

# The Moment



Real Investment Report

## You Know You Know, You Know



- **Market Review & Update**
- **The Moment You Know**
- **Sector & Market Analysis**
- **401k Plan Manager**

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# Market Review & Update

[Last week](#), we started our discussion by itemizing the list of all the things going "right" for the bullish narrative. •

- *Trump easing up on tariffs and trade negotiations*
- *The ECB (European Central Bank) went "all-in" on cutting rates and launching more Q.E.*
- *The economy is showing some signs of life as data is "less bad" than it was previously, and as we concluded:*

***"All the bulls need now is the Fed to 'cut' rates at the meeting next week."***

On Wednesday, the Fed did just that by cutting rates the expected 0.25% which aligned with our previous analysis:

*"With markets hovering at all-time highs, the unemployment rate near record lows, and inflationary pressures near their target levels, there is little reason to be cutting rates now." •*

***For the bulls, the good news is, they will cut rates anyway."***

What the markets focused on, however, was The Fed suggesting they are open to *allowing the balance sheet to grow.* While this isn't anything more than just stopping Q.T. entirely, **the markets took this as a sign that Q.E. is just around the corner.**

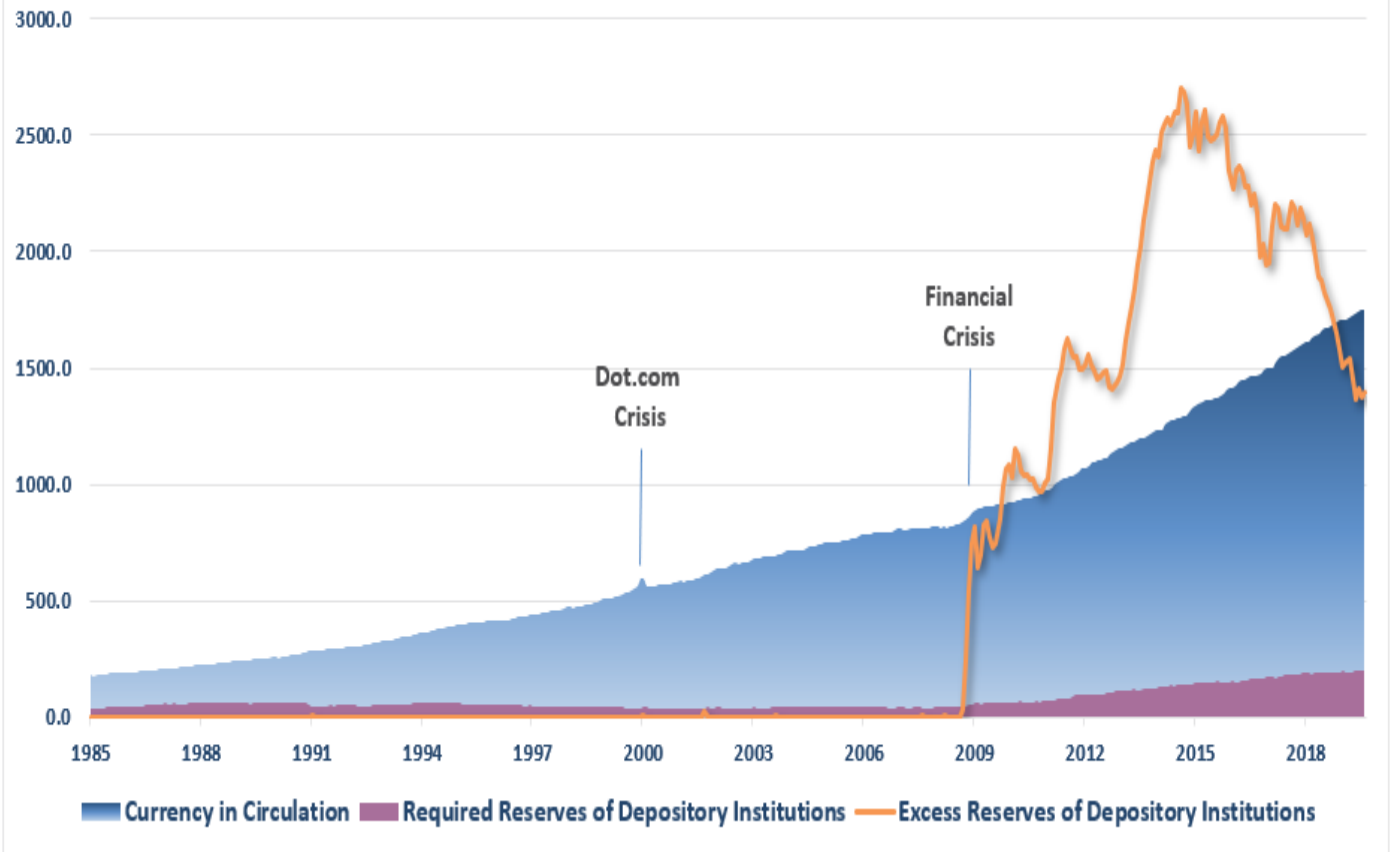
This is probably a mistaken conclusion.

As [Mish Shedlock quoted](#):

[https://twitter.com/Frances\\_Coppola/status/1174419794185072641?s=20](https://twitter.com/Frances_Coppola/status/1174419794185072641?s=20)

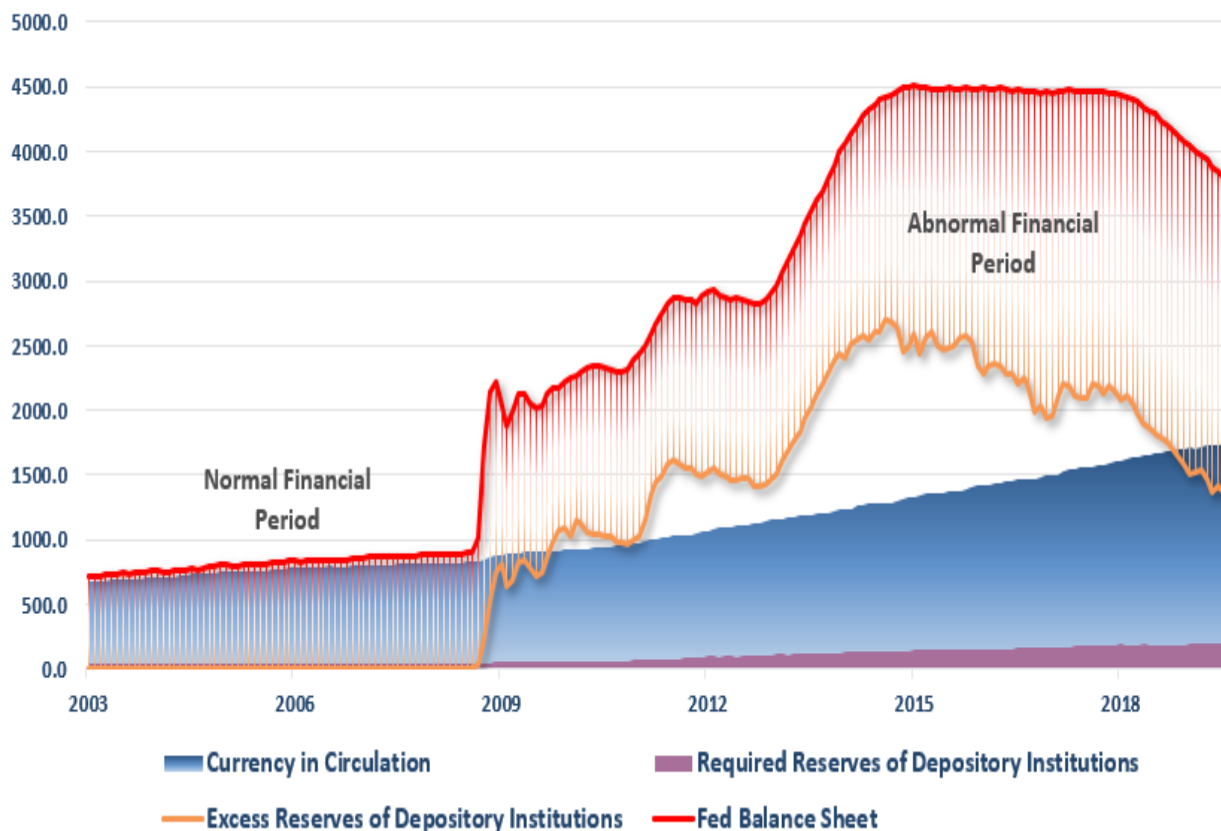
To illustrate this point, the chart below shows excess reserves, required deposits, and currency in circulation. As you can see, everything went "pear-shaped" in 2008.

## Balance Sheet Grows Overtime Based On Growth Of Economy



However, let's zoom in a bit and add the Federal Reserves balance sheet. Prior to 2008, notice the Fed's balance sheet was growing directly proportionate to the growth rate of the currency in circulation (*which follows the growth rate of the economy.*)

## Balance Sheet Grows Overtime Based On Growth Of Economy



Therefore, what the Fed is suggesting is NOT more Q.E. but rather, just the normal *"organic"* expansion of the balance sheet in relation to the growth of the economy and the currency in circulation. •

It was this realization that ultimately disappointed the bulls late last week. •

### Bulls Remain In Charge

However, despite the short-term disappointment, the bulls remain in charge for the time being as markets cling near all-time highs. The question we posed last week was:

*"Is it all priced in?"*

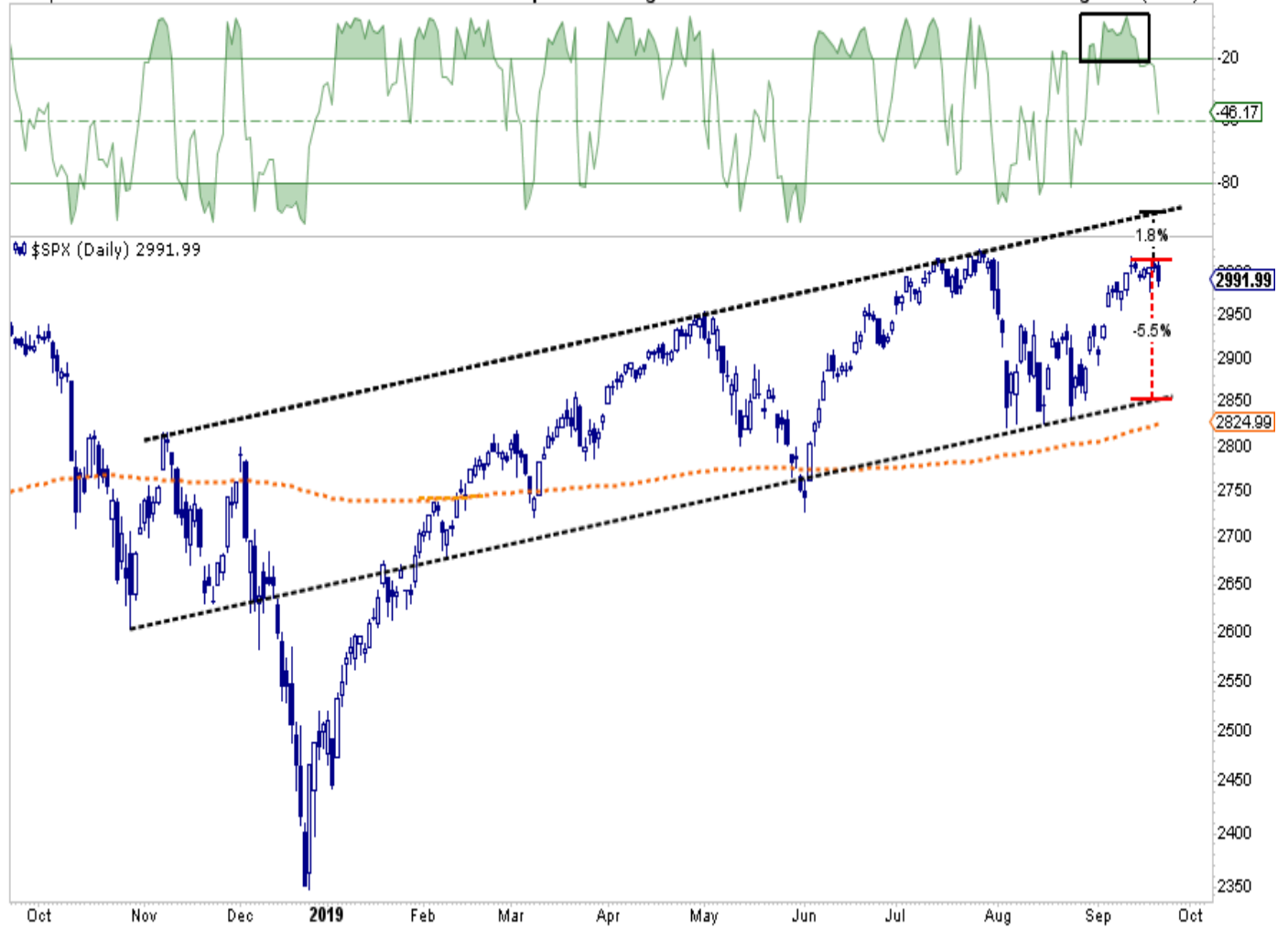
The risk/reward does not favor the bulls short term. The market is back to very overbought conditions, the upside to the top of the bullish trend channel is about 1.9%. The downside risk is about 5.5%.

*(Chart updated through Friday. Shows the overbought condition as been slightly reduced.)*

**\$SPX** S&P 500 Large Cap Index INDX  
20-Sep-2019

Open 3008.42 High 3016.37 Low 2984.68 Close 2991.99 Volume 3.0B Chg -14.80 (-0.49%)

© StockCharts.com



However, on an intermediate-term basis, all of our primary indicators are beginning to reach levels which have typically denoted short-term market peaks. •

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

© StockCharts.com

20-Sep-2019

Open 3008.42 High 3016.37 Low 2984.68 Close 2991.99 Volume 3.08 Chg -14.80 (-0.49%)



This analysis keeps our portfolios weightings on the long-side, but we remain hedged currently which we slightly increased last week, along with additions to our intermediate-term bond holdings and gold. Cash also remains a slight overweight in model allocations and equities slightly underweight..•

We discussed the reasoning for an additional hedge with our [RIAPRO subscribers this week:](#)



- *We added a starter position of VXX to portfolios yesterday to hedge against a pickup in volatility. We are likely a bit early, and volatility will likely drift lower in the days ahead, but as noted by the red box, volatility is extremely suppressed.*

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While our portfolios remain bullishly biased for the time being, that will NOT always be the case.

As discussed many times in the past, the point of risk management is NOT trying to win "short-term battles" by chasing asset prices, but the winning of the "war" by not losing a large chunk of investment capital during a market decline.

# The Moment You Know

David Bowie once said:

*"The moment you know you know, you know."•*

Unfortunately, for the vast majority of investors, they often come to this realization far too late to do anything about it.•



Of course, it is these drawdowns which destroy the time value of money. Such was the message in the [\*"Stability/Instability Paradox:"\*](#)

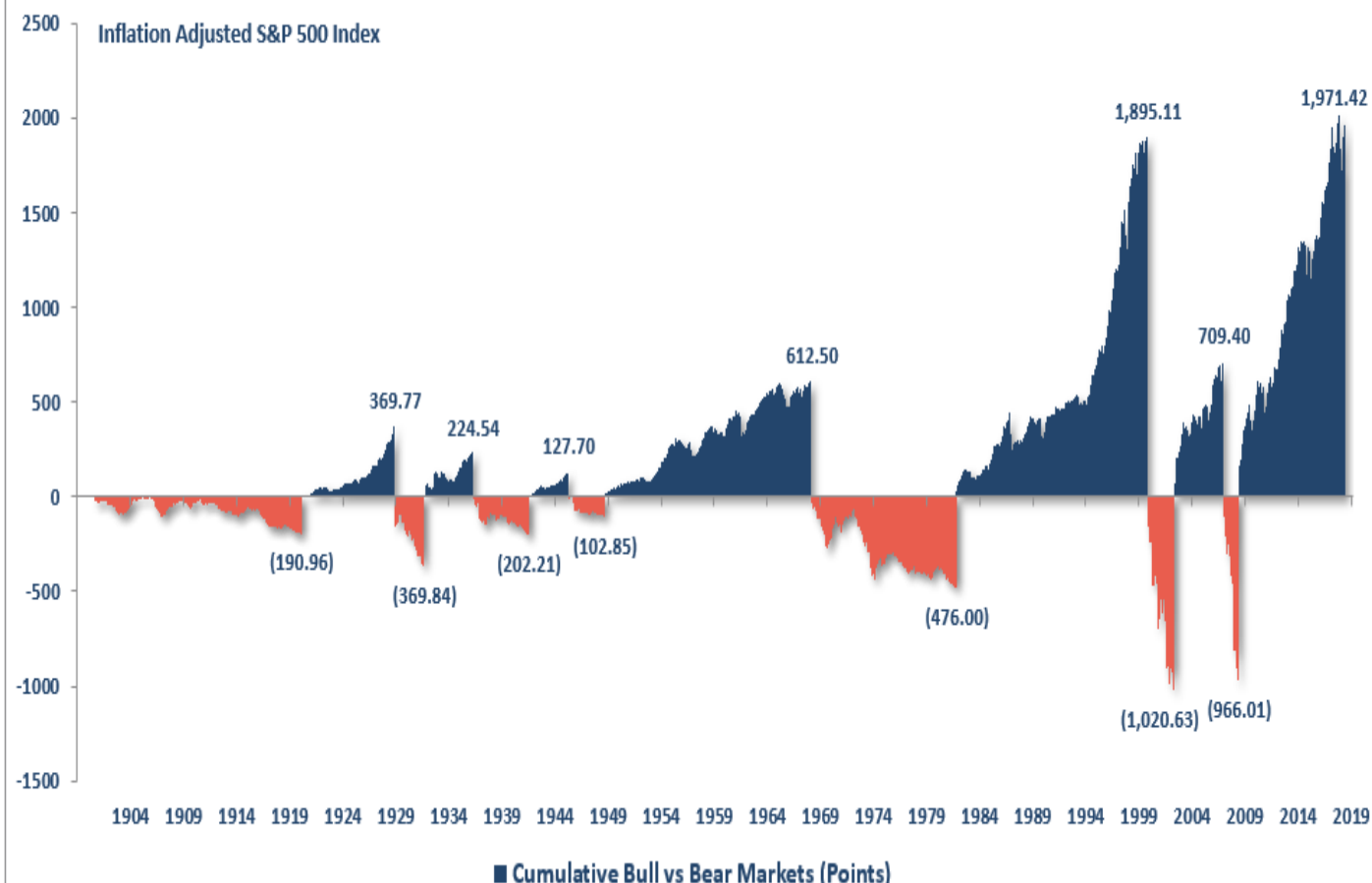
*"The point here is that 'all things do come to an end.'•The further from the 'mean' something has gotten, the greater the reversion is going to be. The two charts below illustrate this point clearly."*



# Real S&P 500 Total Return



## Cumulative Bull vs Bear Markets (Points)



Bull markets, with regularity, are almost entirely wiped out by the subsequent bear market.

**Despite the best of intentions, market participants never act rationally.**



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There is an important distinction between investing success and failure as it relates to the destruction of capital during drawdowns. Last week, Ben Carlson had an important tweet:

<https://twitter.com/awealthofcs/status/1174352297129910273?s=20>

The point he was making is by investing money in markets, and not worrying about drawdowns, it will grow over time. • The math certainly supports his argument. •

*Why hire a "financial adviser?"* Just buy a cheap index fund, sit on it, and you will be fine. It is a great concept for the purveyors of ETF and index-based products, just not necessarily good for you. •

Let me explain.

Ben, who graduated from college in 2005, didn't have money invested, or manage assets for others, during the 2008 financial crisis. *(That's not a criticism, I wish I were that young.)*

The reality is that experience is a hard teacher. •

The concepts of *"buy and hold"* investing, *"dollar-cost averaging,"* etc. become mainstream commentary at the end of bull market cycles. It was the same in 1999, and in 2007, when I was managing money for clients.

I can tell you this with absolute certainty.

*"When the bear market sets in, all the investing complacency goes flying out the window. Clients no longer care about low cost, indexing, or 'time in' the market, as their losses mount. Conversations are no longer about buying dips, but rather 'get me the f\*\*\* out.'"*

### **Everyone sells.**

It is just a function of where your pain point is as losses mount. While investors may stay the course during a 10-20% decline, it is an entirely different matter when personal wealth is dropping 30, 40, or 50%.•

If you were invested in 2008, you know what I mean.

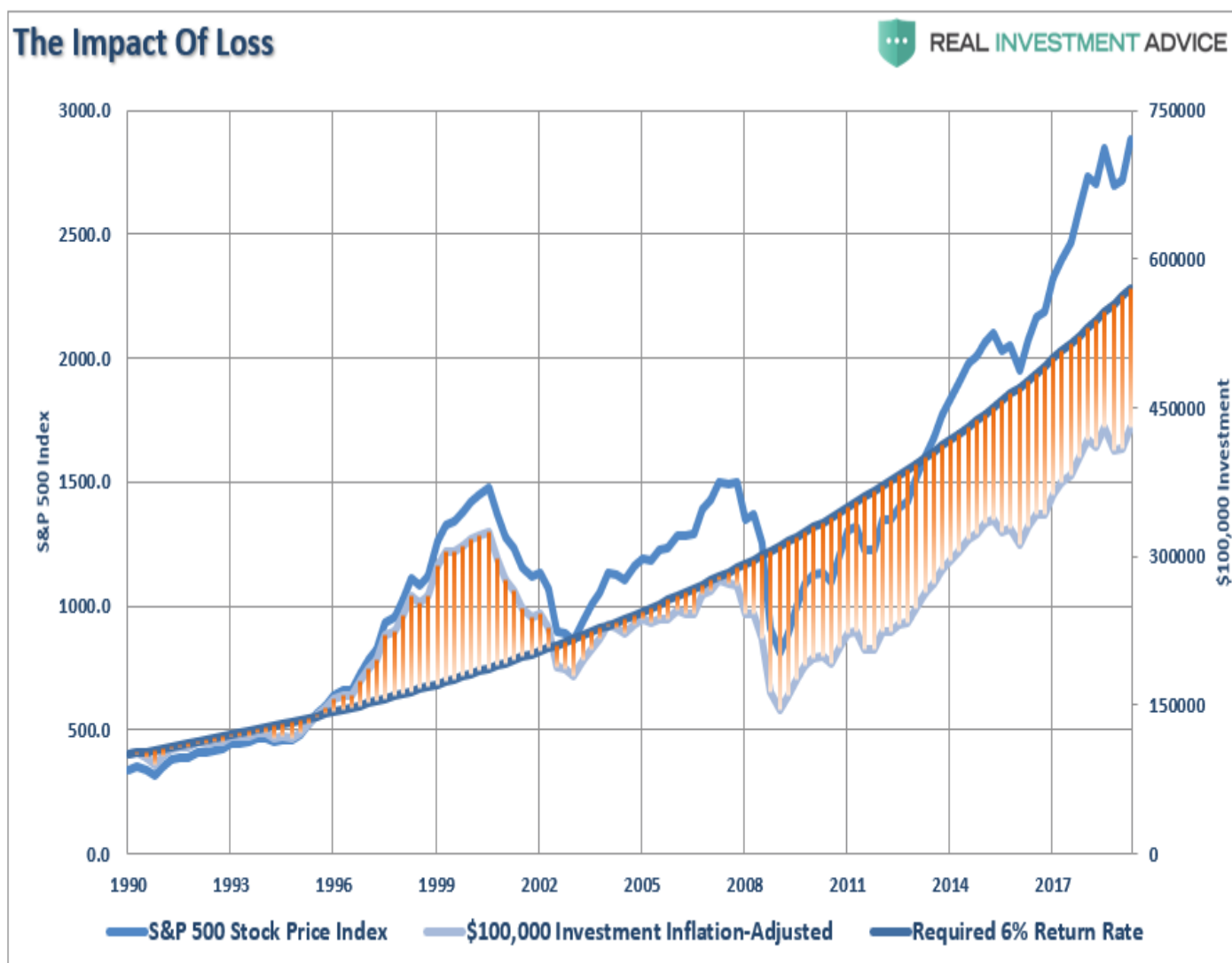
### **It is just human nature.•**

However, what Ben's analysis misses is the *"time value"* of money during those periods. Yes, a *"buy and hold"* portfolio will grow in the financial markets over time, but it **DOES• NOT compound.**

Read this carefully: ***"Compound returns assume no principal loss, ever."***

To visualize the importance of this statement, look at the chart below of \$100,000, adjusted for inflation, invested in 1990 versus a 6% annual compound rate of return. The shaded areas show whether the portfolio value exceeds the required rate of return to reach retirement goals.•

## The Impact Of Loss



**If your financial plan required 6% "compounded" annually to meet your retirement goals; you didn't make it.●**

This is the single most important thing to understand about investing.●

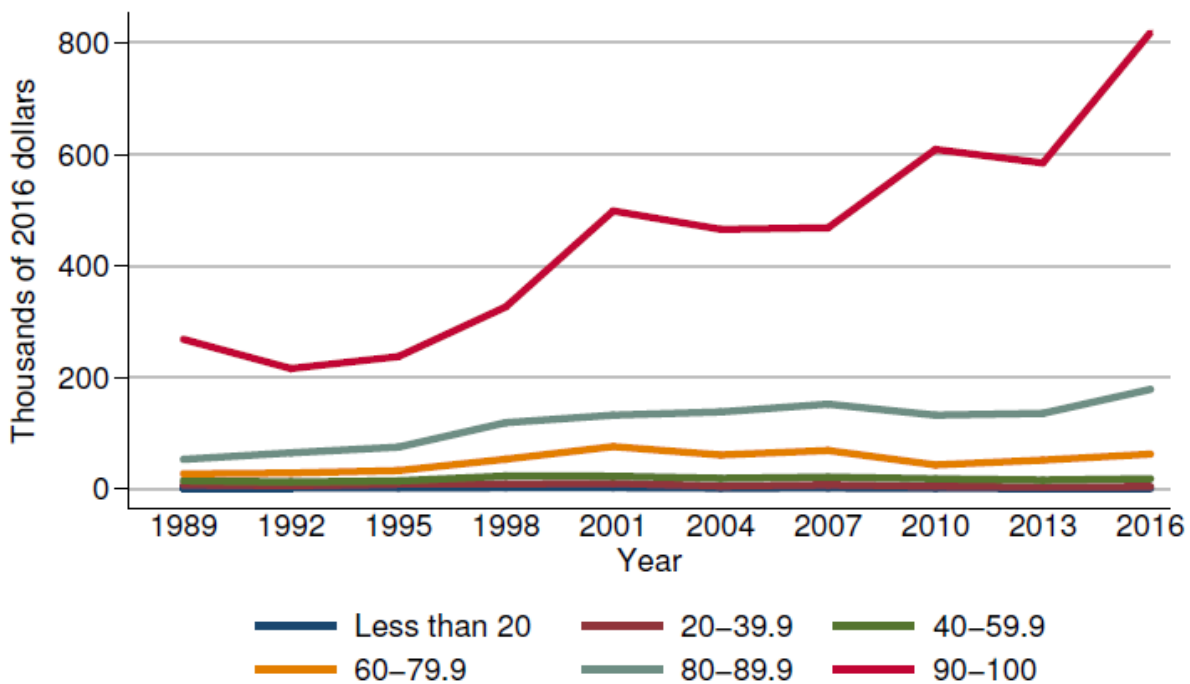
***"Investing is not about just growing capital. The actual GOAL is growing SAVINGS to a future target which will provide a required livable income in retirement adjusted for inflation."●***

If you f\*\*\* that up by not saving enough, taking on too much risk, and losing a chunk of your capital by speculating in the financial markets, you are going to have a tough time when you retire.


Two bear markets should have taught "financial advisers" this by now.

It is why 80% of Americans are almost entirely dependent on social security for retirement needs despite the longest bull market run in history.●(\$100,000 in savings, or less, isn't going to cut it)

Median value of financial assets for families with holdings  
By percentile of income



Time is the most valuable commodity there is. It is also the one commodity you can not get more of.

**REAL  
INVESTMENT  
ADVICE**

Are your investments prepared  
for the next bear market?

**SCHEDULE YOUR  
CONSULTATION  
TODAY**

## You Don't Want To Hear That

I know, I know. That's being *"bearish,"* and that is *"no fun."*•

As [Bob Farrell](#) once quipped: ***"Bull markets are more fun than bear markets."***•

Here is what you really want to me to write:

*"If you just put all your money into this ETF portfolio, it will compound at 8-10% a year, and you can spend all your time at the beach."*•

Or,

*"Here are the six stocks you can buy today, and retire on tomorrow."*

Or, just in case you haven't started investing yet:

*"If you can just save \$100 a month, buy an S&P index fund, and dollar cost average into it every month in a Roth, it will grow at 12% a year and you will have \$1 million in 30-years."•*

These types of articles sell products, get advisers clients who lure them in with promises of above-average returns for a small annual fee, and attract advertisers. This is why the media is full of "optimistic" articles touting exactly those issues.

The problem is they are all mathematically wrong.•

**The truth is...you don't want to hear to truth.•**

Like the fact, that \$1 million today is [NOT \\$1 million in 30-years.](#)

Or that you don't actually get ["average" returns from portfolios.](#)

*(We wrote a complete series on the many investing myths of the market and how to do better.)*

<https://realinvestmentadvice.com/the-definitive-guide-to-investing-for-the-long-run/>

Think about it this way.

*"IF investing actually worked as advertised, wouldn't "everyone" be rich?"•*

But they aren't, because two major bear markets either wiped them out financially, or destroyed their confidence in investing in the markets.•

Most of the people in the mainstream media, and most people writing articles on investing, like Ben, have never actually been through a "bear market." **They may have witnessed it, but watching the "war" from the safety of your living room is very different than dodging bullets on the front line.**

Of course, after a decade long bull market, it is certainly understandable that many investors, advisers, and planners have been lured into the belief that a "financial crisis" can never happen again.

Another crisis will happen. They have happened all throughout financial history going back to the 1600s, and Central Banks won't be able to bail the markets out next time.

There is simply TOO. MUCH. DEBT.

**However, it is these "beliefs," "investment strategies," and "complacency" which tend to mark the peaks of market cycles.**

*"The golden rule of investing is to buy low, and sell high." - said every great investor in history*

**Here is what you DON'T SEE at market bottoms.** *(The point when you should be mortgaging the house to buy stocks.)*

- *Companies like \$TSLA and #WeWork which are cash burning machines, and potentially fraudulent companies, going public.*
- *Investors chasing the highest risk assets like junk bonds, levered loans, and structured products.*

- *People buying into silly and potentially extremely dangerous programs like the **"F.I.R.E." movement**.*
- *Advisors who promote "Buy and Hold" and "Dollar Cost Averaging" investment programs. (More than likely they have never seen a bear market.)*
- *Wall Street hitting the markets with investment products which carry increasingly higher levels of risk to meet investor appetites. (**Wall Street is a sales organization that creates products for consumers**)*
- *Untried and unproven products and investment programs like "Robo-Advisors"*

**And....Bowie Bonds, are back!•**

A good example by my colleague Michael Lebowitz:

*"In 1997 musician David Bowie, and in particular his revenues, supported an asset-backed security. In a first of its kind, Ziggy Stardust, Starman, and many other popular songs were securitized, raising \$55 million for the artist. Investors received a stream of cash flows based on the sales of his 25 albums. In return for the lump sum of cash, Bowie forfeited any revenue from those albums until the bonds matured.*

***Bowie bonds attracted investors for several reasons.** Some investors found value in the bonds, thinking music sales would skyrocket. Clearly these investors did not see the coming digitization of music and the revenue implications. Other investors were simply fans and wanted to own a piece of the rock legend. The bonds also attracted speculators. Risk-taking was in vogue in the later 90s. •It seemed like the object of many investors was to find the latest and greatest investment with the possibility to make them rich. Unlike Pets.com and e Toys, Bowie bonds did not default and in 2007 paid off its investors."*

**Note: note the year the bonds were issued - 1997.** So, here we are nearly two decades after the dot com crash and a decade after the financial crisis, and risk-taking and speculation are back in style. Mike continues:

*"From negative interest rates to excessive valuations along with a rash of non-profitable IPOs, signs of risk fever surround us. **Like Bowie bonds signaled in the late 90s, another omen is warning that a top is near.***

*Spencer Dinwiddie, a guard for the NBA's Brooklyn Nets, recently announced that he would follow in Bowie's shoes and issue a security backed by his basketball contract. Like Bowie, Dinwiddie will receive a lump sum cash payment today instead of income spread out over the life of his contract. Dinwiddie's wants the cash today so he can invest and assumingly earn more than investors in his bonds. His basketball bonds will be issued in digital tokens.*

*•It seems like Dinwiddie is not only trying to take advantage of liquidity chasing digital assets as well as the demands of investors seeking investments with extra yield but he, in turn, wants to speculate with the money as well. **Said differently, speculators are feeding the behavior of speculators.***

*In the late 1990s, investors chased any company that was thought to have been in involved in the World Wide Web. Bowie bonds made more sense than many dot com companies but nonetheless revealed the rampant speculation of the day. In the mid-2000s, investors were enamored with mortgage debt backed by subprime debt that*

*could ?never default.? **Today speculators are chasing traditional and digital assets in what may be the broadest instance of overvaluations in at least 75 years.***

It is from this point, given valuations are once again pushing 30x earnings, that we review the expectations that individuals facing retirement should consider.

- **Expectations for future returns and withdrawal rates should be downwardly adjusted due to current valuation levels.**
- *The potential for front-loaded returns going forward is unlikely.*
- **Your personal life expectancy plays a huge role in future outcomes.**
- *The impact of taxation must be considered.*
- *Future inflation expectations must be carefully considered.*
- **Drawdowns from portfolios during declining market environments accelerates the principal bleed.**•*Plans should be made during up years to harbor capital for reduced portfolio withdrawals during adverse market conditions.*
- *The yield chase over the last 10-years, and low interest rate environment, has created an extremely risky environment for investors. Caution is advised.*
- **Expectations for compounded annual rates of returns should be dismissed in lieu of variable rates of return based on current valuation levels.**

**Importantly, chasing an arbitrary index that is 100% invested in the equity market requires you to take on far more risk that you most likely realize.**

For the majority of individuals today facing, or in, retirement the two previous bear markets have left many further away from retirement than they ever imagined.

**The next one will destroy those goals entirely.**

[Investing for retirement, should be done conservatively,](#)•and cautiously, with the goal of outpacing inflation, not the market, over time. Trying to beat some random, arbitrary index that has nothing in common with your financial goals, objectives,**and most importantly, your life span,**•has tended to end badly for individuals.

As Michael concludes:

***"We do not know, but we do know what we know, and we know that current investor behavior is unsustainable."***

You can do better.

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

See you next week.

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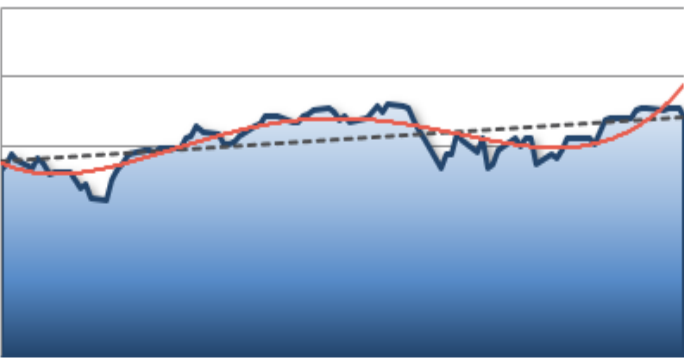
## Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

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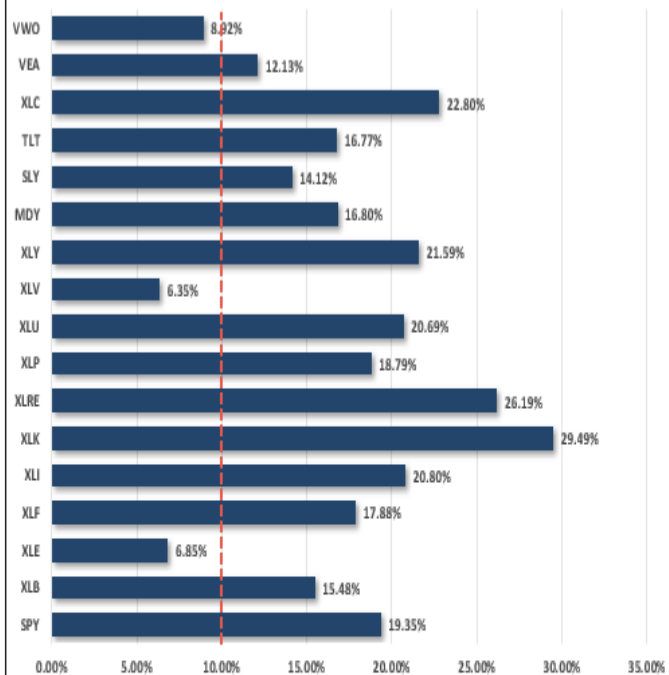
**S&P 500 Tear Sheet •**



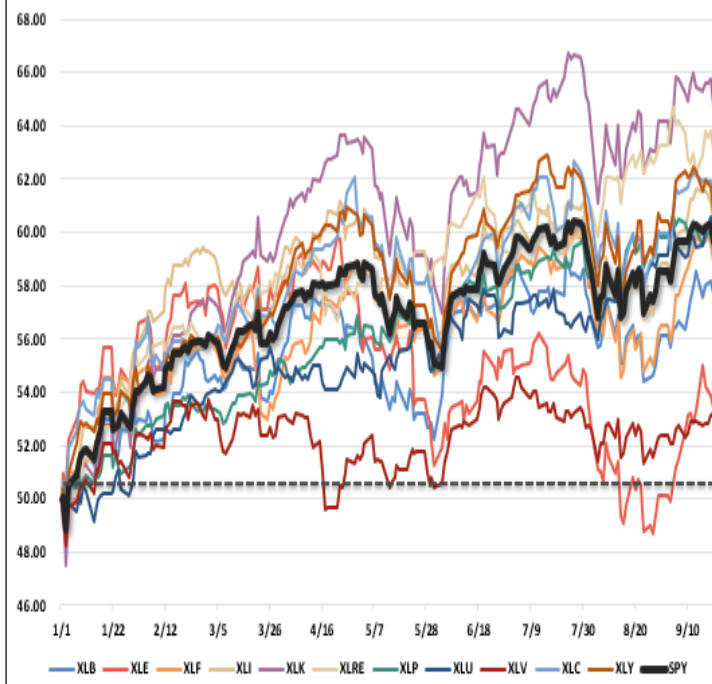
3 Month SPY Price										SPY RISK INFO		ZACKS		REAL INVESTMENT ADVICE	
										Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR	
										Price Return	19.28%	1.60%	19.35%	1108.68%	
										Max Drawdown	-20.47%	-20.47%	-7.41%	-63.80%	
										Sharpe	0.72	0.28	2.06	6.45	
										Sortino	0.83	0.30	2.51	7.24	
										Volatility	14.70	16.66	13.64	(0.18)	
										Daily VaR-5%	(11.70)	(21.09)	8.01	(1.38)	
										Mnthly VaR-5%	(11.92)	(26.28)	3.29	(1.13)	
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%	1.73%	1.84%	6.14%	2.17%	1.67%	(15.20%)	10.28%	Shares	2,408.7	2,328.7	(3.32%)			
P/E Ratio	20.57	20.33	18.43	(10.30%)	20.84	15.81	(11.6%)	16.58%	Sales	60,960	64,517	5.84%			
P/S Ratio	3.23	3.49	3.25	(7.53%)	3.57	2.61	(8.92%)	24.20%	SPS	25.3	27.7	9.47%			
P/B Ratio	3.61	4.11	4.04	(1.85%)	4.14	3.01	(2.46%)	34.31%	Earnings	8,818	9,506	7.81%			
ROE	15.83%	17.29%	18.71%	7.59%	18.82%	14.99%	(0.61%)	24.82%	EPS TTM	4.4	4.9	11.33%			
ROA	2.94%	3.25%	3.53%	7.87%	3.53%	2.81%	(0.03%)	25.57%	Dividend	1.5	1.6	6.75%			
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	(19.95%)	4.62%	1.22	16.06	127.61	12.35	(87.4%)	9.1%	3.8%	6.21%	3.52	14.22			
Materials	(24.72%)	2.71%	1.23	14.34	22.97	13.86	(37.6%)	9.8%	1.9%	6.94%	4.23	14.67			
Industrials	(2.57%)	9.37%	1.16	17.57	22.23	14.78	(21.0%)	16.6%	1.9%	5.64%	5.25	15.50			
Discretionary	1.39%	10.10%	1.02	24.22	27.46	20.11	(11.8%)	29.1%	1.3%	4.07%	5.01	21.34			
Staples	9.26%	7.32%	0.58	20.77	22.83	17.62	(9.0%)	27.3%	2.7%	4.80%	3.95	19.84			
Health Care	(1.71%)	13.62%	0.86	16.45	20.62	15.93	(20.3%)	30.8%	1.8%	6.09%	6.68	14.90			
Financials	(1.67%)	13.15%	1.25	13.29	18.45	11.71	(27.9%)	11.6%	2.1%	7.45%	5.84	11.67			
Technology	8.53%	21.91%	1.27	21.58	21.74	14.43	(0.7%)	39.6%	1.4%	4.58%	5.34	20.02			
Telecom	(0.28%)	10.47%	0.87	20.18	26.73	17.47	(24.5%)	17.1%	0.9%	4.94%	6.64	17.38			
Utilities	24.37%	3.44%	0.28	21.54	21.00	15.58	2.6%	10.4%	3.1%	4.65%	3.66	19.31			
Real Estate	17.34%	3.18%	0.70	21.24	24.47	17.10	(13.2%)	9.6%	3.1%	4.68%	4.36	20.40			
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	298.28	(0.79%)	294.80	12	1.18%	282.56	79	5.56%	4.33%	(1.44%)	27.60%	Buy			
Mid Cap	353.53	(0.99%)	349.08	10	1.27%	342.55	13	3.21%	1.91%	(5.32%)	24.29%	Buy			
Small Cap	68.44	1.12%	66.64	10	2.71%	66.32	12	3.20%	0.48%	(11.30%)	21.56%	Buy			

## Performance Analysis

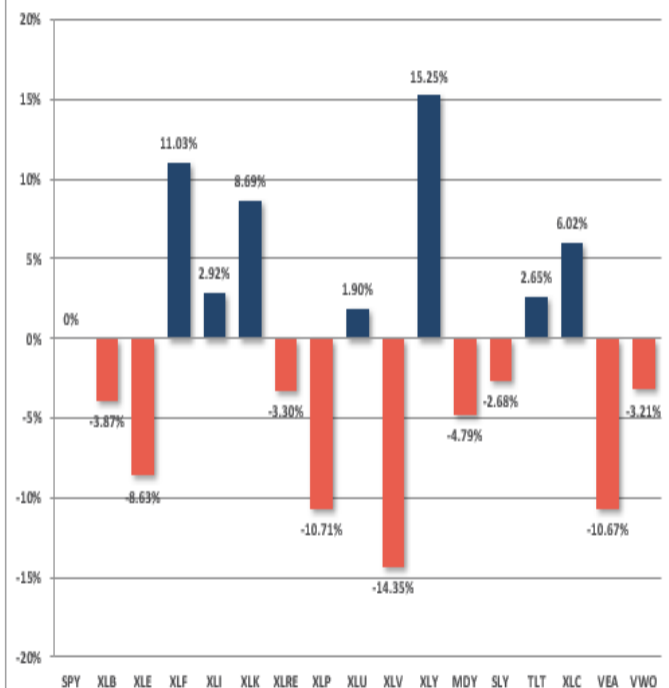
## Year To Date Performance



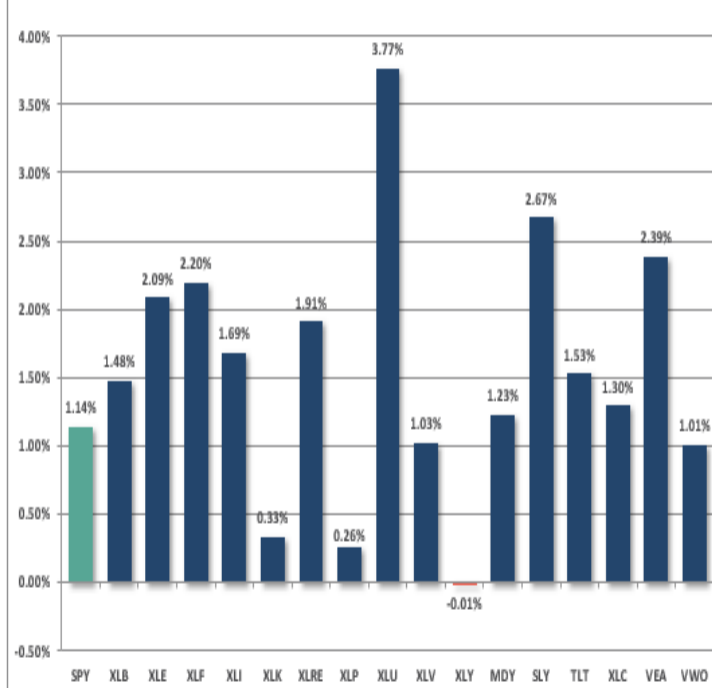
## YTD Price - S&P Sectors Recalibrated To \$50/share



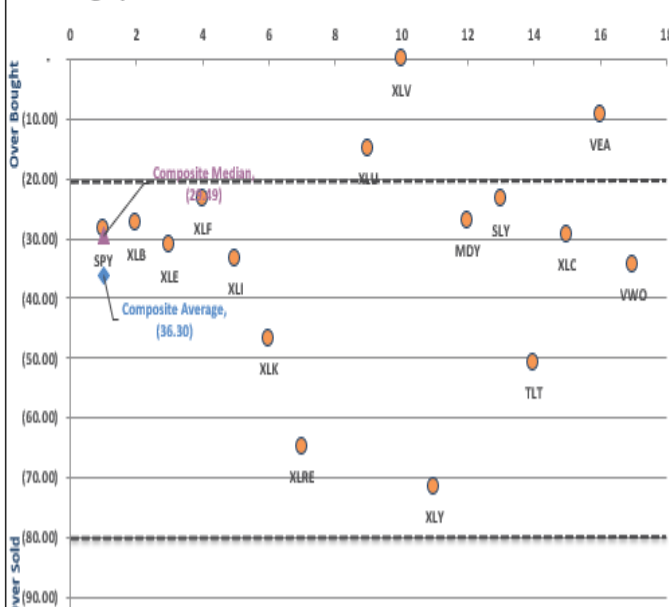
## Year To Date Performance Relative To S&P 500



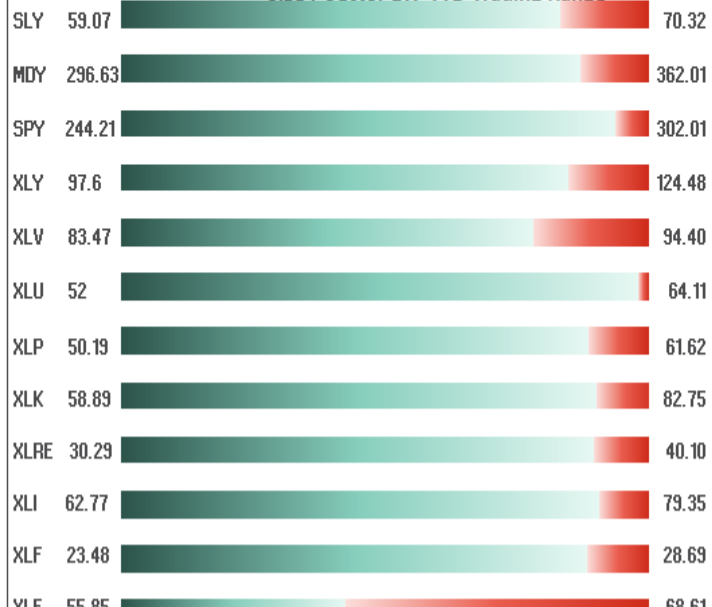
## Price Deviation From 50-Day Moving Average



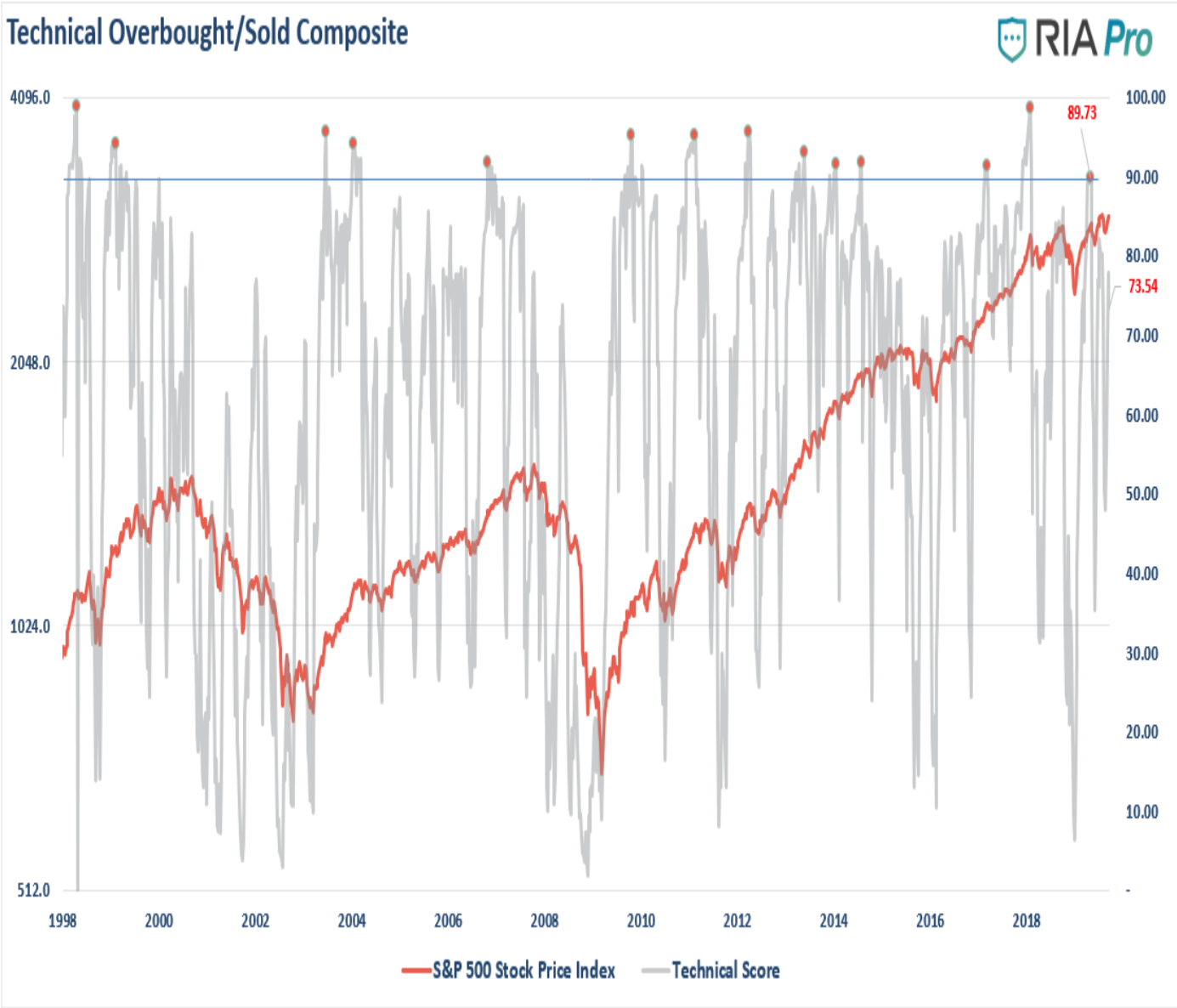
## Overbought/OverSold 14-Periods



## 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	301.22	(0.54)	5.15	2.20	3.71	1.98	296.83	289.38	1.48%	4.09%	BUY
TACTICAL	SECTORS	XLB	SPDR-MATLS SELS	58.34	(0.81)	1.02	(2.47)	(2.81)	(5.65)	57.67	56.38	1.16%	3.48%	BUY
		XLE	SPDR-EGY SELS	61.28	0.87	4.36	(6.01)	(13.07)	(20.39)	60.73	63.13	0.91%	-2.93%	SELL
		XLF	SPDR-FINL SELS	28.08	(0.89)	2.44	(0.46)	1.86	(4.28)	27.53	27.01	1.99%	3.97%	BUY
		XLI	SPDR-INDU SELS	77.81	(1.40)	1.27	(1.69)	(2.67)	(4.72)	76.64	75.79	1.53%	2.67%	BUY
		XLK	SPDR-TECH SELS	80.26	(0.56)	(1.14)	0.65	2.01	5.59	79.81	75.99	0.56%	5.62%	BUY
		XLP	SPDR-CONS STPL	60.32	(0.63)	(3.97)	1.68	4.80	7.65	59.91	57.44	0.68%	5.02%	BUY
		XLU	SPDR-UTIL SELS	63.87	2.02	(1.26)	4.92	6.22	18.39	61.30	59.12	4.19%	8.04%	BUY
		XLC	SPDR-COMM SV SS	50.69	(0.63)	0.68	0.79	1.20	2.42	49.99	48.51	1.40%	4.50%	BUY
		XLV	SPDR-HLTH CR	92.00	1.08	(1.50)	(2.89)	(3.71)	(4.39)	91.53	90.76	0.51%	1.37%	BUY
		XLY	SPDR-CONS DISCR	120.39	(1.91)	(1.80)	(1.20)	(1.27)	0.98	120.42	116.45	-0.03%	3.38%	BUY
	SIZE	SLY	SPDR-SP SC 600	68.44	(0.94)	2.28	(1.00)	(3.91)	(12.43)	66.75	67.11	2.54%	1.98%	SELL
		MDY	SPDR-SP MC 400	353.53	(0.84)	0.39	(2.49)	(4.12)	(6.68)	350.07	348.08	0.99%	1.57%	BUY
CORE	Equal Weight Market	RSP	INVS-SP5 EQ ETF	108.88	(0.19)	1.07	(1.19)	(1.97)	(1.71)	107.22	105.58	1.54%	3.13%	BUY
	Dividend	SDY	SPDR-SP DIV ETF	101.93	(1.14)	(0.08)	(1.15)	(2.76)	0.39	100.66	99.64	1.26%	2.30%	BUY
	Real Estate	XLRE	SPDR-RE SELS	39.12	1.92	(3.75)	4.20	3.32	16.03	38.18	36.73	2.46%	6.50%	BUY
	International	EEM	ISHARS-EMG MKT	41.61	(0.95)	1.41	(5.22)	(9.99)	(5.73)	41.42	42.10	0.45%	-1.16%	SELL
		EFA	ISHARS-EAFE	65.56	(0.03)	0.66	(2.45)	(4.75)	(6.46)	64.47	64.65	1.70%	1.41%	SELL
		IXUS	ISHARS-CR INT S	58.23	(0.07)	0.57	(2.89)	(5.73)	(6.32)	57.45	57.70	1.36%	0.92%	SELL
FI	Intermediate Duration	TLT	ISHARS-20+YTB	141.89	4.46	(7.94)	4.64	10.69	19.19	138.21	129.74	2.66%	9.36%	BUY
	International	BNDX	VANGD-TTL INT B	58.66	1.40	(5.54)	0.18	1.78	5.45	58.21	56.63	0.77%	3.58%	BUY
	High Yield	HYG	ISHARS-JBX HYCB	87.48	0.91	(4.07)	(1.85)	(2.49)	(0.55)	86.84	86.26	0.73%	1.41%	BUY
	Cash	BSV	VANGD-SHT TRM B	80.64										



RIA Pro

## 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 (XLV)

The relative performance improvement of HealthCare relative to the S&P 500 has continued to improve as a defensive tilt has returned to the market. The sector not only held previous support but broke above the 50-dma and puts previous highs into focus. After taking profits in the sector previously we will continue to hold our current positioning for now.

**Current Positions:** Target weight XLV

## Outperforming - Staples (XLP), Utilities (XLU), Real Estate (XLRE), Communications (XLC)

As noted, our more defensive positioning continues to outperform relative to the broader market. After taking some profits and re-positioning the portfolio, we will remain patient and wait for the market to tell us what it wants to do next. Real Estate, Staples and Utilities all continue to make new highs but are GROSSLY extended. We added to our position in XLC bringing it to full weight previously, but that position is now extended and overbought as well and testing previous highs.

**Current Positions:** Target weight XLP, XLU, XLRE, and XLC

## Weakening - Technology (XLK), Discretionary (XLY),•

While Technology, and Discretionary did turn higher and are looking to set new highs, they have continued to struggle at resistance. Relative performance is beginning to improve but the sectors need to see improvement soon. We previously added to our position in Discretionary and continue to hold Technology. •



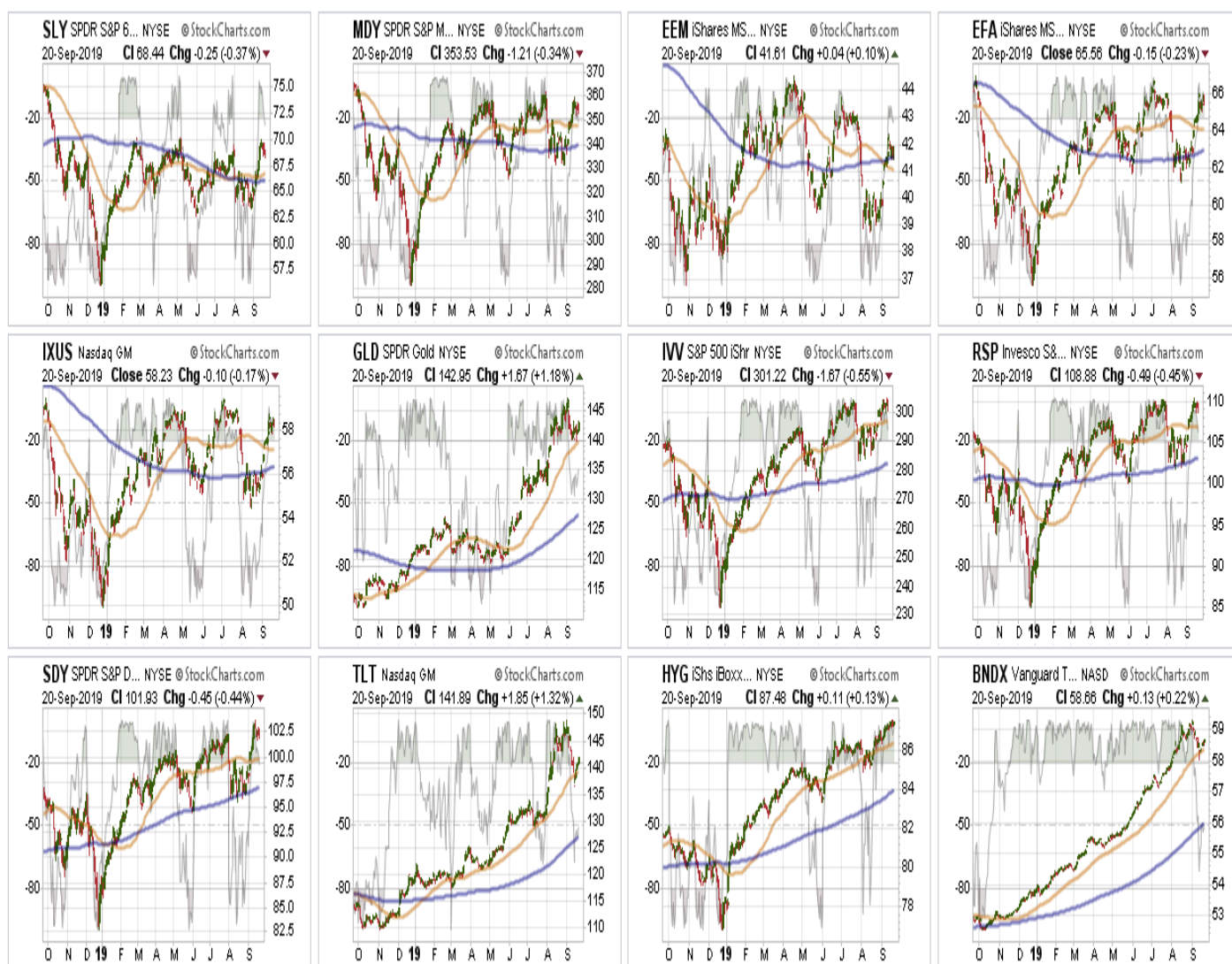
**Current Position:** *Target weight XLY, XLK*

**Lagging - Energy (XLE), Industrials (XLI), Financials (XLF), Materials (XLB)**

We were stopped out of XLE previously, but are maintaining our "*underweight*" holdings in XLI for now. While Energy did rally last week on news of Saudi production outage, XLE failed to clear above important downtrend resistance and is back to extreme overbought. **The rally is likely a good opportunity to reduce exposure to the energy sector if you are holding much exposure.**

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

## Market By Market



**Small-Cap (SLY) and Mid Cap (MDY)** - Small- and Mid-caps popped sharply last week on a rotation from large-cap stocks. However, as noted last week, we have seen these pops before which have quickly failed so we will need to give these markets some room to consolidate and prove up performance. With economic data weakening, which significantly impacts small-cap stocks, the risk of failure remains pretty high for now. Be patient.

**Current Position:** *No position*

**Emerging, International (EEM) & Total International Markets (EFA)**

The same advice goes for Emerging and International Markets which we have been out of for several weeks due to lack of performance. These markets rallied recently on hopes of a "*trade resolution*," and the ECB going all in on rates and QE. The spike was good but the markets remain unconvincing as we have seen the rallies before that failed. We will watch and wait for a better entry point. •

**Current Position:** *No Position*

**Dividends (VYM), Market (IVV), and Equal Weight (RSP)** - 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 (GLD)** ? The previous correction in Gold, which we have been looking for, we used to add to our positions. Gold is testing critical support and is working off its overbought condition and looks to be setting up for a rally higher. **You can add to holdings if you have not done so.** •

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

**Bonds (TLT)** - •

Like Gold, bonds also finally corrected to work off some of the EXTREMELY overbought condition. Like gold, we used the pullback to lengthen the duration in our bond portfolios by swapping GSY (short-duration) for IEF (longer-duration.) We will continue to add to IEF as the reversal in rates continues. •


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

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

## 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 Resistance
XLK	Technology	OB	Positive	Positive	Hold			X			Testing Resistance
XLI	Industrials	OB	Positive	Neutral	Hold			X			Testing Resistance
XLB	Materials	OB	Positive	Neutral	Hold			X			Testing Resistance
XLE	Energy	OB	Negative	Negative	No Position					X	Failed At Downtrend
XLP	Staples	OB	Positive	Positive	Hold			X			Holding Support
XLV	Health Care	OB	Positive	Neutral	Hold			X			Broke Above 50-DMA
XLU	Utilities	OB	Positive	Positive	Hold			X			New Highs
XLF	Financials	OB	Positive	Neutral	Hold					X	Testing Resistance
XLC	Communications	OB	Positive	Neutral	No Position			X			Testing Resistance
XLRE	Real Estate	OB	Positive	Positive	Hold			X			Bounced Off Support
SLV	Small Caps	OB	Negative	Negative	No Position					X	Testing Resistance
MDY	Mid Caps	OB	Positive	Neutral	No Position					X	Testing Resistance
EEM	Emerging Mkt	OB	Positive	Negative	No Position					X	Testing Resistance
EFA	International	OB	Positive	Negative	No Position					X	Testing Resistance
IXUS	Total International	OB	Positive	Negative	No Position					X	Testing Resistance
GLD	Gold	Correcting	Positive	Positive	Add		X				Add To Holdings
RSP	SP500 Equal Wgt	OB	Positive	Positive	Hold			X			Overbought
SDY	SP500 Dividend	OB	Positive	Positive	Hold			X			Overbought
IVV	SP500 Market Wgt	OB	Positive	Positive	Hold			X			Overbought
TLT	20+ Yr. Bond	Correcting	Positive	Positive	Add		X				Add To Holdings
HYG	Corporate High Yield	OB	Positive	Positive	No Position					X	Extreme Overbought
BNDX	Int'l Bond Aggregate	Correcting	Positive	Positive	No Position					X	Correcting
LEGEND: X = THIS WEEK   => PREVIOUS DECLINING   <= PREVIOUS IMPROVING						X	No Position				

## Portfolio/Client Update:

This past week, the market rallied on the Fed rate cut and hopes of "QE" in the future. The only thing that derailed the action were headlines which suggest "trade wars" may be continuing for a while longer. •

Nonetheless, the market did break above the consolidation to the upside and is now testing all-time highs. However, the market is extremely overbought currently which provides short-term risk to add positions into models.

Moreover, October tends to a fairly volatile month to begin with, but add to that the potential for trade disruption around mid-month and there is simply too much uncertainty to take on an increased level of equity risk currently.

We continue to maintain a defensive bias to portfolios, and have increased our hedges as of late, which has work to reduce volatility. After adding and rebalance positions in portfolios, we remain fully weighted in Technology, Discretionary, Communications, Healthcare, Staples and Utilities, we are content to wait for now to see what the market tells us to do next. We still remain underweight in Materials and Industrials (*after taking profits previously*) due to the ongoing "trade war." •



We will continue to "rent" this rally, and will take profits, as needed. •

**For newer clients, we have begun the onboarding process bringing portfolios up to 1/2 weights in our positions.** This is always the riskiest part of the portfolio management process as we are stepping into positions in a very volatile market. However, by maintaining smaller exposures we can use pullbacks to add to holdings as needed. We also are carrying stop-losses to protect against a more severe decline. •

- **New clients:** *We have been onboarding slowly. Please contact your advisor with any questions.* •
- **Equity Model:** *Added a position in VXX to hedge for a pickup in volatility.*
- **ETF Model:** *Added a position in VXX to hedge for a pickup in volatility.*

***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.**

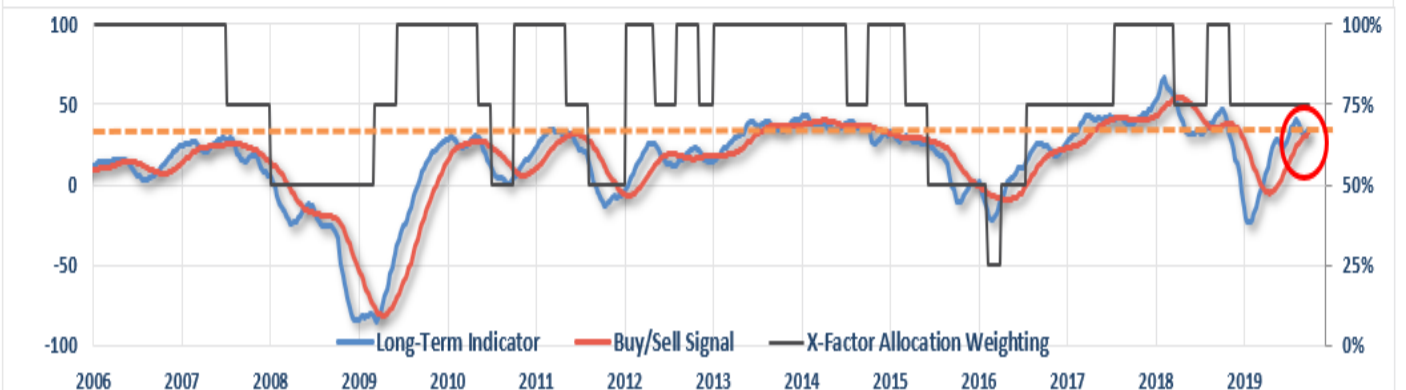
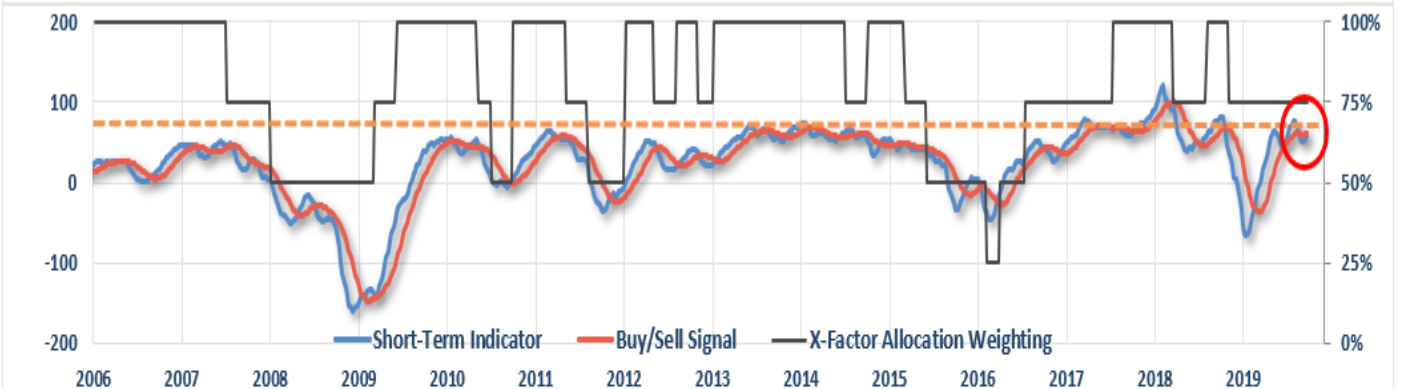
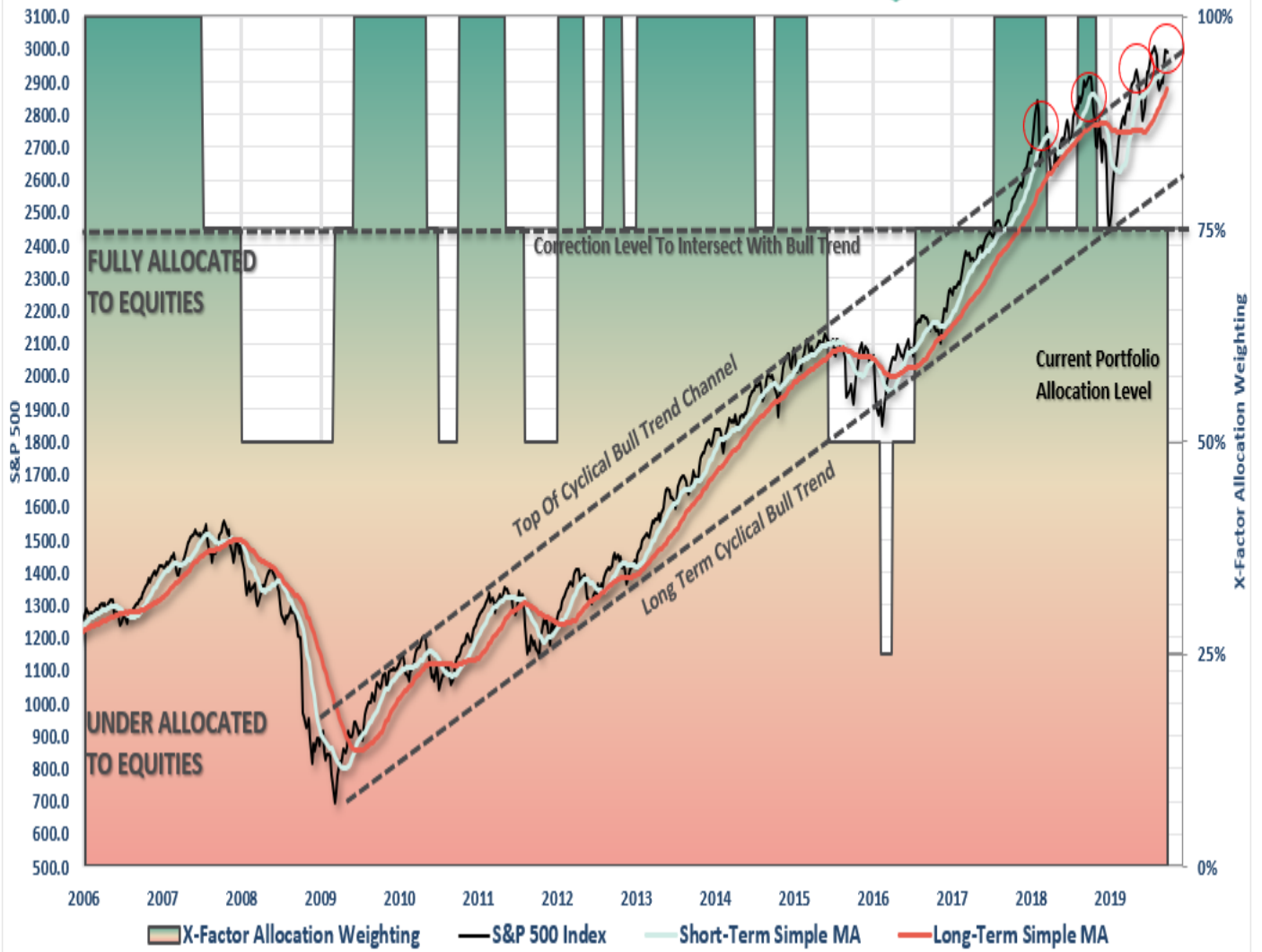
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## THE REAL 401k PLAN MANAGER

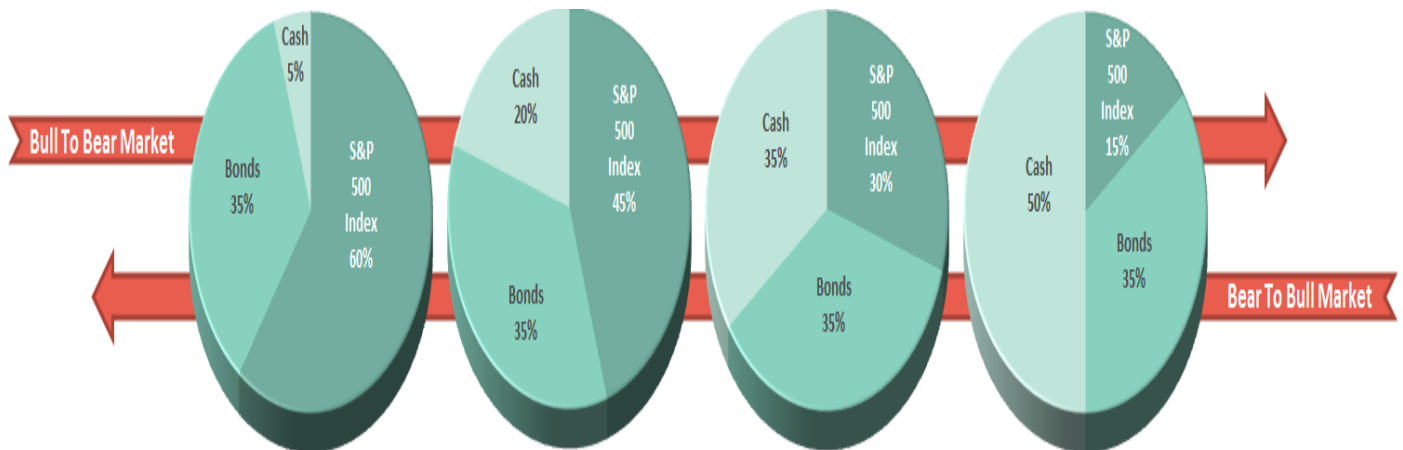
***A Conservative Strategy For Long-Term Investors***

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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.**



## The Narrative Is Getting Thin

As noted last week, the "narrative" that has been driving the market higher has been one of hopes for further "*Fed easing*" and a resolution to the "*trade war*." With the Fed not easing, and looking like they are going to be more hawkish in the future, the risk falls on Trump for the "*trade war*."

While he should "*do a deal, any deal*," to get it off the table, it looks like he is going to maintain a tough stance with China and try and win a "*battle*," but potentially wind up "*losing the war*," economically speaking.

In the short-term, as shown in the 401k plan chart above, both of our signals are triggering a "*sell signal*" with the markets extremely extended above their long-term bullish trend line. Previous episodes have resulted in a short-term correction.

Therefore, for now, we continue to remain underweight equities as the markets remain trapped within a fairly broad range. This makes it difficult to do anything other than just wait things out.

It will be important the market continues to rally next week. However, the overall action this past week was not great. Despite the rally this week, the downside risk is elevated, so we are maintaining underweight holdings for now. 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

Become a [RIA PRO subscriber](#) and be part of our "**Break It Early Testing Associate**" group by using **CODE: 401** (You get your first 30-days free)

The code will give you access to the entire site during the 401k-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 are building models specific to company plans. So, if you would like to see your company plan included specifically, [send me the following](#):

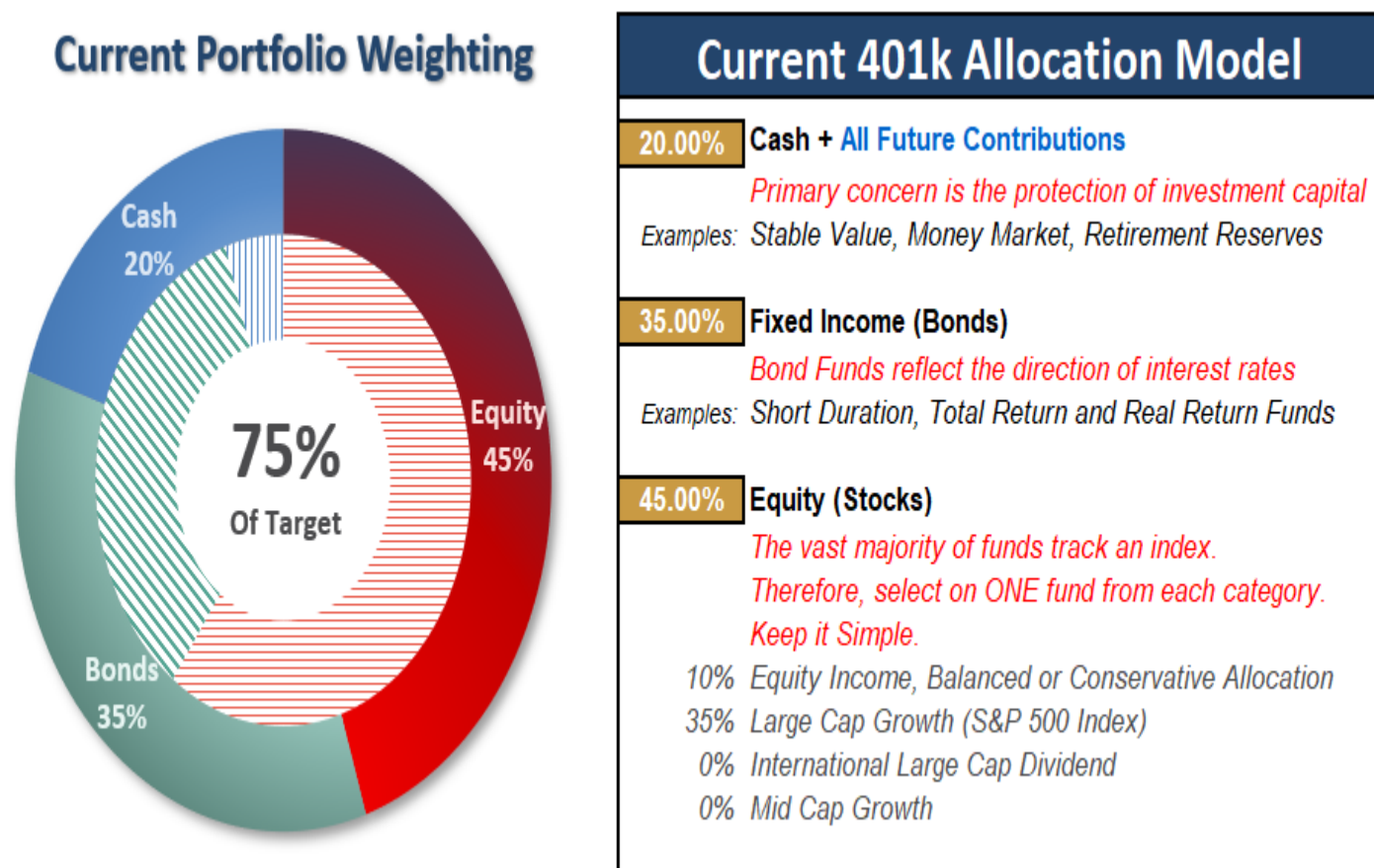
- *Name of the company*
- *Plan Sponsor*
- *A print out of your plan choices. (Fund Symbol and Fund Name)*

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.)***



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. •

