



# WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

## Market Commentary

**S**tocks finished higher last week for the third straight week, with small-cap and international markets outperforming. After the recent gains, the S&P 500 is now up 10.4% from the December low. The main drivers of the market rebound have been optimism around the U.S.-China trade talks, some backpedaling from the Fed on its interest rate trajectory, and oversold conditions. Talks between U.S. and Chinese officials took place in Beijing, with some encouraging comments hitting the press about the prospect of reaching a trade deal. Adding support to the rally, the FOMC minutes released this week showed a more cautious approach to the extent and timing of future interest rate hikes, noting that the Fed can afford to be patient about further policy firming. Lastly, a couple of company profit warnings failed to bend sentiment, which was interpreted as a sign of reduced expectations heading into the earnings season next week.



New year, new mood. After a fit that led stocks sharply lower in December, the market has shown resilience. Some sentiments that have come out since the December lows:

- After falling in 11 of the 14 days leading up to Christmas, the tone in the stock market has pivoted more recently, with stocks rising in six of the eight trading days in January. The fears of an imminent recession, a trade war, and Fed rate hikes have been softened by incoming data. The economy is in the later innings of the expansion and the December jobs report showed the labor market is still quite healthy, backed by strong hiring, and faster wage growth. The decline in initial jobless claims last week supported that view, with new claims remaining near the best levels of this expansion. The Small Business Optimism Index ticked down slightly in last week's reading, but

- Stocks have responded positively last week to news that progress is being made on trade negotiations between the U.S. and China. It's far too early to declare victory on this front and trade tensions will remain a source of volatility this year.
- Recent commentary from the Fed has calmed fears that it would overtighten rates this year. Fed Chair Powell has noted that the central bank will be flexible with future rate hikes, letting incoming economic data guide policy. Inflation data last week showed that consumer prices fell last month, thanks to the sharp decline in fuel prices. Stripping out food and energy, core inflation is up 2.2% in the past year. This is within the Fed's comfort zone and signals that the Fed does not have to be more aggressive in hiking rates.

INDEX	CLOSE	WEEK	YTD
<b>Dow Jones Industrial Average</b>	23,996	2.4%	2.9%
<b>S&amp;P 500 Index</b>	2,596	2.5%	3.6%
<b>NASDAQ</b>	6,971	3.5%	5.1%
<b>MSCI EAFE*</b>	1,787.00	2.9%	3.9%
<b>10-yr Treasury Yield</b>	2.70%	0.03%	0.01%
<b>Oil (\$/bbl)</b>	\$51.68	7.8%	13.8%
<b>Bonds</b>	\$106.55	-0.1%	0.1%

Source: Bloomberg, 01/11/19. \*5-day performance ending Thursday. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results.

## Victoria Capital's Strategy Update

**T**he worst of the equity market decline appears to be over. First, the Fed decided to back off further interest rate increases for the foreseeable future. Second, the oil price decline in the fourth quarter of 2018 will do more to tamp down inflation than any changes in the fed funds rate. Third, hedge fund liquidations may have ended on December 24<sup>th</sup>! Fourth, two days after Christmas, the DJIA rose a record 1,084 points and started the New Year rally a little early. Or was that the belated year-end rally? At the close on Friday January 11th, the S&P 500 had risen 3.6% and the DJIA rose 2.9% so far this year. The good news is that the economy remains strong, especially on the employment front where the latest data confirmed the strength with an unexpected increase of 312,000 jobs for December.

In the short run we are still subject to political news surrounding the government shutdown and the trade war with China. Resolving these two problems could launch stocks on a trend back toward the September 2018 highs. Corporate profits should remain in an uptrend but not at the 20%+ lofty levels of the past three quarters.

Last week, an article in the Wall Street Journal entitled: “Conflicts of Interest, Hiding in Plain Sight,” rekindled our interest in some of the underhanded marketing techniques employed by our competition (is that what that is?). First, Wall Street did all it could to eviscerate the Department of Labor’s efforts to require some financial firms to be subject to a “fiduciary rule.” A fiduciary is required by law to act in his or her clients’ best interest. Second, similar efforts by the SEC is being attacked by the Wall Street establishment. According to the article, “Many major brokers, banks and financial advisers take revenue-sharing payments—legal kickbacks that mutual-fund companies pay to reward sales of particular funds.” And if you think you will get personal account management for “free” from the Wall Street giants, then as Jason Zweig points out, “there’s no substitute for reading the fine print and asking the right questions.”

Just for the record, we are a registered investment advisor with no kickback incentives or conflicts of interest. We always act in our clients’ best interest. As a matter of fact, firm principals manage their personal accounts the same way they manage their clients’ accounts. We are all in the same boat together.

Early this year, we added securities to the Growth Equity portfolio. We have made no changes to the Target Return models. Note that new investors in VCM models should be aware that the managers periodically change securities in the models. These purchases and sales of stocks that have been in new accounts for only a short period of time may produce either a capital gain or loss.

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## Redhawk's Strategy Update

was more than 7% higher. December's surge in market volatility has given way to incremental gains entering the new year. Stocks rose modestly in six of the first eight trading days of 2019, and Friday's small decline snapped a five-day string of positive days in a row.

Major banks will begin reporting results this week as quarterly earnings season gets under way. Economic and trade uncertainties have recently caused analysts to scale back their profit estimates, and fourth-quarter earnings for companies in the S&P 500 are now expected to rise about 12% compared with the same quarter a year ago. Recent market volatility has slowed issuance of corporate bonds, and new sales of high-yield bonds were halted altogether. An energy company's sale of below-investment-grade debt on Thursday ended a 40-day period in which no high-yield bonds were issued in the U.S. market. It was the longest such drought since 1995.

## New Feature!

Below is a recording of our Redhawk Live Update to help our clients better understand what we are doing with our portfolios. We hope to send these out every week moving forward. Click the button below to listen!

[Redhawk Live Update - Click Here](#)

## Redhawk Model Signals

Time Period:				1/14/2019	1/7/2019
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Long Government	TLH	iShares 10-20 Year Treasury Bond ETF	SCHR		
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF	SPSB		
Equity Precious Metals	PALL	Aberdeen Standard Phys PalladiumShrs ETF		140.75	128.60
Equity Precious Metals	IAU	iShares Gold Trust		126.18	116.03
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		107.92	
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		106.48	111.25
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		104.00	105.81
Intermediate Government	IEI	iShares 3-7 Year Treasury Bond ETF		103.21	102.51
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		102.03	99.23
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		96.20	98.72
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		95.47	90.36
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		95.25	

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Large Value	PKAIX	PIMCO RAE US Instl	PRILX		
Intermediate Term Bond	CGBIX	Calvert Imp Green Bond I		105.12	107.34
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		86.48	58.46
Large Value	VHDYX	Vanguard High Dividend Yield Index Inv		78.89	66.92
Large Blend	PRILX	Parnassus Core Equity Institutional		66.76	25.25
Large Blend	VFTSX	Vanguard FTSE Soc Inv		58.68	25.25
Large Blend	ESG	FlexShares STOXX US ESG Impact ETF		42.84	7.34

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Emerging Markets Bond	EIDOX	Eaton Vance Emerging Markets Dbt Opps I	EMLIX		
Long Government	TLH	iShares 10-20 Year Treasury Bond ETF	SCHR		
Intermediate Bond	DBLTX	DoubleLine Total Return Bond I		108.75	111.16
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		108.73	112.69
Long Government	SCHR	Schwab Intermediate-Term US Trs ETF		105.08	
Emerging Market Local Currency	EMLIX	MFS Emerging Markets Debt Lcl Ccy I		103.21	
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		100.68	100.22
High Yield	FIHBY	Federated Instl High Yield Bond Instl		93.57	109.25
Emerging Markets Bond	CEMB	iShares JP Morgan EM Corporate Bond ETF		92.66	102.06
World Bond	RIGS	RiverFront Strategic Income ETF		88.88	109.15

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINC B)	Symbol		Action	Redhawk Score	Redhawk Score
Long Government	TLH	iShares 10-20 Year Treasury Bond ETF	SCHR		
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF	SPSB		
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		109.24	111.40
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		107.79	105.56
Muni National Interm	VWIUX	Vanguard Interm-Term Tx-Ex Adm		107.08	104.54
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		106.58	
Muni National Long	FTABX	Fidelity® Tax-Free Bond		106.46	97.16
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt		104.85	103.07
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		101.45	101.39
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		100.57	96.03
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		99.74	
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		99.49	102.16
Muni National Interm	AXBIX	American Century IntermTrm Tx-Fr Bd I		99.41	102.83
Intermediate Government	IEI	iShares 3-7 Year Treasury Bond ETF		97.91	97.91
Muni National Long	LMCIX	Lord Abbett AMT Free Municipal Bond I		87.32	94.94

Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)		Symbol	Action	Score	Score
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		98.54	56.92
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		95.02	76.78
High Yield Bond	HYG	iShares iBoxx \$HY Corp ETF		81.17	62.38
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		79.37	65.08
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		73.03	57.41
Large Value	VYM	Vanguard High Dividend Yield ETF		67.35	67.25
Small Value	VBR	Vanguard SC Val Idx ETF		65.90	8.10
Large Value	VTV	Vanguard Value Idx ETF		65.32	70.06
Small Blend	VB	Vanguard Small-Cap ETF		63.61	8.74
Large Value	DGRO	iShares Core Div Growth ETF		62.91	65.76
Large Blend	IVV	iShares Core S&P 500 ETF		57.03	23.45
Small Value	IWN	iShares Russell 2000 Value		56.98	5.99
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		56.13	16.09
Small Blend	IJR	iShares S&P Small Cap Core		52.78	1.07
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		52.61	19.68
Foreign Large Blend	SCHF	Schwab International Developed Equity		52.29	16.25
Large Blend	IWB	iShares Russell 1000		50.63	17.08
Small Growth	VBK	Vanguard SC Gr Idx ETF		39.32	(42.30)
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		23.12	(6.39)
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		5.46	(52.92)

Keep	Keep.	
Watch	Watch.	
Replace with another fund.	Replace with another fund.	FUND
Replace with cash.	Replace with cash.	

**S&P Portfolios:** Replaced the Ultrashort-term Bond sub-category (MINT) with the Short-term Bond sub-category (SPSB) due to under-performance and scoring below a 70. Replaced the Long-Government sub-category (TLH) with the Intermediate Government sub-category (SCHR) due to performance.

**S&P Portfolio Bubble Reports as of 12/31/2018**

E-Valuator Score  
**98.50**  
E-Valuator Indicator  
**K**

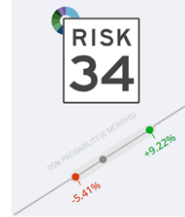
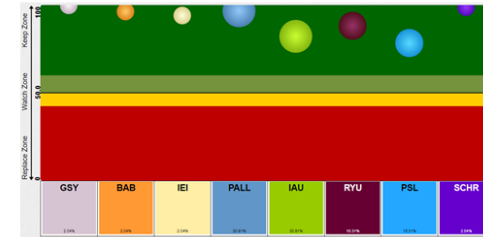
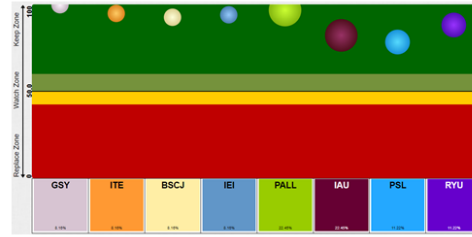
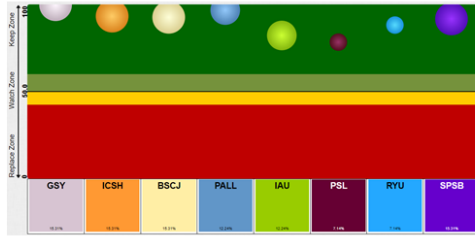
E-Valuator Trend  
Negative Reversal  
Based on the average total credits for the past 2 month(s).

E-Valuator Score  
**98.12**  
E-Valuator Indicator  
**K**

E-Valuator Trend  
Negative Reversal  
Based on the average total credits for the past 2 month(s).

E-Valuator Score  
**97.95**  
E-Valuator Indicator  
**K**

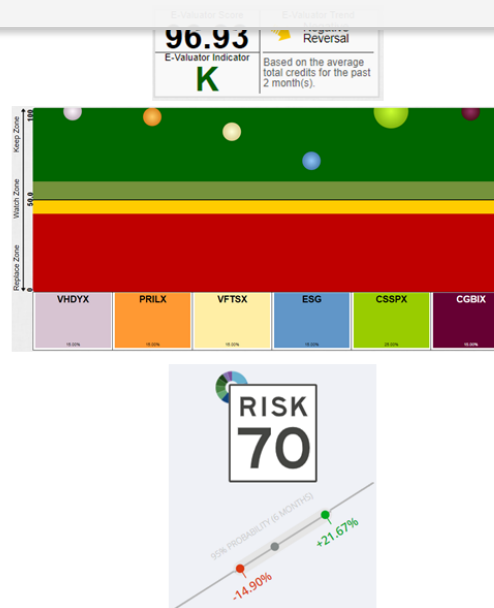
E-Valuator Trend  
Positive Reversal  
Based on the average total credits for the past 2 month(s).



**Environmental, Social, and Governance Portfolio:** Replaced the Large Value sub-category (PKAIX) with the Large Blend sub-category (PRILX) due to under-performance and scoring below 70.

**Portfolio Bubble Reports as of 12/31/2018**





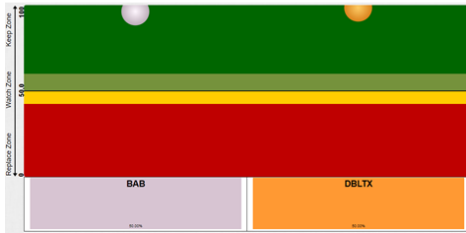
**Growth Stock Portfolio:** Replaced the Long-Government sub-category (TLH) with the Intermediate Government sub-category (SCHR) due to performance.

**High Dividend Stock Portfolio:** Replaced the Long-Government sub-category (TLH) with the Intermediate Government sub-category (SCHR) due to performance.

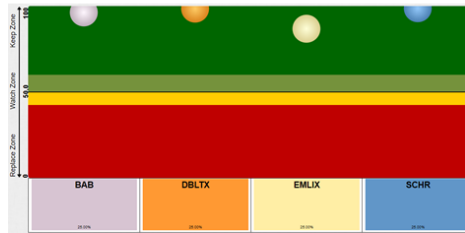
**High Income Portfolios:** Replaced the Long-Government sub-category (TLH) with the Intermediate Government sub-category (SCHR) due to performance. Replaced the Emerging Markets Local Currency Bond (EIDOX) with (EMLIX) due to under-performance and scoring below 70.

### High Income Portfolio Bubble Reports as of 12/31/2018

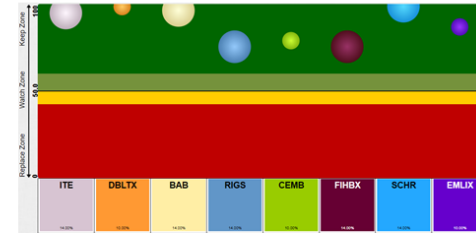
**97.50**  
E-Valuator Indicator  
**K**  
Based on the average total credits for the past 2 month(s).  
Reversal



**98.42**  
E-Valuator Indicator  
**K**  
Based on the average total credits for the past 2 month(s).  
Reversal



**94.90**  
E-Valuator Indicator  
**K**  
Based on the average total credits for the past 2 month(s).  
Reversal

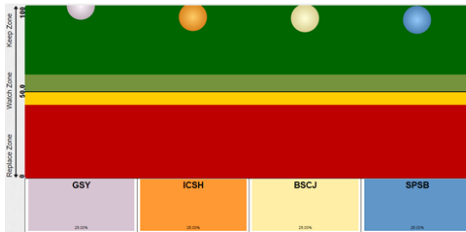


**Liquid Income Portfolios:** Replaced the Ultrashort-term Bond sub-category (MINT) with the Short-term Bond sub-category (SPSB) due to under-performance and scoring below a 70. Replaced the Long-Government sub-category (TLH) with the Intermediate Government sub-category (SCHR) due to performance.

**Liquid Income Portfolio Bubble Reports as of 12/31/2018**

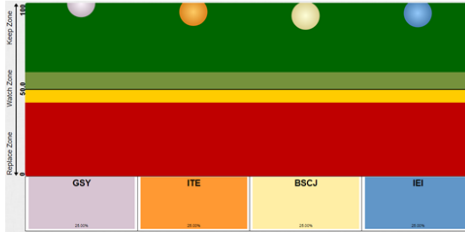
**LINCC**

**100.00**  
E-Valuator Score  
E-Valuator Trend  
Continued Momentum  
E-Valuator Indicator  
**K**  
Based on the average total credits for the past 2 month(s).



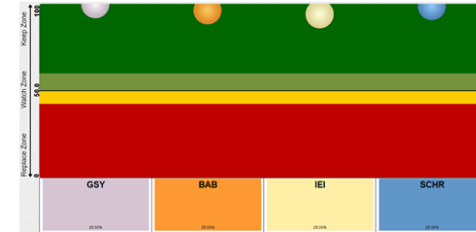
**LINCM**

**97.84**  
E-Valuator Score  
E-Valuator Trend  
Negative Reversal  
E-Valuator Indicator  
**K**  
Based on the average total credits for the past 2 month(s).

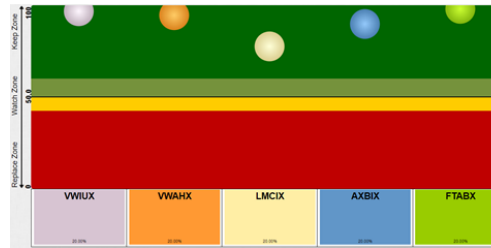


**LINCA**

**98.83**  
E-Valuator Score  
E-Valuator Trend  
Negative Reversal  
E-Valuator Indicator  
**K**  
Based on the average total credits for the past 2 month(s).



96.39  
E-Valuator indicator  
**K**  
Based on the average total credits for the past 2 month(s).



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## Economic Data for this Week

### Monday:

1. No major reports scheduled.

### Tuesday:

1. Producer Price Index, U.S. Bureau of Labor Statistics.

1. Retail sales, U.S. Census Bureau.
2. Business inventories, U.S. Census Bureau.
3. Export and import prices, U.S. Bureau of Labor Statistics.
4. Housing Market Index, National Association of Home Builders.

*Thursday:*

1. Housing starts, U.S. Census Bureau.

*Friday:*

1. Industrial production and capacity utilization, U.S. Federal Reserve.
2. University of Michigan Index of Consumer Sentiment, preliminary result.

*The algorithms have been in the "Risk Off" defensive position since 12/19/2018. The stochastic models in place have concluded that precious metals, utilities, and consumer staples are the non-correlated asset classes to invest for this defensive period. We will continue to gather relevant data points on the market while in this risk off period.*

## Portfolio Managers



The Target Return (TR) portfolios consist of a blend of exchange-traded funds (ETFs) to provide a range of risk and return characteristics that should meet the needs of investors saving for retirement. Each of these portfolios is designed to achieve a long-term target rate of return. By utilizing low cost ETFs and by keeping portfolio turnover low, the ability to produce targeted rates of return is dramatically increased. For investors seeking current income, the TR Income Portfolio (TRIP) has been structured to focus on producing both high current income and growing dividend income. The goal of the Victoria Capital Growth (VCG) portfolio is to provide long-term growth through a diversified portfolio of individual equities. A theme-based investment strategy concentrates investments in common stocks of companies that are expected to grow faster than the overall economy. Owning individual stocks gives greater flexibility to make changes on a stock by stock basis for each client. By

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