

# Market Melts Up

## As Fed Turns On Liquidity Firehose



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# Catch Up On What You Missed Last Week



## #WhatYouMissed On RIA: Week Of 12-16-19

Written by Lance Roberts | Dec 20, 2019

We know you get busy and don't check on our website as often as you...

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## Market Melts Up

***"We are so overbought, and this is feeling like a panicky-just-get-me-in buy day. Be careful about being impressed." - Kevin Muir***

Let me start this week, taking the lead from my dear friend [Victor Adair of Polar Futures Group:](#)

***"The S&P 500 keep printing new 'all-time highs' while complacency reigns even as the CNN Fear & Greed index is flashing extreme greed. Volatility is ultra-low across all markets, the put/call ratio is at a 5 year low and credit spreads are tight. People are reaching for yield, and have no interest in buying downside protection. AAPL is up 100% in 12 months, but TSLA has more than doubled in just 6-months...a poster child for the market's current exuberance!"***

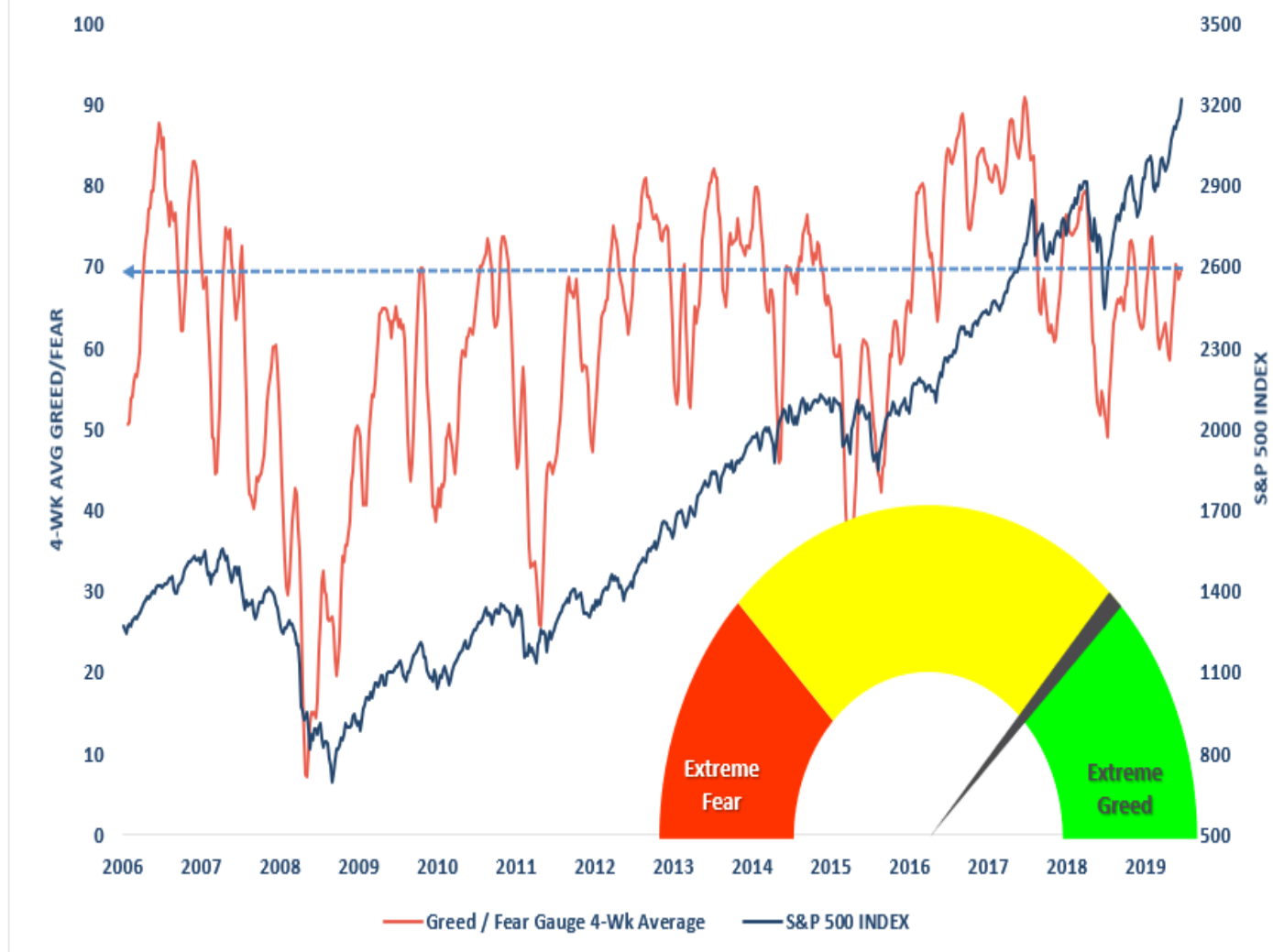
As we discussed previously, the market has been primarily lifted by the largest companies in the S&P 500. In our interview with [Thomas Thorton of Hedge Fund Telemetry](#) it was noted that Apple and Microsoft have made up 38% of the YTD rally in the market. Another 38% was supported by the next 15-largest stocks with the remainder brought up by the other 483 stocks in the index.

20-Dec-2019

Open 282.23 High 282.65 Low 278.56 Close 279.44 Volume 59.4M Chg -0.58 (-0.21%) ▼



As I noted in our **MacroView Outlook for 2020**, and as Victor notes above, the levels of outright complacency and bullishness have reached extremes. The following is our composite "Fear/Greed" gauge which is based on actual market positioning between individuals and professional investors. Since this is a 4-week moving average, it moves more slowly, but with short-term readings spiking higher, I would expect this gauge to be well entrenched at the "Greed" level by year-end.



As Victor notes, this is quite a swing from where we were just one year ago as the markets were in the midst of a near 20% decline.

*"A year ago today the CNN index was flashing extreme fear...the S+P index was at 18-month lows...having fallen nearly 20% in less than 3 months...but just a couple of days later it began to rally and is now up ~37% from those lows."*

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## Two words: Monetary Stimulus

While the media continually droned on about the "Trade War," the primary reason for the reversal in the markets was the massive reversal in monetary policy. •

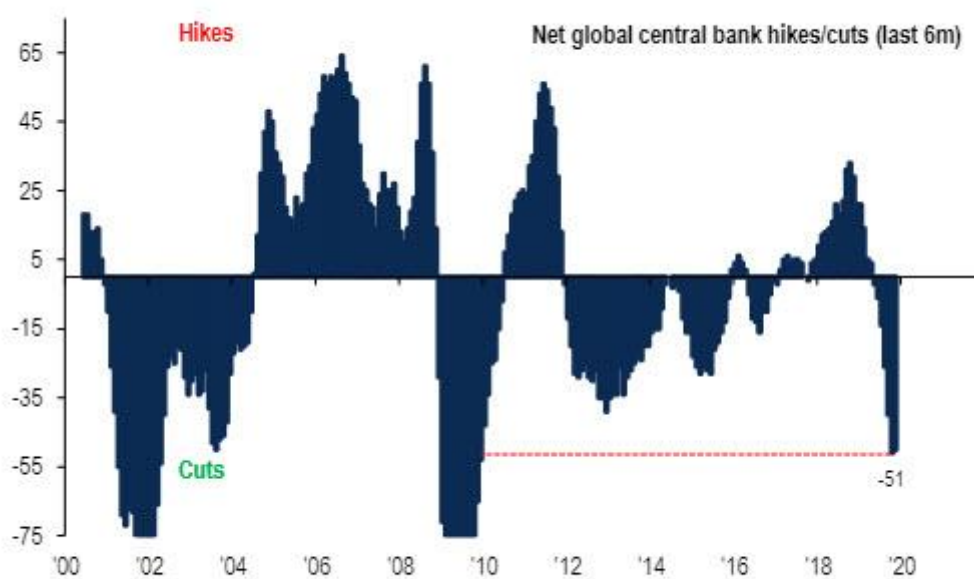
As Stanley Druckenmiller said this week:

*?You have very low unemployment. You have fiscal stimulus in Japan. You have fiscal stimulus and a lot of confidence coming to Britain. **We are running a trillion-dollar deficit at full employment.** Apparently, we are going to have some sort of green stimulus in Europe. And we have negative real rates everywhere, and negative absolute rates in a lot of places. So with that kind of unprecedented monetary stimulus relative to the circumstances, it's hard to have anything other than a constructive view on the markets, risk, and the economy in the intermediate-term.?•*

He is right,•

However, this stimulus is the largest ever outside of a "recession" or "financial crisis," which should lead to the obvious question of "what exactly is going on we don't know about?"

Chart 9: Central banks cutting like it's a crisis



Source: BofA Global Investment Strategy, Bloomberg

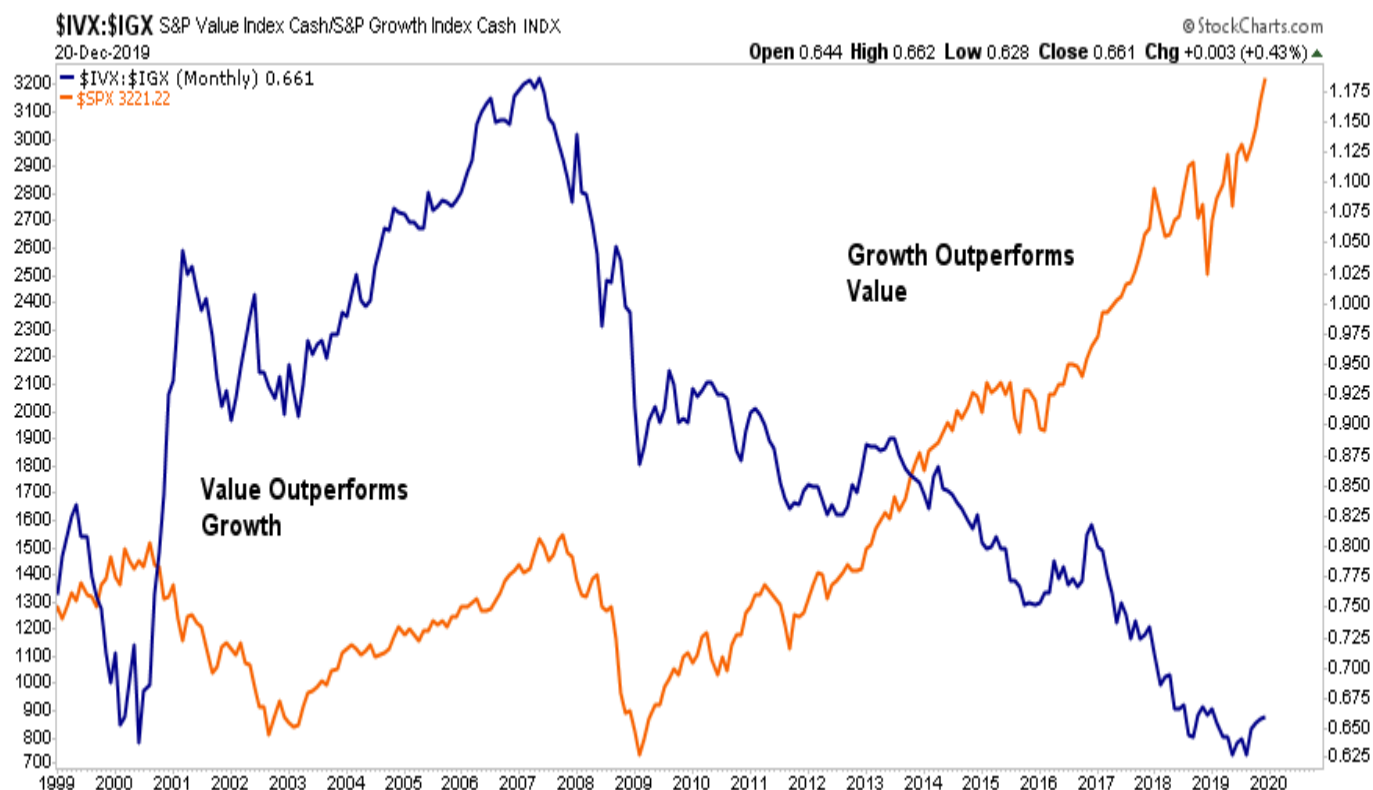
Over the last 3-months the Fed has been fighting a "*repo inferno*" flooding the overnight lending market with billions in short-term funding. While the Federal Reserve accurately states this is NOT "*Quantitative Easing*," market participants didn't get the memo. The market has risen in every single week the Fed has been active, despite collapsing fundamentals. ([h/t ZeroHedge](#))



## Portfolio Positioning

As we have noted over the past year, **we have remained primarily allocated toward equity exposure, but have also worked around the edges hedging risk**, raising stop levels, and remaining primarily domestic-focused. Given our outlook for a steeper yield curve earlier this year, we also shorted duration in our bond allocations, increased credit quality, and carried a slightly higher than normal level of cash. •

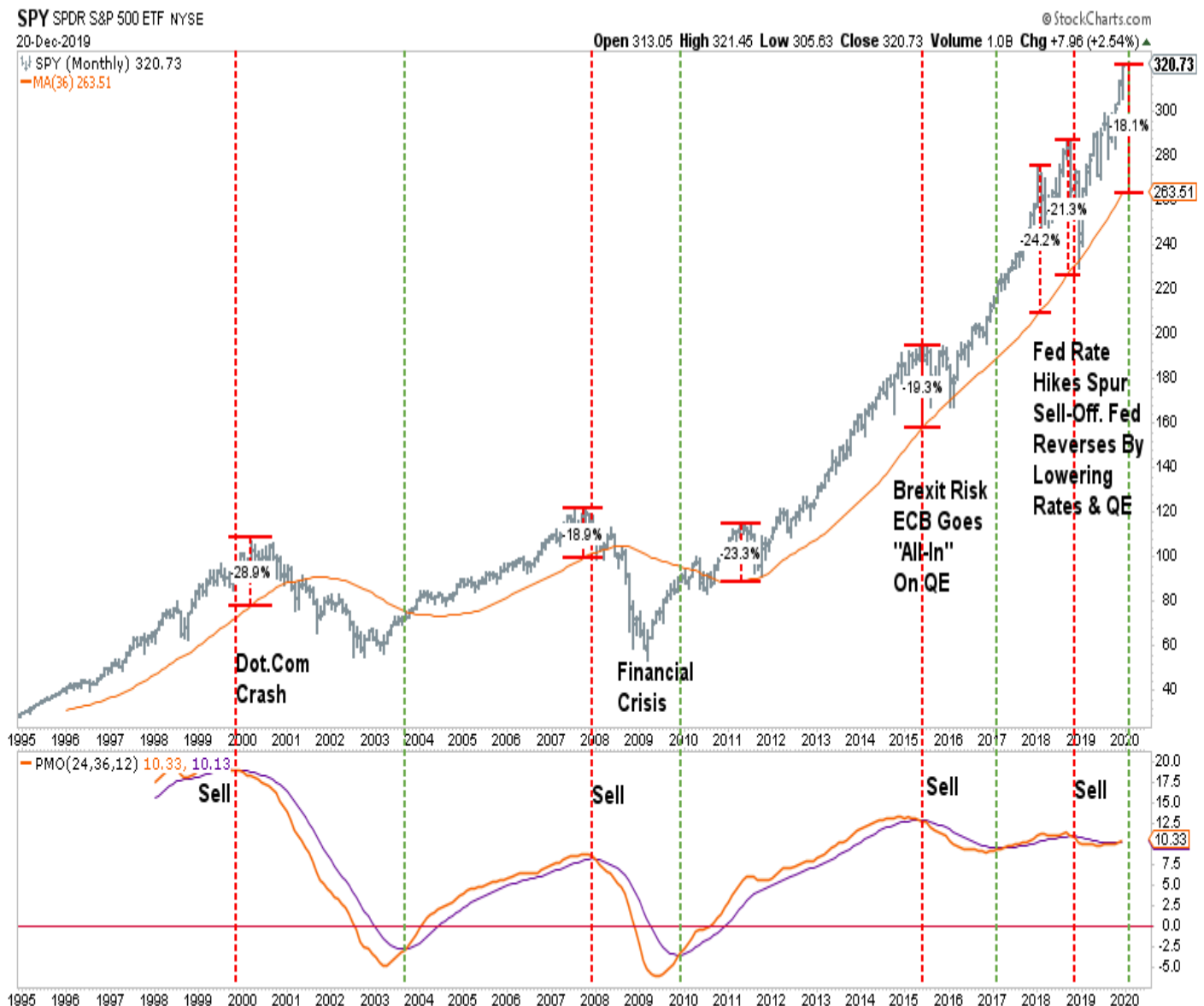
Currently, that remains the case with the exception that we have now started to make a small shift into value as the momentum trade is now exceptionally extended. The chart below shows the relative performance of momentum versus value which is currently at a level last seen in 2000.



With the markets extremely deviated from long-term trends, extremely complacent, and overly bullish (*as noted above*), the shift towards value adds a defensive component to our portfolio risk



management strategy ([more on this in our MacroView](#))



While none of this means the next **"bear market"** is lurking, it does suggest that a fairly decent 5-10% correction is likely over the next couple of months.●

As we head into the final few trading days of the year, it is worth reminding you of **"the rules"** [we penned in last week's missive](#). These processes follow our basic rules of portfolio management, which you can apply to your portfolio as well to reduce overall volatility risk.

1. **Tighten up stop-loss levels**●to current support levels for each position.
2. **Hedge portfolios**●against major market declines.
3. **Take profits**●in positions that have been big winners
4. **Sell laggards**●and losers
5. **Raise cash**●and rebalance portfolios to target weightings.

**Notice, nothing in there says, ?sell everything and go to cash.?**

Remember, our job as investors is pretty simple ? protect our investment capital from short-term destruction, so we can play the long-term investment game.

Of course, if the Fed fails to "*extinguish*" whatever "*blaze*" they are currently battling, then we will begin to have a very different conversation about risk, positioning, and liquidity.●

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## Opportunities In A Melt Up

In June, we shared with our RIA Pro subscribers our strategy for playing the "*UN-Invesion*" of the yield curve using an under-followed sector of the market, agency REITs. This sector not only **pays shareholders double-digit dividends, but was also trading at a very cheap valuation**. Such is quite the rarity in today's markets! Since then, the shares are up nearly 5%, and we have clipped generous coupons.

Since then, we have been looking for the next opportunity to create returns without taking on excess risk, and for that we have been digging around one of the most beaten-up sectors of the market.●

Last week, we presented **RIA Pro readers** another high dividend stock, and sector play, trading at a dirt-cheap level. This recent selection **offers a similar value proposition and a 9.60% dividend**. Like the recommendation in June, we also purchased the security for our clients.

[Join us at RIA Pro](#) to learn more about this position, as well as gain our unique daily market intelligence, access to our portfolios, a wealth of technical, and fundamental information, 401k Planner, and much more.●

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## The Macro View





## **2020: The Futility Of Predictions & Understanding The Risk**

Written by Lance Roberts | Dec 21, 2019

“Predictions Are Difficult...Especially When They Are About The Future” –  
Niels Bohr We can't predict the...

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

***Wishing You A Very Merry Christmas***

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## **Financial Planning Corner**



### **Financial Planning Corner: What You Need To Know About The SECURE Act**

Written by Danny Ratliff | Dec 21, 2019

All you need to know about the SECURE ACT, a Required Minimum Distribution reminder and...

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You'll be hearing more about more specific strategies to diversify soon, but don't hesitate to [give me any suggestions or questions.](#)

by Danny Ratliff, CFP®, ChFC®

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## **Market & Sector Analysis**

Data Analysis Of The Market & Sectors For Traders

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### ***MISSING THE REST OF THE NEWSLETTER?***

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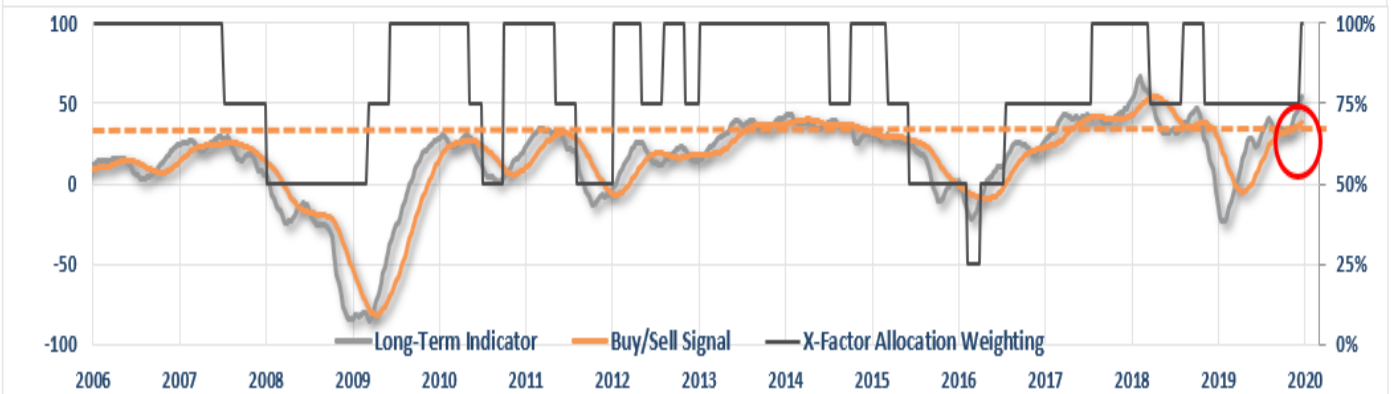
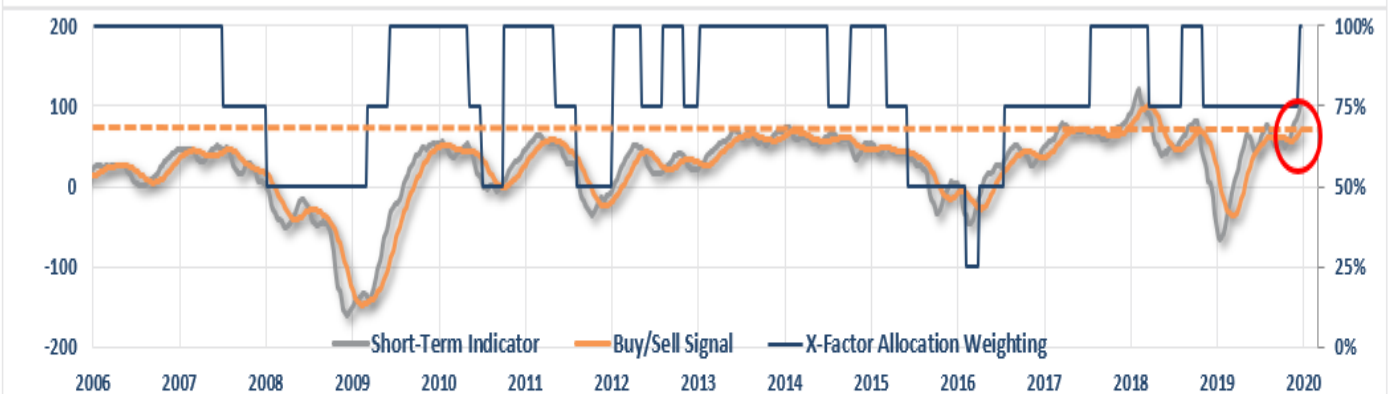
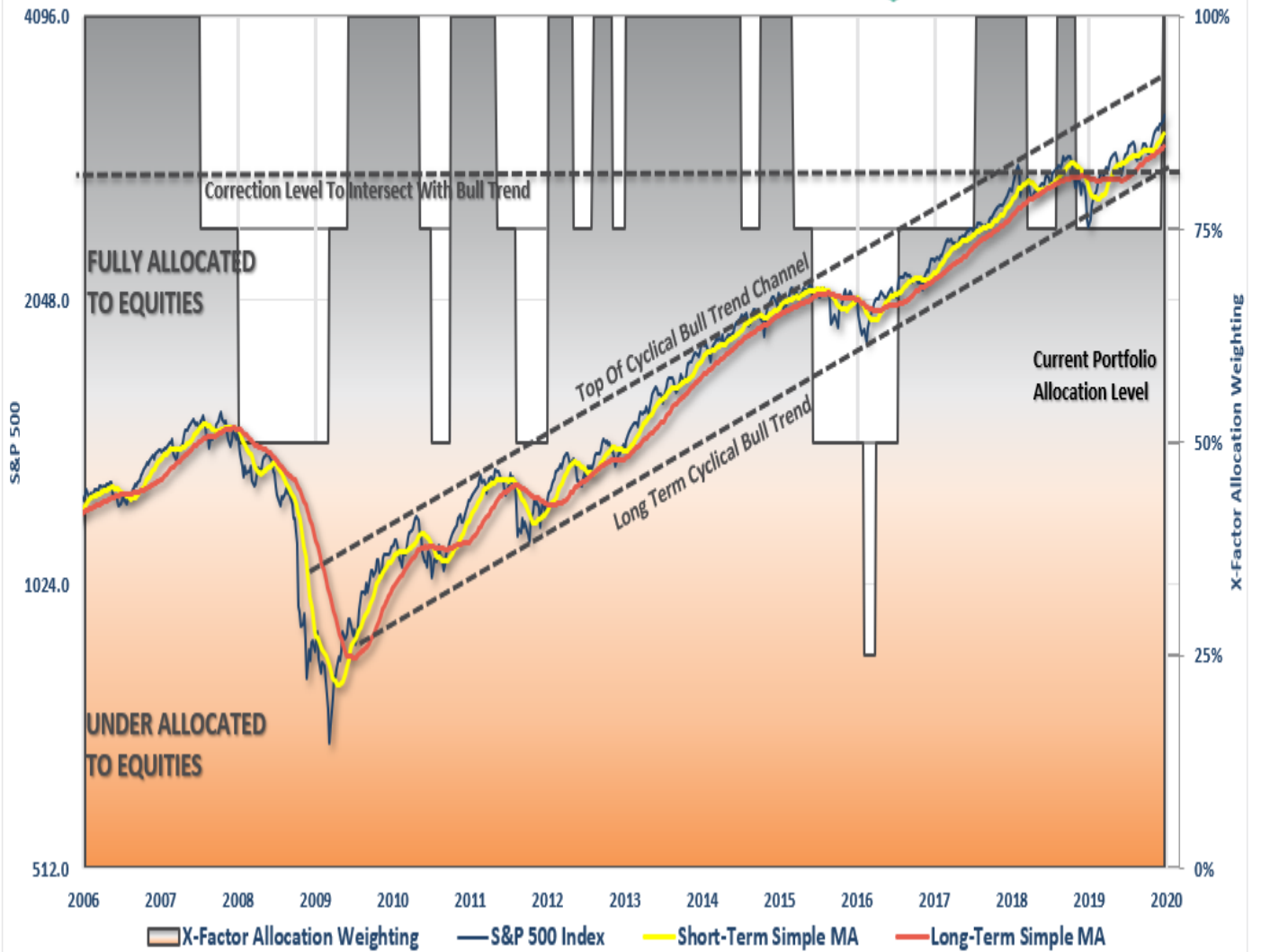
# THE REAL 401k PLAN MANAGER

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

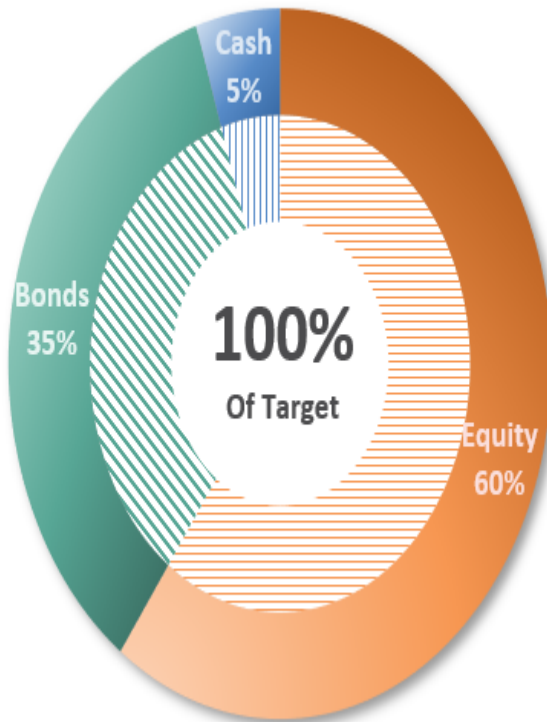
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*The 401k plan allocation plan below follows the K.I.S.S. principle. By keeping the allocation extremely simplified it allows for better control of the allocation and a closer tracking to the benchmark objective over time. **(If you want to make it more complicated you can, however, statistics show that simply adding more funds does not increase performance to any great degree.)***

# Risk Management Analysis



## Current Portfolio Weighting



## Current 401k Allocation Model

### 5.00% 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

### 60.00% Equity (Stocks)

*The vast majority of funds track an index.*

*Therefore, select on ONE fund from each category.*

*Keep it Simple.*

15% Equity Income, Balanced or Conservative Allocation

35% Large Cap Growth (S&P 500 Index)

5% International Large Cap Dividend

5% Mid Cap Growth

## Portfolio Instructions:

Allocation Level To Equities	Reommendation	When To Take Action
Less Than Target Allocation	Increase To Target	Move To Target Allocation
Equal To Target Allocation	No Change	Be Ready To Move To Full Wgt.
Over Target Allocation	No Change	Hold Current Position

## Commentary

*As noted in the commentary above, the market remains extremely overbought and extended. Last week, we moved the portfolio model to 100% given the end of the year rally is being supported by massive doses of Fed liquidity. Be careful chasing markets here, it is likely we will see a correction in early 2020, so if you are close to retirement, be sure and control your risk.*

*Very likely we will need to make some more adjustments after the beginning of the year, so remain cautious and move slowly.*

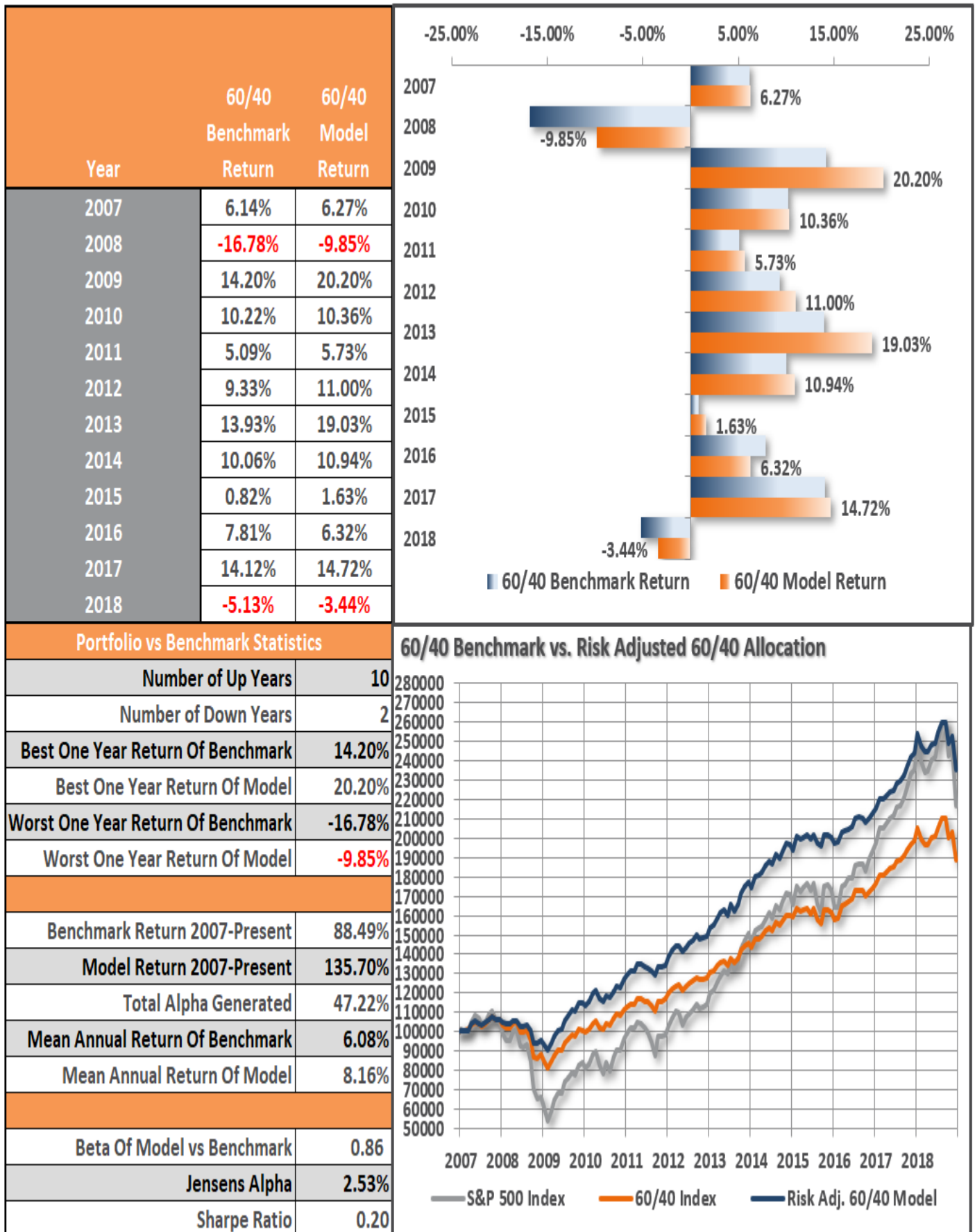
If you need help after reading the alert; do not hesitate to [contact me](#).

[Click Here For The "LIVE" Version Of The 401k Plan Manager](#)

*See below for an example of a comparative model.*

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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. •





## **401k Plan Manager Live Model**

As an [RIA PRO subscriber](#) (*You get your first 30-days free*) you have access to our live 401k p

•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)*

If you would like to offer our service to your employees at a deeply discounted corporate rate, [please contact me.](#)

This is the Beta version of 401K. Some Errors are expected ! Click Here to report Issues

My Portfolios

CVS Health ▾

Enter Portfolio Name

✓ Add Portfolio

✓ Delete Portfolio

✓ Rename Portfolio

My Info Fund Selection Comparison Summary Commentary

### My Portfolio

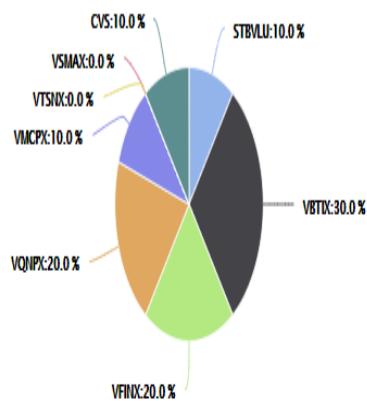
Retirement Income (My Portfolio Annual ROR 9.44 %)		—
Current account balance	10,000	
Estimated Retirement Balance	632,861	
Estimated Retirement Balance (Inflation Adj)	620,204	
Monthly Income	2,768	
Monthly Income (Inflation Adj)	2,713	
My Cumulative Contribution	172,934	
Employer Cumulative Contribution	103,760	

### RIAPro Portfolio

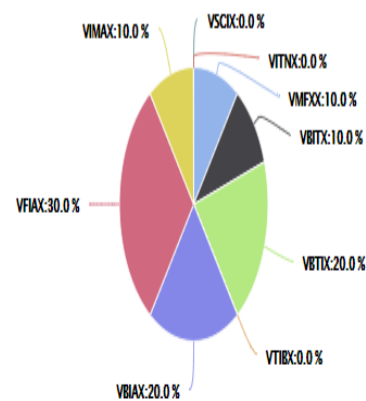
RIA PRO MODEL PL ▾

Retirement Income (RiaPro Annual ROR 9.02 %)		—
Current account balance	10,000	
Estimated Retirement Balance	609,786	
Estimated Retirement Balance (Inflation Adj)	597,590	
Monthly Income	2,667	
Monthly Income (Inflation Adj)	2,614	
My Cumulative Contribution	172,934	
Employer Cumulative Contribution	103,760	

### My Fund Composition



### RIAPro Fund Composition



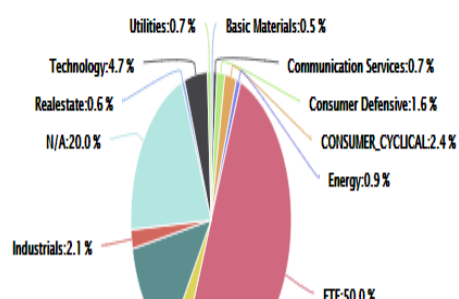
### My Asset Composition

+

### RIAPro Asset Composition

+

### My Sector Composition



### RIAPro Sector Composition

