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

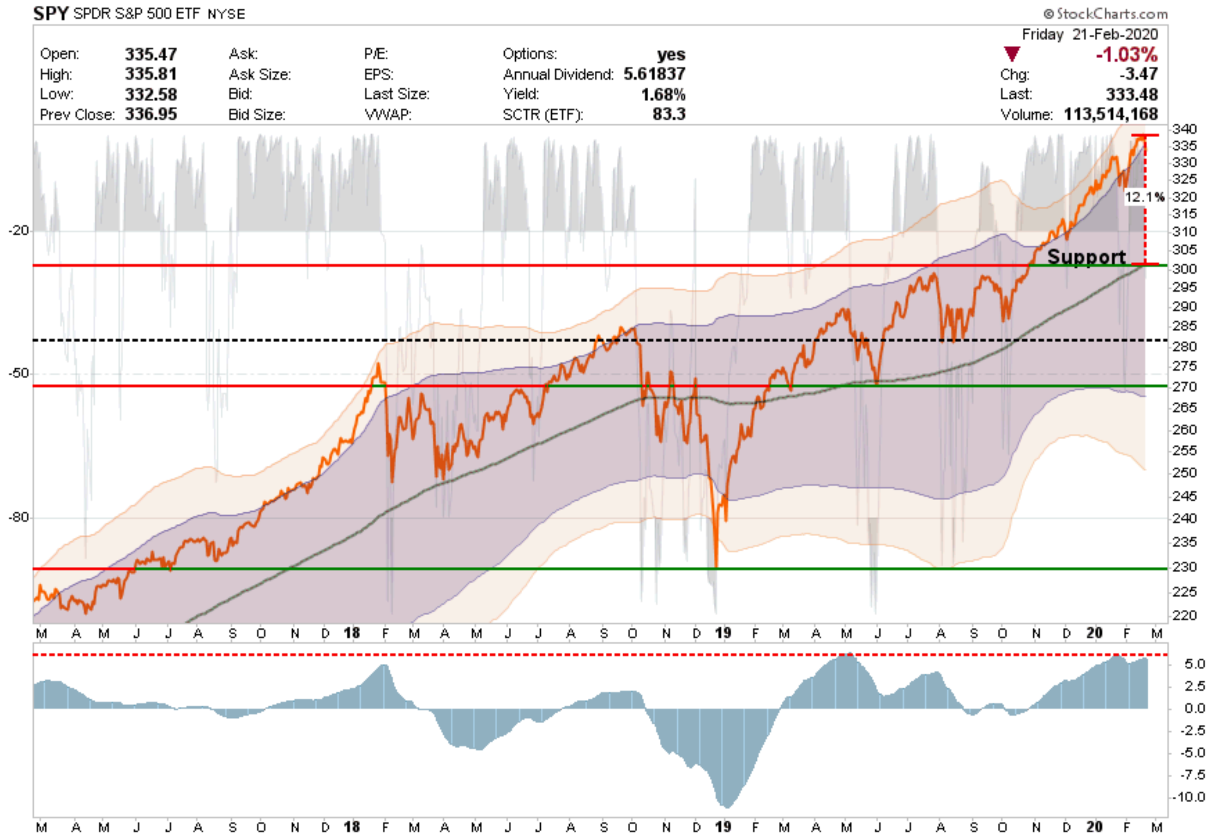
There are three primary components to each chart:

- *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.

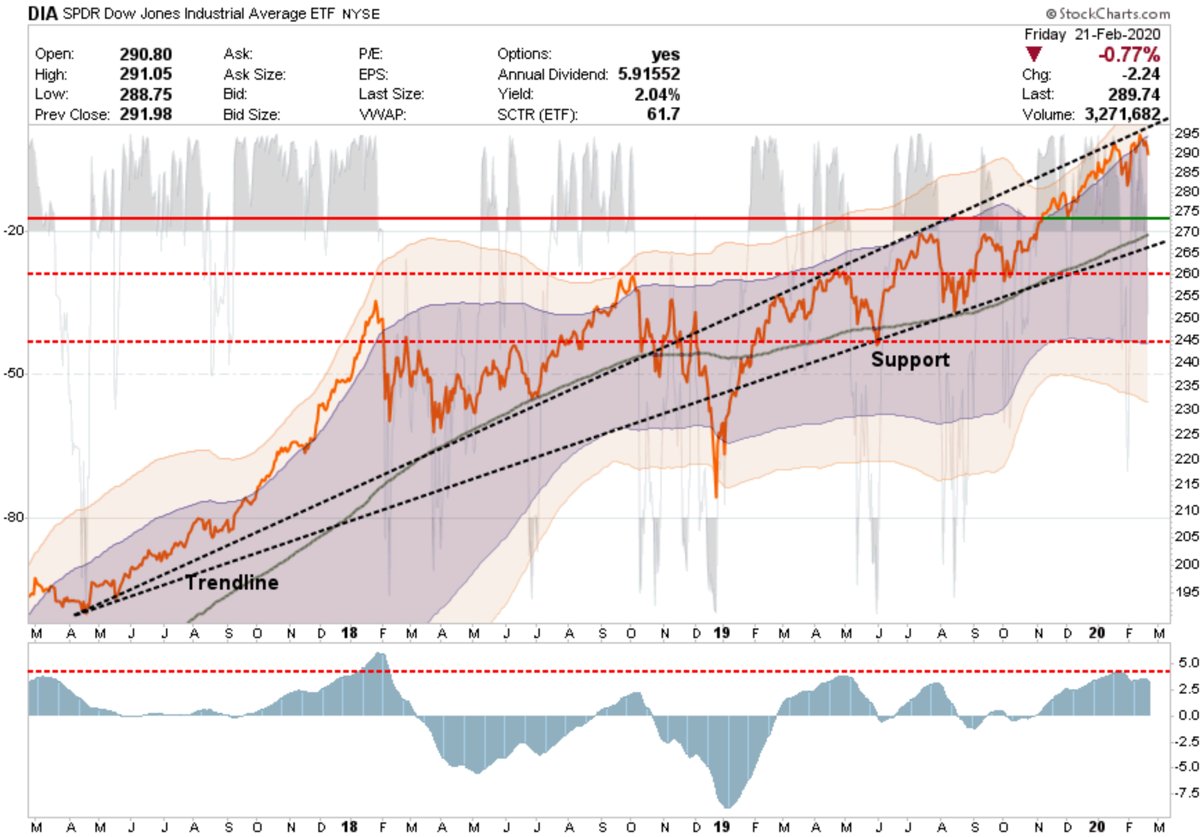
With this basic tutorial let's review the major markets.

S&P 500 Index



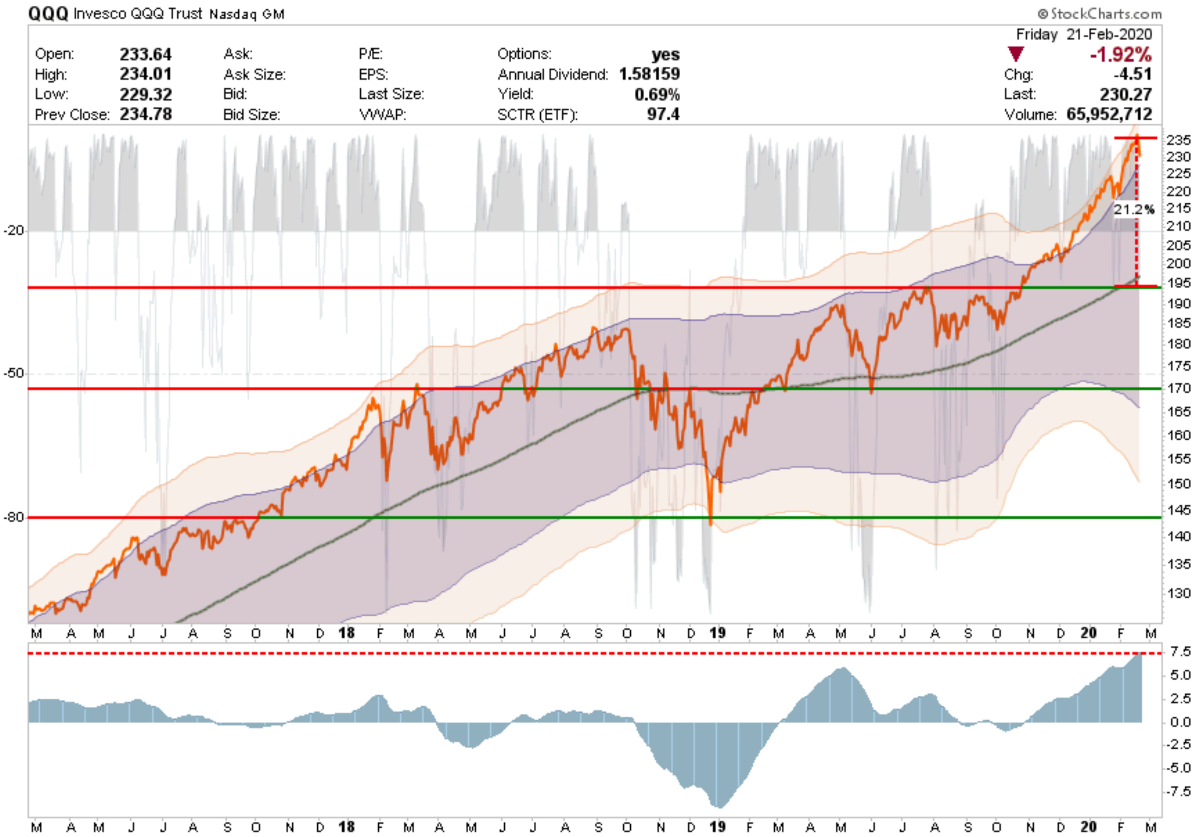
- *As noted last week: "With the market now trading 12% above its 200-dma, and well into 3-standard deviations of the mean, a correction is coming." That correction started last Friday.*
- *Currently, there is a strong bias to "buy the dip" of every corrective action. We recognize this and given the S&P 500 hit initial support on Friday we did add 1/2 position of VOOG to the Dynamic Model. The model is underallocated to equities and has a short hedge so we are taking this opportunity to add slowly. However, we suspect there is more to this corrective action to come this week.*
- *As noted previously, extensions to this degree rarely last long without a correction. The is more work to be done before the overbought and extended condition is corrected. We will look to add to our holdings during that process.*
- *Short-Term Positioning: Neutral Due To Extension*
  - *Last Week: Hold position*
  - *This Week: Hold position*
  - *Stop-loss moved up to $320*
  - *Long-Term Positioning: Neutral due to valuations*

Dow Jones Industrial Average



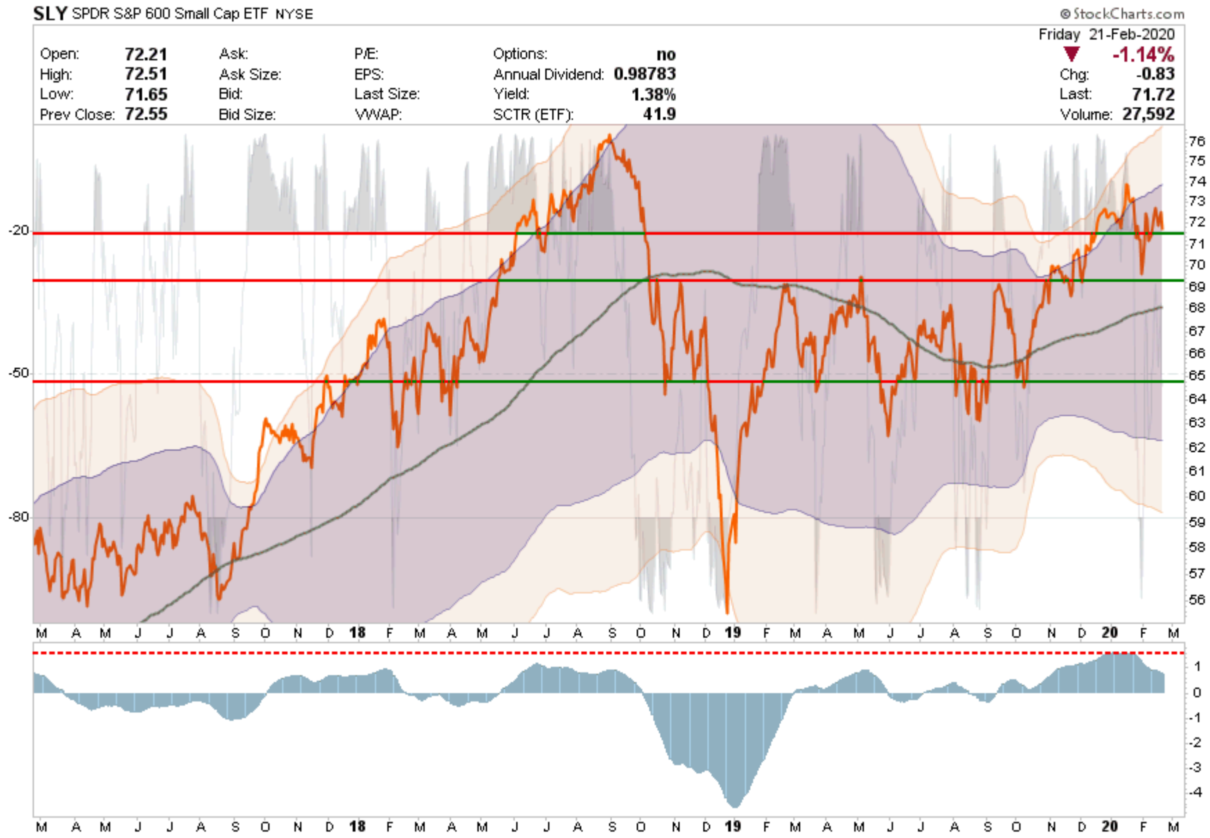
- *As goes the S&P 500, goes the DIA, especially when MSFT & AAPL are the two top holdings and drivers of the advances in both indexes.*
- *Like SPY, DIA is very overbought and extended from long-term means and the correction this past week has started to reverse that condition. Dow 30k will have to wait for now.*
- *Wait for this correction to complete before adding further exposure.*
- *Short-Term Positioning: Neutral due to extensions*
    - *Last Week: Hold current positions*
    - *This Week: Hold current positions*
    - *Stop-loss moved up to $280*
- *Long-Term Positioning: Neutral*

Nasdaq Composite



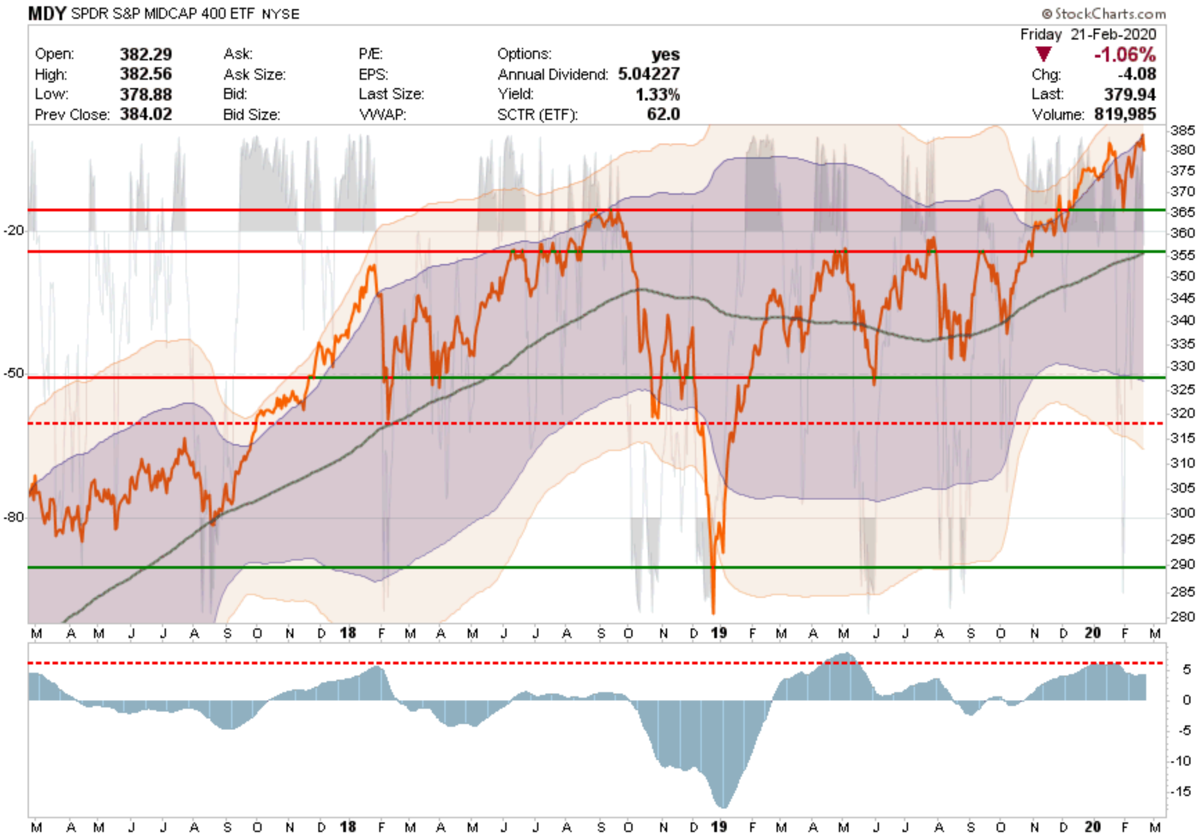
- *Despite the correction on Friday which centered on "big Tech," it did little to reverse the extreme conditions of the market.*
- *The correction this past week has not done nearly enough reversal to warrant adding exposure here.*
- *With the Nasdaq "buy signal" at extremely overbought levels, there is likely more correction to come.*
- *Short-Term Positioning: Neutral due to extensions.*
  - *Last Week: Hold position*
  - *This Week: Hold position*
  - *Stop-loss moved up to $215*
- *Long-Term Positioning: Neutral due to valuations*

S&P 600 Index (Small-Cap)



- *Small caps have failed to participate with the markets and under performance is weighing on portfolios.*
- *The buy signal has continued to correct as small-caps are struggling to maintain recent support levels.*
- *We may remove our exposure to small-caps and focus our attention more on domestic large cap value for now.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold positions*
    - *This Week: Hold positions*
    - *Stop loss moved up to $69*
- *Long-Term Positioning: Neutral*

S&P 400 Index (Mid-Cap)

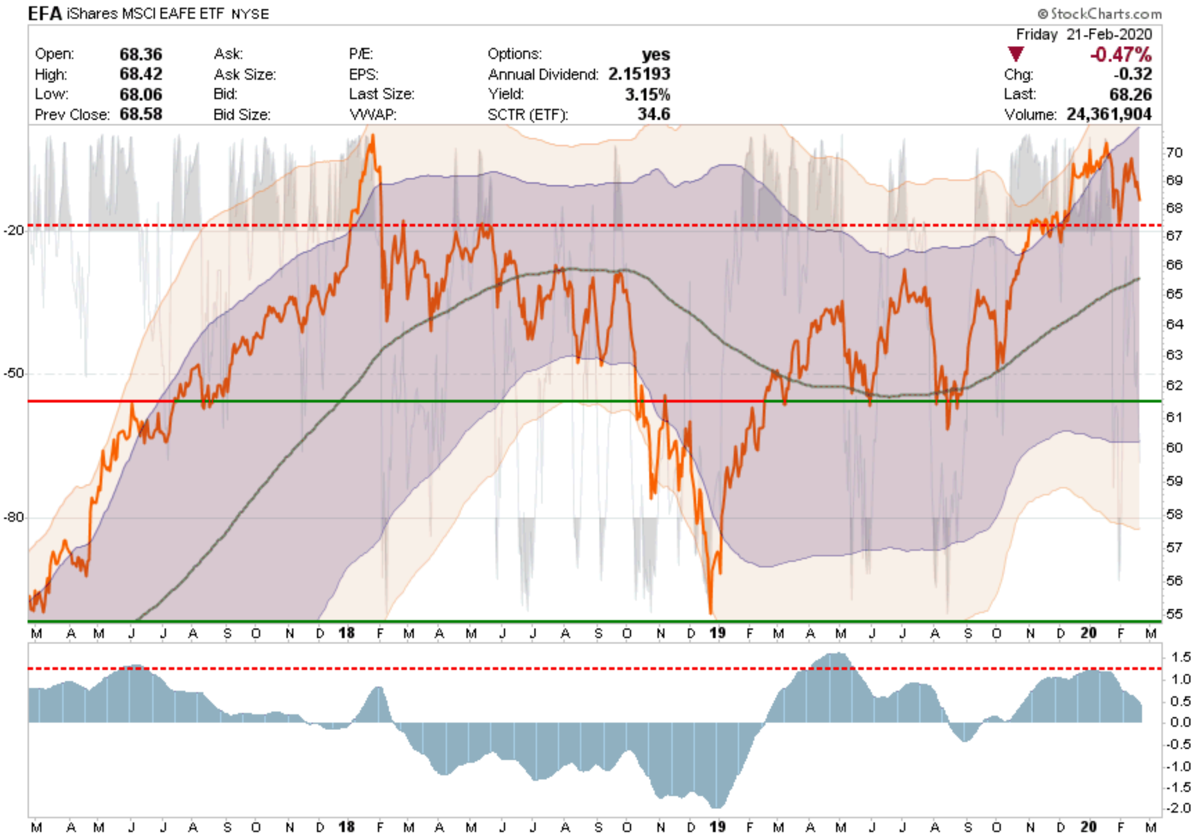


- *MDY remains extremely extended above the 200-dma, so more corrective action is likely. MDY is still on a buy-signal but is pushing rather extreme deviations from long-term means.*
- *The previous breakout level held which is very bullish, so if the overbought condition can get worked off with some consolidation, we will have a good entry point to add exposure.*
- *Short-Term Positioning: Neutral*
  - *Last Week: No holding*
  - *This Week: No holding*
- *Long-Term Positioning: Bullish*

Emerging Markets

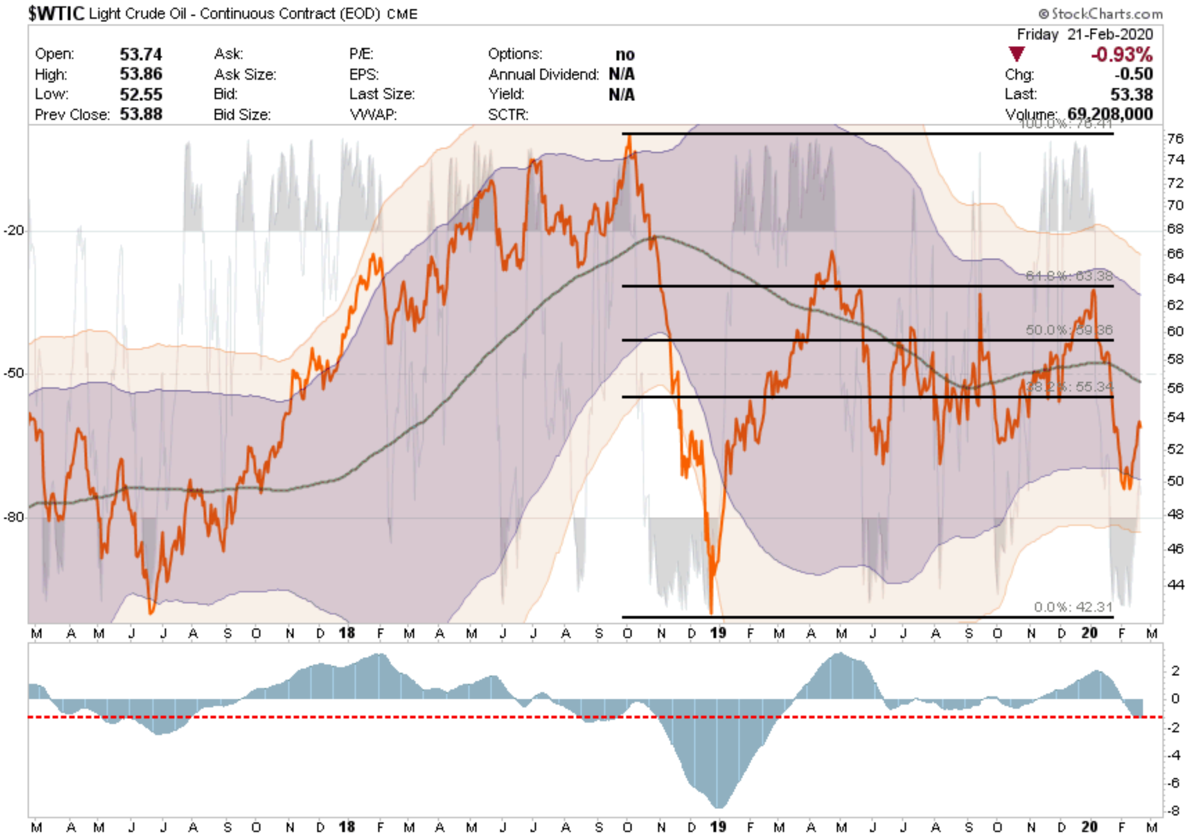
- *EEM rallied and failed at resistance last week, which is concerning.*
- *Like small-caps, we are going to reduce our exposure to international holdings and return our focus on large cap value for now.*
- *The Dollar (Last chart) is also suggesting we reduce our exposure to international positioning. The dollar has reversed and broke out to new highs suggesting there is more upside to the dollar currently.*
- *We are maintaining our holdings, but will likely remove our holdings soon.*
- *Short-Term Positioning: Neutral*
  - *Last Week: Hold positions*
  - *This Week: Hold positions*
  - *Stop-loss set at $42*
- *Long-Term Positioning: Neutral*

International Markets



- *Like EEM, EFA also rallied off support last week but failed at recent highs.*
- *As with EEM, the key to our positioning is the US Dollar which is rallying strongly.*
- *We are going to likely remove our international exposure soon and return our focus back to large cap value.*
- *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)



- *Oil has rallied over the last week showing some signs of life. However, oil stocks have yet to reflect the improvement. We suspect they will soon if oil can continue to rise.*
- *As noted last week, "Oil is extremely oversold so a counter-trend rally is highly likely."*
- *We got a little bounce this past week, but need follow through this week.*
- *We remain on hold for now, but are getting more interested.*
- *Short-Term Positioning: Neutral*
    - *Last Week: No positions*
    - *This Week: No positions*
    - *Stops Triggered for any direct crude oil positions.*
- *Long-Term Positioning: Bearish*

Gold

- *As noted last week: "Gold rallied sharply and broke out to new highs, suggesting there was something amiss with the stock market exuberance."*
- *The correction came this past week, confirming Gold's message was correct.*
- *On Friday, gold rallied sharply off support and with the buy signal intact, higher levels are likely.*
- *Our positioning looks good, but we are likely going to get a stock market bounce next week, allowing a better entry point to add to Gold positions.*
- *Short-Term Positioning: Bullish*
    - *Last week: Hold positions.*
    - *This week: Hold positions*
    - *Stop-loss for whole position adjusted to $145*
    - *Long-Term Positioning: Bullish*

Bonds (Inverse Of Interest Rates)

- *As with Gold, Bonds were also suggesting something was amiss with the market. Bonds broke out to new highs this past week, and after adding exposure previously, the rally was a welcome hedge against stock market volatility.*
- *Hold positions for now, but look for a bit of correction before adding more weight.*
- *Bonds are very close to triggering a sell-signal. Suggesting higher prices are likely (Lower yields)*
- *Short-Term Positioning: Bullish*
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    - *Last Week: Hold positions*
    - *This Week: Hold positions*
    - *Stop-loss is moved up to $136*
    - *Long-Term Positioning: Bullish*

U.S. Dollar

- *As noted previously: "The dollar has rallied back to that all important previous support line. IF the dollar can break back above that level, and hold, then commodities, and oil, will likely struggle."*
- *This past week, the dollar surged through that resistance and is now extremely overbought short-term. Looking for a reflexive rally in stocks next week that pulls the dollar back towards the breakout level of last week.*
- *The rising dollar is not bullish for Oil, commodities or international exposures. So watch carefully.*
- *The "buy" signal has been triggered suggesting the dollar is going to move higher from here.*