negative	No Position					X	Broke Support
GLD	Gold	OB	Positive	Neutral	Hold			X			Extreme Overbought
RSP	SP500 Equal Wgt	OS	Positive	Positive	Hold			X			Testing Support
SDY	SP500 Dividend	OS	Positive	Positive	Hold			X			Testing Support
IVV	SP500 Market Wgt	OS	Positive	Positive	Hold			X			Testing Support
TLT	20+ Yr. Bond	OB	Positive	Positive	Hold			X			Extreme Overbought
HYG	Corporate High Yield	OS	Positive	Positive	No Position					X	Correcting
BNDX	Int'l Bond Aggregrate	OB	Positive	Positive	No Position					X	Extreme Overbought

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

Portfolio/Client Update:

Two weeks ago, I wrote:

> *"As we have been discussing over the past couple of weeks, we needed to take profits and rebalance risks somewhat in portfolios.* ***Despite the recent rally, there are plenty of warning signs which suggests a near-term correction is coming."***

The correction continued last week, which has now gotten the market fairly oversold. The big news, of course, was the inversion of the yield curve. While it was blasted all over media headlines, the inversion of the yield curve itself is not a sign of immediate recession. It is when the yield curve un-inverts, as the Fed is aggressively cutting rates, that the recession is likely in process.•

We are watching this very closely. We did add positions to both the Equity and ETF portfolios to participate when the yield curve does reverse its inversion (REM, AGNC, NLY).

For newer clients, we are keeping accounts primarily in cash as our onboarding model is currently on a "sell signal" suggesting that risk outweighs reward currently.•

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.

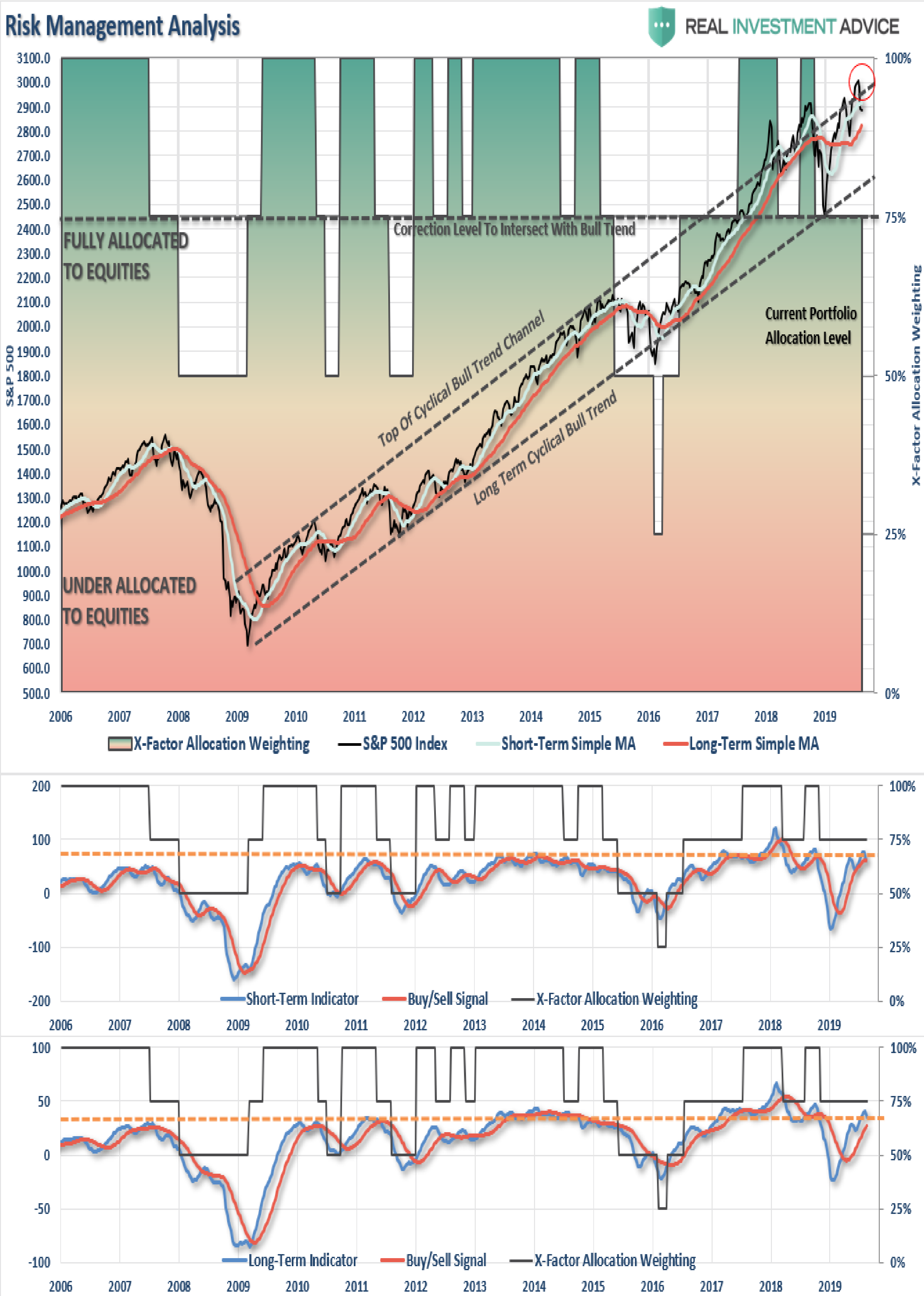
- **New clients:** *We are holding cash until our onboarding model turns back onto a "buy signal." At that time we will begin buying 1/2 of our target positions and step into the model allocation to minimize entry risk.•*
- ***Equity Model:*** *No trades this past week. We are still looking to add to our holdings of JNJ, NLY, AGNC, and WELL. However, the setup is not quite correct so we are being patient at the moment.*
- ***ETF Model***: *We were stopped out of XLE last week, however, we added to our holdings in XLK, and a new position in XLC to keep our equity weighting flat. Also, these two positions are short-term oversold and are somewhat less affected by the trade war.•*

Note for new clients:

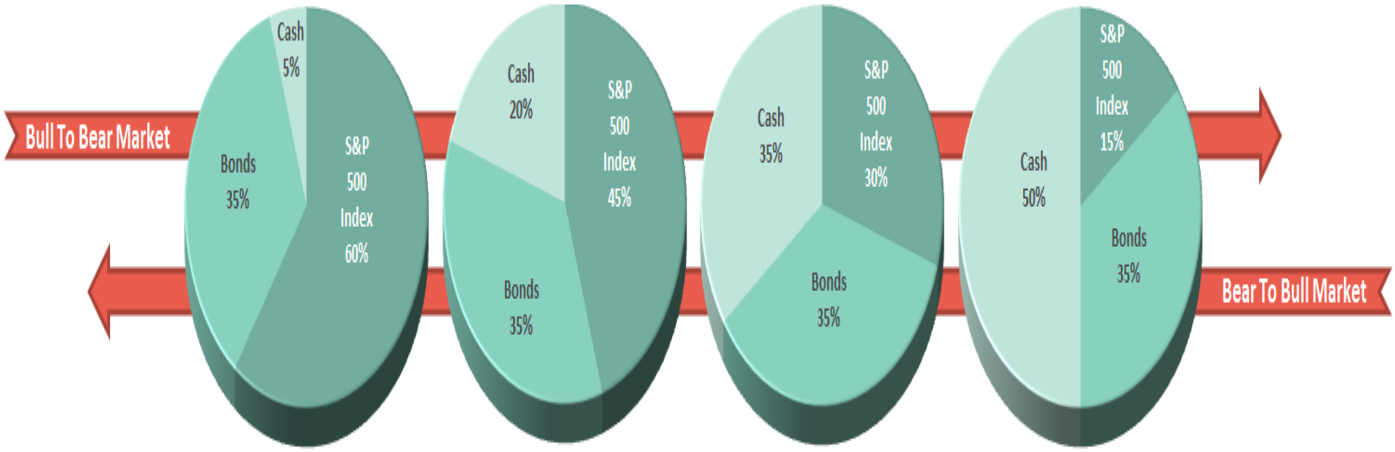
It is important to understand that when we add to our equity allocations, ALL purchases are initially*?trades?•*that can, and will, be closed out quickly if they fail to work as anticipated.• This is why we*?step?•*into positions initially. Once a*?trade?•*begins to work as anticipated, it is then brought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



Trump Is Making This Really Tough - Part 2

As I wrote two weeks ago:

> *"A less than anticipated rate cut, and outlook, by the Fed tripped up participants. Then Trump deciding to add additional tariffs on China, in order to force the Fed to cut rates, roiled stocks even more.* ***Stocks sold off for the entirety of last week, so expect a rally early next week to sell into. Take some actions if you have not already as the next two months could bumpy. The correction is likely not complete yet.***

More tweets and volatility this week, inverted yield curves, etc.

While volatility has risen markedly, the markets really haven't done anything "wrong" as of yet. This is one of those times we have to sit on our hands and wait. With markets moving from one tweet to the next, it is impossible to successfully trade these swings.•

Downside risk is elevated, so we are maintaining underweight holdings for now. However, if we begin to break supports, we will recommend reducing risks further.•

If you haven't taken any actions as of late, it is not a bad time to do so.•

- *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 done so already.•*
- *If you are* ***underweight equities or at target -•****rebalance risks and hold positioning for now.*

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)*

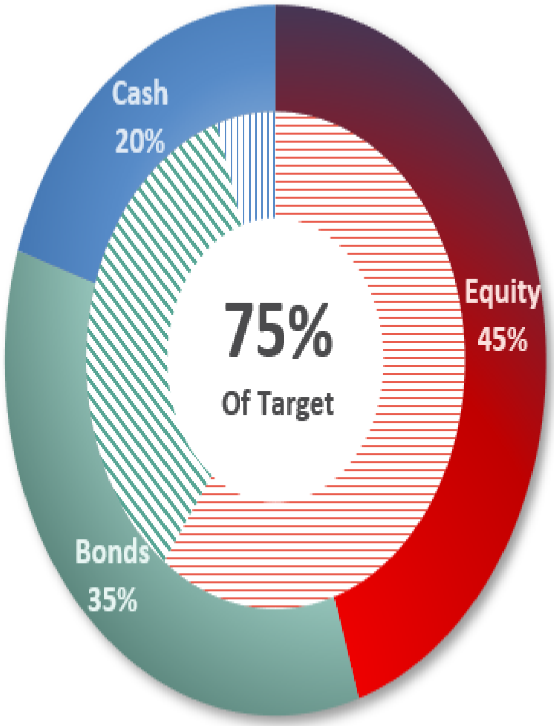
I have gotten quite a few plans, so keep sending them and I will include as many as we can.

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*

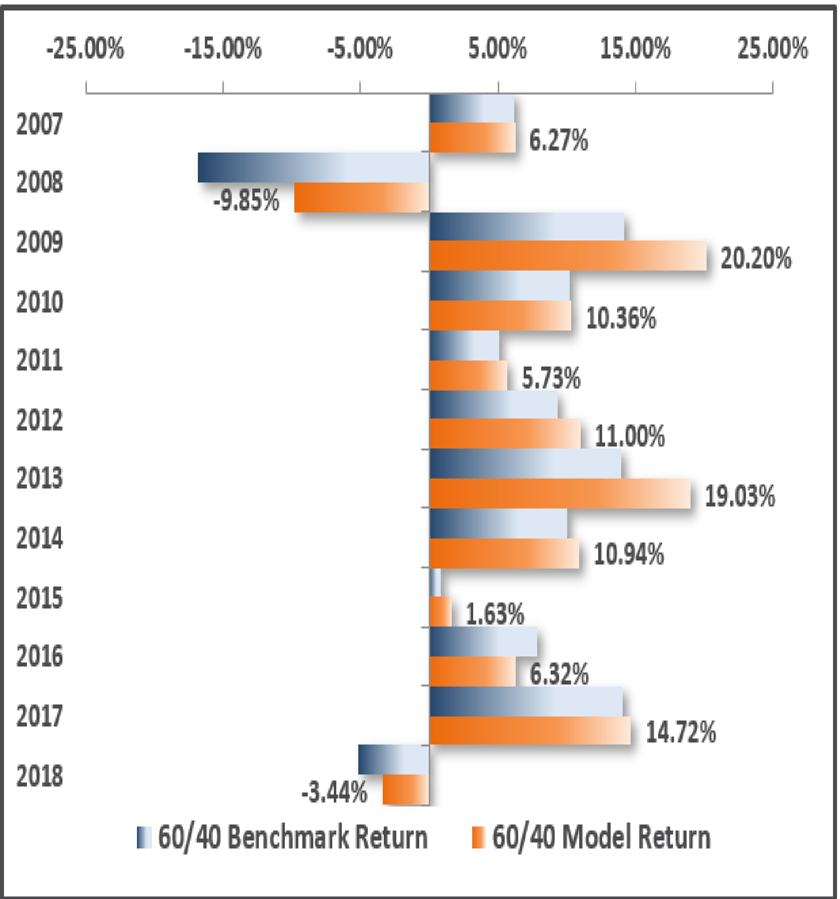
45.00% **Equity (Stocks)**

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