Redhawk's Weekly Update January 22 2019 Vol. 3 No. 3

REDHAWK WEALTH ADVISORS

WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

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 below to listen!

Redhawk Live!

Market Commentary

Stocks rose last week for the fourth consecutive week, the longest stretch since August of 2018. The focus shifted to corporate earnings, with several high-profile banks reporting quarterly earnings. Altogether, earnings were better than feared, and more importantly, commentary from management teams about the outlook was positive. As a result, the financial services sector outperformed the broader market, finishing 6% higher. Outside the U.S., news was more mixed. Markets reacted positively to Chinese efforts to stimulate the local economy and reports that China is willing to take steps to reduce its trade surplus with the U.S. in order to achieve a trade deal. In Europe, the Brexit drama continued and the U.K. Parliament rejected the Prime Minister's deal to leave the European Union and Theresa May survived the vote of no confidence. What happens next is uncertain, but investors are increasingly speculating about a second referendum, or an extension of the Brexit deadline. Summing up, the S&P 500 has now quickly recovered more than half of its losses since September's peak. Because of the sharpness of the market's snap back, the market may now be overbought and the path from here could be rockier than it's been the last four weeks.

So, what's in store for 2019?

- We expect the pace of economic growth to slow in 2019 due to the waning effects of the tax cuts, which boosted GDP growth last year and the slowdown in interest-rate sensitive sectors like housing and autos. In our view, a recession in late 2019 or early 2020 is possible given the synchronized global slow down.

- The U.S. unemployment rate continues to hover near a 50-year low, and it's expected to move slightly lower this year due to continued job growth. Historically, the unemployment rate increased an average of nearly 0.5% before a recession began. Wage growth and lower gasoline prices should also add to consumer continued consumer spending through the first half of 2019.

- The international markets will experience slower growth this year. While the Fed is increasing interest rates, foreign rates remain low, and monetary policies are still boosting growth in Europe and Japan. Additionally, low unemployment rates and rising profit margins are likely to slightly improve earnings growth internationally, in contrast to decelerating S&P 500 earnings. China is also ramping up stimulus to soften its slowdown.

- Trade is an important part of global growth, and uncertainty surrounding trade negotiations was a key source of market volatility in 2018. The U.S. entered 2019 with some progress to the trade conflicts, including a proposed trade agreement with Canada and Mexico as well as progress in trade talks with China.

- International markets and economic conditions appear to be earlier I the economic cycle than the U.S., and equity valuations are more attractive, supporting an above-average allocation to international equity investments.

Late last year stocks became very volatile as investors reacted to a slew of concerns, including increasing interest rates, slower global growth, and trade tensions. These worries won't disappear in 2019 and increased volatility will continue. However, stocks have bounced back sharply from their lows and re-energized the bull market, rising 13.5% in the first three weeks of the year.

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	24,706	3.0%	5.9%
S&P 500 Index	2,671	2.9%	6.5%
NASDAQ	7,157	2.7%	7.9%
MSCI EAFE	1,805	0.01%	5.0%
10-yr Treasury Yield	2.79%	0.09%	0.10%
Oil ($/bbl)	$53.75	4.2%	18.4%
Bonds	$106.35	-0.2%	-0.1%

Source: Bloomberg, 01/18/19. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results.

Victoria Capital's Strategy Update

The surprising stock market rally that began the day after Christmas continues to gather adherents as economic data continue to suggest a growing economy. Even though professional investment analysts have been lowering growth expectations for corporate earnings, early reports indicate that surprises continue to be generally on the upside. After all, we have had six consecutive quarters of double-digit earnings growth and the last three quarters were more than 20%—a rate that is difficult to maintain. There remains a cadre of naysayers who are forecasting an economic and stock market collapse right around the corner. While anything is possible, we tend to believe that bad news sells, and stocks continue to climb the “Wall of Worry”. The underlying fundamentals of the U.S. economy remain intact as do those for the stock market. The former is supported by continued low interest rates, record low unemployment, real wage gains without pressure on inflation, low yield spreads, a strong-but-not-too-strong dollar and favorable fiscal policy. Mr. Market is supported by favorable valuations after the fourth quarter sell-off, a positive risk-reward scenario relative to bonds, under representation in both retail and institutional portfolios and ample liquidity. As we have stated before, market weakness in the fourth quarter- and especially in December- may have been caused by some combination of forced liquidation of hedge funds that, in turn, triggered further selling by algorithms and computer trading. So, if selling begets selling, where can support for financial markets come from when the only problem is the market itself?

The greatest source of support comes from the Federal Reserve! Many argue that the Fed controls interest rates and thereby the direction of the economy. Unfortunately, this relationship cannot be proven. What has been proven is that the Fed serves as the lender of last resort providing a safety net to financial markets. Witness the day after Black Monday in 1987 when trading in stocks was shutting down one by one on the exchange and many feared that a “collapse” was near. Fortunately, the lender of last resort, the Fed, stepped in and bankrolled the specialists on the New York Stock Exchange so that they could go on a buying spree to avoid a market meltdown.

Maybe something similar happened on December 27th when the Dow Jones Industrial Average rose a record 1084 points supposedly due to a good employment report. Hardly. Perhaps the Fed thought an emergency was imminent and wanted to stop further declines in the market. Some will say this Fed “put” (the Fed steps in anytime there is a selloff) is imagined but we do know that the Fed bought trillions of dollars in mortgage-backed securities pools in 2008 and 2009 to avoid a collapse in mortgage markets and the big brokerage firms and banks. Remember that the Federal Reserve has an infinite checkbook since the U.S. operates on a fiat currency model. Any country that has its own currency has the same model. Note that the Swiss central bank and the Japanese central bank both buy stocks either directly or through ETFs.

During the past week, we did not make any changes in the Target Return portfolios. However, we did sell selected securities in the Equity Growth portfolio and are looking to deploy some cash into promising growth opportunities once the dust clears.

Redhawk's Strategy Update

Last week stocks posted their biggest daily gain of the week on Friday amid signs of potential progress in the U.S. and China trade dispute, including the possibility that China might commit to buy more U.S. goods. China’s top trade negotiator is scheduled to visit Washington on January 30 for two days of talks. The partial government shutdown was cited as one of the factors that’s fueled a decline in consumer confidence. The University of Michigan reported on Friday that its survey of consumer sentiment recorded a sharp monthly decline to the lowest level in more than two years.

Although market volatility picked up in late 2018, major banks didn’t see an increase in trading revenue. The five largest banks reported their combined revenue from trading operations in the fourth quarter fell 6% from a year earlier. S&P Dow Jones Indices is projecting that dividend payments this year by companies in the S&P 500 will grow 7% to 8%. That would be down from the nearly 10% year-over-year growth rate in 2018, but it would mark the 10th year in a row in which dividends have increased overall.

Redhawk Live Update - Click Here

Redhawk Model Signals

Time Period:				1/22/2019	1/14/2019
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Equity Precious Metals	PALL	Aberdeen Standard Phys PalladiumShrs ETF		123.99	140.75
Equity Precious Metals	IAU	iShares Gold Trust		109.42	126.18
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		108.23	107.92
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		104.31	104.00
Intermediate Government	IEI	iShares 3-7 Year Treasury Bond ETF		103.52	103.21
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		103.05	106.48
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		102.61	102.03
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		97.01	96.20
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		96.06	95.25
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		96.05	95.47
Utilities	RYU	Invesco S&P 500® Equal Weight Utilts ETF		72.75	68.85
Consumer Defensive	PSL	Invesco DWA Consumer Staples Mom ETF		56.44	46.17

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		107.36	86.48
Intermediate Term Bond	CGBIX	Calvert Imp Green Bond I		105.43	105.12
Large Blend	PRILX	Parnassus Core Equity Institutional		83.30	66.76
Large Value	VHDYX	Vanguard High Dividend Yield Index Inv		82.79	78.89
Large Blend	VFTSX	Vanguard FTSE Soc Inv		75.22	58.68
Large Blend	ESG	FlexShares STOXX US ESG Impact ETF		59.38	42.84

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Intermediate Bond	DBLTX	DoubleLine Total Return Bond I		109.74	108.75
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		108.94	108.73
Long Government	SCHR	Schwab Intermediate-Term US Trs ETF		105.08	105.08

Emerging Market Local Currency	EMLIX	MFS Emerging Markets Debt Lcl Ccy I		103.21	103.21
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		100.74	100.68
High Yield	FIHBX	Federated Instl High Yield Bond Instl		93.57	93.57
Emerging Markets Bond	CEMB	iShares JP Morgan EM Corporate Bond ETF		92.66	92.66
World Bond	RIGS	RiverFront Strategic Income ETF		88.88	88.88

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		109.24	109.24
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		107.79	107.79
Muni National Interm	VWIUX	Vanguard Interm-Term Tx-Ex Adm		107.74	107.08
Muni National Long	FTABX	Fidelity® Tax-Free Bond		107.12	106.46
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		106.58	106.58
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt		105.81	104.85
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		101.69	101.45
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		100.81	100.57
Muni National Interm	AXBIX	American Century IntermTrm Tx-Fr Bd I		100.13	99.41
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		99.74	99.74
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		99.49	99.49
Intermediate Government	IEI	iShares 3-7 Year Treasury Bond ETF		98.09	97.91
Muni National Long	LMCIX	Lord Abbett AMT Free Municipal Bond I		88.46	87.32

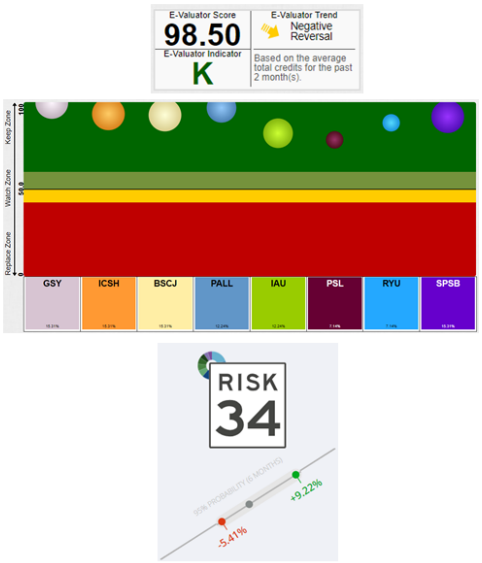
Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		110.27	98.54
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		97.07	95.02
Small Value	VBR	Vanguard SC Val Idx ETF		90.41	65.90
Large Value	VYM	Vanguard High Dividend Yield ETF		86.19	67.35
Small Blend	VB	Vanguard Small-Cap ETF		85.24	63.61
Large Value	VTV	Vanguard Value Idx ETF		84.16	65.32
High Yield Bond	HYG	iShares iBoxx $HY Corp ETF		83.22	81.17
Large Value	DGRO	iShares Core Div Growth ETF		81.75	62.91
Small Value	IWN	iShares Russell 2000 Value		81.49	56.98
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		78.97	79.37
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		76.60	56.13
Small Blend	IJR	iShares S&P Small Cap Core		74.41	52.78
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		73.84	73.03
Large Blend	IVV	iShares Core S&P 500 ETF		73.57	57.03
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		69.15	52.61
Large Blend	IWB	iShares Russell 1000		67.17	50.63
Foreign Large Blend	SCHF	Schwab International Developed Equity		58.64	52.29
Small Growth	VBK	Vanguard SC Gr Idx ETF		56.14	39.32
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		45.40	23.12
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		21.48	5.46

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

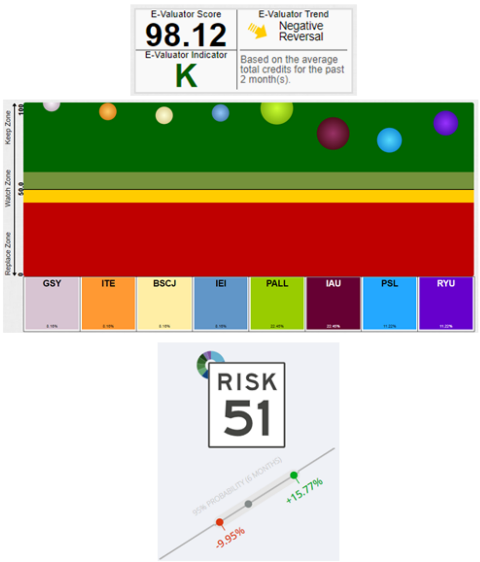
S&P Portfolios: No changes.

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

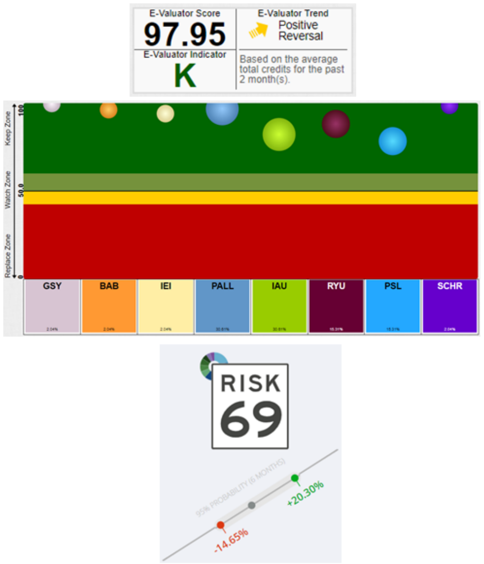
RSPC



RSPM

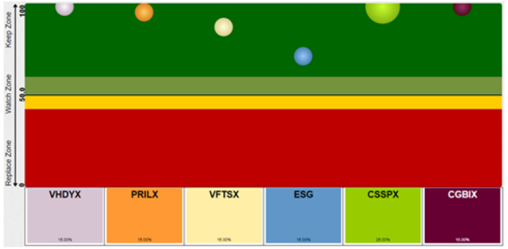


RSPA



Environmental, Social, and Governance Portfolio: Placed the Large Value sub-category (VHDYX) and the Large-Blend sub categories (ESG) (VFTSX) (PRILX) on the watch list due to under-performance.

Portfolio Bubble Reports as of 12/31/2018

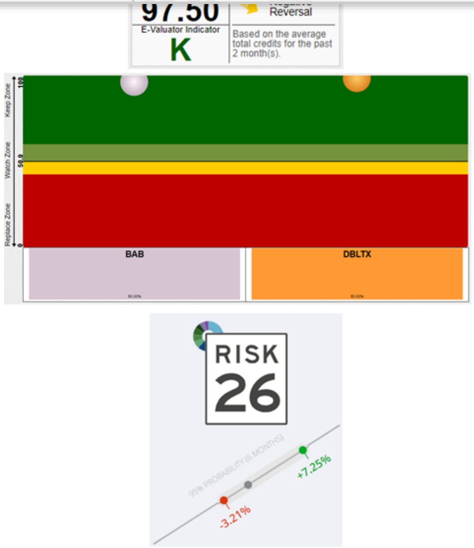


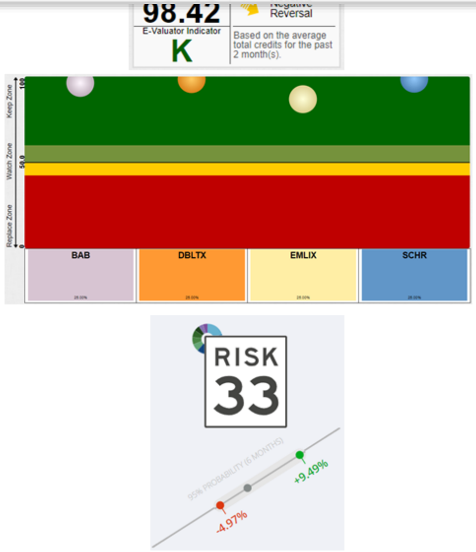
Growth Stock Portfolio: No changes.

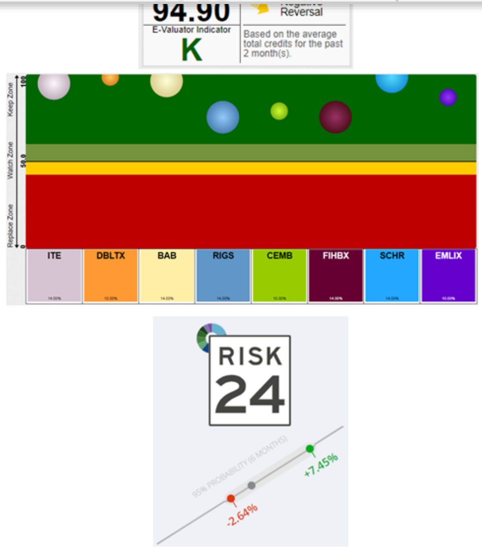
High Dividend Stock Portfolio: No changes.

High Income Portfolios: No changes.

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



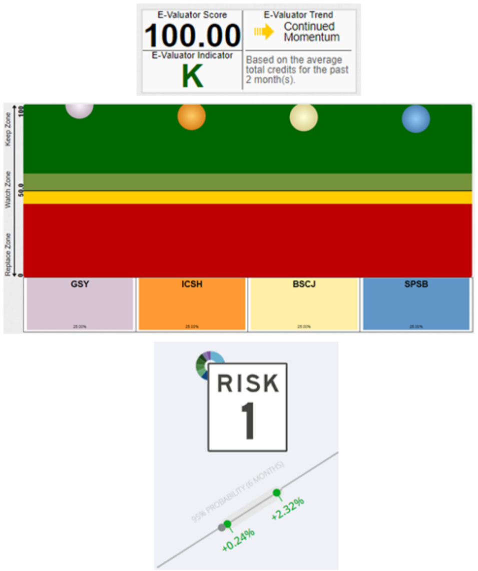




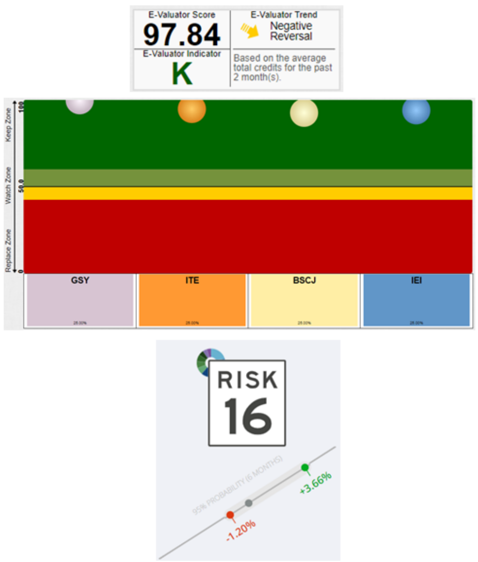
Liquid Income Portfolios: No changes.

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

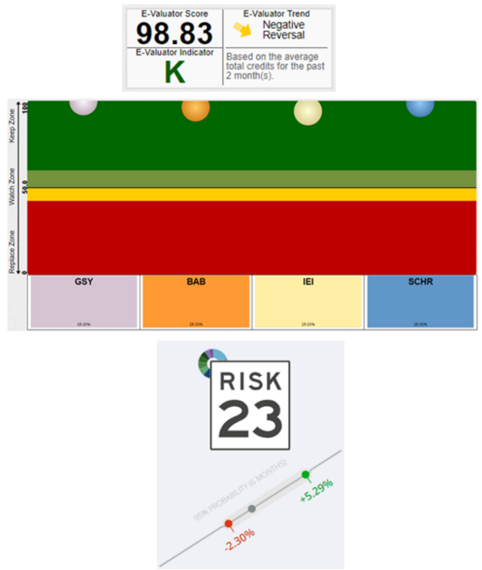
LINCC

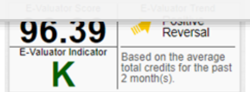


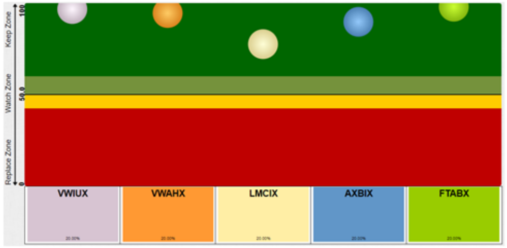
LINCM



LINCA







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Economic Data for this Week

Monday:

1. Martin Luther King Jr. Day, U.S. financial markets closed.

Tuesday:

1. Existing home sales, National Association of Realtors.

Wednesday:

1. No major reports scheduled.

Thursday:

1. The Conference Board Leading Economic Index for the U.S.

Friday:

1. New home sales, U.S. Census Bureau.
2. Durable goods orders, U.S. Census Bureau.

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

VICTORIA
Capital Management, Inc.

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 applying a bottom-up defensive tactical trading discipline, substantial portfolio reserves can be generated.

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