- ***This Is Nuts***
- ***Portfolio Position Review***
- ***MacroView: Has The Fed Trapped Itself?***
- ***Financial Planning Corner: By The Numbers For 2020***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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Catch Up On What You Missed Last Week

[#WhatYouMissed On RIA: Week Of 01-06-20]

Written by Lance Roberts | Jan 10, 2020

This past week was our annual family ski trip, which is why our postings have...

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Market Review & Update

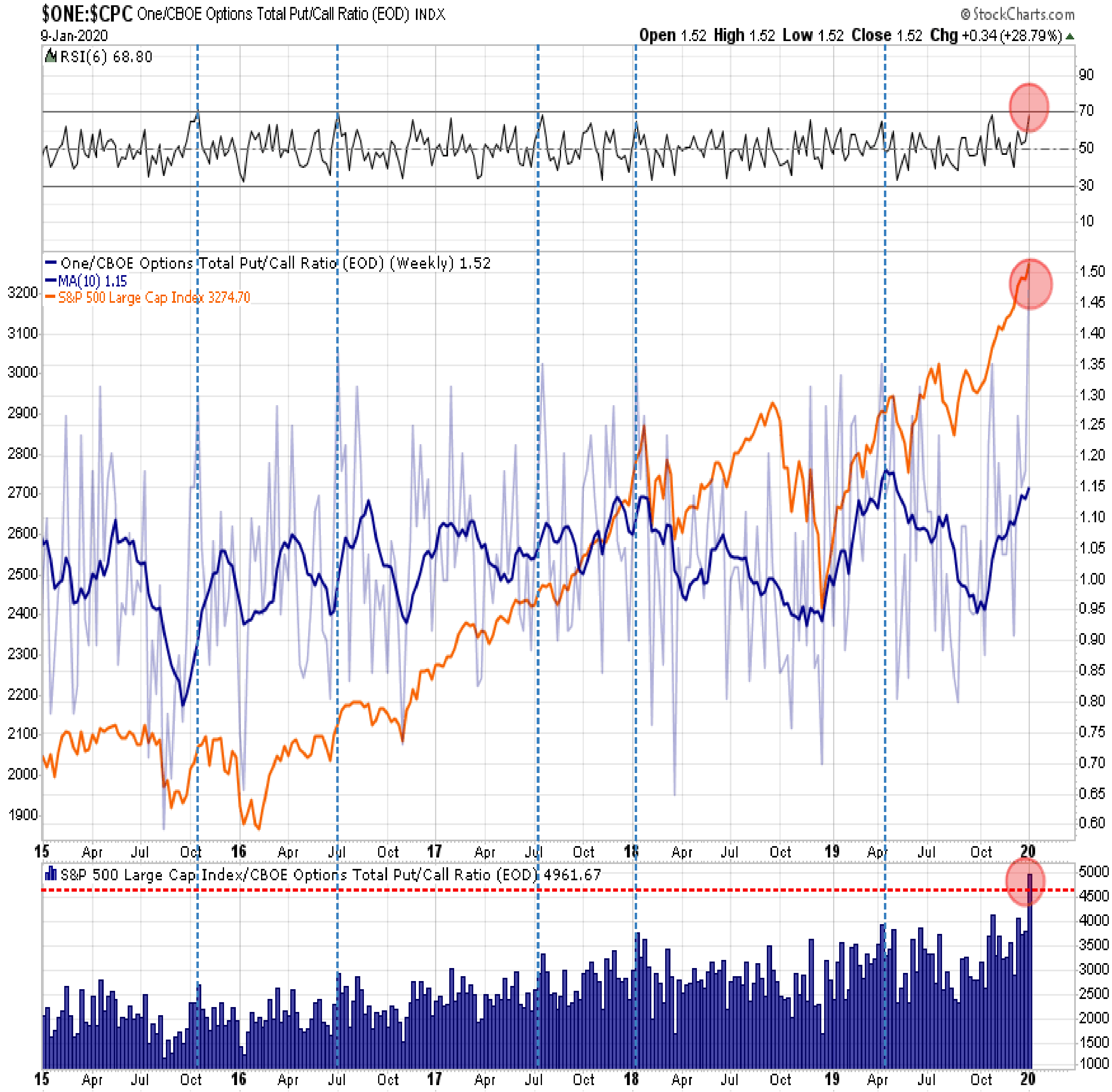
When you sit down with your portfolio management team, and the first comment made is *"this is nuts,"* it's probably time to think about your overall portfolio risk. On Friday, that was how the investment committee both started and ended - *"this is nuts."*

We have been discussing the overbought, extended, and complacent market over the last couple of weeks, but on Friday, I tweeted out a couple of charts that illustrated the excess.

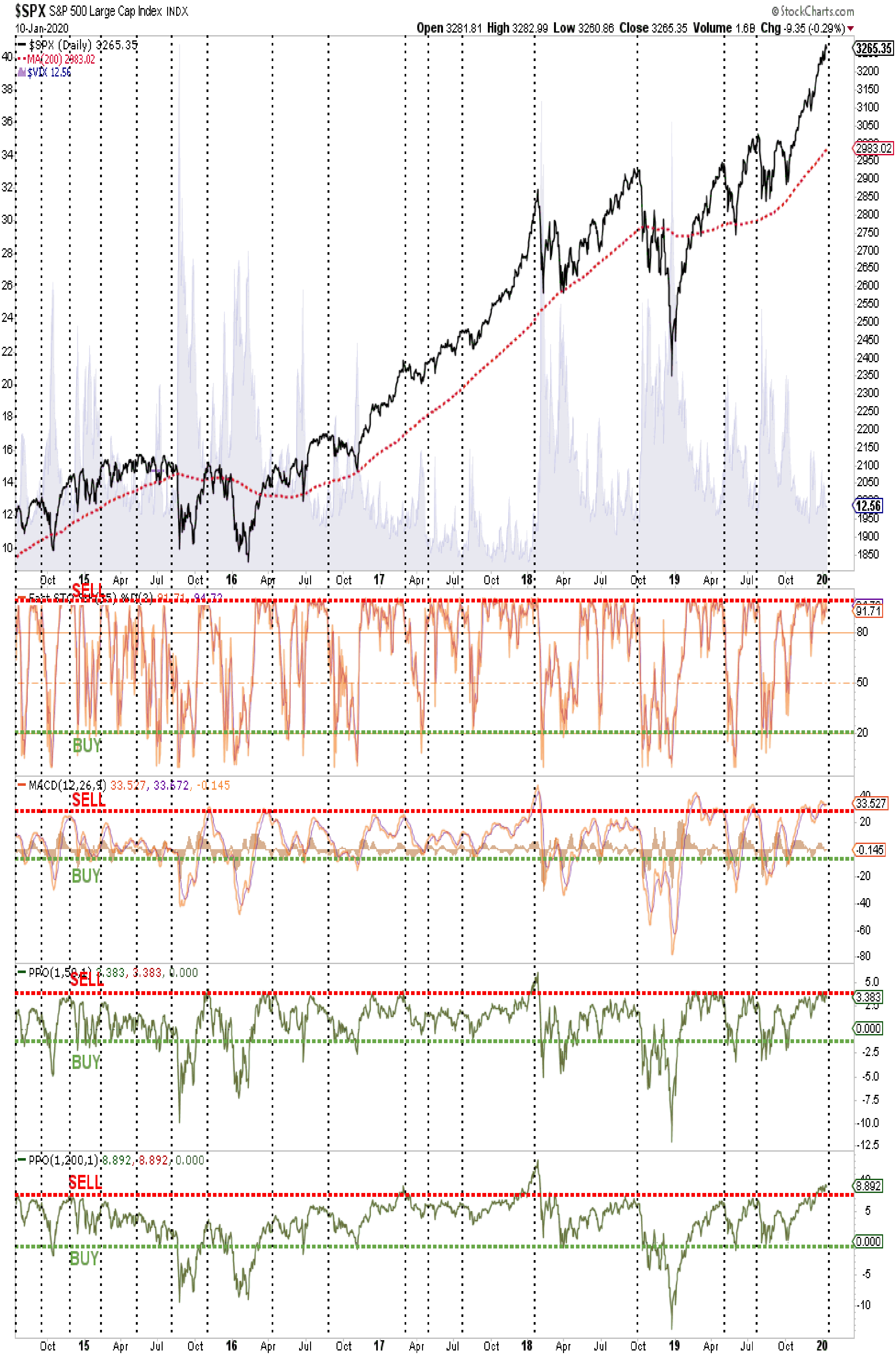
The first chart was comparing the Nasdaq to the S&P 500 index. Both are banded by 2-standard deviations bands of the 200-WEEK moving average. there are a couple of things which should jump out immediately:

1. *The near-vertical price acceleration in the markets has been a historical hallmark of late-stage cycle advances, also known as a "melt up" phase.*
2. *When markets get more than 2-standard deviations above their long-term moving average, reversions to the mean have tended to follow shortly after that.*

Currently, both of those conditions exist in the chart above. However, if it were only price acceleration, we would just be mildly concerned. However, investor complacency has also reached more extreme levels with ***PUT/CALL*** ratio now hitting historically high levels. *(The put/call ratio is the ratio of "put options" being bought on the S&P 500 (theoretically to hedge risk) versus the number of "call" options purchased to "lever up" risk.)*



Lastly, all of our indicators from momentum to relative strength are all suggesting risk substantially outweighs reward currently.



$SPX S&P 500 Large Cap Index INDX
@StockCharts.com
10-Jan-2020
Open 3281.81 High 3282.99 Low 3260.86 Close 3265.35 Volume 1.6B Chg -9.35 (-0.29%)
$SPX (Daily) 3265.35
MA(200) 2983.02
$VIX 12.56
SELL
BUY
MACD(12,26,9) 33.527, 33.672, -0.145
PPO(1,50,1) 3.383, 3.383, 0.000
PPO(1,200,1) 8.892, 8.892, 0.000
Oct 15 Apr Jul Oct 16 Apr Jul Oct 17 Apr Jul Oct 18 Apr Jul Oct 19 Apr Jul Oct 20

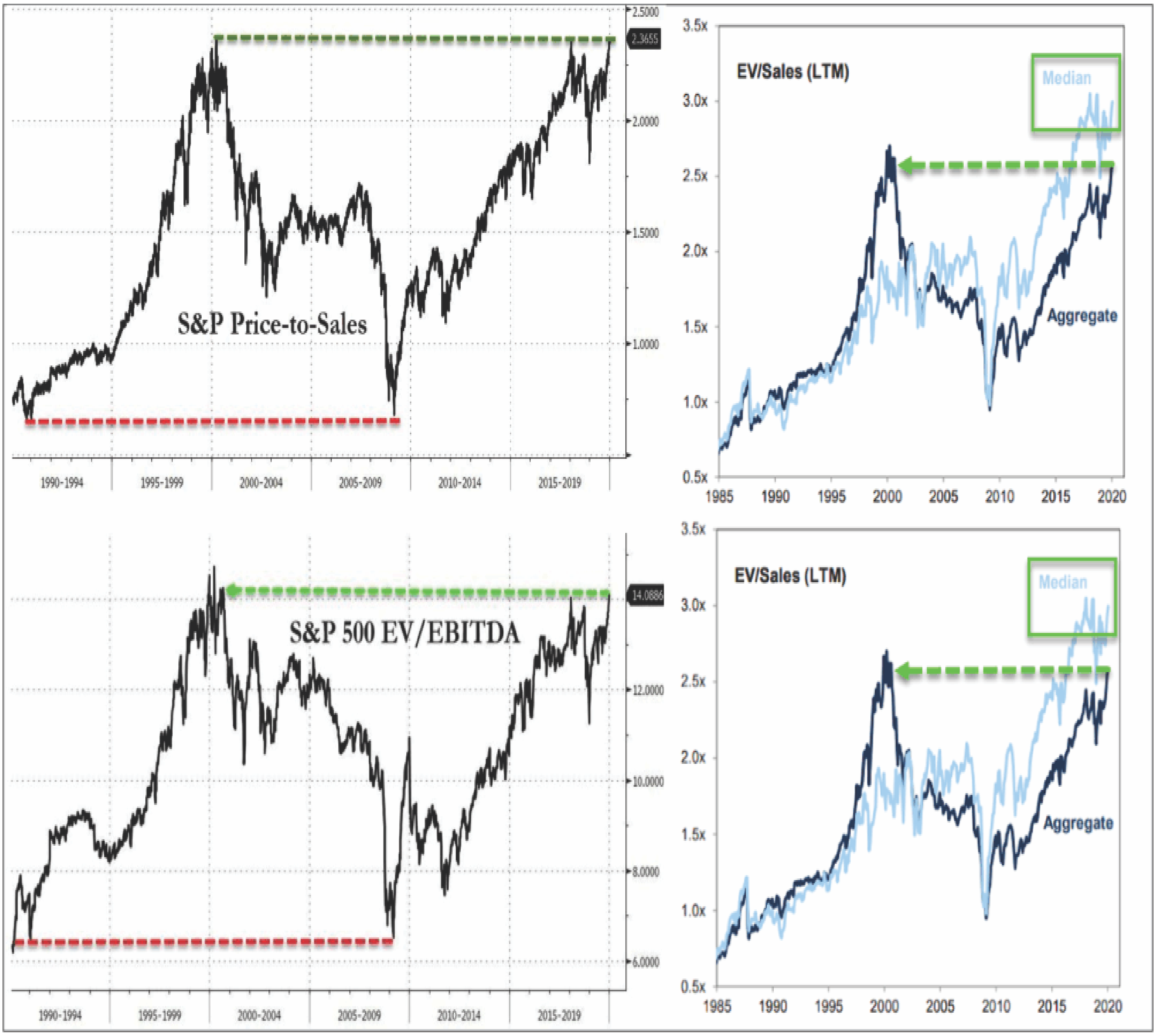
While none of this means the market will *"crash,"* it does suggest the risk/reward ratio is not in favor of the bulls short-term.

However, we are mindful that in the short-term, the market is currently obsessed with the Fed's monetary interventions ***(the topic of this week's MacroView),*** which are supportive of the markets currently. However, as my friend and colleague Doug Kass summed noted this week:

> ***"It is growing increasingly clear to me that global stock markets are in the process of making a speculative move (driven by global liquidity) that may even compare to the advances that culminated in the seminal market tops in the Fall of 1987 and in the Spring of 2000.***
>
> *As today's trading day comes to a close, it is apparent that, like the 1997 Long Boom paradigm expressed in a column in Wired Magazine during the dot.com bubble -* ***- the current market is similarly viewed as in its own, new liquidity-based paradigm.***
>
> ***No longer is the market hostage to the real economy or sales and profit growth*** *- stuff I have spent four decades analyzing.* ***Instead, liquidity is seen as an overriding influence, actually it has become the sine quo non.***
>
> ***As such, historical valuations become increasingly irrelevant, and price momentum is the lodestar.****"*

He is right.

Currently, almost every single valuation metric is at historic extremes, yet investors continue to take on increasing levels of risk due to nothing more than *"F.O.M.O - Fear Of Missing Out."*



As Doug goes on to note:

> ***"We live in unusual times - in which central bankers have adopted policy unlike any point in history.*** *Near-zero interest rates around the world have become commonplace and are accepted with little thought given to the adverse consequences. Forgetting history, central bankers seem to have no idea that they have created another monster again - just as they did in 1999.*
>
> ***Meanwhile, corporate profits are lower (year over year), and the rate of global GDP growth remains below the historic trendline - as it takes more and more debt to deliver a unit of production.***
>
> *The climb in stocks will likely end badly as it is not supported by the fundamental (social, economic, political and geopolitical) backdrop and, increasingly, classical valuation metrics have moved to the highest percentiles in history (enterprise value/EBIT, price to sales, market capitalizations to GDP, etc.)*

Yes, *"this is nuts,"* which is why we took profits out of portfolios on Friday.

Portfolio Positioning

On Friday, we began the orderly process of reducing exposure in our portfolios to take in profits, reduce portfolio risk, and raise cash levels.

In the Equity Portfolios, we reduced our weightings in some of our more extended holdings such as Apple (AAPL,) Microsoft (MSFT), United Healthcare (UNH), Johnson & Johnson (JNJ), and Micron (MU.)

In the ETF Sector Rotation Portfolio, we reduced our overweight positions in Technology (XLK), Healthcare (XLV), Mortgage Real Estate (REM), Communications (XLC), Discretionary (XLY) back to portfolio weightings for now.

The Dynamic Portfolio was allocated to a market neutral position by shorting the S&P index itself.

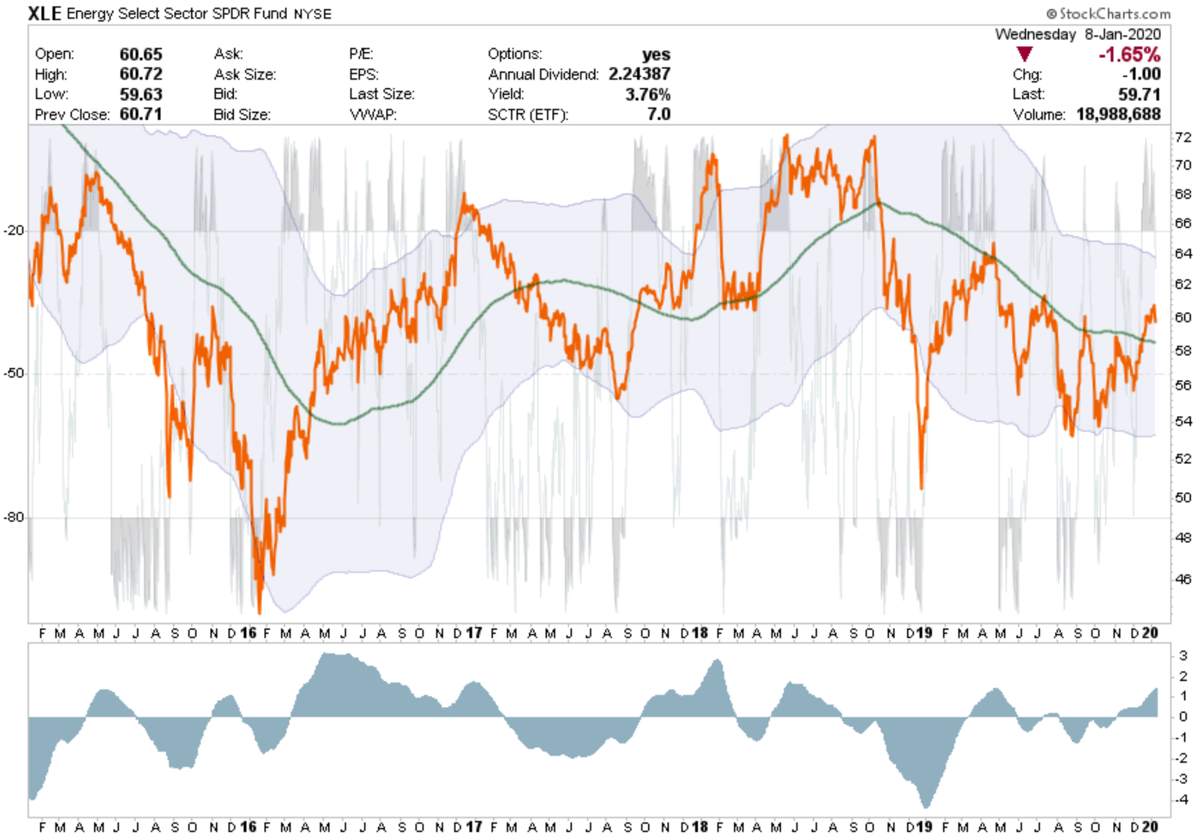
Let me state clearly, we did not *"sell everything"* and go to cash. We simply reduced our holdings to raise cash, and capture some of the gains we made in 2019. When the market corrects we will use our cash holdings to either add back to our current positions, or add new ones.

One of the areas we have been discussing recently is the opportunity that may be presenting itself in the Energy sector. With oil prices rising, and valuations better than other areas of the market, there are some trading opportunities starting to appear.

While our portfolios are designed to have longer-term holding periods, we understand that things do not always go as planned. This is why we enter positions on a trading basis only, which are short-term until both the position, and the overall thesis, starts to mature.

Last week, we presented some technical analysis on three major energy ETF's and seven individual companies which may be presenting a trading opportunity in the near future. You can view all of our portfolio models, which are live accounts, at ***RIA PRO.*** ***(Try the service for 30-days RISK FREE)***

But from a broad perspective, the Energy sector is showing some signs of life. The break above the 200-dma, as well as the downtrend from previous highs, gives the sector a much more bullish tone currently. However, there are still many issues that overhang the energy market in the longer-term from cash flows, to leverage, to economic demand, which will likely keep energy markets fairly range-bound through 2020 and beyond.



The complete analysis we presented to ***RIAPRO*** clients last week is presented here.

Energy Sector Analysis: 1-09-2020

Written by Lance Roberts | Jan 9, 2020

Technical analysis of the energy sector ETF and select positions for portfolio positions in the RIA PRO Equity and ETF Models

> Read More

3300 To 3500, And Back Again

[In July of 2019](), we laid out our prognostication the S&P 500 could reach 3300 amid a market melt-up though the end of the year. On Friday, the market touched 3280, which, as they say, is *"close enough for Jazz."*

However, with the Federal Reserve having *"turned on the liquidity taps,"* it is entirely possible the markets could continue their upward momentum towards 3500.

Exhibit 1: The S&P 500 Lows in September and October Coincided with Fed's Balance Sheet Injections

Source: Bloomberg, Morgan Stanley Research.

The potential *"fly in the ointment"* is if the economic, employment, and profit data fail to recover as anticipated. With 2020 earnings estimates already cut markedly heading into the year, further downward revisions will likely begin to weigh on investor sentiment.

Friday's employment report was weak and exposed the anomaly caused by the autoworkers strike in the blockbuster November report. CEO and CFO confidence remain very suppressed currently, and if their views don't start to improve markedly in the short-term we are likely to start seeing much weaker employment reports.

While the markets could certainly see a push higher in the short-term from the Fed's ongoing liquidity injections, the gains for 2020 could very well be front-loaded for investors.

Taking profits and reducing risks now may lead to a short-term underperformance in portfolios, but you will likely appreciate the reduced volatility if, and when, the current optimism fades.

The Macro View

[MacroView: Has The Fed Trapped Itself?]

Written by Lance Roberts | Jan 10, 2020

The Fed's problem is not only are they caught in an "economic liquidity trap," where monetary policy has become ineffective in stimulating economic growth, but are also captive to a "market liquidity trap."

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

See You Next Week

By Lance Roberts, CIO

Financial Planning Corner

REGISTER NOW for our most popular workshop: THE RIGHT LANE RETIREMENT CLASS

- ***The Westin, Austin at the Domain- 11301 Domain Drive, Austin, TX 78758***
- ***February 8th from 9-11am.***

Financial Planning Corner: All The Numbers You Need To Know For 2020

Written by Lance Roberts | Jan 11, 2020

REGISTER NOW for our most popular workshop: THE RIGHT LANE RETIREMENT CLASS The Westin Austin…

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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•

Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

MISSING THE REST OF THE NEWSLETTER?

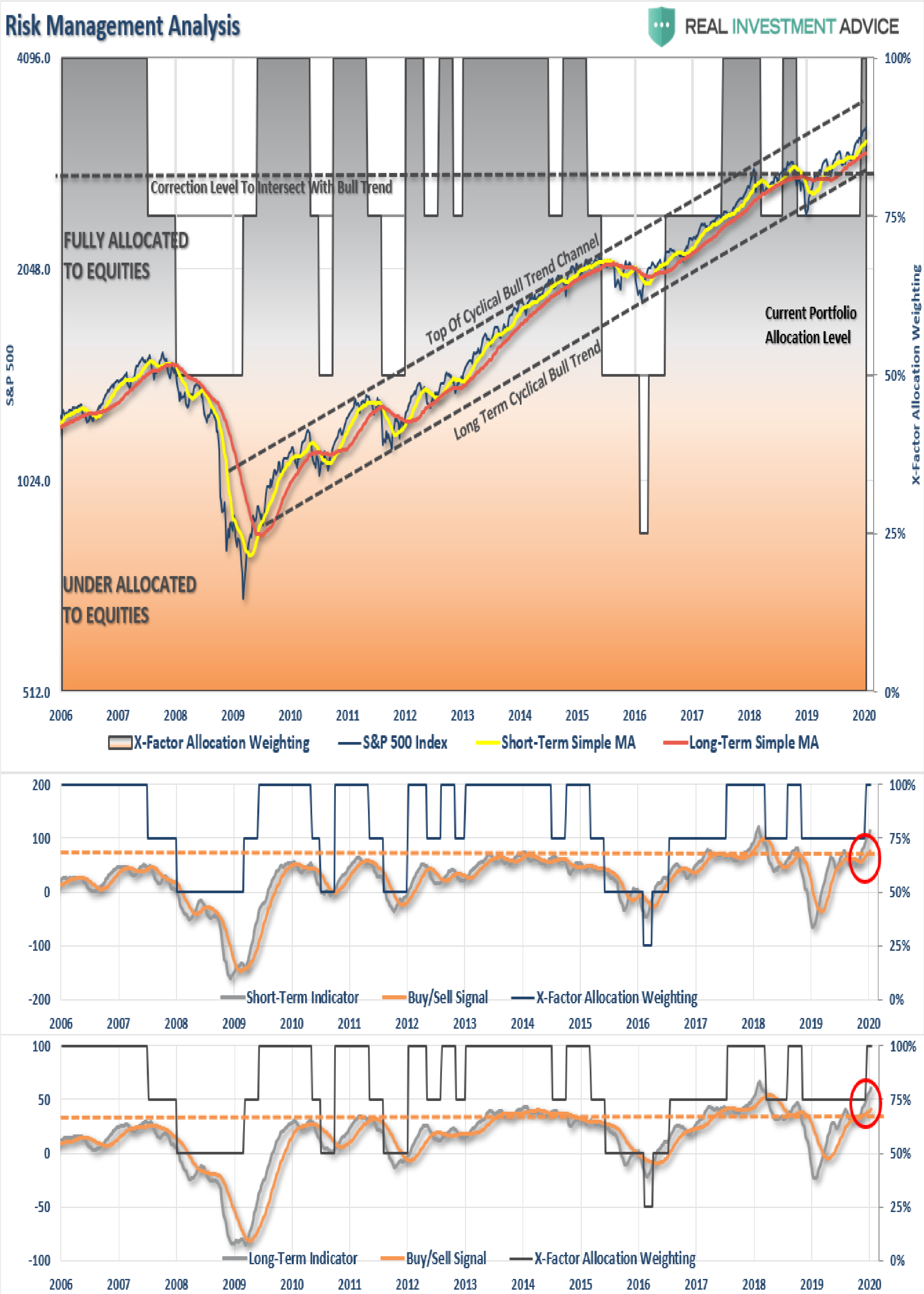
This is what our *RIAPRO.NET* subscribers are reading right now!

- *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

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	
5.00%	Cash + All Future Contributions

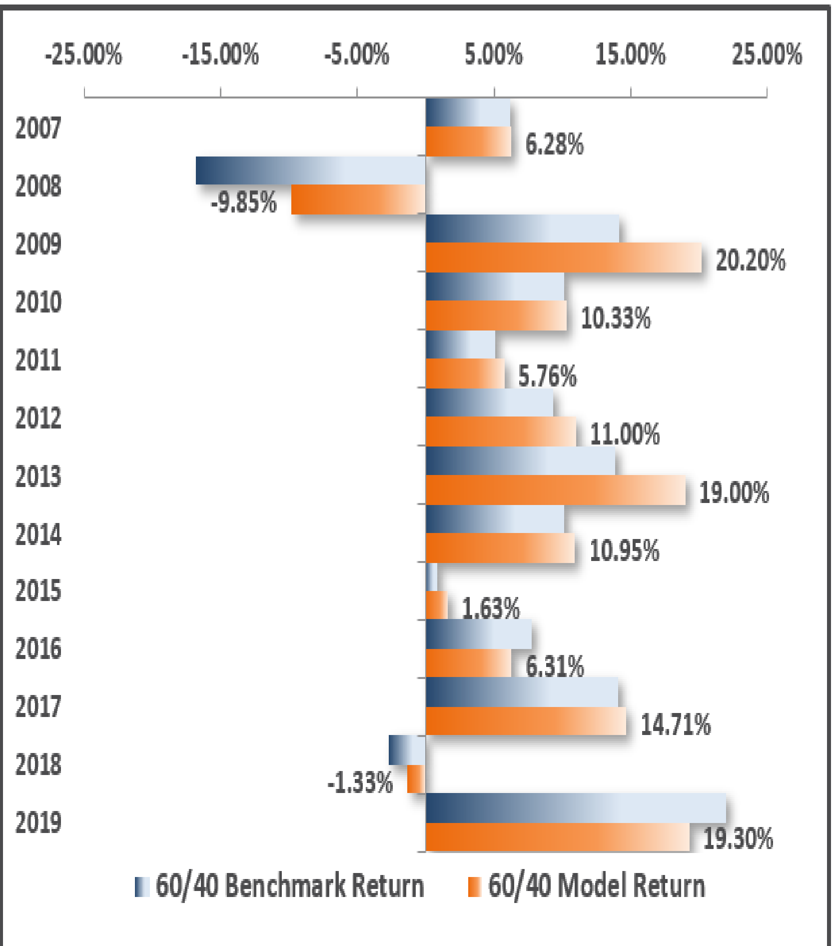
If you need help after reading the alert; do not hesitate to **contact me.**

Click Here For The "LIVE" Version Of The 401k Plan Manager

See below for an example of a comparative model.

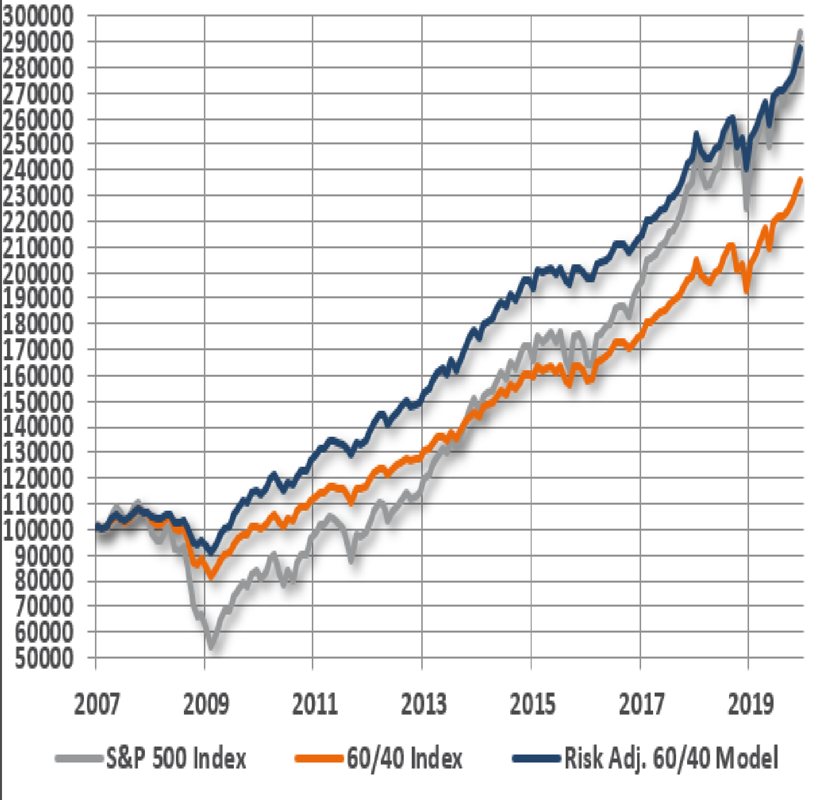
Model performance is based on a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. This is strictly for informational and educational purposes only and should not be relied upon for any reason. Past performance is not a guarantee of future results.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

Year	60/40 Benchmark Return	60/40 Model Return
2007	6.15%	6.28%
2008	-16.79%	-9.85%
2009	14.22%	20.20%
2010	10.17%	10.33%
2011	5.14%	5.76%
2012	9.33%	11.00%
2013	13.91%	19.00%
2014	10.08%	10.95%
2015	0.83%	1.63%
2016	7.79%	6.31%
2017	14.12%	14.71%
2018	-2.72%	-1.33%
2019	21.96%	19.30%



Portfolio vs Benchmark Statistics	
Number of Up Years	11
Number of Down Years	2
Best One Year Return Of Benchmark	21.96%
Best One Year Return Of Model	20.20%
Worst One Year Return Of Benchmark	-16.79%
Worst One Year Return Of Model	-9.85%
Benchmark Return 2007-Present	123.78%
Model Return 2007-Present	173.11%
Total Alpha Generated	49.33%
Mean Annual Return Of Benchmark	7.25%
Mean Annual Return Of Model	8.79%
Beta Of Model vs Benchmark	0.86
Jensens Alpha	2.30%
Sharpe Ratio	0.29

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



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.

RIAPro

Investment Analysis, Research & Data
From The RIA Investment Team

Dashboard | Macro ▼ | Ideas ▼ | Research ▼ | Portfolio ▼ | 401K - Beta | Symbol | Help

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

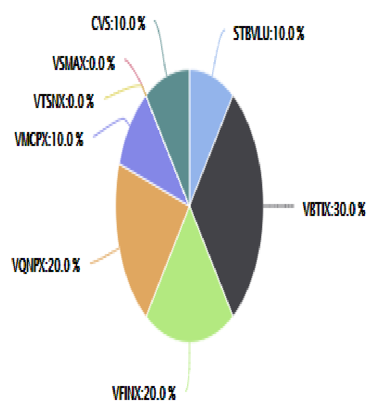
My Info | Fund Selection | Comparison | Summary | Commentary

My Portfolio

Retirement Income (My Portfolio Annual ROR 9.44 %)

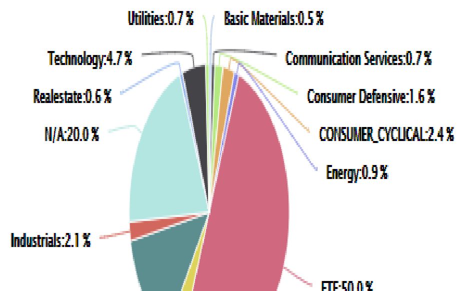
Current account balance	10,000
Estimated Retirement Balance	632,861
Estimated Retirement Balance (Inflation Adj)	620,204
Monthly Income	2,768
Monthly Income (Inflation Adj)	2,713
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

My Fund Composition



My Asset Composition

My Sector Composition



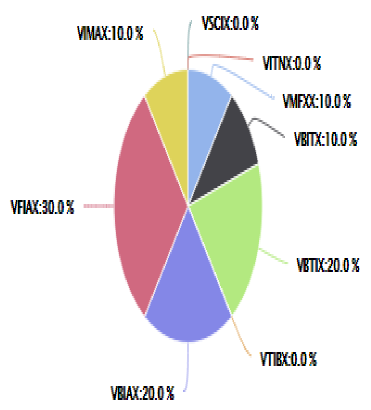
RIAPro Portfolio

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

RIAPro Fund Composition



RIAPro Asset Composition

RIAPro Sector Composition