- ***Now Or Never For The Bulls***
- ***Bearish Case Has Teeth***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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

It's Now Or Never For The Bulls

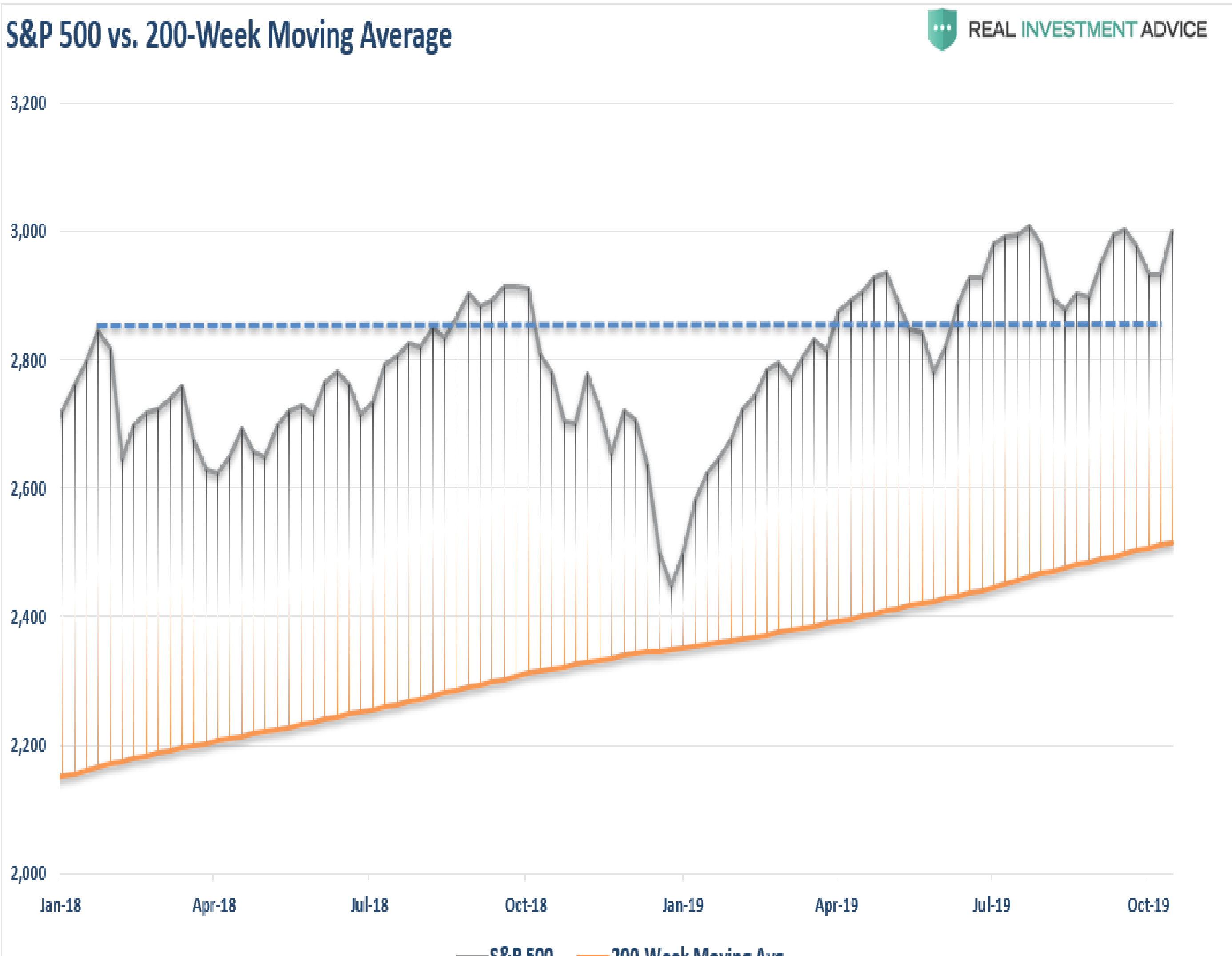
In April of 2018, I wrote an article discussing the 10-reasons the bull market•had ended.

> *?The backdrop of the market currently is vastly different than it was during the ?taper tantrum?•in 2015-2016, or during the corrections following the end of QE1 and QE2.• In those previous cases, the Federal Reserve was directly injecting liquidity and managing expectations of long-term accommodative support. Valuations had been through a fairly significant reversion, and expectations had been extinguished.* ***None of that support exists currently.?***

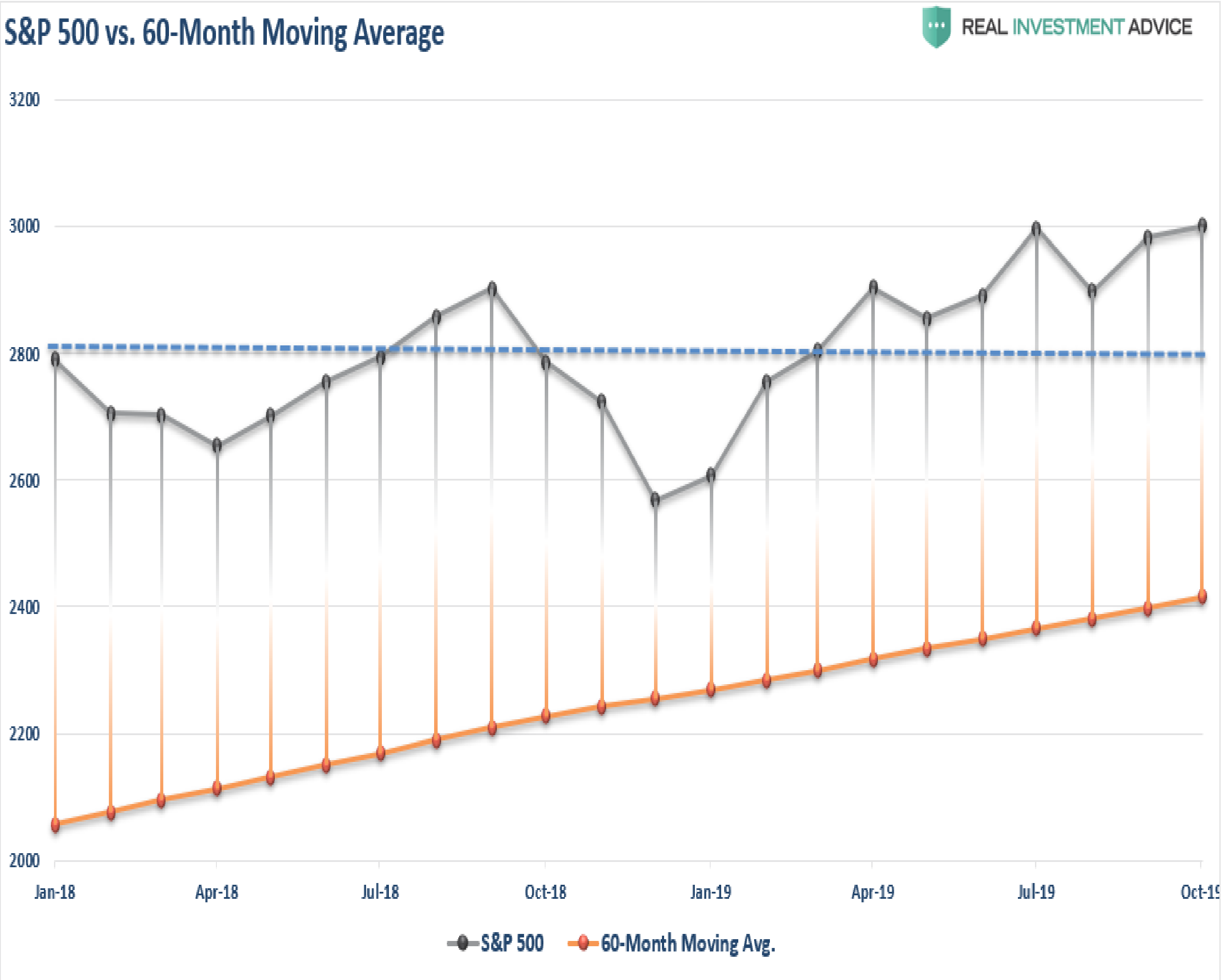
It mostly fell on?*deaf ears?* as the market rallied back to highs. Since then, the market has continued to *"cling"* to a *"wall of worries?* as noted in [Tuesday's missive by Doug Kass:](#)

- ***The [Fed Is Pushing On A String](#):***
- ***Untenable Debt Loads In The Private And Public Sectors***.
- ***An Unresolved Trade War With China***.
- ***The Global Manufacturing Recession Is Seeping Into The Services Sector***.
- ***The Market Structure Is Frightening***.
- ***We Are At An All-Time Low In Global Cooperation And Coordination.***
- ***We Are Already In An ?Earnings Recession.?***
- ***Front Runner Status of Senator Warren (Market Unfriendly)***
- ***Valuations On Traditional Metrics (e.g., stock capitalizations to GDP) Are Sky High.***
- ***Few Expect That The Market Can Undergo A Meaningful Drawdown***.
- ***The Private Equity Market (For Unicorns) Crashes And Burns***.
- ***WeWork?s Problems Are Contagious***

The reason I said *"cling,"* rather than *"climb,"* a *"Wall of Worries"* is that over the last 22-months the market really has not made much progress. With the market only marginally higher than it was in January of 2018, it has been mostly the ability for investors to withstand a heightened level of volatility. The following is a **WEEKLY** chart of the S&P 500 as compared to its 4-year (200-week) moving average.

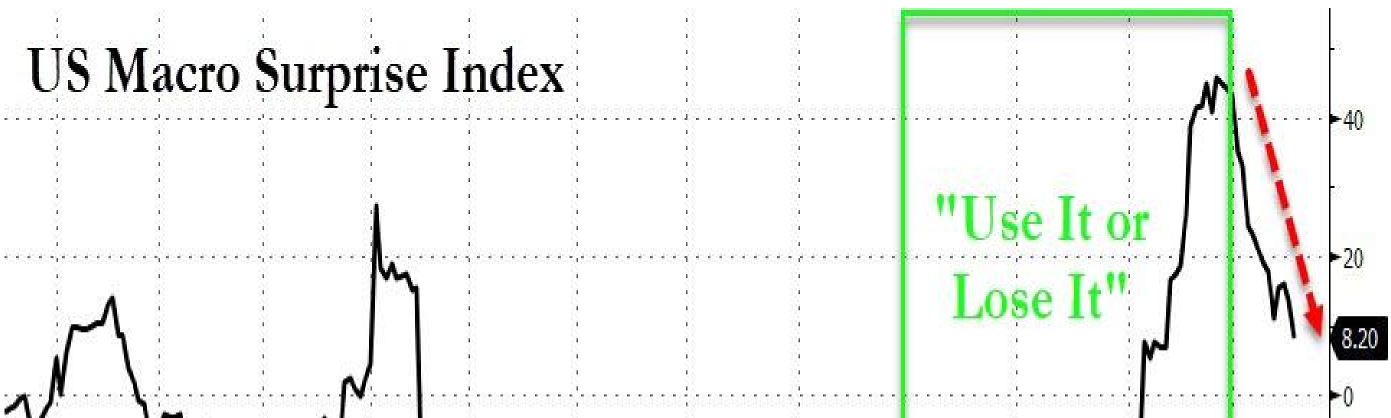


Here is the same chart on a **MONTHLY** basis as compared to its 5-year moving average.

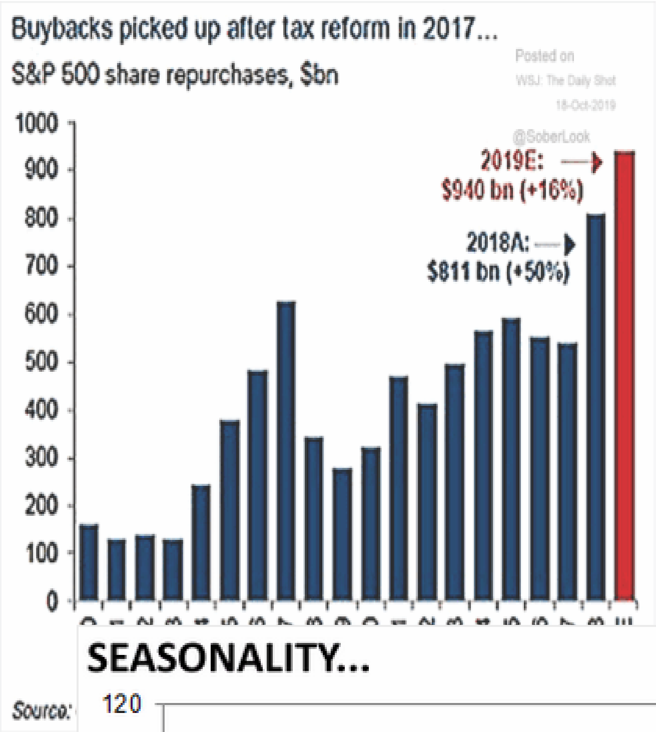


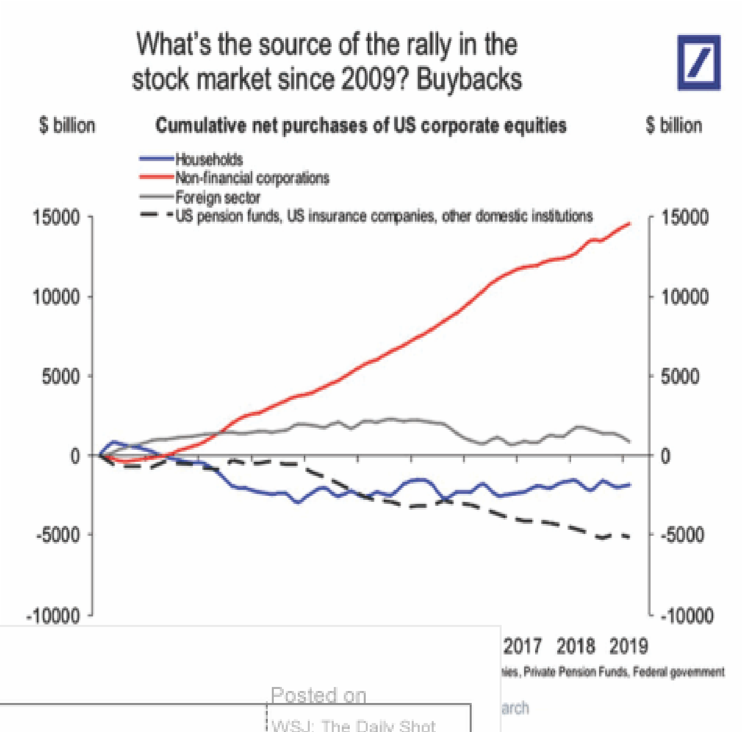
Note the extremely long time frames of the underlying moving averages. We will revisit these in a moment. For investors, it is important to understand the *"bulls"* maintain control of the market narrative for the moment, and, as noted last week, the *"bullish wish list"* was fulfilled over the last several weeks. To wit:

- ***The ECB announced more QE*** *and reduced capital constraints on foreign banks.*
- ***The Fed also reduced capital requirements on banks; and,***
- ***Initiated QE of $60 billion*** *in monthly treasury purchases. (But it's not QE)*
- ***The Fed is cutting rates*** *as concerns over economic growth remain.*
- ***A "Brexit Deal" has been reached.*** *(Just don't read the subtext that says it likely won't pass Parliament.)*
- ***Trump, as expected, caved into China*** *and sets up an exit from the ?trade deal? nightmare he got himself into.•*
- ***Economic data is improving*** *on a comparative basis in the short-term.*

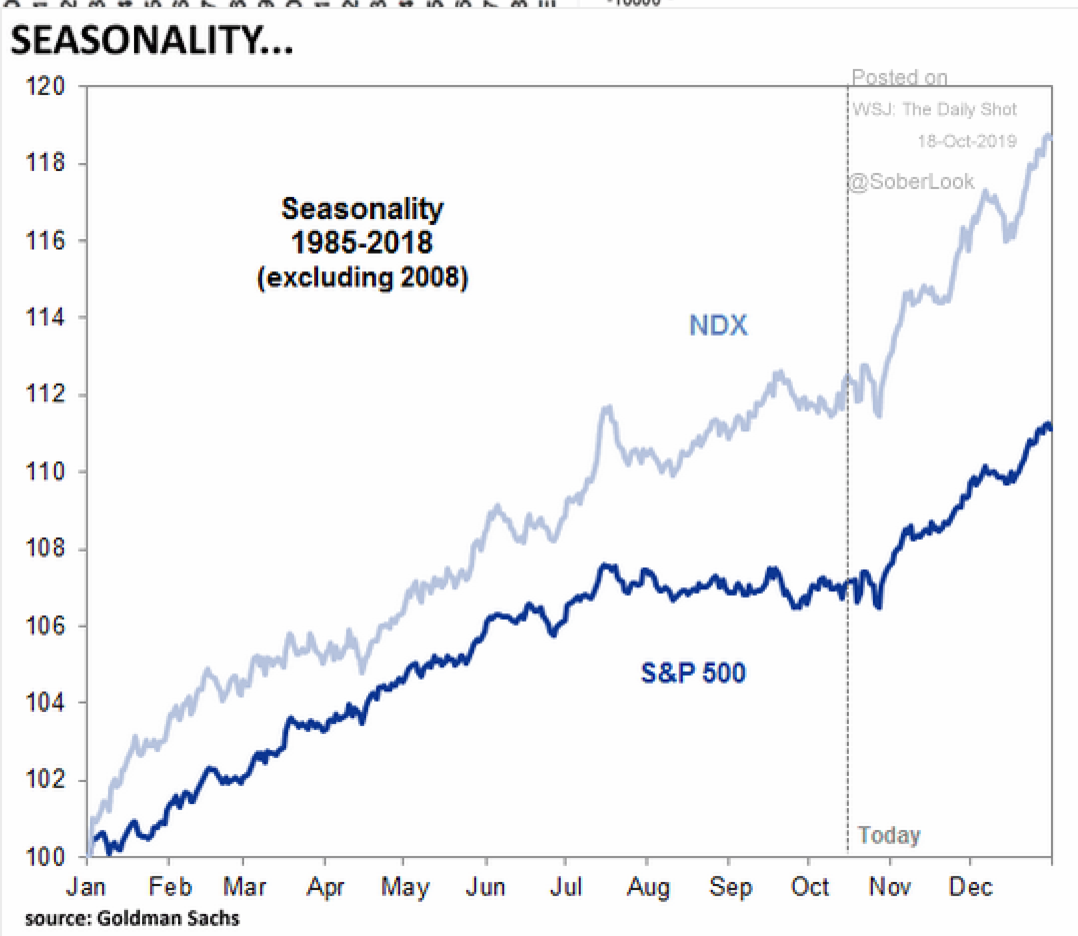


- ***Stock buybacks are running on pace to be another record year.*** *(As noted previously, stock buybacks have accounted for almost 100% of all net purchases over the last couple of years. See chart below.)*



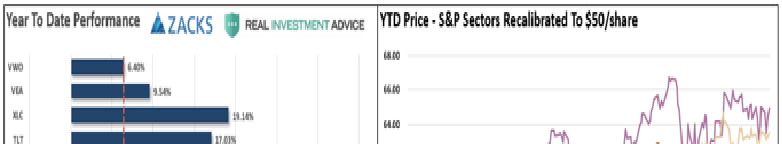


If you ... we are now movi... advantage, for



now. ... This is why we

continue to maintain a long-equity bias in our portfolios currently. We also recently slightly reduced our hedges, along with some of our more defensive positioning. We are still maintaining slightly higher than normal levels of cash.



Note: If you want to track our portfolios "real time," receive buy/sell alerts on holdings, and have access to all of our data and analysis tools, check out [RIAPro.net today for a 30-day FREE Trial.](RIAPro.net)

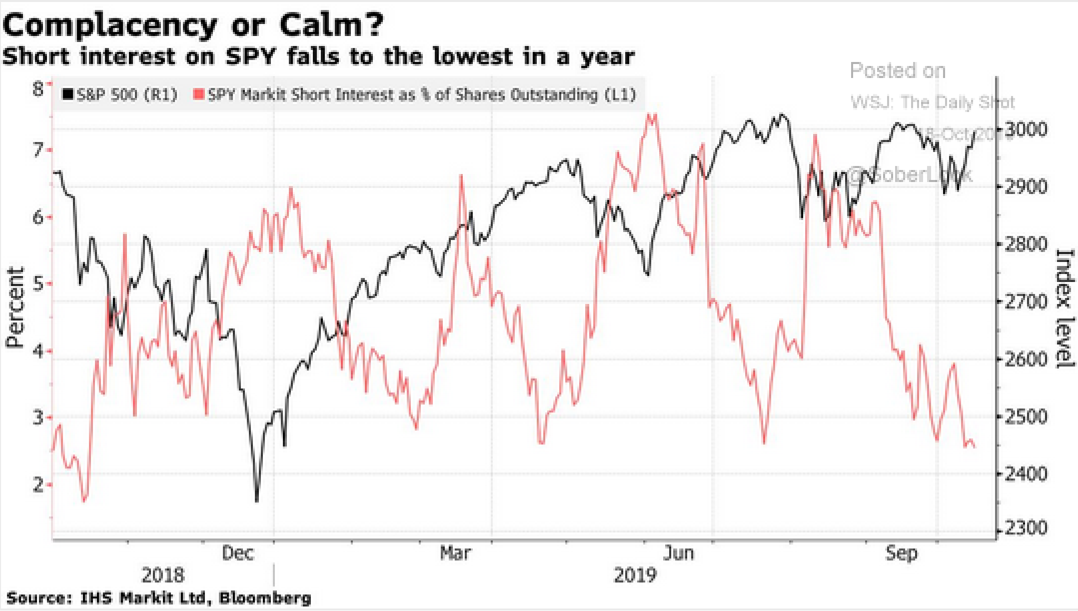
The Bearish Case Still Has Teeth

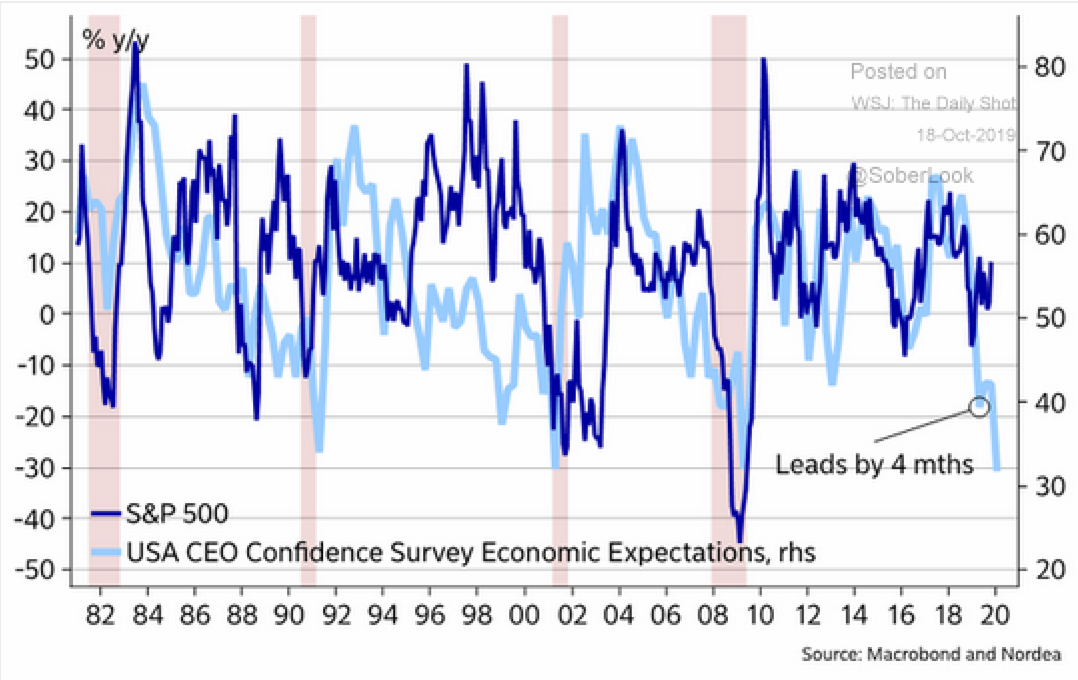
"So, IF the "bulls" do indeed have control of the market, then why are allocations still somewhat hedged for risk?"

Great question. The simple reason we still remain cautious is due to several reasons:

- *Despite the "bullish case" suggesting higher prices into the end of the year, there is still a not-insignificant possibility of failure.•*
- *Even with the "bullish backdrop," the markets have, at least for now, been unable to make, and sustain, new highs. (see chart)*

- *The is a high level of complacency among speculators (see chart)*





vhich have denoted

The chart below is the

S&P 500 as compared to its 5-year MONTHLY, moving average. With the market currently pushing one of the highest deviations from the long-term average, investors would do well to remember that *"**reversions to the mean**"* **occur with regularity.•**

As is always the case, historically speaking, the *"bull case"* ALWAYS appears to be *"correct,"* until it isn't. Unfortunately, for most investors, by the time they realize that something has going wrong, and they find out just how much "risk" they have layered into their portfolios, it is often too late to do much about it. This is why *"risk management"* is always vastly more important than chasing returns.

What To Watch Out For

The one thing about long-term trending bull markets is that they cover up investment mistakes. Overpaying for value, taking on too much risk, leverage, etc. are all things that investors inherently know will have negative outcomes. **However, during a bull market, those mistakes are• *?forgiven?*•as prices inherently rise. The longer they rise, the more mistakes that investors tend to make as they become assured they are•*?smarter than the market.?*•**Eventually, a bear market reveals those mistakes in the most brutal of fashions. It is often said the religion is found in• *?foxholes.?*•It is also found in bear markets where investors begin to•*?pray?*•for relief. Many investors have dismissed the lessons they learned in 2008. There are many more who have never actually seen a *"bear market,"* and understandably believe the current bull cycle will last indefinitely. I can assure you it won't, and *"experience"* is always a brutal teacher. As I wrote in•*?The Exit Problem?*• last December:

> *?My job is to participate in the markets while keeping a measured approach to capital preservation.•**Since it is considered ?bearish?•to point out the potential ?risks?•which could lead to rapid capital destruction; then I guess you can call me a ?bear.? Just make sure you understand•I am still in ?theater,?•I am just moving much closer to the ?exit.??***

After having trimmed out some of our gains in our equity holdings throughout the year, and having been a steady buyer of bonds *(despite consistent calls for higher rates)*, we are well positioned to take advantage of a rally to new highs if it occurs. https://realinvestmentadvice.com/8-reasons-to-hold-some-extra-cash/ The cash we hold also protects us against a sudden sharp decline. **For the bulls, it?s now or never to make a final stand.** Just remember, getting back to even is not the same as growing wealth. 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

MISSING THE REST OF THE NEWSLETTER?

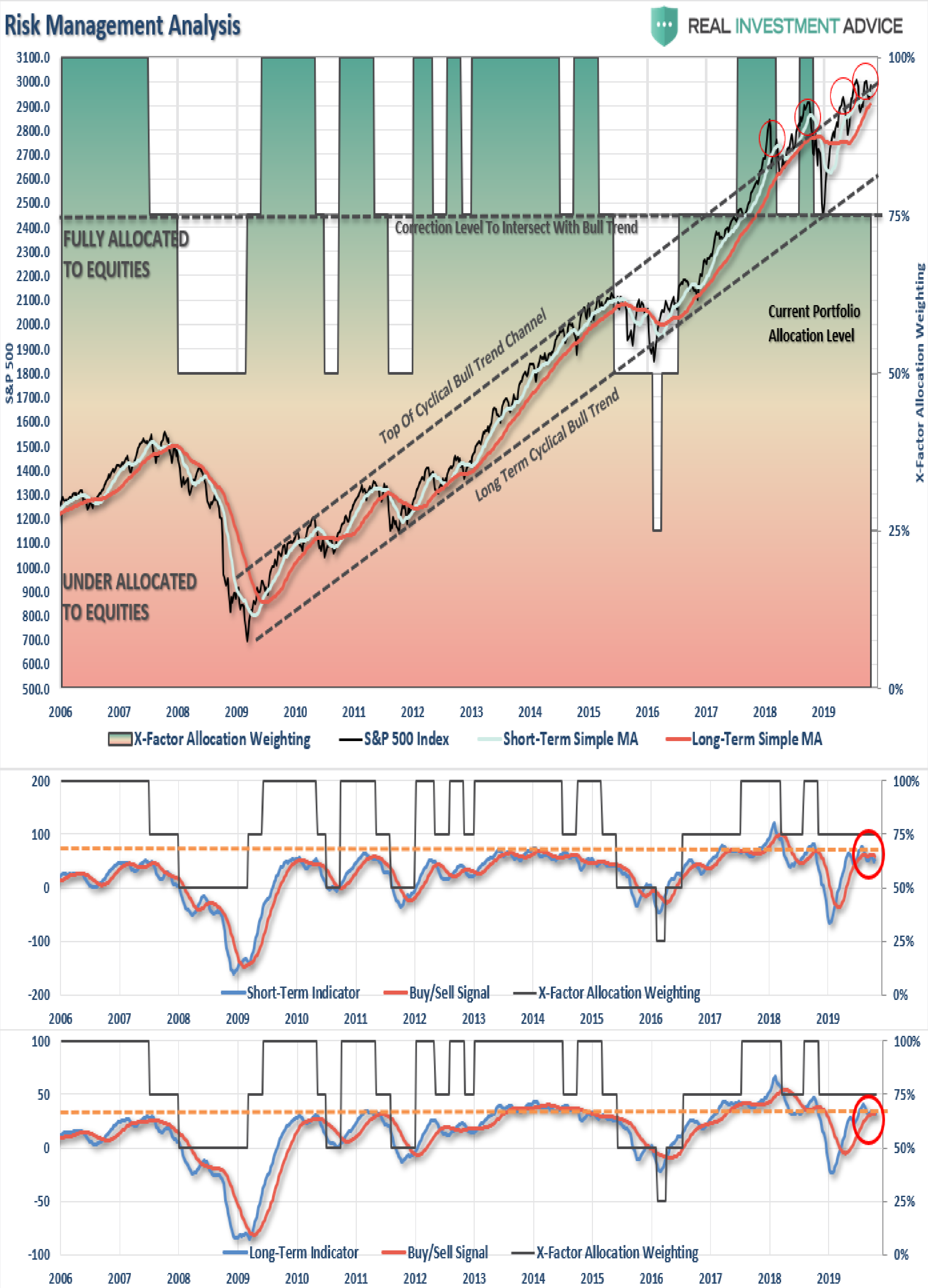
This is what our•*RIAPRO.NET*•subscribers are reading right now!

- *Sector & Market Analysis*
- *Technical Gauges*
- *Sector Rotation Analysis*
- *Portfolio Positioning*
- *Sector & Market Recommendations*
- *Client Portfolio Updates*

- *Live 401k Plan Manager*

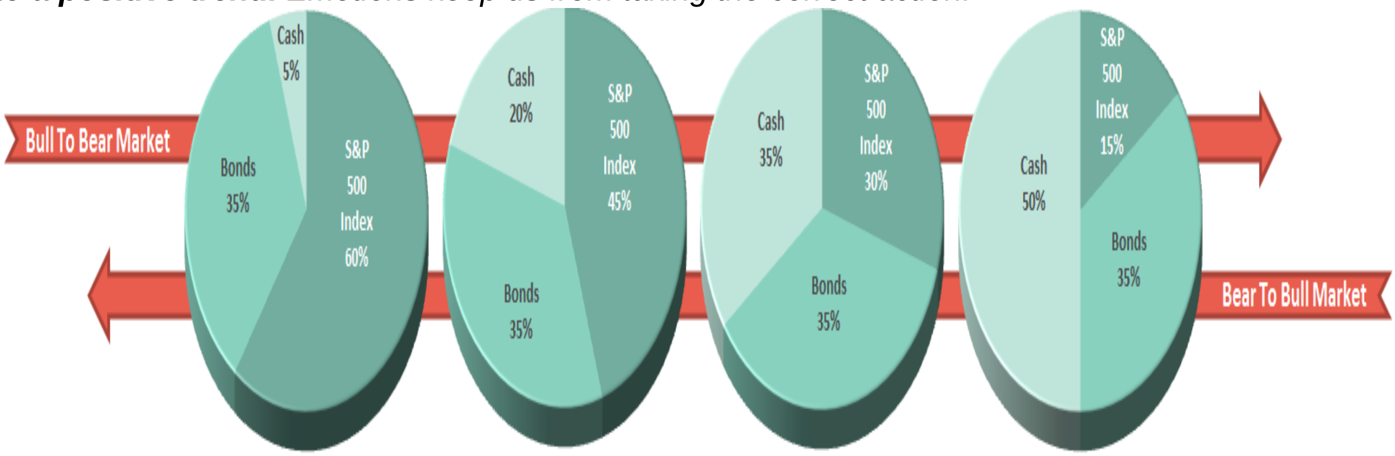
THE REAL 401k PLAN MANAGER

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.*



QE-4 Officially Begins

Please read the main body of the newsletter this week.•Given the *"bulls"* have the upper-hand heading into the end of the year, we will likely increase our portfolio exposures over the next couple of weeks once we get a handle on how the markets are going to react to all of the news. In the meantime, you can prepare for the next moves by taking some actions if you haven't already.

- *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)*

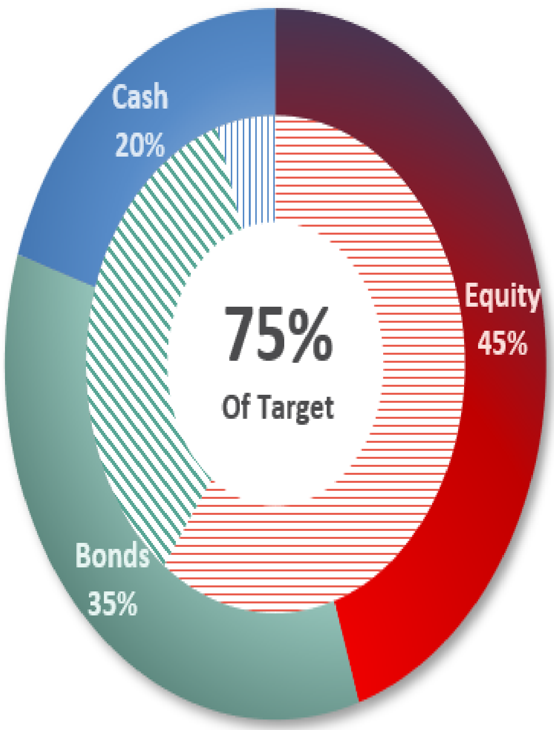
I have gotten quite a few plans, so keep sending them and I will include as many as we can. **If you would like to offer our service to your employees at a deeply discounted corporate rate, please contact me.**

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.)

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

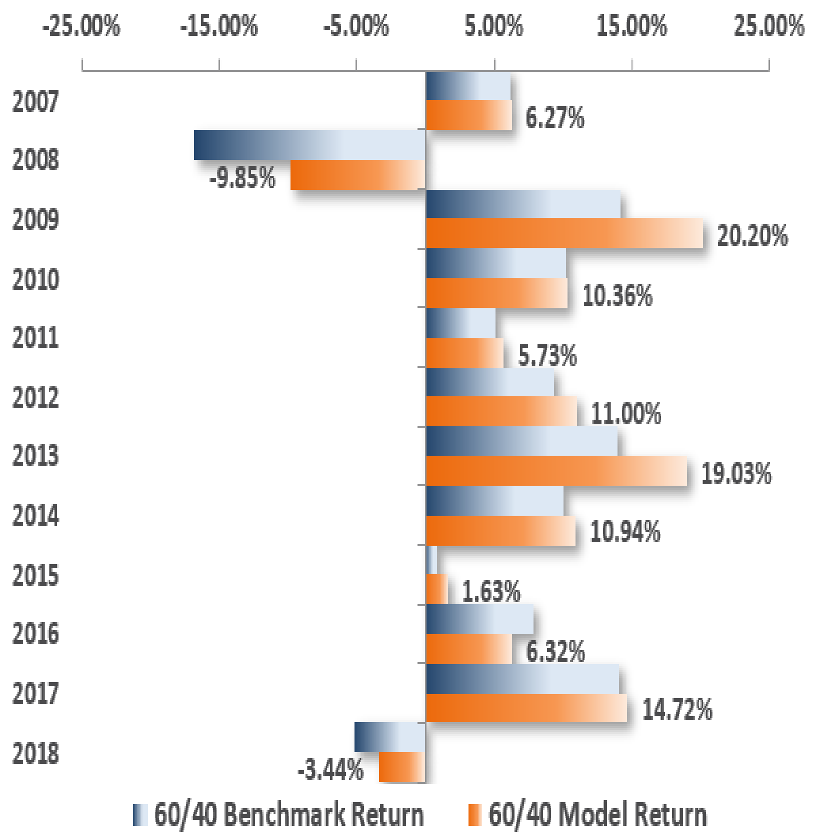
45.00% **Equity (Stocks)**

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

60/40 Benchmark vs. Risk Adjusted 60/40 Allocation