



WEALTHSHIELD

December 24th , 2018

THIS IS A BEAR MARKET...

Since our framework turned negative in October, we have suggested that being defensive was the proper posture. We continue to support that assertion given the current market environment. Nothing has changed in the data that has suggested we should alter that recommendation. When our framework suggests a more positive outlook on risky assets, we will change our posture. Until then we are holding firm.

Valuations remain in the top decile of historical observations. The Buffett indicator, or Market Capitalization divided by GDP, is currently down from over 150% to 122.6%. Valuations are moving in the direction of becoming attractive, but we are still well above intrinsic value by our estimation in the US. It is interesting to hear commentators espousing that inexpensive valuations are a potential catalyst for equity price stabilization. According to measures of value that have had historical correlation to subsequent returns, this is not the case.



Chart 1: Market Cap to GDP (Buffett Indicator) - The US stock market is still highly valued despite the recent performance.

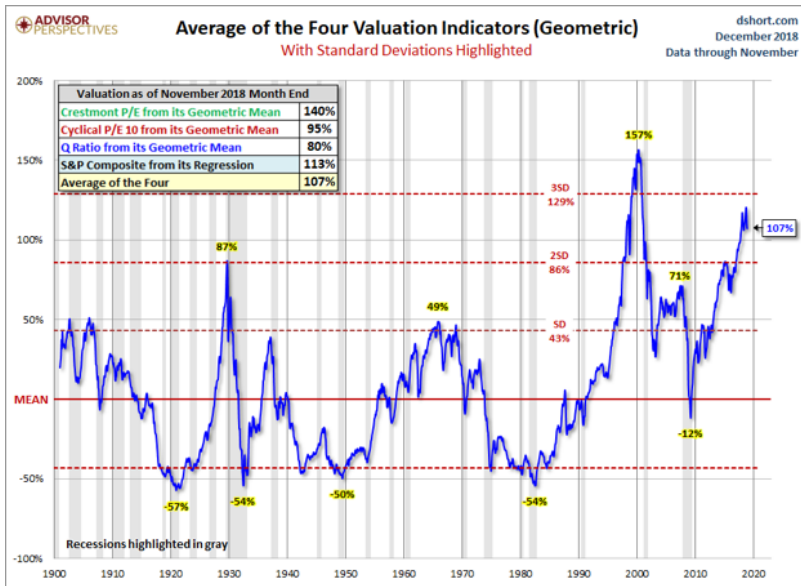


Chart 2: The average of four historically reliable valuation measures still suggest that the US stock market is still two standard deviations above intrinsic value. Despite the recent correction in equities prices, US stocks are still more expensive than before the start of the great depression.

We still may have a lot further to fall before the market reaches what the valuation indicators we rely on would consider “cheap”. This does not mean that markets cannot rally. In fact, some really impressive rallies can occur during bear markets, especially when stocks show signs of panic selling and oversold conditions like they currently do. That is not a reason to become optimistic; however, the fact that markets are becoming oversold is often a sign of trouble, not opportunity.

The percentage of stocks in the S&P 500 on point and figure buy signals now stands at 17%. This is the lowest weekly close since the global financial crisis. In a bull market, this indicator typically generates oversold conditions between 30% and 40%. Historically, this indicator becomes oversold below 20% during bear markets. That being said, we are concerned that any oversold rally that occurs would be short-lived and of the bear market variety.

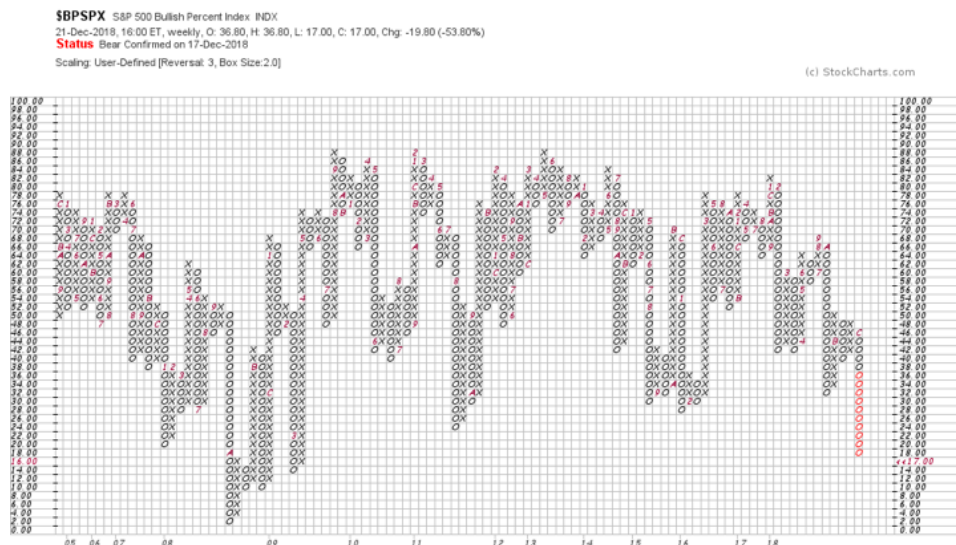


Chart 3: The percentage of stocks on point and figure buy signals is now at 17%. This is the lowest weekly close on this indicator since the global financial crisis.

We would feel more optimistic about the oversold conditions if the trend in global stocks were positive. The MSCI All World All Cap index peaked in January and remains in a negative trend. The trend is your friend until it ends and the trend in equities has ended.

Intermarket trends are in confirmation of broader price trends. The spread between high yield bond yields and Treasury bond yields has widened considerably since the beginning of the year, and it is also in a trend supportive of defensiveness (hence the reason why the trend component of our framework remains negative).

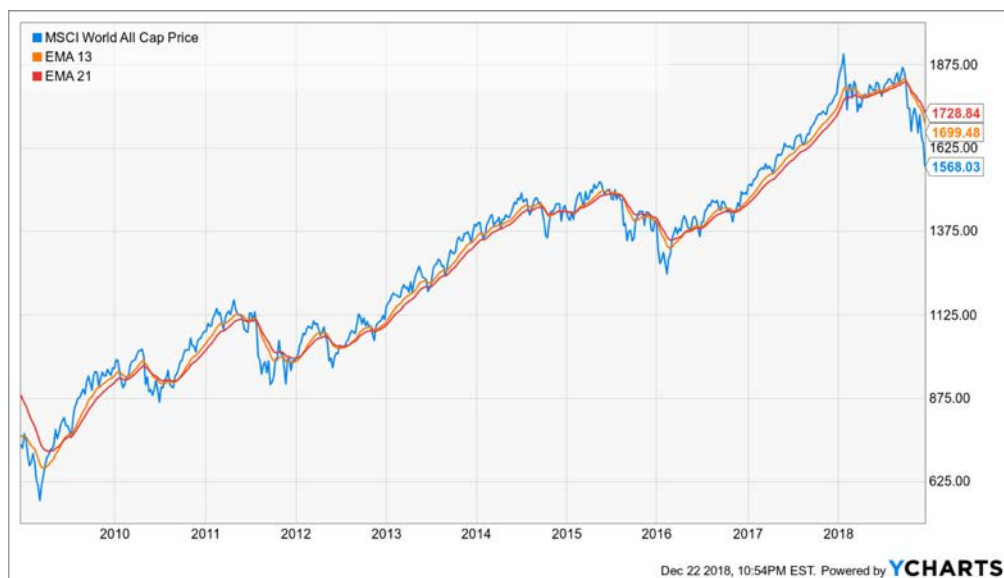


Chart 4: The MSCI World All Cap Index is in a negative trend.



Chart 5: High Yield credit spreads are above their 13 month exponential moving average. This illustrates an intermarket relationship that is supportive of defensive positioning (Treasury in this case).

The performance of the FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google) has been terrible since the market rolled over. These stocks were the darlings of the rally that started at the end of the last global contraction in 2016. Over the past quarter these names are down considerably. Apple, Amazon, Facebook, Google, and Netflix are down -33%, -31%, -24%, -18%, -34% for the quarter respectively. These stocks are all in negative trends. As soon as economic growth started to roll over, these names started to suffer. They had been pushed up on optimism and have now suffered from expectations coming back to economic reality.

Symbol	Month to Date Price Returns (Daily)	5 Day Returns (Daily)	Quarter to Date Price Returns (Daily)
AAPL	-15.60%	-8.91%	-33.23%
AMZN	-18.50%	-13.47%	-31.23%
FB	-11.14%	-13.27%	-24.02%
GOOGL	-10.67%	-5.75%	-17.88%
NFLX	-13.89%	-7.66%	-34.14%

Economic growth is slowing and inflation is as well, indicating to us that we are experiencing a deflationary pulse. This is why the growth component of our framework is negative. This is also why we expect the Federal Reserve to continue to move dovish in the coming months. Last week they continued their dovish communication trend by talking down the number of rate hikes for 2019 despite raising interest rates another quarter point. This was not dovish enough for the market however, nor our framework, as the Fed is still tightening policy and doing so in a slowdown.

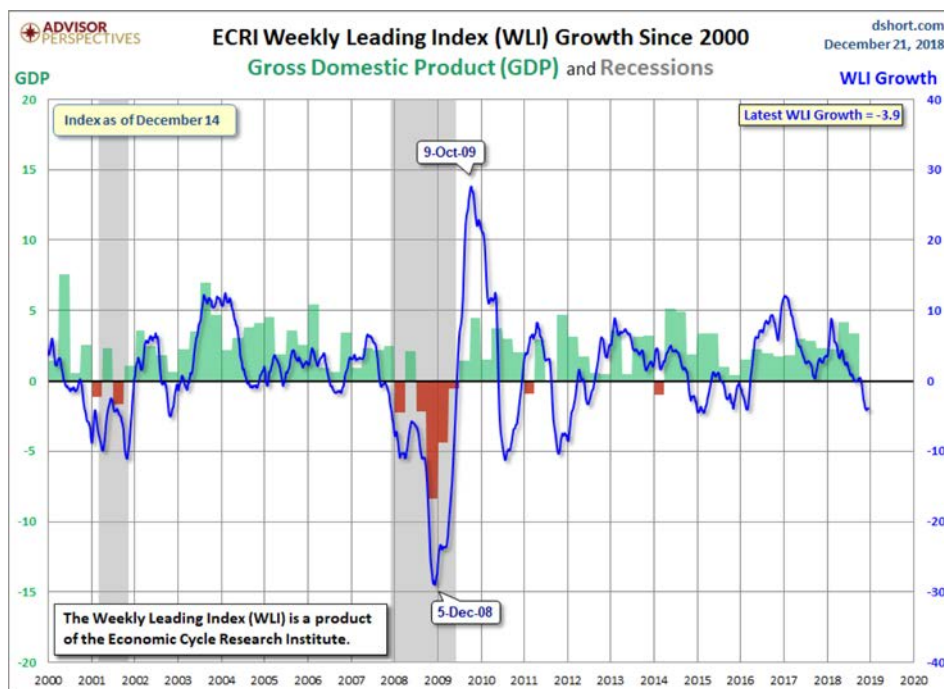


Chart 6: The ECRI Weekly leading index is down -3.9% year over year, indicating that economic growth is slowing in the US.



Chart 7: Oil and PCE Inflation - Oil prices remain our preferred leading indicator on inflation rates. Crude oil has dropped substantially over the past year. It dropped another -10.96% last week.

Rumors floated around on late Friday that the President wants to fire Federal Reserve Chairman Powell. At the same time, parts of the government are being shut down because congress can't get a spending bill passed. This next week should be very interesting as we head into the last trading week (a short one at that) of 2018.

	Last Price	% Change
S&P 500	2416.62	-7.05%
Wilshire 5000	24792.95	-7.31%
Russell 3000	1418.06	-7.22%
S&P Small Cap	809.61	-7.80%
S&P Mid Cap	1611.35	-7.01%
MSCI All World Ex-US	1695.40	-2.96%
Commodities	172.13	-4.54%
US Dollar	96.46	-0.47%
MSCI EAFE	1706.01	-2.67%
MSCI Emerging Markets	957.34	-1.50%
WTI Crude Oil	45.59	-10.96%
Copper	2.67	-3.20%
Gold	1258.10	1.35%
Bitcoin	4034.76	24.10%
Vix	30.11	39.20%

MARKET SUMMARY

Global stocks once again outperformed the US markets this week. The MSCI All World Ex-US index was down -2.96% for the week while the Wilshire 5000 index fell -7.31%. Emerging markets were the top performing broad equity market, falling -1.50% for the week.



Chart 8: The Wilshire 5000 remains in a negative trend. It fell -7.31% for the week.

On the commodity front, the Jeffries/Reuters CRB index was down -4.54% for the week. Crude oil led the way down, slumping -10.96%. Copper fell -3.20%. The flight to safety trade benefited Gold as the precious metal rose 1.35% for the week.



Chart 9: Commodities shed another -4.54% last week as the down-trend continues to accelerate. The CRB Index suggests that inflation is slowing.



Chart 10: Gold rallied to close the week above its respective 40 week moving average (200 day).

The trade-weighted dollar index fell -0.47% for the week, with the Yen gaining 1.83% against the dollar. The Yen was strong this week on widespread risk aversion. The Australian dollar/Japanese Yen pair broke down this week, falling -3.67%. This does not bode well for commodities prices or risk assets if historical correlations remain.



Chart 11: The US dollar fell on the week, but remains in a strong positive trend with a rising 40 week moving average.



Chart 12: The Australian dollar dropped almost 4% against the Japanese Yen (AUDJPY) showing that risk aversion was present globally.

FACTOR & STYLE

	Last Price	%Change
Momentum (MTUM)	95.37	-7.49%
Low Volatility (SPLV)	46.21	-5.25%
Quality (QUAL)	73.67	-7.09%
Dividend Aristocrats	1049.66	-5.77%
Large Growth	150.85	-8.17%
Large Value	93.6	-6.73%
Small Growth	157.32	-9.90%
Small Value	120.02	-8.12%
Mid Growth	184.38	-8.05%
Mid Value	136.45	-7.40%

Small Caps were the big loser from a market capitalization standpoint. The S&P 600 Small Cap index fell -7.80% for the week. This is characteristic of a risk off move in equities markets. From a style perspective, growth underperformed value. Small cap growth was down -9.90% for the week, Mid cap growth was down -8.05%, and Large cap growth was down -8.17%. The momentum factor was the weakest, dropping -7.49% for the week. The dividend growth factor was the strongest, finishing the week down -5.77%.

SECTORS

	Last Price	% Change
Materials (XLB)	48.60	-4.68%
Energy (XLE)	56.11	-8.79%
Financials (XLF)	22.79	-5.40%
Industrials (XLI)	62.25	-6.58%
Technology (XLK)	59.20	-7.92%
Staples (XLP)	50.18	-7.08%
REITS (XLRE)	30.95	-6.30%
Utilities (XLU)	53.81	-4.49%
Healthcare (XLV)	82.68	-6.64%
Consumer Discretionary (XLY)	93.76	-8.02%
Communications (XLC)	39.81	-8.42%

The best performing sectors this week were Utilities (XLU) and Financials (XLF), followed by REITS (XLRE) and then Healthcare (XLV). They were down -4.49%, -5.40%, -6.30%, and -6.64% respectively. The worst performing sectors were Energy (-8.79%), Communications (-8.42%), Consumer Discretionary (-8.02%), and Technology (-7.92%). The only sectors that remain in a positive trend are Staples, REITS, Utilities, and Healthcare. The other sectors are in strong negative trends.

TREASURY YIELDS

	Last Price	Change	%Change
US 3 Month Yield	2.39	-0.03	-1.24%
US 2 Year Yield	2.63	-0.1	-3.66%
US 5 Year Yield	2.64	-0.09	-3.30%
US 10 Year Yield	2.79	-0.1	-3.46%
US 20 Year Yield	2.92	-0.11	-3.63%
US 30 Year Yield	3.03	-0.11	-4%

Yields fell across the Treasury bond market last week despite the Fed raising interest rates. The 10 Year US Treasury Yield fell 10 basis points on the week, finishing at 2.79%. Treasury bonds benefited from the flight to safety trade. TLT, the iShares 20 year Treasury Bond ETF, rose over 2% on the week.



Chart 13: The iShares 20+ year Treasury bond ETF (TLT) is in a positive trend after breaking above its 40 week moving average. It rose over 2% last week as investors sought the safety and security of Treasury bonds.

ECONOMIC UPDATE

Last week, the big news was the Federal Reserve raised the Fed Funds rate by another quarter point to 2.5%. This is still below the 2.63% US 2 Year Treasury yield, which we believe is a good approximation of a target Fed Funds rate. The ECRI Weekly Leading index was down from a week prior, to -3.92% year over year. The 4 week moving average of the ECRI WLI is now down to -1.16%.

Durable goods, personal income, and personal spending were also released last week. Durable goods orders were under consensus estimates coming in at 0.8% month over month versus an expected increase of 1.6%. Personal income rose 0.2% for the month below an expected 0.3%. Personal spending rose 0.4%, which exceeded expectations for a 0.3% increase.

Wednesday December 19 2018		Actual	Previous	Consensus	Forecast
02:00 PM	US FOMC Economic Projections				
02:30 PM	US Fed Press Conference				
Friday December 21 2018		Actual	Previous	Consensus	Forecast
08:30 AM	US Durable Goods Orders MoM NOV	0.8%	-4.3% ®	1.6%	0.8%
10:00 AM	US Personal Income MoM NOV	0.2%	0.5%	0.3%	0.3%
10:00 AM	US Personal Spending MoM NOV	0.4%	0.8% ®	0.3%	0.3%

Source: Tradingeconomics.com

This week we have several data releases. Case Shiller Home Prices are out on Wednesday. New home sales are out on Thursday. Pending home sales and wholesale inventories are out on Friday.

Monday December 24 2018				Actual	Previous	Consensus	Forecast
08:30 AM	US	Chicago Fed National Activity Index NOV		0.24		0.91	
Wednesday December 26 2018				Actual	Previous	Consensus	Forecast
09:00 AM	US	S&P/Case-Shiller Home Price MoM OCT		0%	-0.1%	0.1%	
09:00 AM	US	S&P/Case-Shiller Home Price YoY OCT		5.1%	4.9%	5.1%	
04:30 PM	US	API Crude Oil Stock Change 21/DEC		3.45M		1.3M	
Thursday December 27 2018				Actual	Previous	Consensus	Forecast
10:00 AM	US	CB Consumer Confidence DEC		135.7	133.7		
10:00 AM	US	New Home Sales MoM NOV		-8.9%	2.5%	3%	
10:00 AM	US	New Home Sales NOV		0.544M	0.562M	0.560M	
Friday December 28 2018				Actual	Previous	Consensus	Forecast
08:30 AM	US	Wholesale Inventories MoM Adv NOV		0.8%		0.6%	
09:45 AM	US	Chicago PMI DEC		66.4	62.5	57.9	
10:00 AM	US	Pending Home Sales MoM NOV		-2.6%	0.5%		
10:00 AM	US	Pending Home Sales YoY NOV		-6.7%		-7.1%	
11:00 AM	US	EIA Crude Oil Stocks Change 21/DEC		-0.497M		0.83M	
11:00 AM	US	EIA Gasoline Stocks Change 21/DEC		1.766M		-0.078M	
Monday December 31 2018				Actual	Previous	Consensus	Forecast
10:30 AM	US	Dallas Fed Manufacturing Index DEC		17.6		27.90	

Source: Tradingeconomics.com

CRYPTO

Bitcoin and other crypto currencies had a nice week. Bitcoin was up almost 25% for the week as it closed the week above \$4,000. We look forward to seeing what is in store in 2019 for Crypto.

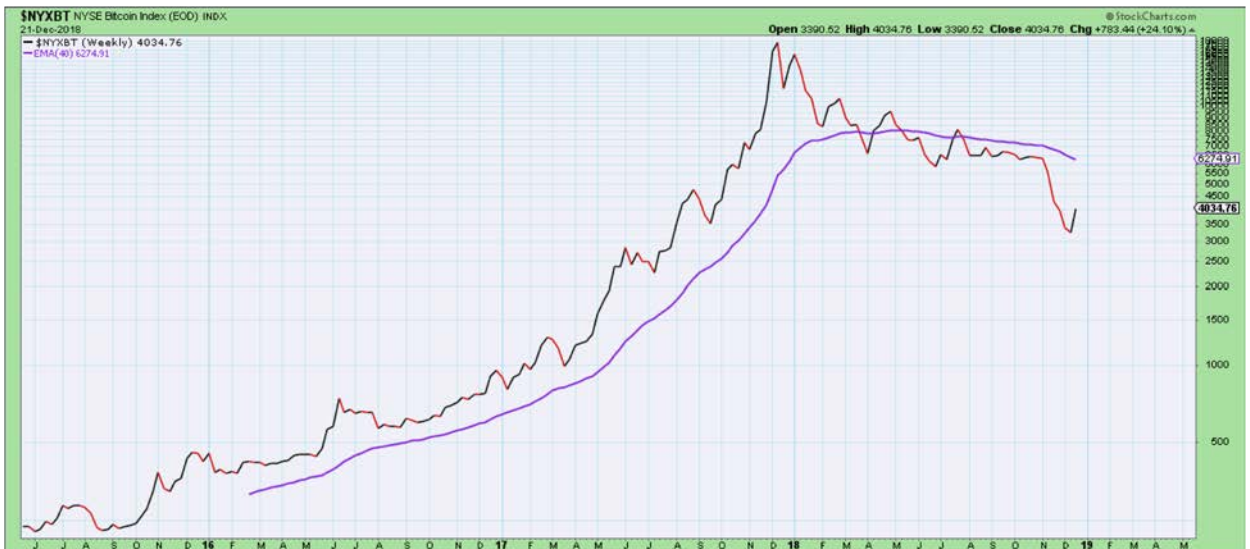


Chart 14: Bitcoin remains in a long-term negative trend despite rallying over 20% last week.

INTERMARKET CHARTS



Chart 15: Stocks vs. Bonds - Stocks fell over -7% against bonds last week. This trend supports a defensive posture.



Chart 16: Stocks vs. Gold - Stocks dropped over -8% against gold last week. This trend supports gold over stocks.



Chart 17: US stocks vs. International equities - US stocks fell over -4% against international markets. The trend still supports US equities.



Chart 18: Small capitalization vs. large capitalization - US small caps dropped against US large caps. This trend is still in favor of large caps and is indicative of broader risk aversion.



Chart 19: Growth vs. Value - Large Cap Growth is in a negative trend against large cap value. Growth slid another -1.5% last week against value.



Chart 20: Developed vs. Emerging - Emerging markets are in a positive trend relative to international developed markets. Emerging markets gained another 1% against developed last week.



Chart 21: High Yield vs. Treasuries - High Yield bonds fell almost -3% against Treasury bonds last week. This is indicative of spreads widening and risk aversion within the credit markets.



Chart 22: Copper vs. Gold - Copper fell over -4% against Gold last week, suggesting a deflationary trend.



Chart 23: Dividend Growth vs. S&P 500 - The Dividend Aristocrats index rose against the broader market last week. This is characteristic of risk aversion in the broader market and an inherent flight to quality.



Chart 24: Low volatility vs. Momentum - The low volatility factor continued its positive trend relative to the momentum factor, gaining over 2% last week.



Chart 25: Utilities vs. S&P 500 - The Utilities sector gained another 2.75% last week against the broad market. This is indicative of risk aversion in the market and supports the notion that growth and inflation are slowing.

PLAYBOOK

Overweights:

Treasuries, Utilities, Dividend Growth, Staples, REITS, Low Volatility, Cash

Underweights:

Global equities, Momentum, Energy, Commodities, Industrials, Technology, Materials

DISCLOSURE:

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