

# **The Bullish Test**

## **Comes As Earnings Season Begins**



*In this issue of, "The Bullish Test Comes As Earnings Season Begins:"*

- *A Breakout Of Consolidation*
- *Updated Estimates As Earnings Begin*
- *A Quick Note On The Jobs Report*
- *Portfolio Positioning*
- *MacroView: The Fed Has Inflated Another Asset Bubble*
- *Sector & Market Analysis*
- *401k Plan Manager*

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## **Upcoming Event - CANDID COFFEE**

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*July 25th from 8-9 am*

[Send in your questions](#), and Rich and Danny will answer them live.




# Candid Coffee

## What's brewing in your finances?

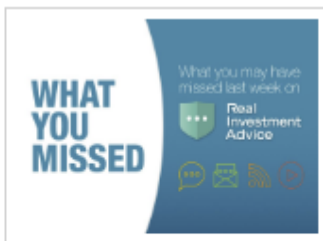
Join **Richard Rosso** and **Danny Ratliff** for Candid Coffee—an open forum to address the real story—what you need to know about money, retirement, risk-management, and how to protect your household against financial vulnerability in a post-COVID world.

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## Catch Up On What You Missed Last Week



### #WhatYouMissed On RIA This Week: 07-03-20

Written by Lance Roberts | Jul 3, 2020

Here is what you might have missed from the RIA Crew last week. A compilation of our best blogs, newsletter, podcasts, the daily radio show and commentary from RIAPRO.NET.

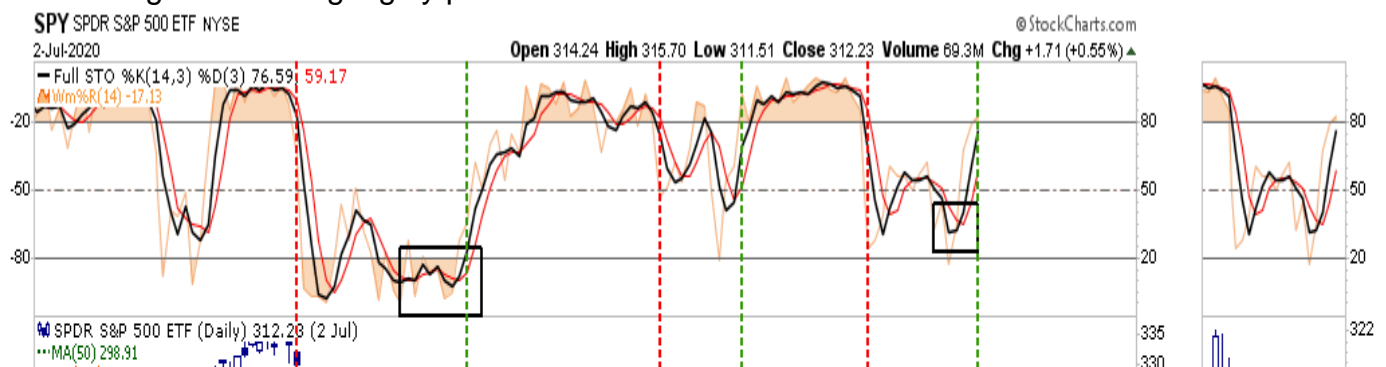
[>> Read More](#)

### Note:

*I am on vacation this week for a quick break. However, I did want to post a short market and portfolio positioning update. If you have [any questions](#), I will continue to answer every question, every day. That is between sleeping on the beach, fishing, skiing, or eating.*

## A Breakout Of Consolidation

Over the last few weeks we have noted the continuing consolidation of the market since the June peak. When markets are overbought short-term, that condition is resolved through a correction or consolidation process. Such is what occurred during the last part of June and completed last week. As shown below, the market broke out of that consolidation and triggered a "buy signals" across multiple measures. This breakout will give the "bulls" an advantage in the short-term with a retest of the June highs becoming highly probable.

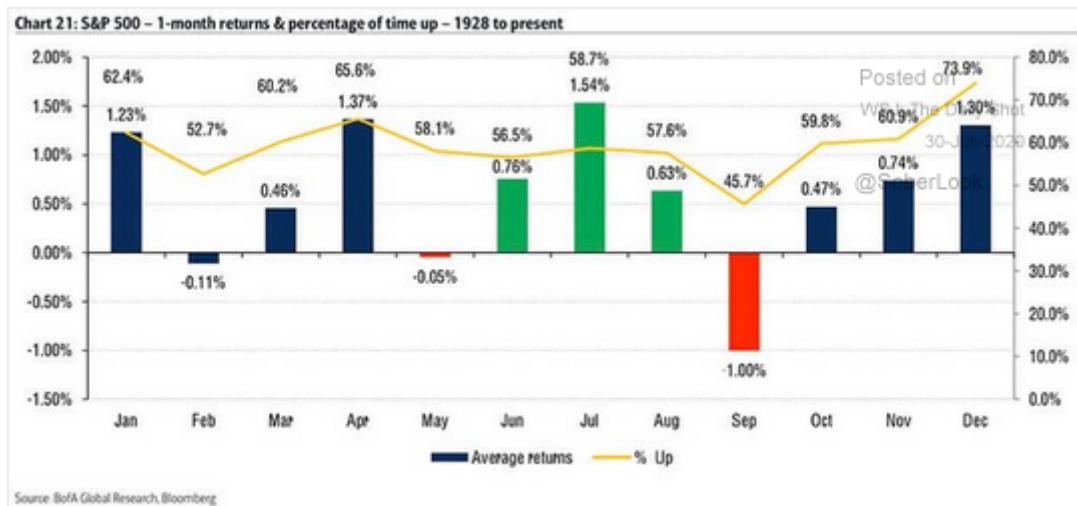


The bulls will also gain some additional support from the *"Golden Cross"* (when the 50-dma crosses above the 200-dma). That *"bullish signal"* will likely occur over the next week or two depending on market action.



The *"bullish supports"* for the market are currently in play. Such keeps our portfolio allocations weighted towards equity risk. However, there are many fundamental and economic headwinds that could quickly derail the bullish thesis.

## Seasonality In Play



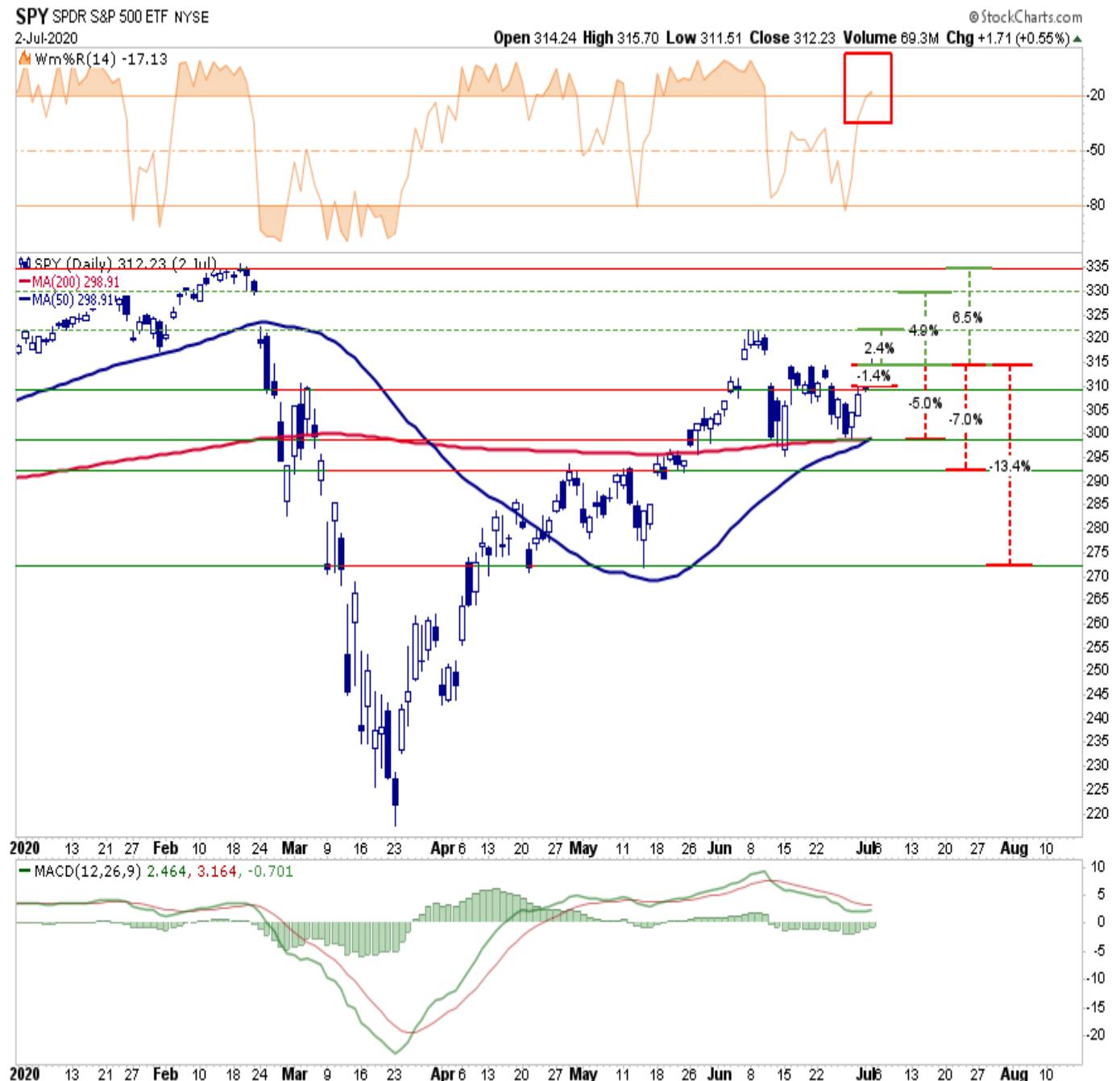
be mindful of those  
hs of the year.

As [noted last week:](#)


*"With the sell-off on Friday, the short-term oversold condition, **a reflexive rally next week would not be surprising.**"*

That rally reversed much of the short-term oversold condition. While the bulls are in control of the market currently, the upside is somewhat limited. However, the downside risks are reduced with the improvement in the technical underpinnings. **Such puts the risk/reward dynamics to a more equally balanced, than opportunistic, positioning. As such, risk controls and hedges should**

remain for now.



- **-1.4%** to breakout level vs. **+2.4%** previous rally peak. (Neutral)
- **-5%** to 50/200 dma support vs. **+4.9%** to January peak (Neutral)
- **-7%** to previous consolidation peak vs. **+6.5%** to all-time highs. (Neutral)
- **-13.4%** to previous consolidation lows vs. **+6.5%** to all-time highs. (Negative)

**REAL  
INVESTMENT  
ADVICE**

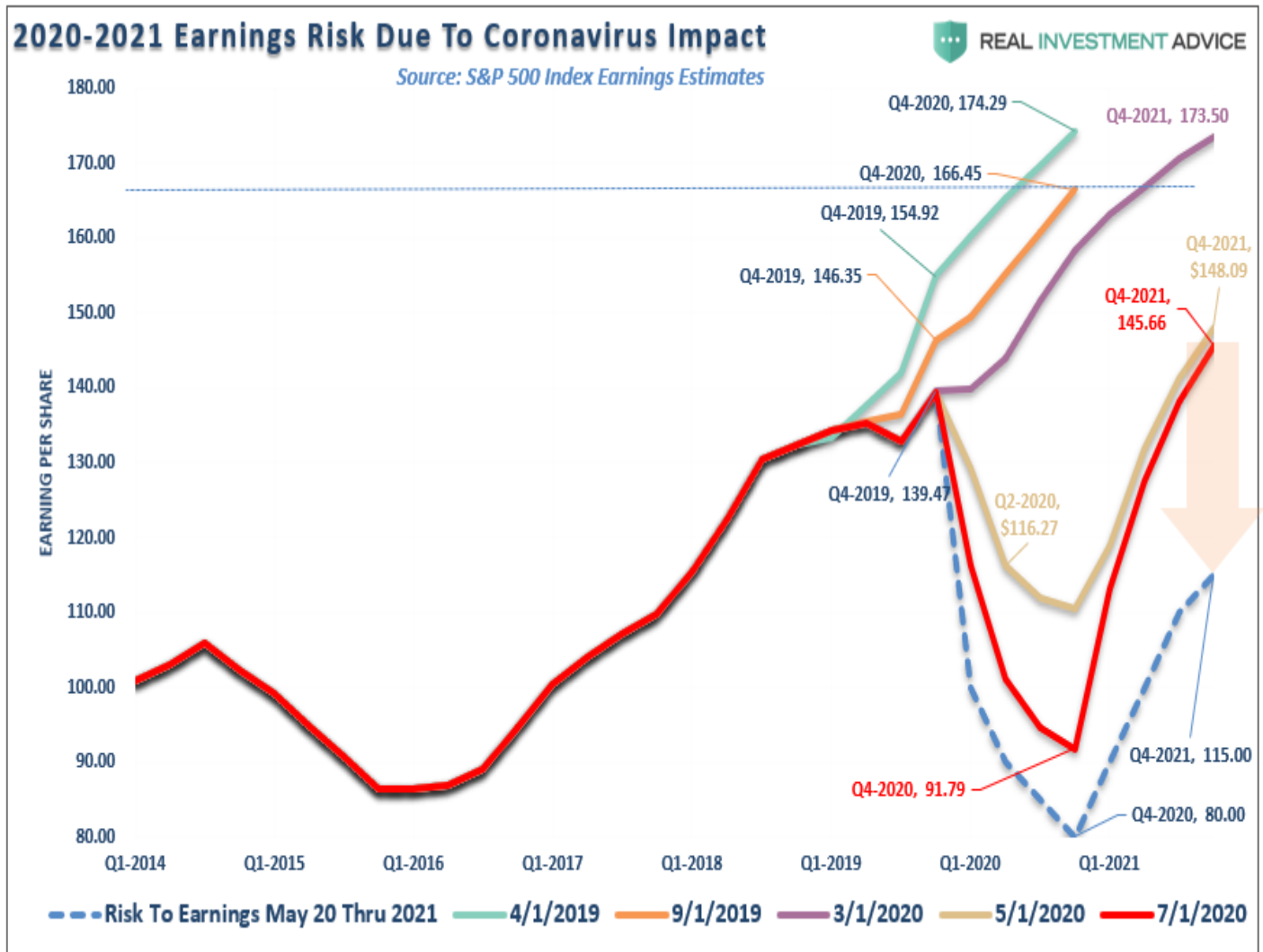
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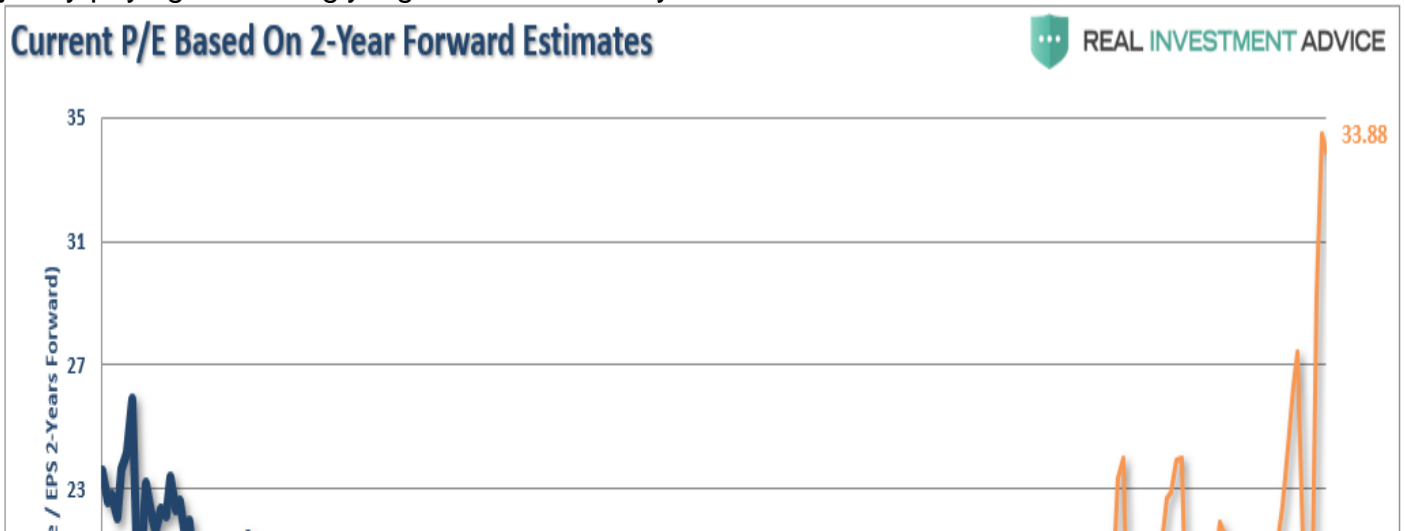
## Earnings Estimates Update

Over the next two weeks, we will enter the earnings season for all publicly traded corporations. Of course, we will mostly hear about those companies which comprise the S&P 500 index. I am writing a more comprehensive report on the earnings estimates for Tuesday's *"Technically Speaking."* Still, I did want to make a quick comment about what is coming. As with every quarter,

we are about to play "Millennial Soccer." Such is where Wall Street analysts continually lower earnings estimates for the quarter until companies can beat them. **When you see the analysis that 70% of companies beat their estimates, just remember analysts lowered the bar to a point where "everybody gets a trophy."** What will be important to pay attention to is "revenue," which happens at the top of the income statement. Companies can do a lot to fudge bottom-line earnings by using accruals, "cookie jar" reserves, share buybacks, and a variety of other accounting gimmicks. It is much more difficult to manipulate revenue. However, the market will focus on reported earnings. As stated, the estimates have fallen sharply over recent weeks, and are far lower than where they were set previously.



Importantly, while Wall Street has dramatically lowered estimates for the coming quarter, expectations remain for a rapid recovery in the economy. Given the rise in COVID-19 cases as of late, states pausing reopening, and depressionary levels of unemployment, it is highly likely those future estimates will ratchet sharply lower. Such makes the mantra of using 24-month estimates to justify paying exceedingly high valuations today even riskier.





**"Price is what you pay, value is what you get." - Warren Buffett**

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### A Quick Note On The Jobs Report

While the BLS reported a massive 4.8 million in employment for June and a drop in the unemployment rate to 11.1%, these numbers remain distorted by bad data gathering and analysis. As [Mish Shedlock](#) noted on Thursday:

*"I question both the strength of the rise in jobs and the decline in the unemployment rate based on claims data and the reference week."*

I agree. It's hard to reconcile a 4.8 million increase in jobs in a month where you added over 4-million to initial jobless claims and continuing claims continued to remain near the highest levels on record.

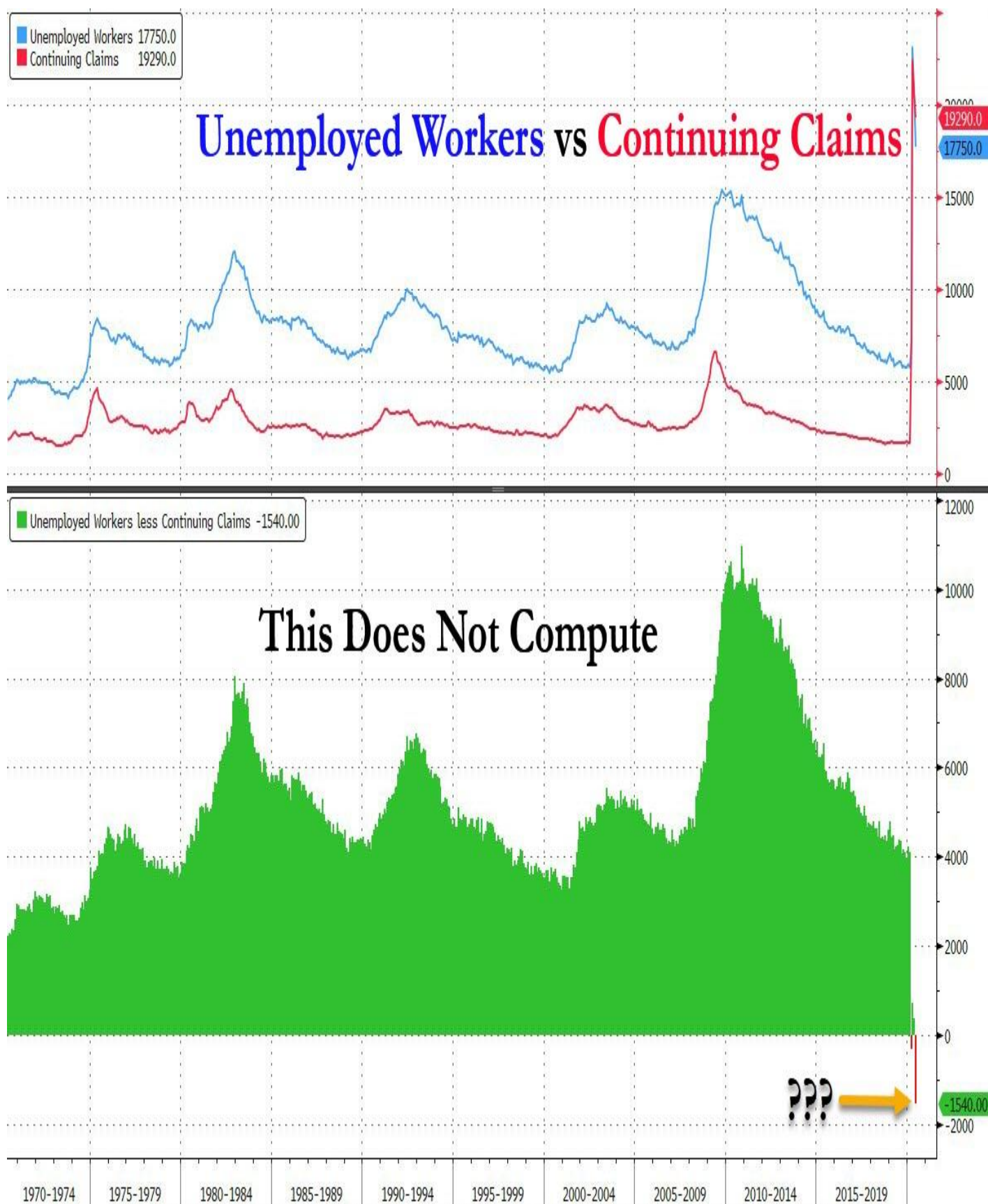
All Continued Claims in 2020 July 1

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More importantly, as [noted by Zerohedge](#), there is a problem in the data when you have more people getting unemployment benefits than there are unemployed workers.

***"As the [DOL reported today](#), there were 19.29 million workers receiving unemployment insurance. And yet, somehow, at the same time, the [BLS also represented](#) that the total number of unemployed workers is, drumroll, 17.75 million. If you said this makes no sense, and pointed out that the unemployment***

insurance number has to be smaller than the total unemployed number, you are right. And indeed, for 50 years of data, that was precisely the case."



The main point here is that employment is what drives earnings, corporate profits, and GDP. Given the exceedingly high level of unemployment, in real terms, the recovery to earnings will much slower than expected. Such suggests that expectations for the bull market to continue "to infinity and beyond," will likely prove disappointing.



## Real Investment Show with Lance Roberts

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### Portfolio Positioning Update

Let me restate our position from last week:

***"With our portfolios almost entirely allocated towards equity risk in the short-term, we remain incredibly uncomfortable."***

Such remains the case this week. As noted last week, with the market having gotten very oversold short-term, the reflexive rally off of support came as expected and achieved our first rally target.



**Given that we are not yet to more extreme short-term overbought conditions and expectations of future earnings, the market can still retest the June highs.** As noted last week, we used the counter-trend bounce to rebalance exposures. We took profits in CLX and UPS and rebalanced our "core positions" by reducing DIA and adding SPY. Our focus remains on



capital preservation for the next couple of months, so our hedges in fixed income remain. With the virus resurfacing, the potential risk of disappointment to the earnings and economic recovery story has risen. Our job remains the same, protect our client's capital, reduce risk, and try to come out on the other side in one piece. While we are certainly more bullish on markets currently, as momentum is still in play, it doesn't mean we aren't keenly aware of the risk. Pay attention to what you own, and how much risk you are taking to generate returns. Going forward, this market will likely have a nasty habit of biting you when you least expect it.

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## The MacroView



### #MacroView: The Fed Has Inflated Another Asset Bubble

Written by Lance Roberts | Jun 26, 2020

In March, it appeared as if the bubble had finally popped. However, the Fed's quick response and massive monetary interventions ceased the asset bubble's deflation and reinflated it.

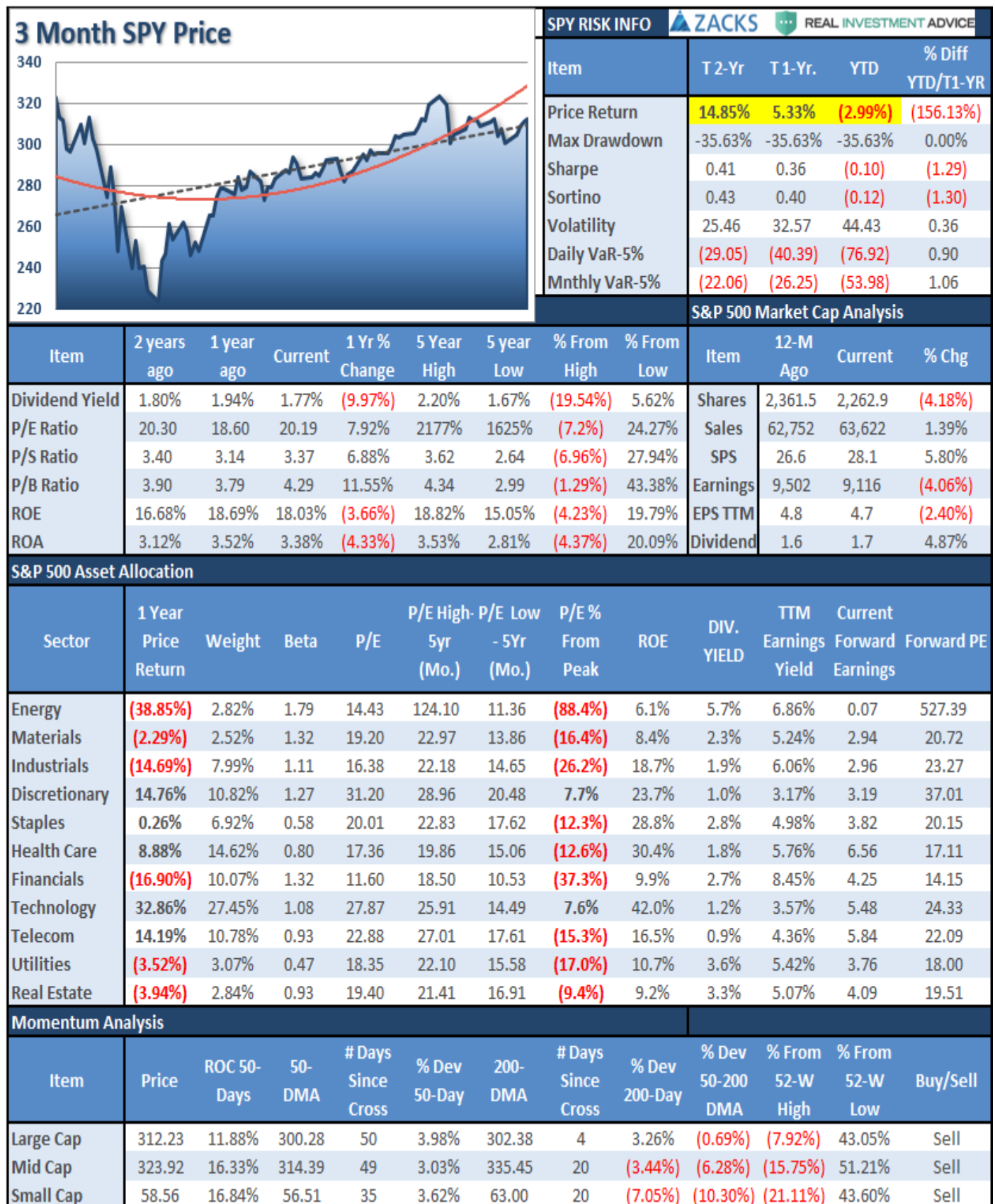
[>> Read More](#)

If you need help or have questions, we are always glad to help. [Just email me.](#) See You Next Week **By Lance Roberts, CIO**

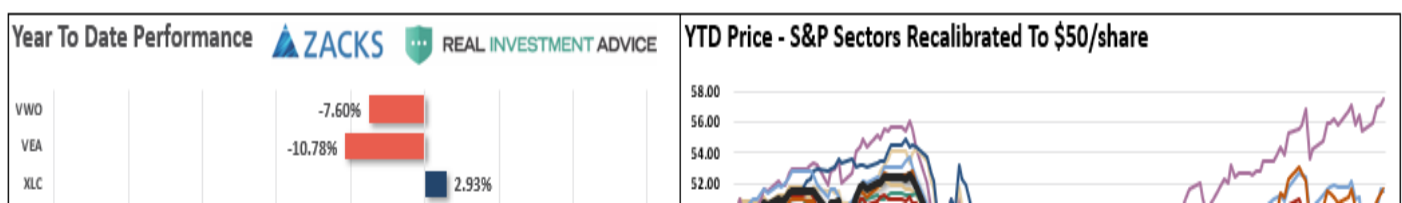
## Market & Sector Analysis

***Data Analysis Of The Market & Sectors For Traders***

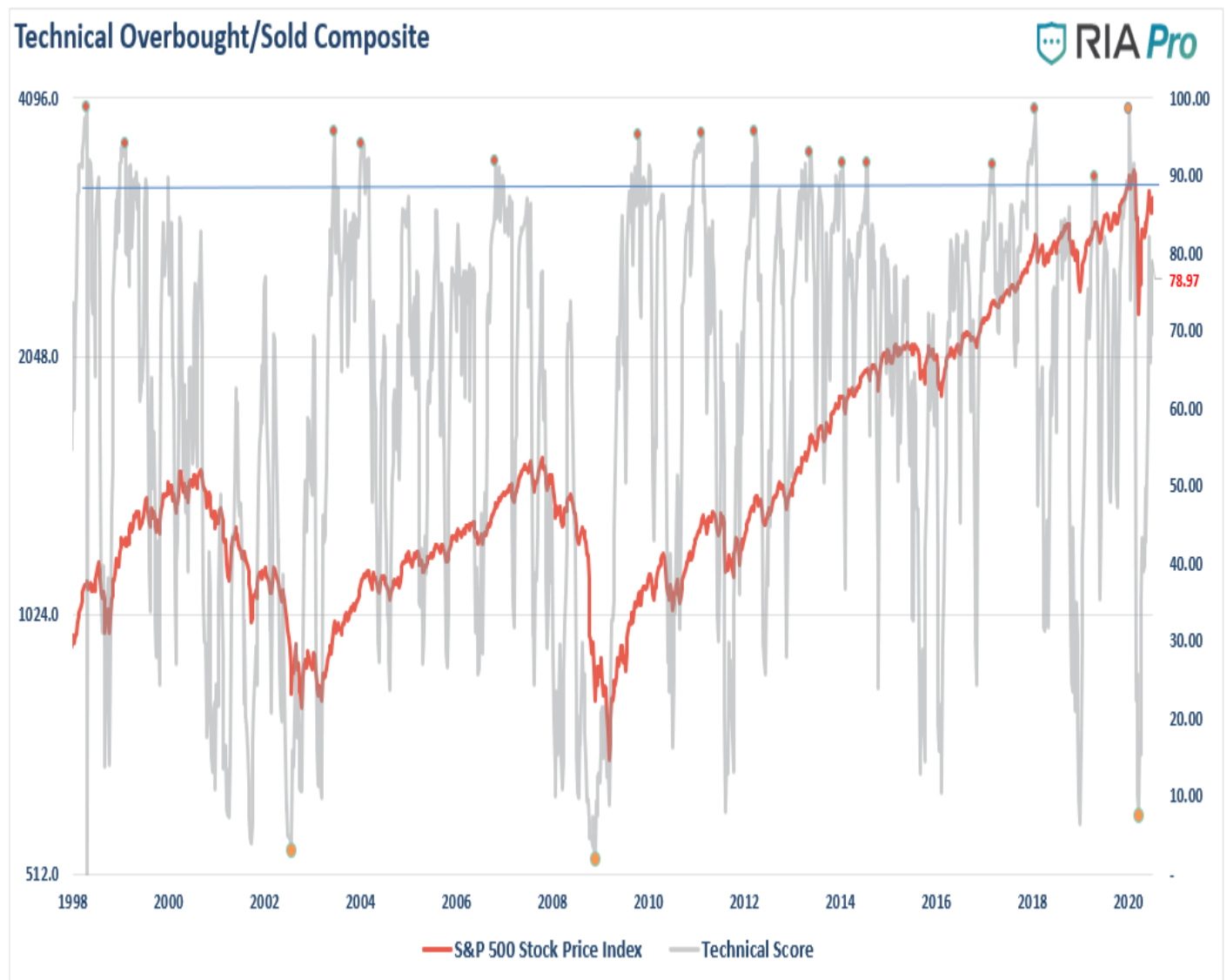
# S&P 500 Tear Sheet



## Performance Analysis



# Technical Composite



## Sector Model Analysis & Risk Ranges

### How To Read.

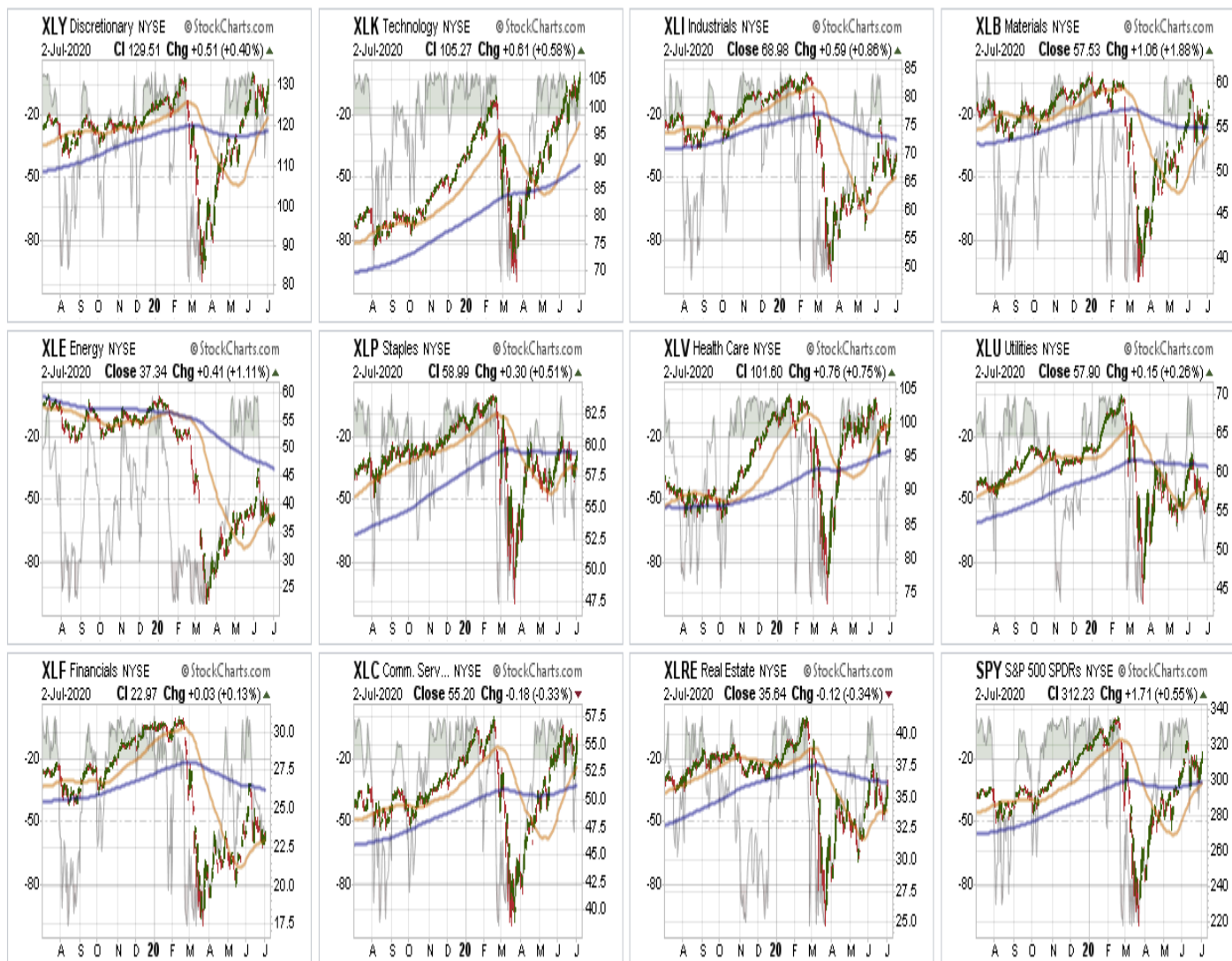
- The table compares each sector and market to the S&P 500 index on relative performance.
- The "MA XVER" is determined by whether the short-term weekly moving average crosses positively or negatively with the long-term weekly moving average.
- The risk range is a function of the month-end closing price and the "beta" of the sector or market.
- The table shows the price deviation above and below the weekly moving averages.

RELATIVE PERFORMANCE		Current	PERFORMANCE RELATIVE TO S&P 500 INDEX					SHORT	LONG	MONTH	REL S&P	RISK RANGE		% DEV -	% DEV -	M/A XVER
Ticker	ETF NAME	Price	1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	WMA	WMA	END PRICE	BETA	HIGH	LOW	Short M/A	Long M/A	SIGNAL
IVV	ISHARS-SP500	313.45	1.60	0.36	12.30	(5.70)	4.32	295.37	304.25	309.69	1.00	317.43	301.95	6%	3%	SELL
XLB	SPDR-MATLS SELS	57.53	2.52	(1.74)	(0.42)	0.21	(7.12)	53.04	55.36	56.35	1.15	58.41	54.29	8%	4%	SELL
XLC	SPDR-COMM SV SS	55.20	(1.04)	0.71	6.23	3.85	5.34	51.68	51.88	54.04	0.96	55.91	52.17	7%	6%	SELL
XLE	SPDR-EGY SELS	37.34	(2.87)	(10.90)	(2.18)	(31.54)	(45.05)	37.41	46.40	37.85	1.67	39.43	36.27	0%	-20%	SELL
XLF	SPDR-FINL SELS	22.97	(4.23)	(9.56)	(14.05)	(20.06)	(22.51)	22.80	26.30	23.14	1.17	23.99	22.29	1%	-13%	SELL

# Sector & Market Analysis:

*Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels.*

## Sector-by-Sector



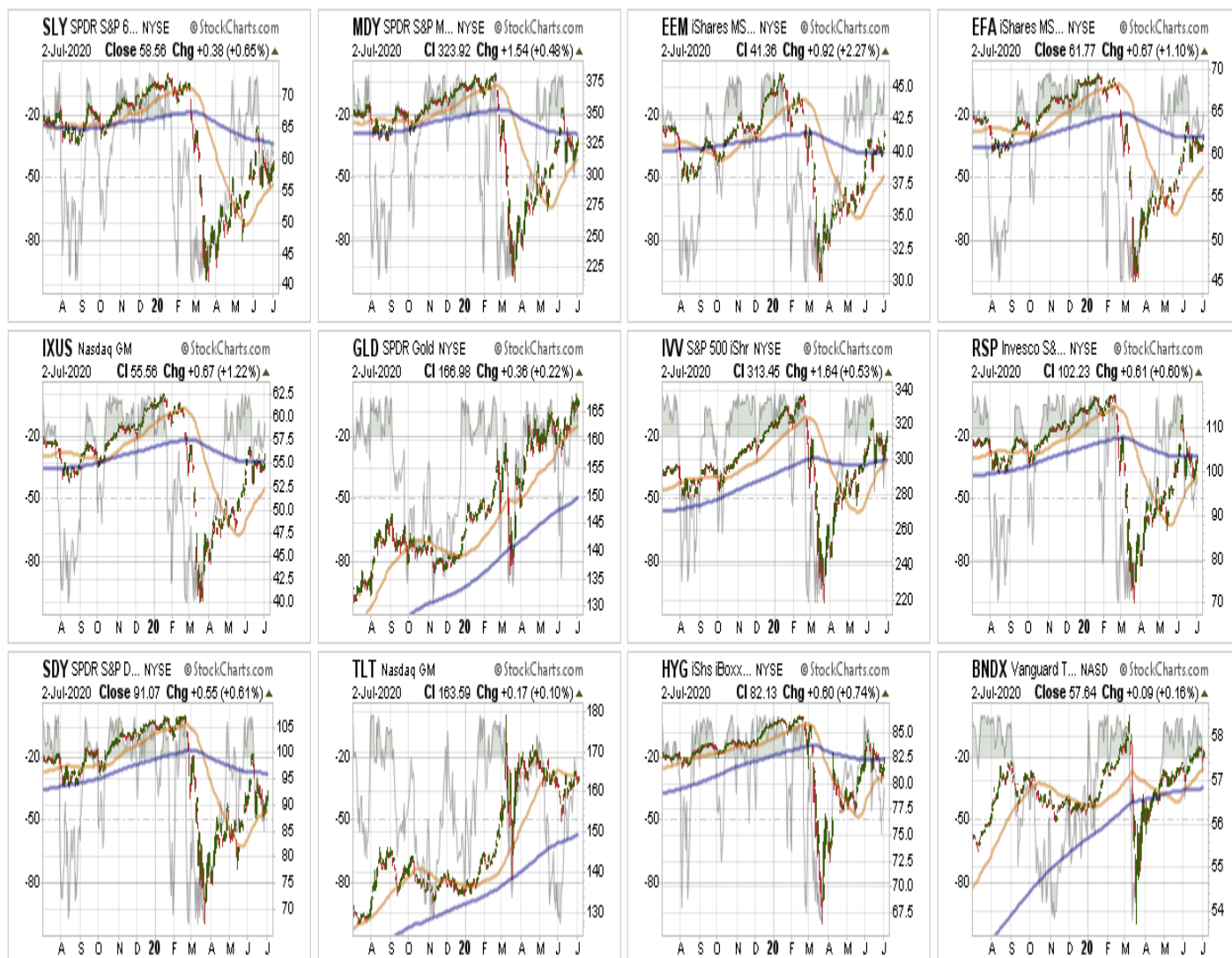
**Improving ? Financials (XLF), Industrials (XLI), and Energy (XLE)** Last week, Financials moved into the improving quadrant of the rotation model, but will likely be short-lived. However, performance in the sector is weak. Energy and Industrial performance overall remains inadequate with a failure at the 200-dma. Energy is oversold and cheap on a value basis; we hold our exposures for now. **Current Positions: XLE Outperforming ? Materials (XLB), Technology (XLK), Discretionary (XLY), and Communications (XLC)** Discretionary, which had gotten very extended, corrected, and rallied this past week again. The sector is back to very overbought so that upside may be limited. After suggesting profit-taking previously, Communications has corrected a bit, reducing the overbought condition. Communications may provide an opportunity to add to the position. Technology remains short-term overbought. The opportunity may be to reduce Technology and add to Communications and Discretionary. **Current Positions: XLC, XLK, XLC**

**Weakening ? Healthcare (XLV)** Previously, we added to our core defensive positions Healthcare. We continue to hold Healthcare on a longer-term basis as it tends to outperform in tougher markets and hedges risk. Healthcare is now sitting on support and is getting decently oversold. We may see a counter-trend rally in healthcare as it begins to catch some rotation. **Current Position: XLV**



**Lagging ? Utilities (XLU), Real Estate (XLRE), and Staples (XLP)** Our defensive positioning in Staples, Real Estate, and Utilities has lagged but remains part of the "risk-off" rotation trade. We see early signs of improvement, suggesting it is the right place to be. If it turns up meaningfully, we will add to our current holdings. **Current Position: XLRE, XLU, & XLP**

## Market By Market



**Small-Cap (SLY) and Mid Cap (MDY) ?** Two weeks ago, both of these markets were extremely overbought and susceptible to a pullback. Even with the pullback, neither market is oversold. Both markets are sitting on the last line of support. We maintain no holdings currently. **Current Position: None**

**Emerging, International (EEM) & Total International Markets (EFA)** Emerging and International Markets have performed better recently, and have not declined as much as the market. However, with the virus on the rise, there is a risk in these markets. Both of the markets are very overbought, so take profits and rebalance if needed. Pay attention to the dollar for your cue as to what to do next. **Current Position: None**

**S&P 500 Index (Core Holding) ?** Given the broad market's overall uncertainty, we previously closed out our long-term core holdings. We are currently using DIA and SPY as a "Rental Trades" to pick up some bulk exposure for trading purposes. **Current Position: None**

**Gold (GLD) ?** We currently remain comfortable with our exposure through IAU. Gold is a bit overbought short-term, so we are looking to potentially take some profits and look for a pullback to rebuild exposures. **Current Position: IAU, UUP**

**Bonds (TLT) ?** As we have been increasing our "equity" exposure in portfolios, we have added more to our holding in TLT to improve our "risk" hedge. However, with yields so low, and with the Fed supporting the mortgage-back and corporate bond markets, we swapped our near zero-yielding short-term Treasury funds for Mortgage-Backed and Broad Market bond funds with 2.5% yields.




No change this week. **Current Positions: TLT, MBB, & AGG**

## Sector / Market Recommendations

The table below shows thoughts on specific actions related to the current market environment.

*(These are not recommendations or solicitations to take any action. Such is for informational purposes only related to market extremes and contrarian positioning within portfolios. Use at your own risk and peril.)*

											
		Over Bought / Sold	50/200 DMA	Trend	Action	OVERWEIGHT	BUY	HOLD	REDUCE	SELL	Notes
XLV	Discretionary	Declining	Positive	Neutral	No Position					X	No Position
XLK	Technology	Declining	Positive	Neutral	Hold			X			Hold
XLI	Industrials	Declining	Negative	Negative	No Position					X	No Position
XLB	Materials	Declining	Negative	Neutral	No Position					X	No Position
XLE	Energy	OS	Negative	Negative	Hold			X			Hold
XLP	Staples	OS	Positive	Neutral	Hold			X			Hold
XLV	Health Care	OS	Positive	Neutral	Hold			X			Hold
XLU	Utilities	OS	Negative	Neutral	Hold			X			Hold
XLF	Financials	Declining	Negative	Negative	No Position					X	Avoid
XLC	Communications	Declining	Positive	Neutral	Hold			X			Hold
XLRE	Real Estate	Declining	Negative	Negative	Hold			X			Hold
SLV	Small Caps	Declining	Negative	Negative	No Position					X	No Holdings
MDY	Mid Caps	Declining	Negative	Negative	No Position					X	No Holdings
EEM	Emerging Mkt	OB	Negative	Negative	No Position					X	No Holdings
EFA	International	OB	Negative	Negative	No Position					X	No Holdings
IXUS	Total International	OB	Negative	Negative	No Position					X	No Holdings
GLD	Gold	OB	Positive	Positive	Hold			X			Hold
RSP	SP500 Equal Wgt	Declining	Negative	Neutral	Hold			X			Hold
SDY	SP500 Dividend	Declining	Negative	Neutral	Hold			X			Hold
IVV	SP500 Market Wgt	Declining	Negative	Neutral	Hold			X			Hold
TLT	20+ Yr. Bond	Rising	Positive	Positive	Changed			X			Swapped SHY & IEF For MBB & AGG
HYG	Corporate High Yield	Declining	Negative	Neutral	No Position					X	Holding 50-DMA
BNDX	Int'l Bond Aggregate	OB	Positive	Neutral	No Position					X	Broke Above 50 & 200-DMA
LEGEND: X = THIS WEEK => PREVIOUS DECLINING <= PREVIOUS IMPROVING						X	No Position				

## Portfolio / Client Update

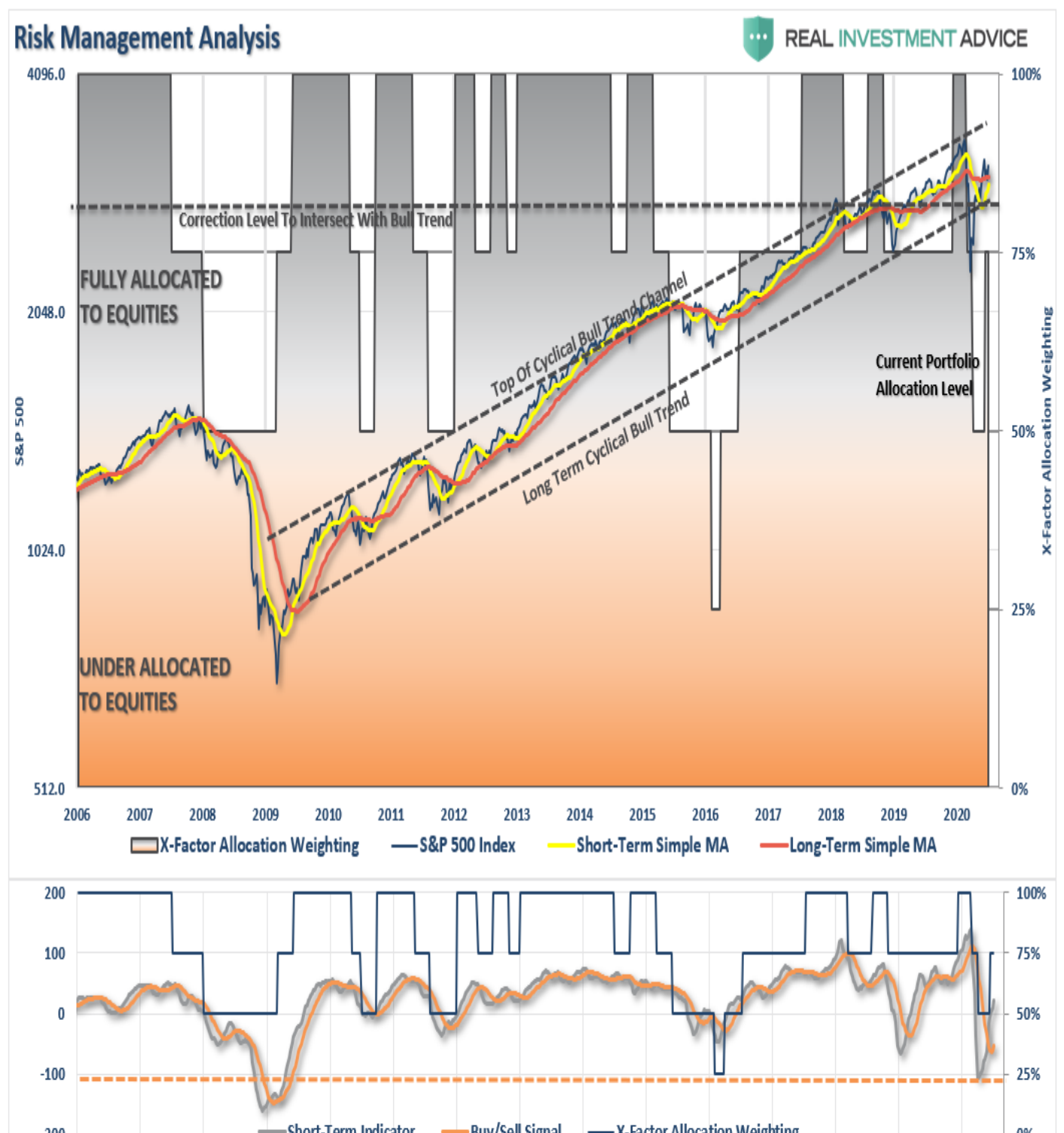
As noted last week, we used this week's rally to rebalance portfolios a bit. Over the next couple of weeks, we will enter into earnings season where volatility will likely pick up a good bit. We currently remained focused on protecting capital first, but we also want to be mindful of performance. While our performance did drag in the during the last quarter, that drag came from the conscious choice of maintaining our fundamental discipline and not chasing bankrupt and fundamentally unsound companies. In the short-term, we did sacrifice some performance. Still, we believe that you will appreciate our attention to our discipline in the long-term and focus on fundamentals.

## Changes

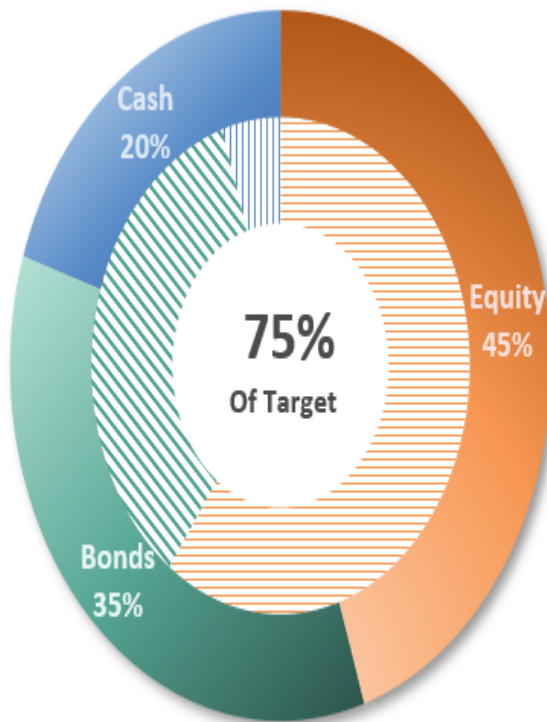
Last week we trimmed gains in both CLX and UPS. We were also overweight energy in the ETF Portfolio, so we sold XLE but are maintaining our holdings of XOM and CVX in both portfolios. With States now starting to reverse reopening procedures, there is a risk to corporate outlooks as we enter earnings season. Also, with Congress not returning from break until the 20th of July, there is a chance of not getting an extension to unemployment benefits passed promptly. Such could cause a pick up in volatility in the short-term. In the meantime, we are doing our best to maintain some risk controls to avoid being forced to sell emotionally. In the meantime, please don't hesitate to contact us if you have any questions or concerns. *Lance Roberts CIO*

## THE REAL 401k PLAN MANAGER

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



## 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.*

*20% Equity Income, Balanced or Conservative Allocation*

*25% Large Cap Growth (S&P 500 Index)*

*0% International Large Cap Dividend*

*0% Mid Cap Growth*

## Portfolio Instructions:

Allocation Level To Equities	Recommendation	When To Take Action
Less Than Target Allocation	Hold Exposure At 75%	Hold Exposure
Equal To Target Allocation	Hold Exposure At 75%	Hold Exposure
Over Target Allocation	Hold Current Exposure	Hold Exposure

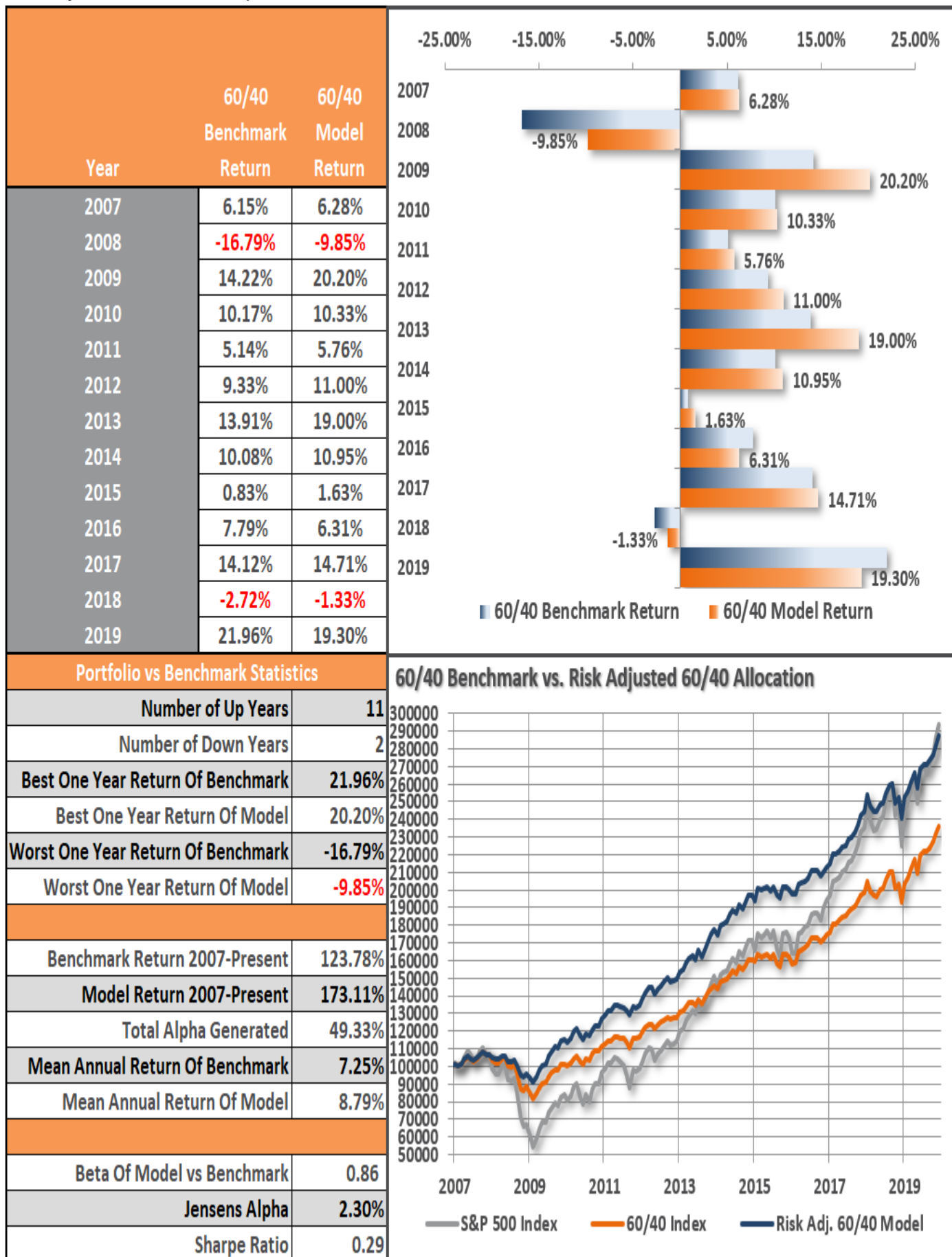
## Commentary

The market bounced off support as expected last week, keeping allocations intact for now. Hold positions for at current target weights for now. We are still running below our target of 100% equity, but if the market continues to firm up, we will gradually move back to full exposure.

No changes this week to models or holdings.

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

*Model performance is a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. Such is strictly for informational and educational purposes only and should not be relied on 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 plan manager. Compare your current 401k allocation, to our recommendation for your company-specific plan as well as our on 401k model allocation. You can also track performance, estimate future values based on your savings and expected returns, and dig down into your sector and market allocations. **If you would like to offer our service to your employees at a deeply discounted corporate rate, [please contact me.](#)**

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From The RIA Investment Team

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My Info

Fund Selection

Comparison

Summary

Commentary

My Portfolio

RIAPro Portfolio

RIA PRO MODEL PL

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

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