WEALTHSHIELD

December 31st , 2018

Not another outlook, please…

"Markets will fluctuate."

- John Pierpont Morgan

This is the last time we will write to you in 2018. The year was interesting, to say the least. We had trade wars, bear markets, bull markets, a Fed tightening, and loads of entertainment out of Washington. From an asset market perspective, cash was king as most asset classes demonstrated weak returns for the year. Stocks started off the year great, climbing in January before correcting more than -10%, and bottoming in the early spring. US stocks then rallied into their September peak, leaving global stocks in the dust as they failed to recover. Since the end of September, stocks have been hit hard. The Wilshire total market index is down over -15% for the quarter and almost -8% for the year.

Symbol	Security Name	Close Level (Daily)	YTD Price Returns (Daily)
^MSACWI	MSCI ACWI	450.323	-12.22%
^MSACXUSTR	MSCI ACWI Ex USA Total Return	538.575	-15.25%
^NDX	NASDAQ-100	6288.302	-1.69%
^NYB	NYSE Bitcoin Index	3749.9367	-74.12%
^RUA	Russell 3000	1460.48	-7.73%
^RUI	Russell 1000	1373.78	-7.29%
^RUT	Russell 2000	1331.82	-13.27%
^SG3J	S&P GSCI Copper	424.4368	-17.23%
^SPX	S&P 500	2488.83	-6.91%
^SPXDA	S&P 500 Dividend Aristocrats	1072.7529	-5.64%
^VIX	CBOE S&P 500 Volatility Index	29.96	171.38%
^WITM	Wilshire Total Market Index	25476.8622	-7.91%

***As of December 28th, 2018**

Global stocks have done worse than US equities. The MSCI All Country World Ex US index is down over -15% for the year. Bitcoin has been the mother of all bear markets, declining more than 70% this year.

In the table below, we have included several commonly used ETFs that represent a broad array of asset classes, styles, factors, and market capitalizations. 2018 was obviously a year where there were few places to hide--even defensive asset classes like Treasury bonds and Gold are down over the year.

Symbol	Security Name	5 Day Returns (Daily)	Month to Date Total Returns (Daily)	Quarter to Date Total Returns (Daily)	Year to Date Total Returns (Daily)
AGG	iShares Core US Aggregate Bond ETF	0.36%	1.72%	1.60%	-0.16%
DBC	Invesco DB Commodity Tracking	-1.55%	-4.26%	-18.53%	-11.86%
GLD	SPDR Gold Shares	1.53%	4.78%	7.36%	-2.09%
HYG	iShares iBoxx $ High Yield Corp Bd ETF	0.51%	-2.16%	-4.48%	-2.10%
IEF	iShares 7-10 Year Treasury Bond ETF	0.66%	2.42%	3.47%	0.61%
IEFA	iShares Core MSCI EAFE ETF	0.26%	-5.81%	-13.31%	-14.43%
IEMG	iShares Core MSCI Emerging Markets ETF	0.88%	-2.75%	-7.09%	-14.75%
IJH	iShares Core S&P Mid-Cap ETF	0.13%	-12.26%	-18.15%	-12.11%
IJR	iShares Core S&P Small-Cap ETF	1.41%	-12.72%	-20.66%	-9.05%
IVV	iShares Core S&P 500 ETF	0.77%	-9.81%	-14.35%	-5.46%
MTUM	iShares Edge MSCI USA Momentum Fctr ETF	1.54%	-8.73%	-16.56%	-2.96%
SPLV	Invesco S&P 500 Low Volatility ETF	-0.76%	-7.57%	-6.06%	-1.01%
TLT	iShares 20+ Year Treasury Bond ETF	0.26%	5.45%	4.19%	-1.98%
VEU	Vanguard FTSE All-Wld ex-US ETF	0.37%	-5.00%	-11.61%	-14.25%
VIG	Vanguard Dividend Appreciation ETF	1.00%	-9.65%	-11.89%	-3.06%
VT	Vanguard Total World Stock ETF	0.69%	-7.76%	-13.50%	-10.28%
VTI	Vanguard Total Stock Market ETF	0.81%	-10.02%	-15.01%	-6.10%

***As of December 28th, 2018**

This year, in our opinion, was one of transition. The year began where 2017 left off, with positively trending growth, inflation, and asset prices. Valuations were high, but largely ignored by market participants as growth continued to accelerate with no signs of slowing. Real GDP showed growth of over 4% year over year in the second quarter and corporate profits surged.

Chart 1: Real GDP growth topped 4% year over year in the second quarter.

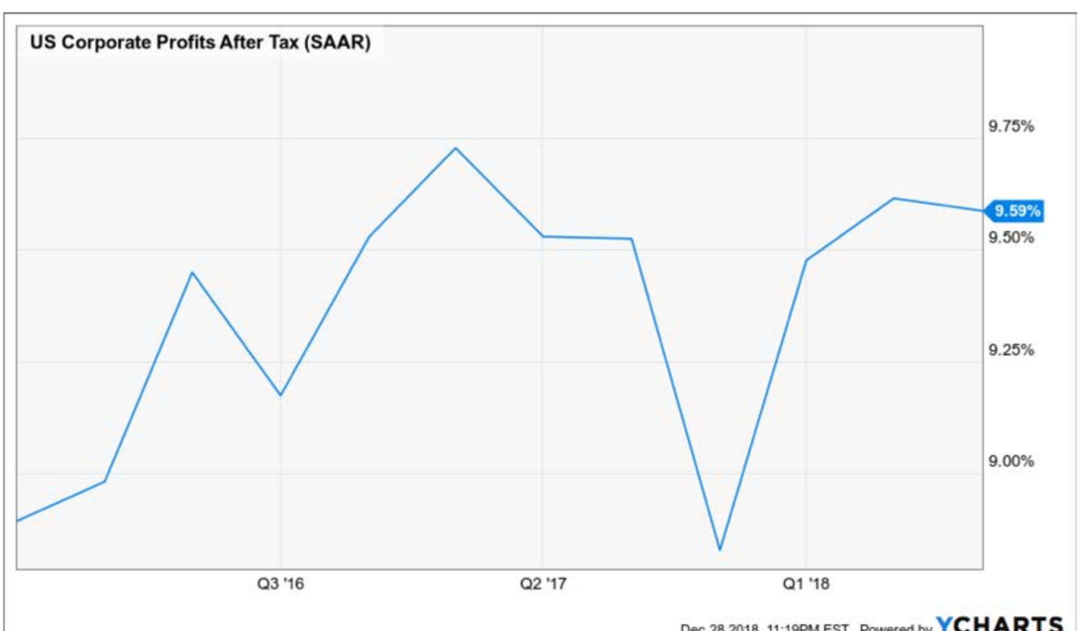

Chart 2: Corporate profits as a percentage of GDP surged this year.

The market corrected earlier in the year, largely on the back of weakness in the technology sector in the US and international equities as a whole. The dollar began an impressive rally in the spring of this year, pressuring international equities and causing them to lag the US substantially. Eventually, the dollar strength caught up to commodities markets as deflationary pressures took hold. Oil dropped from around $75 per barrel to under $45 per barrel at the beginning of this past week.

Chart 3: US dollar rallied from the low in the spring of this year. The dollar remains in a positive trend.

Chart 4: Commodities turned negative during the summer months as the dollar strength weighed heavily on prices.

Chart 5: Oil dropped from $75 per barrel to $45 per barrel as inflation pressure eased.

The drop in commodities and the rise in the dollar were symptomatic of an environment where growth and inflation were starting to slow. The ECRI Weekly leading index displayed the decelerating growth in the market that started in the summer months. The growth rate peaked earlier in the year, eventually turning negative in the early fall. Now the index sits at -4.4% year over year. The four week moving average of the growth rate is at -1.59% which is lower than the level when the last recession (2007-2009) was triggered.

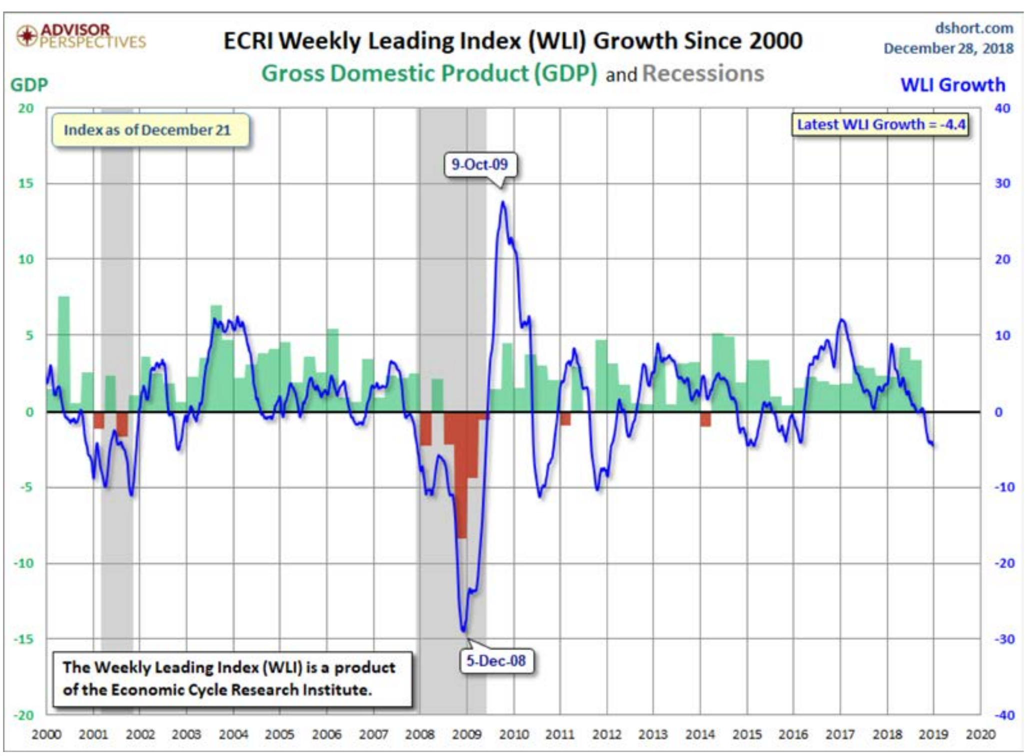

Chart 6: ECRI Weekly Leading Index

Declining growth and inflation, as well as global negative market trends, caused the US market to quickly follow. Volatility rose and markets have since dropped considerably. US stocks broadly dropped around -15% this quarter, with many tech names being down more than -30% from their peaks. Now 99% of the world's investable equity universe are in negative trends. This is clearly illustrated by charting the Vanguard Total World Market.

Chart 7: The Vanguard Total World Market is below its downward sloping 10 month moving average indicating a negative trend.

The negative market action, paired with slowing growth and inflation, has caused policy makers at the Fed to soften their approach from the systematic tightening they have followed over the last two years. The Fed has dialed back the number of hikes proposed in 2019 from 3 to 2, and is now betting markets are suggesting a higher probability of a rate cut over a rate hike (according to Fed funds futures). The President is determined to turn the market around and is supposedly irritated with the Federal Reserve Chairman for raising interest rates. Even the Treasury Secretary called top bank leaders to check on liquidity concerns and proceeded to try and reassure markets.

Treasury secretary Mnuchin even convened with the President's Working Group on Financial Markets to discuss the recent market action. This group is commonly referred to as the "Plunge Protection Team" and used to be considered a conspiracy theory. Its existence is now common knowledge and is even being referenced in news media. The administration seems to be doing everything they can to keep the market elevated. However, they are fighting a tough fight with negative market trends and growth slowing. The government shutdown looks set to continue into 2019 as President Trump seems determined to get money for building the wall at the Mexican border. This doesn't bode well for a potential infrastructure bill later next year, something we think is needed to accelerate growth and break the negative trend.

That brings us to our outlook for 2019. We have no idea what is going to happen and will not pretend that we do. We are not going to give you a year end target on the S&P 500 and back into that number based on a some multiple of next year's earnings, nor are we going to try and pinpoint where the 10 year bond yield will be at the end of the year. In our opinion, that is all useless and does not help you make wise investment decisions. Instead, our outlook is that we will stick to our disciplined framework and process. Right now that framework is negative so our outlook is negative. Should the data change and our framework shift neutral to positive, then our outlook would reflect that. We can admit that we have no clue what will happen tomorrow, next week, next month, or through the course of 2019. What we can commit is that we will keep you informed of our framework, our playbook, and our current views. We wish you all a wonderful and prosperous New Year.

Time	Country	Event	Actual	Previous	Consensus	Forecast
Monday December 24 2018			Actual	Previous	Consensus	Forecast
08:30 AM	US	Chicago Fed National Activity Index NOV	0.22	0.00		0.91
Wednesday December 26 2018			Actual	Previous	Consensus	Forecast
09:00 AM	US	S&P/Case-Shiller Home Price MoM OCT	0%	0%	-0.1%	0.1%
09:00 AM	US	S&P/Case-Shiller Home Price YoY OCT	5%	5.2%	4.9%	5.1%
Thursday December 27 2018			Actual	Previous	Consensus	Forecast
10:00 AM	US	CB Consumer Confidence DEC	128.1	136.4	133.7	
Friday December 28 2018			Actual	Previous	Consensus	Forecast
09:30 AM	US	API Crude Oil Stock Change 21/DEC	6.92M	3.45M		1.3M
09:45 AM	US	Chicago PMI DEC	65.4	66.4	62	57.9
10:00 AM	US	Pending Home Sales MoM NOV	-0.7%	-2.6%	0.7%	
10:00 AM	US	Pending Home Sales YoY NOV	-7.7%	-6.7%		-7.1%
11:00 AM	US	EIA Crude Oil Stocks Change 21/DEC	-0.046M	-0.497M	-2.869M	0.83M
11:00 AM	US	EIA Gasoline Stocks Change 21/DEC	3.003M	1.766M	0.028M	-0.078M

Source: www.tradingeconomics.com

The S&P/Case-Shiller Home Price index came in at 5% year over year. This serves as another reiteration of slowing growth as the rate of growth in home prices has slowed. Consumer confidence came in at 128.1, below the consensus estimate of 133.7. On Friday, Pending home sales showed another monthly decline. The expectation was for a monthly increase in pending home sales. Year over year pending home sales are now down -7.7%. The housing market, a leading indicator, remains weak.

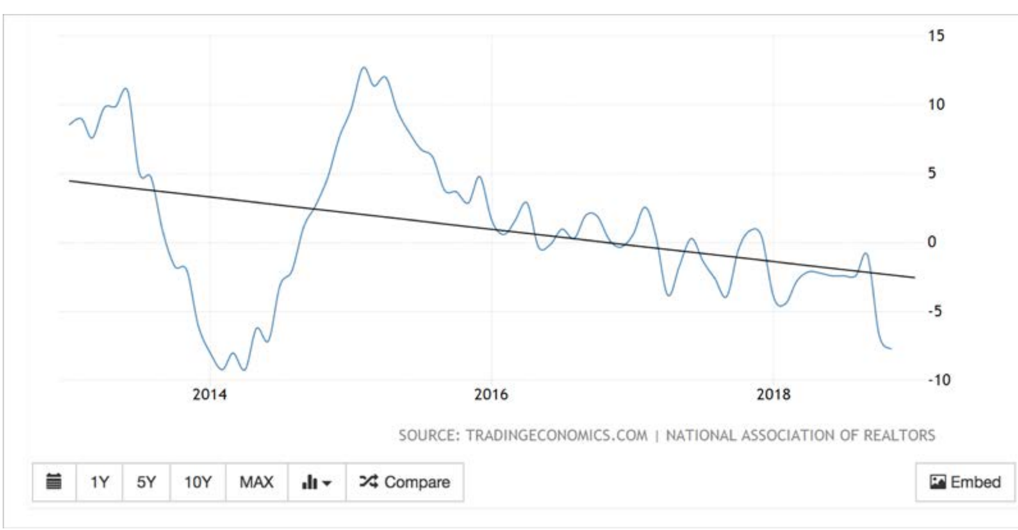

Chart 8: Pending home sales remain in a negative trend.

The main economic data releases next week are the ISM manufacturing report and the December payrolls. With growth slowing, it will be interesting to see if the ISM report confirms this. Manufacturing has been resilient, staying elevated despite growth broadly weakening. The consensus estimate is for the ISM to come in at 58, down from 59.3. Above 50 is considered an expansion, and below 50, a contraction. Consensus estimates expect 165,000 jobs were created in December. This would be an increase from the 155,000 jobs created in November.

Wednesday January 02 2019			Actual	Previous	Consensus	Forecast
10:00 AM	US	ISM Manufacturing PMI DEC		59.3	58	56
Friday January 04 2019			**Actual**	**Previous**	**Consensus**	**Forecast**
08:30 AM	US	Non Farm Payrolls DEC		155K	180K	165K
Monday January 07 2019			**Actual**	**Previous**	**Consensus**	**Forecast**
10:00 AM	US	ISM Non-Manufacturing PMI DEC		60.7		54.6

Source: www.tradingeconomics.com

EQUITIES

Links	Symbol	Name	Close	Chg	% Chg	Date
	$HKJ	$HKJ - Small Cap Growth	165.04	7.73	4.91	12-28
	$FDB	$FDB - Mid Growth	192.24	7.86	4.26	12-28
	$EJK	$EJK - Large Growth	157.11	6.25	4.15	12-28
	$NDX	$NDX - Nasdaq 100 Index	6285.27	238.71	3.95	12-28
	$RUT	$RUT - Russell 2000 Small Cap Index	1337.92	45.84	3.55	12-28
	$WLSH	$WLSH - Wilshire 5000 Composite	25541.17	748.22	3.02	12-28
	$RUA	$RUA-Russell 3000 Index	1459.52	41.46	2.92	12-28
	$SPX	$SPX - S&P 500	2485.74	69.12	2.86	12-28
	$INDU	$INDU - Dow Jones Industrial Average	23062.40	617.03	2.75	12-28
	$TRAN	$TRAN - Dow Jones Transportation Average	9109.13	234.34	2.64	12-28
	$HKK	$HKK - Small Value	122.54	2.51	2.10	12-28
	$EJN	$EJN - Large Value	95.56	1.96	2.09	12-28
	$SPDAUDP	$SPDAUDP - Dividend Aristocrats	1071.05	21.40	2.04	12-28
	$FHB	$FHB - Mid Value	137.76	1.31	0.96	12-28
	$MSEMF	$MSEMF - Emerging Markets	962.63	5.29	0.55	12-28
	$MSWORLD	$MSWORLD - MSCI World ex USA	1703.29	7.89	0.47	12-28
	$MSEAFE	$MSEAFE - MSCI EAFE	1712.32	6.31	0.37	12-28
	$CAC	$CAC - French CAC 40 Index	4678.74	-15.64	-0.33	12-28
	$DAX	$DAX - German DAX Composite	10558.96	-52.14	-0.49	12-28
	$NIKK	$NIKK - Tokyo Nikkei Average	20014.77	-151.42	-0.75	12-28
	$SSEC	$SSEC - Shanghai Stock Exchange	2493.90	-22.35	-0.89	12-28
	$HSI	$HSI - Hang Seng	25504.20	-249.22	-0.97	12-28
	$VIX	$VIX - Volatility Index - New Methodology	28.34	-1.77	-5.88	12-28

Source: www.stockcharts.com

US stocks rallied over the course of the past week. It was a wild ride with the Dow dropping over -600 points on Monday, rallying over 1000 points on Wednesday, starting off the day down over -600 points on Thursday, and finishing up over 250 points on the day. Friday was quiet, and the Dow finished the day down slightly. All in all, the Dow climbed almost 3% for the week.

The Wilshire 5000 index was up 3% on the week, and small cap growth was the strongest style performer for the week. It finished up almost 5% on the week. International and emerging markets did not participate in the US stock market rally. The worst performer was the Hang Seng index, which declined almost -1% for the week.

Chart 9: Small capitalization growth stocks were the strongest performers last week, rising almost 5%. The trend is still negative for small cap growth stocks.

Chart 10: The Hang Seng index declined almost -1% last week and did not participate in the US equity market rebound. The trend is still negative for Hong Kong shares.

BONDS

Links	Symbol	Name	Close	Chg	% Chg	Date
	$YC2YR	$YC2YR - 2-10 yield curve	0.20	0.04	25.00	12-28
	$UST3M	$UST3M - 3 month yield	2.40	0.01	0.42	12-28
	$UST30Y	$UST30Y - 30 year yield	3.04	0.01	0.33	12-28
	$UST20Y	$UST20Y - 20 year yield	2.89	-0.03	-1.03	12-28
	$UST10Y	$UST10Y - 10 year yield	2.72	-0.07	-2.51	12-28
	$UST5Y	$UST5Y - 5 year yield	2.56	-0.08	-3.03	12-28
	$UST2Y	$UST2Y - 2 year yield	2.52	-0.11	-4.18	12-28
	$YC3MO	$YC3MO - 3mo - 10yr yield curve	0.32	-0.08	-20.00	12-28

Source: www.stockcharts.com

Bond yields were mixed on the week. The 3 month yield and 30 year yield rose 1 basis point over the course of the week. The 10 year yield finished the week down -7 basis points, closing at 2.72%. The 3 month minus 10 year yield curve fell -8 basis points to 0.32%.

Chart 11: US 10 Year Yields are now in a negative long-term trend**.**

COMMODITIES

Links	Symbol	Name	Close	Chg	% Chg	Date
	$GOLD	$GOLD - Gold - Continuous Contract (EOD)	1283.00	24.90	1.98	12-28
	$COPPER	$COPPER - Copper - Continuous Contract (EOD)	2.68	0.01	0.28	12-28
	$WTIC	$WTIC - Crude oil	45.33	-0.26	-0.57	12-28
	$CRB	$CRB - Reuters/Jefferies CRB Index	170.97	-1.17	-0.68	12-28

Source: www.stockcharts.com

Gold was up considerably last week, finishing up almost 2%. Crude oil had a volatile week, but ended up being down slightly (-0.57%). The CRB index finished the week down -0.68%. This is indicative of a growth and inflation slowing environment.

Chart 12: Gold closed the week higher by about 2%. This confirmed a new long-term positive trend**.**

CURRENCIES

Links	Symbol	Name	Close	Chg	% Chg	Date
	$EURUSD	$EURUSD - Euro to US Dollar (NBD)	1.14	0.01	0.79	12-28
	$GBPUSD	$GBPUSD - British Pound to US Dollar (NBD)	1.27	0.01	0.56	12-28
	$EURJPY	$EURJPY - Euro to Japanese Yen (NBD)	126.22	-0.21	-0.17	12-28
	$CADUSD	$CADUSD - Canadian Dollar to US Dollar (NBD)	0.73	-0.00	-0.41	12-28
	$USD	$USD - US Dollar Index - Cash Settle (EOD)	95.97	-0.49	-0.51	12-28
	$USDJPY	$USDJPY - US Dollar to Japanese Yen (EOD)	110.21	-1.11	-0.99	12-28
	$AUDJPY	$AUDJPY - Australian Dollar to Japanese Yen (NBD)	77.59	-0.81	-1.03	12-28
	$NYXBT	$NYXBT - Daily Solid Line, 1280	3611.04	-423.73	-10.50	12-28

Source: www.stockcharts.com

The Euro gained 0.79% against the dollar last week. The trade-weighted dollar index dropped 0.51% for the week. The Japanese Yen was strong during the week gaining over 1% against the Australian dollar and almost 1% against the US Dollar. Bitcoin was down over -10% for the week.

Chart 13: The Euro gained 0.79% against the US dollar last week. The Euro is still in a negative trend.

Chart 14: The Japanese Yen broke to the upside against the US dollar, rising 1.04%. It remains in a negative trend relative to the dollar.

SECTORS

Links	Symbol	Name	Close	Chg	% Chg	Date
	XBI	XBI - Weekly Solid Line, 1280	70.09	4.35	6.62	12-28
	FDN	FDN - First Trust Dow Jones Internet Index Fund	115.69	6.51	5.96	12-28
	XLY	XLY - Consumer Discretionary Select Sector SPDR Fund	97.96	4.20	4.48	12-28
	XLK	XLK - Technology Select Sector SPDR Fund	61.40	2.20	3.72	12-28
	XLC	XLC - Weekly Solid Line, 1280	41.22	1.41	3.54	12-28
	XLF	XLF - Financial Select Sector SPDR Fund	23.59	0.80	3.51	12-28
	XLV	XLV - Health Care Select Sector SPDR Fund	85.25	2.57	3.11	12-28
	XLB	XLB - Materials Select Sector SPDR Fund	50.10	1.50	3.09	12-28
	XLI	XLI - Industrial Select Sector SPDR Fund	63.77	1.52	2.44	12-28
	XLE	XLE - Energy Select Sector SPDR Fund 2	57.05	0.94	1.68	12-28
	XLP	XLP - Consumer Staples Select Sector SPDR Fund	50.57	0.39	0.78	12-28
	XLRE	XLRE - Weekly Solid Line, 1280	30.94	-0.01	-0.03	12-28
	XLU	XLU - Utilities Select Sector SPDR Fund	52.83	-0.98	-1.82	12-28

Source: www.stockcharts.com

The top performing sector last week was biotech, finishing the week up 6.62%. Utilities were the worst performing sector, closing down -1.82%. With the exception of Healthcare (XLV), the defensive sectors were the laggards during the equity market rebound.

MARKET TRENDS

Chart 15: High Yield bonds are in a negative trend relative to intermediate Treasuries. This is indicative of a risk-off environment. The credit markets did not move with the US stock market last week. This leaves us skeptical of the market rebound.

Chart 16: Copper dropped another -1.67% against Gold last week. This relationship demonstrates that we are experiencing an inflation slowing environment.

Chart 17: Stocks rallied 2.76% against bonds last week. The trend remains in favor of bonds.

Chart 18: Stocks rallied 1.02% against Gold last week. The trend is still in favor of Gold.

Chart 19: US stocks versus International stocks - The Wilshire 5000 index rallied 2.54% against the MSCI World ex US index. The trend remains supportive of US stocks.

Chart 20: Small cap stocks in the US rallied 0.89% over large cap US stocks. The trend is still supportive of large cap equities.

Chart 21: Developed markets lost -0.18% against Emerging market stocks. Emerging market stocks are in favor over developed markets.

Chart 22: The Dividend Aristocrats index dropped -0.80% against the S&P 500 last week. The trend is still indicative of relative strength supporting dividend growth over the S&P 500.

Chart 23: The low volatility factor dropped -3.27% against the momentum factor last week (SPLV vs. MTUM). SPLV is still positively trending relative to momentum.

Chart 24: High beta stocks rose 4.03% versus low volatility equities last week; however, low volatility is still in a positive trend relative to high beta.

PLAYBOOK

Overweights:

Treasury bonds, cash, Gold, low volatility stocks, dividend growth, healthcare, utilities, staples, REITS, global macro, market neutral, systematic diversified trend-followers, short-biased hedge funds, alternative credit, private real estate (non-cyclical)

Underweights:

Emerging markets, international equities, high beta stocks, momentum factor, technology, energy, industrials, materials, high-yield bonds, private equity, venture capital

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