

Each week we produce a chart book of the major financial markets to review whether the markets, as a whole, warrant higher levels of equity risk in portfolios or not. Stocks, as a whole, tend to rise and fall with the overall market. Therefore, if we get the short-term trend of the market right, our portfolios should perform respectively.

HOW TO READ THE CHARTS

There are three primary components to each chart:

- The price chart is in orange
- The Over Bought/Over Sold indicator is in gray
- The Buy / Sell indicator is in blue.

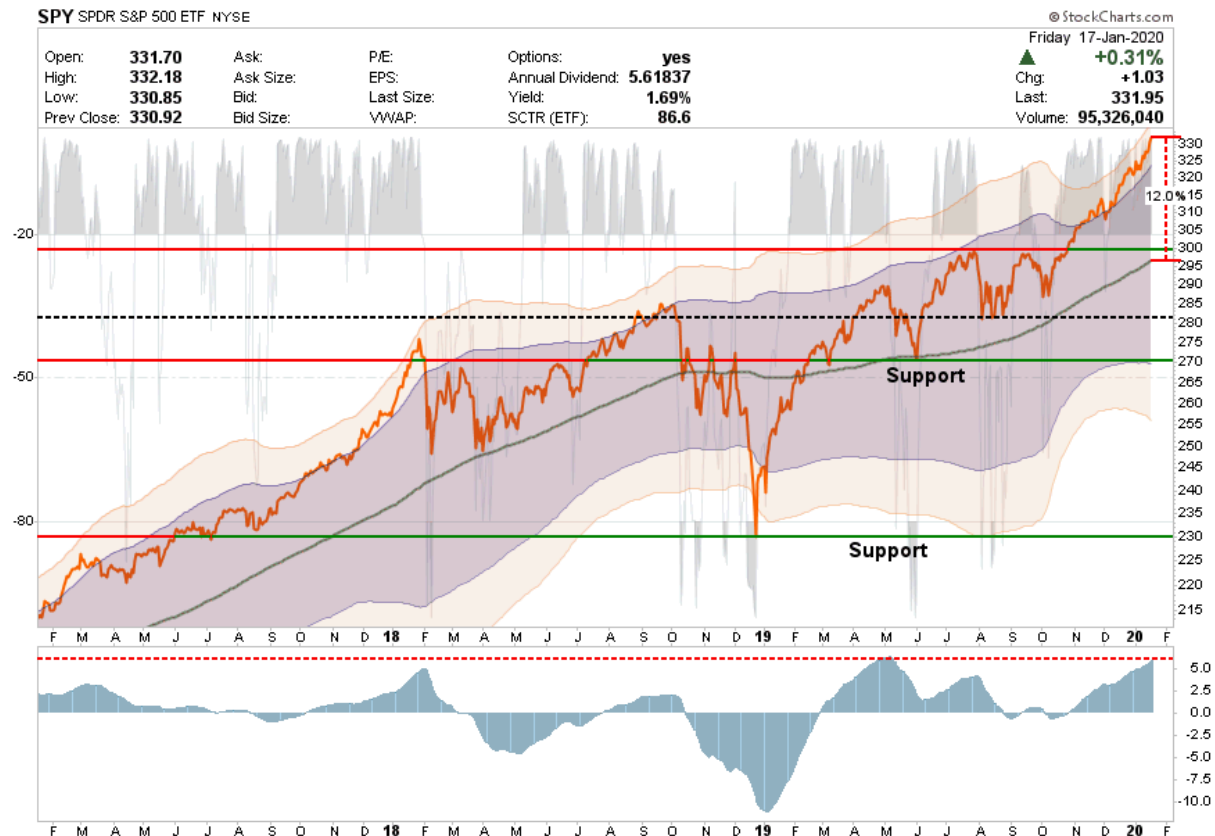
When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of working better than when below the zero line.



With this basic tutorial let's review the major markets.

This week's analysis should be titled **"Extreme Extension"** week. You are going to see in multiple charts the same major deviation from long-term moving averages which have ALWAYS led to a corrective event in the past. Pay attention - risk is extremely elevated currently. Reduce portfolio risk and rebalance accordingly.

S&P 500 Index

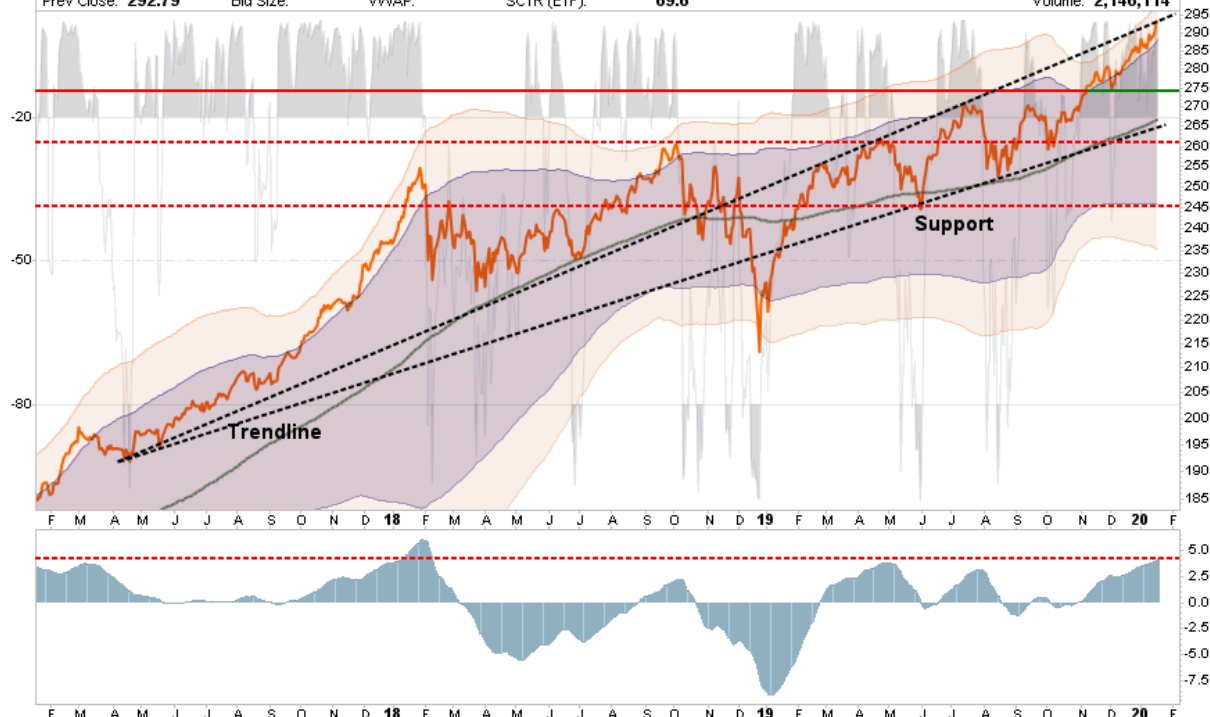


- With the market now trading 12% above its 200-dma, and well into 3-standard deviations of the mean, a correction is coming.
- The "buy signal" (lower panel) is back to levels of extensions normally only seen with short-term tops and corrective actions, particularly when combined with extreme extensions and deviations from long-term means.
- As noted we took profits in both the ETF and Equity Model (See Portfolio Commentary) and we still recommend taking profits and rebalancing risks in positions accordingly. We will likely have a much better entry point in the next couple of months to buy into.
- Short-Term Positioning: Neutral Due To Extension
 - Last Week: Hold position
 - This Week: Take profits and rebalance to target weights.
 - Stop-loss moved up to \$300
 - Long-Term Positioning: Neutral due to valuations

Dow Jones Industrial Average

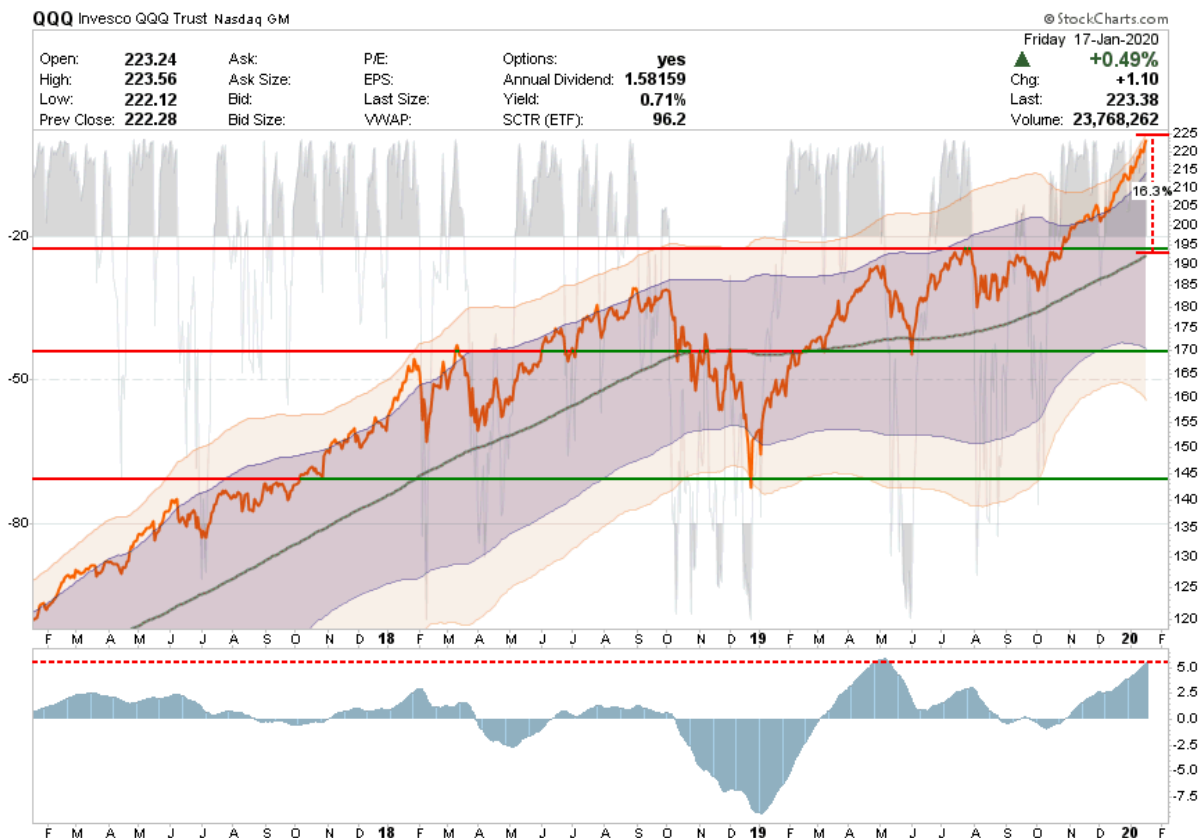
Open: **293.52** Ask: P/E: Options: **yes**
 High: **293.61** Ask Size: EPS: Annual Dividend: **5.95089**
 Low: **292.79** Bid: Last Size: Yield: **2.03%**
 Prev Close: **292.79** Bid Size: VWAP: SCTR (ETF): **69.6**

Friday 17-Jan-2020
 ▲ **+0.16%**
 Chg: **+0.48**
 Last: **293.27**
 Volume: **2,146,114**



- sAs goes the S&P 500, goes the DIA, especially when MSFT & AAPL are the two top holdings and drivers of the advances in both markets. (We reduced both of those holdings last week.)
- The "buy" signal is extremely extended along with a very overbought condition.
- Hold current positions and take profits, but as with SPY, wait for a correction before adding further exposure.
- Short-Term Positioning: Neutral due to extensions
 - Last Week: Hold current positions
 - This Week: Take profits and rebalance risk.
 - Stop-loss moved up to \$275
- Long-Term Positioning: Neutral

Nasdaq Composite



- Again, like SPY, the Nasdaq is just "extremely" extended currently. With QQQ now pushing towards a 4-standard deviation event. A correction is inevitable, it is just a function of time now.
- The Nasdaq "buy signal" is also back to extremely overbought levels so look for a correction to add exposure.
- Short-Term Positioning: Neutral due to extensions.
 - Last Week: Hold position
 - This Week: Take profits and rebalance risks.
 - Stop-loss moved up to \$195
- Long-Term Positioning: Neutral due to valuations

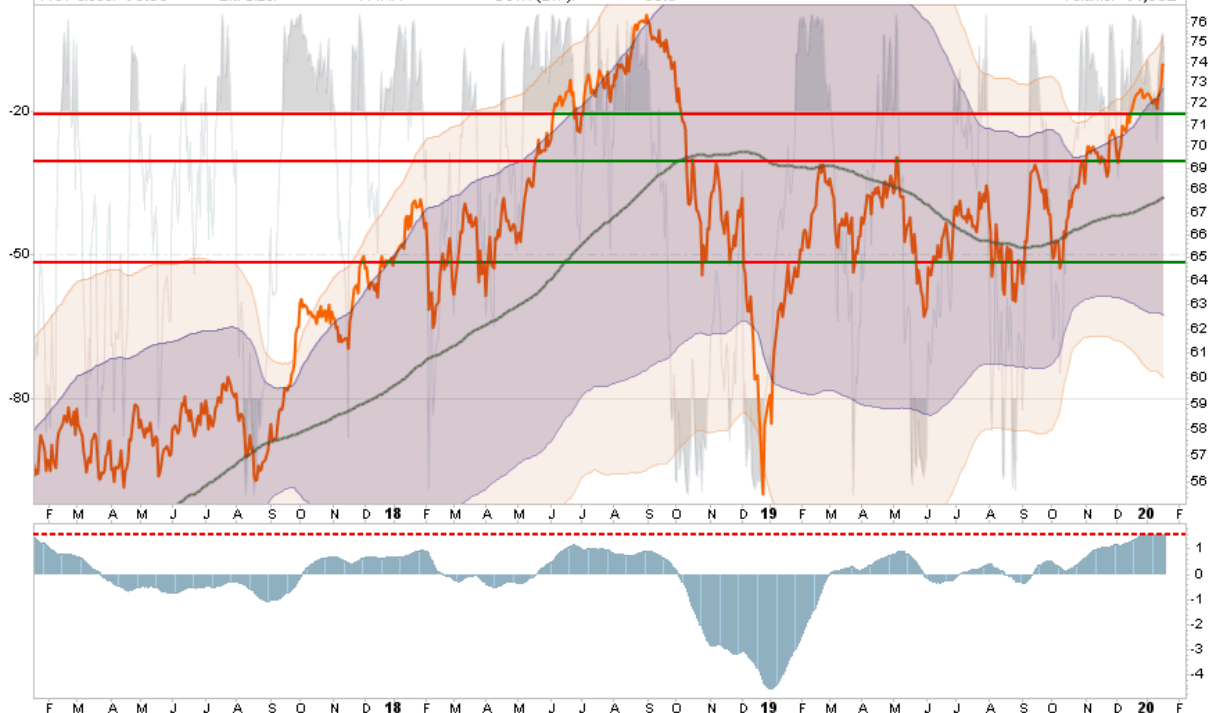
S&P 600 Index (Small-Cap)

SLY SPDR S&P 600 Small Cap ETF NYSE

Open: **74.23** Ask: P/E: Options: **no**
 High: **74.23** Ask Size: EPS: Annual Dividend: **0.98783**
 Low: **73.67** Bid: Last Size: Yield: **1.34%**
 Prev Close: **73.90** Bid Size: VWAP: SCTR (ETF): **69.3**

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Friday 17-Jan-2020
 ▼ **-0.09%**
 Chg: **-0.07**
 Last: **73.83**
 Volume: **44,302**



- As noted above, small-caps have also pushed above 2-standard deviations of the 200-dma.
- With the buy signal also extremely extended, and the index overbought, like all the other markets, a correction will provide a better entry point to add to our positions.
- That correction has started and the current support level is being tested. A failure here and the previous breakout levels will be the next important support and our stop level.
- Short-Term Positioning: Neutral due to extensions.
 - Last Week: Hold positions
 - This Week: Hold positions
 - Stop loss moved up to \$69
- Long-Term Positioning: Neutral

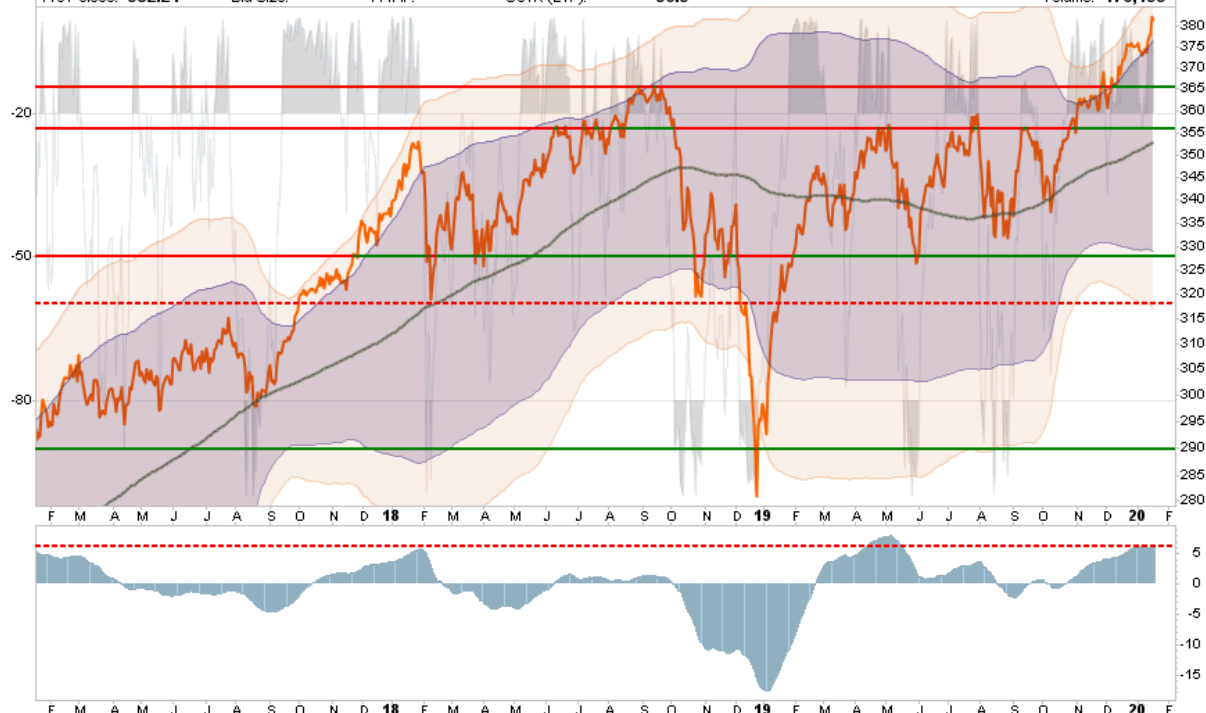
S&P 400 Index (Mid-Cap)

MDY SPDR S&P MIDCAP 400 ETF NYSE

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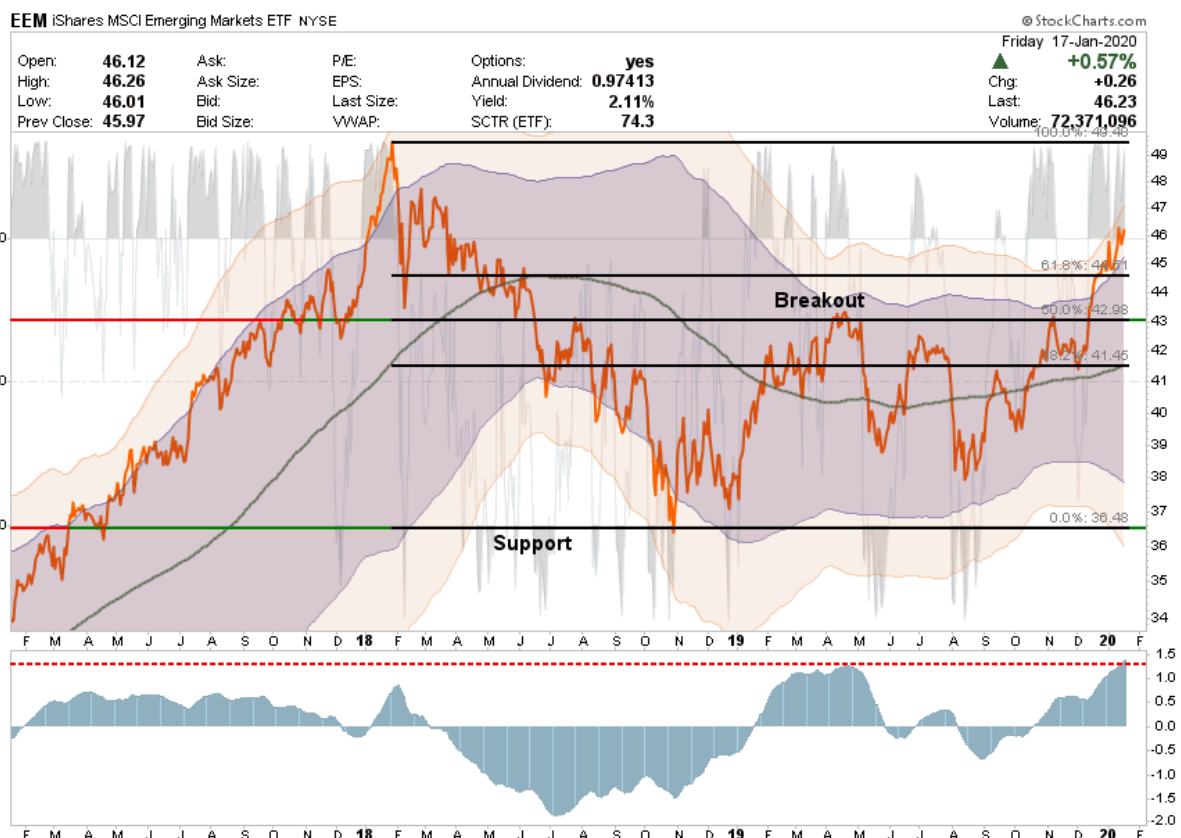
Open: **383.11** Ask: P/E: Options: **yes**
 High: **383.41** Ask Size: EPS: Annual Dividend: **5.04227**
 Low: **381.04** Bid: Last Size: Yield: **1.32%**
 Prev Close: **382.24** Bid Size: VWAP: SCTR (ETF): **56.3**

Friday 17-Jan-2020
 ▼ **-0.21%**
 Chg: **-0.79**
 Last: **381.45**
 Volume: **476,193**



- Like SLY, MDY is also extremely extended and deviated above the 200-dma, and the market accelerated further into 3-standard deviation territory on Friday.
- With MDY's "buy" signal extremely extended, and very overbought, this is a prime setup for a correction. Hold off adding exposure until we see a better entry point.
- Short-Term Positioning: Neutral due to extensions.
 - Last Week: No holding
 - This Week: No holding
- Long-Term Positioning: Bullish

Emerging Markets

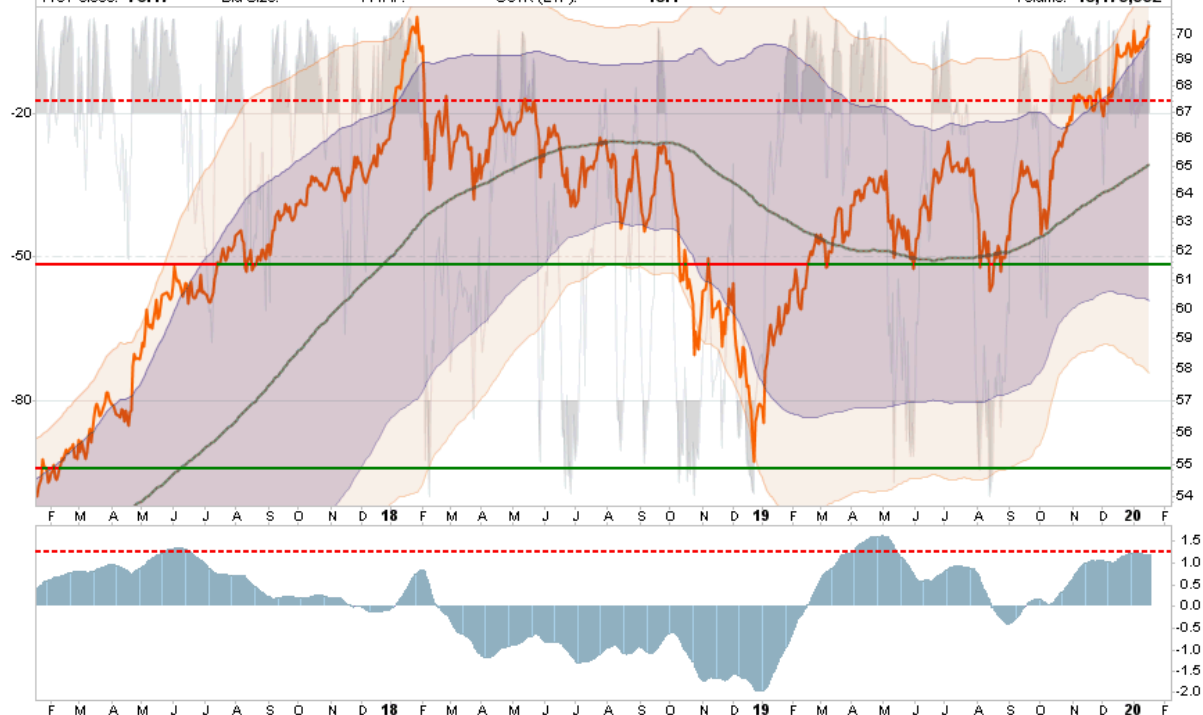


- *EEM is just like every other market. The recent surge has taken it well into 3-standard deviation territory.*
- *With the "buy signal" extremely extended, a correction is coming so be patient to add exposure assuming stop levels are not violated.*
- *EEM has tested, and held the 61.8% Fibonacci retracement level, so if it can break above the recent high, that will continue the bullish trend.*
- *The Dollar (Last chart) is the key to our international positioning. The dollar looks to have confirmed a break lower which should support our thesis of adding back international exposure.*
- *Short-Term Positioning: Neutral*
 - *Last Week: Hold positions*
 - *This Week: Hold positions*
 - *Stop-loss set at \$43*
- *Long-Term Positioning: Neutral*

International Markets

Open: **70.36** Ask: P/E: Options: **yes**
 High: **70.42** Ask Size: EPS: Annual Dividend: **2.15193**
 Low: **70.21** Bid: Last Size: Yield: **3.06%**
 Prev Close: **70.17** Bid Size: VWAP: SCTR (ETF): **48.1**

Friday 17-Jan-2020
 ▲ **+0.30%**
 Chg: **+0.21**
 Last: **70.38**
 Volume: **18,473,662**



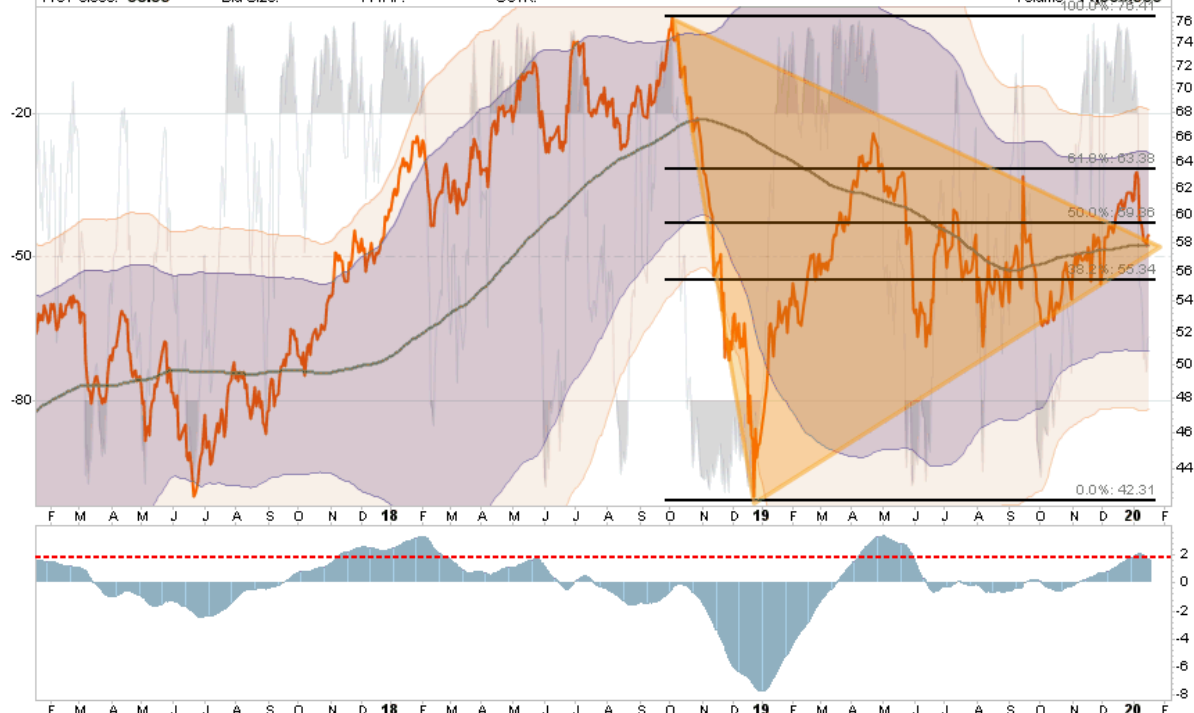
- Like EEM, EFA rallied out of its consolidation channel, broke out, and has now rallied well into 3-standard deviation territory.
- EFA is both **EXTREMELY** overbought and extended with the buy signal at levels which have normally preceded short- to intermediate term corrections.
- As with EEM, the key to our positioning is the US Dollar.
- Short-Term Positioning: Neutral
 - Last Week: Hold positions
 - This Week: Hold positions
 - Stop-loss set at \$67
- Long-Term Positioning: Neutral

West Texas Intermediate Crude (Oil)

\$WTIC Light Crude Oil - Continuous Contract (EOD) CME

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Open: 58.61	Ask:	P/E:	Options: no	Friday 17-Jan-2020
High: 59.00	Ask Size:	EPS:	Annual Dividend: N/A	▲ +0.09%
Low: 58.31	Bid:	Last Size:	Yield: N/A	Chg: +0.05
Prev Close: 58.53	Bid Size:	VWAP:	SCTR:	Last: 58.58
				Volume: 41,060,300

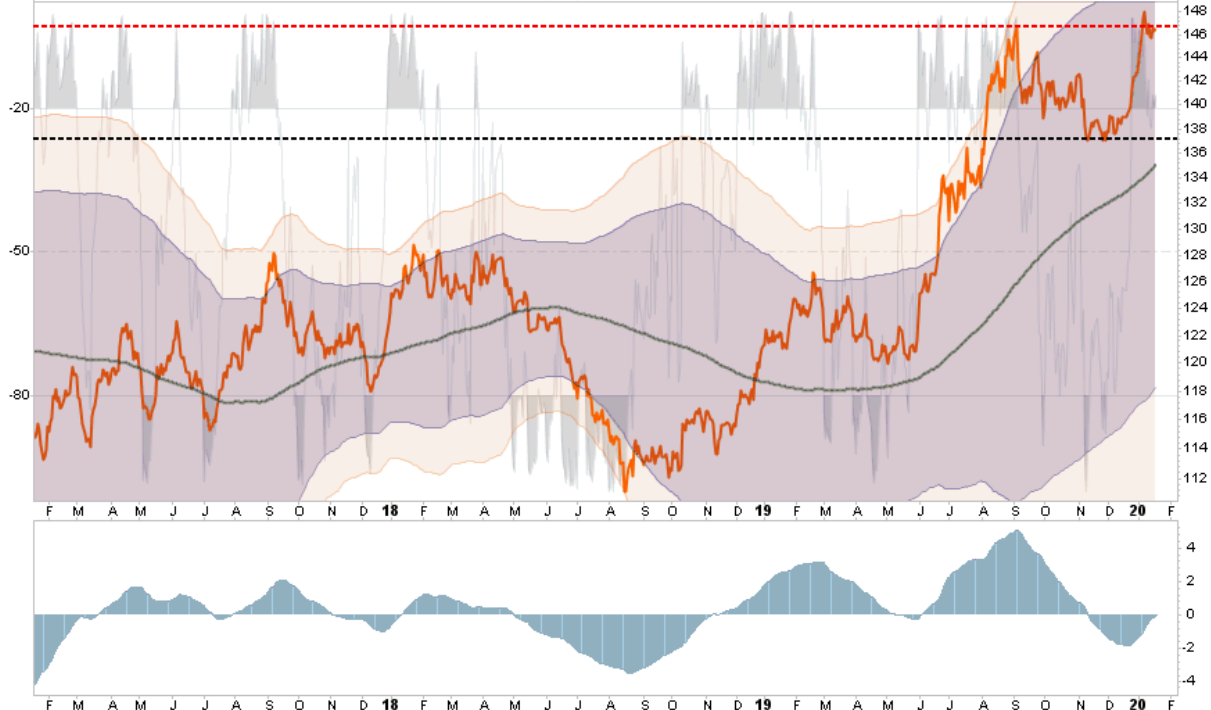


- Oil finally broke above the downtrend resistance line from the 2018 highs, which was bullish, but unfortunately was not able to hold the breakout level.
- With oil prices falling back below \$60/bbl, it is imperative that oil maintains the 200-dma support level which it is currently testing. This keeps us on hold for now from adding to our positions until we get confirmation oil prices are going to hold.
- As noted previously, with the short-term buy signal for oil is extended, the struggle we saw was not unexpected.
- Short-Term Positioning: Neutral
 - Last Week: Hold positions.
 - This Week: Hold positions
 - Stop-loss for any existing positions is \$58.
- Long-Term Positioning: Bearish

Gold

GLD SPDR Gold Shares: NYSE

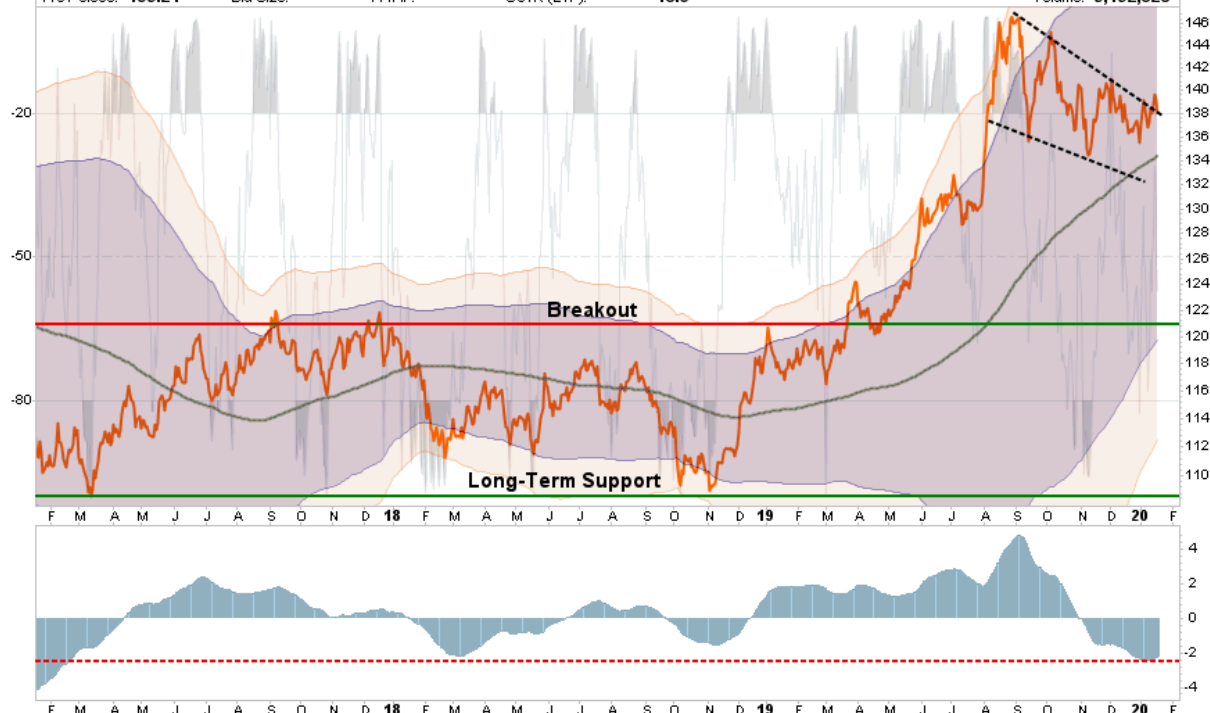
Open: 146.51	Ask:	P/E: -14.16	Options: yes	Friday 17-Jan-2020
High: 146.99	Ask Size:	EPS: -10.35	Annual Dividend: N/A	Chg: +0.18%
Low: 146.31	Bid:	Last Size:	Yield: N/A	Last: 146.58
Prev Close: 146.31	Bid Size:	VWAP:	SCTR (ETF): 57.0	Volume: 11,066,504



- Gold rallied sharply during the brief "Iran crisis" but has failed to breakout and hold new highs.
- While gold is overbought short-term, the "buy signal" is very close to triggering. If gold can muster a rally and break above recent highs, it is likely we will see a further advance.
- With gold now testing old highs, our positioning looks good particularly given that gold remains on a sell-signal currently. A reversal of the signal could suggest further highs to come.
- We used the recent weakness to add to our GDX and IAU positions taking them back to full weightings.
- Short-Term Positioning: Neutral
 - Last week: Hold positions.
 - This week: Hold positions
 - Stop-loss for whole position adjusted to \$137
 - Long-Term Positioning: Neutral

Bonds (Inverse Of Interest Rates)

Open: 137.58	Ask:	P/E:	Options: yes	Friday 17-Jan-2020	-0.85%
High: 138.14	Ask Size:	EPS:	Annual Dividend: 3.07292	Chg: -1.19	
Low: 137.36	Bid:	Last Size:	Yield: 2.23%	Last: 138.02	
Prev Close: 139.21	Bid Size:	VWAP:	SCTR (ETF): 18.0	Volume: 9,192,828	



- Bond prices rallied last week, again, and are testing downtrend resistance. For now bonds remain in a bearish channel, suggesting higher yields (lower prices) are still likely short-term.
- I suspect we are going to get some economic turmoil sooner, rather than later, which will lead to a correction in the equity markets and an uptick in bond prices.
- Use lower bounds of the downtrend, and the 200-dma, to add to holdings currently.
- Short-Term Positioning: Bullish
 - Last Week: Hold positions
 - This Week: Hold positions
 - Stop-loss is moved up to \$132
- Long-Term Positioning: Bullish

U.S. Dollar

