August 7, 2019

Since the market peaked in July, we've experienced an upswell of "uncertainty." Whether you define that uncertainty by recent selling activity, nervous client calls, fearful headlines about tariffs and trade works, a spike up in the CBOE Volatility Index VIX, or a mixed earnings release; it reminds us to focus on the "what is" instead of the "what may be." So let's take a moment to review what we know has occurred (and perhaps even more importantly what has not occurred) as a result of the recent market pullback.

What has occurred:

- Over the course of six trading days, the S&P 500 SPX has fallen -5.99% off its July 26th highs (7/26-8/5).
- While the market experienced its worst trading for the year (2019) on August 5th, as the S&P 500 fell -2.98%, it was not the first -5% pullback this year. The market fell -6.84% from 4/30 to 6/04. As is often the case during volatile periods in the market, bad days are often followed by good days. The SPX produced its best day in two months on August 6th, rising +1.30%.
- The major market indexes have moved into near term oversold territory. SPX and the Dow Jones Industrial Average DJIA are -49% oversold. The Nasdaq Composite NASD is slightly less oversold at -45%.
- The NYSE Bullish Percent BPNYSE and Optionable Bullish Percent BPOPTI reversed down into O's. BPNYSE fell to 44% while BPOPTI sits at 42%. The reversals into O's indicate a defensive posture for these two indicators.

What has not occurred:

- We have not seen any material change in asset allocation guidance (such as DALI or the Asset Class Group Score rankings). US equity leads DALI as well the dominant asset class in the Group Score rankings.
- We have not seen any significant change within risk management tools like the Bogey Check, Cash Percentile Rank, or Money Market Percentile Ranking (MMPR).
- We have not seen violations of important support on any of the major market index charts.

The long and the short of the summary above tells us that while there are some reasons to be more cautious on a near term basis, we are not at a point where we need to be making meaningful shifts in our allocations as a result of the market action thus far. That said, today we want to offer you guidance on three areas - ETFs that provide examples of the type of action we've seen take place across the market, equity ideas for diversifying from high growth or high momentum, and tactical cash strategies for equity exposure.

So far the market pullback can be viewed as constructive, moving the market from overbought territory into more normalized, or in most cases, oversold, levels. In addition, we have seen a number of the major market ETFs stay on buy signals even during the recent bout of volatility. One example is the Invesco QQQ Trust QQQ. For many investors, QQQ has provided an effective way of accessing some of the bright spots in today's market - technology and growth. From the peak, QQQ has pulled back

just over -7.2%, yet it remains in a positive trend, still on a buy signal, and its score is hovering close to the 5 score threshold at 4.87. All of this is to say, as of now, it looks a lot like a normal pullback. Going forward, we'll want to see if it can hold above the June pullback low of $170 or if the market turns around, can QQQ make a higher high at $196? Many of you may own a position that has moved in a similar way to QQQ.