Redhawk's Weekly Update December 17, 2018 Vol. 2 No. 48

REDHAWK WEALTH ADVISORS

WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

Stocks finished lower last week, with all major indices (S&P 500, Dow and Nasdaq) in correction territory for the first time since February of 2016. Trade global growth concerns remain front and center. Chinese officials signaled changes to economic policies that could increase access for foreign companies and announced China's intent to buy U.S. agricultural products along with cutting the tariff rate on imported U.S. cars. It's unlikely that the U.S. and China trade tensions are to be resolved immediately. Although we don't expect a full-blown trade war, lengthy negotiations mean additional volatility is likely. In the U.S., economic data was encouraging as retail sales grew faster than expected, supported by strong consumer confidence, rising wages, and low unemployment. Overall, the appetite for risk is low now, but strong economic fundamentals and lower valuations support a positive outlook for stocks.

Shifting trade tensions – Prospects for progress between the U.S. and China were offset by additional worries about the ratification of the trade agreement between the U.S., Mexico, and Canada, keeping trade tensions in the headlines. U.S. and China trade tensions seemed to calm a bit as the two sides started meetings. China resumed U.S. soybean purchases and announced a 90-day reduction in auto tariffs. Both the U.S. and China appear to want to reach an agreement to prevent escalating tariffs, which is positive. But the issues may be difficult to resolve, and we think the progress could be slow and the tensions are likely to provoke more volatility ahead.

Global economy still growing – Global growth worries have been taking more than their share of daily investor concerns. The recent focus has been mainly overseas, since the U.S. economy appears solid. Retail sales were stronger than expected in November, industrial production rose more than predicted, and other indicators point to continuing modest growth. Although prospects for global economic growth rates continued to edge lower, they remain positive, while investors have become overly pessimistic. China's economy slowed more than expected in November, with slower growth in retail sales and industrial production. Eurozone indicators also disappointed recently. We think signs of improving growth or lessening trade tensions could be positive catalysts internationally.

Fed rate worries – Uncertainty about the prospects for the path of short-term rate increases is another daily worry for investors. The Fed is generally expected to increase short-term interest rates on December 19, based on its assessment of near-full employment, modest economic growth, and the need to continue to remove the very accommodative policies it put in place during the great recession. However, fears that the Fed will over-shoot and raise rates too high have been a recent concern, and we expect the Fed will continue to work to calm investor fears about rapidly-rising interest rates.

Better valuations --One silver lining hidden in the cloud of weaker global data and lower stock prices is the improvement in equity valuations. The S&P 500 is down nearly 10% while earnings have increased, reducing its price-earnings ratio to 16.3, below its average over the past five years. Relative valuations for international developed markets have fallen to less than they were in 2012, when investors feared the Eurozone would break apart. The emerging market benchmark is down 22.5% from its 2018 high and is at its lowest relative valuation level since December of 2013. Lower valuations mean stocks appear more attractive, and while they don't predict short-term returns, historically they've meant higher long-term returns.

With short-term concerns dominating the headlines and prompting sharp daily moves, it's important to have an investment portfolio designed to keep you comfortable when markets are volatile based on your comfort with risk, time horizon, and goals.

Victoria Capital's Strategy Update

Happy Monday? Halfway through December, financial markets are suggesting we are NOT going to see a traditional year-end Santa Claus rally. Since 1969, the S&P 500 has averaged a gain of 1.3% over the seven-day period that encompasses the last five sessions of the year and the first two trading days of the New Year, according to Dow Jones Market Data. The unexpected sell-off in stocks since October 2nd continues to dumbfound institutional investors and scare individual investors saving for retirement. This month has already been particularly rocky, with the S&P 500, Dow Jones Industrial Average and Nasdaq Composite off to their worst starts to a December since 1980. Unfortunately, this week brings quadruple witching on Friday and a meeting of the Federal Reserve that is widely anticipated to raise interest rates on Wednesday. Throw in continued trade tensions with China, the Brexit conundrum, threat of government shutdown, populist uprisings in France and Spain and you have all the elements for investors to feel like throwing in the towel.

Let’s try to put these negatives into perspective so that we all remain on track to achieving a comfortable nest egg. Without a doubt, things could be better than they are but there are a few silver linings to the prevailing clouds. All this year we have struggled with the potential impact of a serious tariff war with China and the repercussions for American businesses. Our position is that such a war makes no sense to either party and we expect a partial resolution of the problem sooner rather than later. The Chinese economy is slowing, and their stock market is plunging, falling by over 20% so far this year. A reduction in tariffs by the Chinese on U.S. autos from 40% to 15% may indicate a concession in trade talks but the pending imposition of another 15% on Chinese exports is keeping pressure on stock prices.

Including the tariffs that have already been imposed, U.S. growth is the envy of the world and is likely to continue growing at a 2.5%-3% pace. Both manufacturing and service sector data point to continued strength. Financial markets are highly liquid and the reduction in private sector leverage shows that the consumer has a healthy balance sheet. Moreover, the increase in household net worth since 2008 has been driven by not only stock market gains but by increased savings. The U.S. dollar has been reaching new highs as international investors are preferring to purchase dollars that will help insulate them from economic weakness.

So, if the economy is in pretty good shape, why are stock prices falling? In the short-run, one cause could be the increasing liquidation of hedge funds that have underperformed since 2017 and are shutting down requiring investors to cash out before December 31st. In the greater than $3 trillion hedge fund industry, liquidations have exceeded launches so far this year, according to a report by Hedge Fund Research, and have reversed four quarters of additions. Add in tax-loss harvesting by institutional investors and algorithmic trading that feeds to the downside and we have what we have today---not our typically ebullient December. Stay Tuned!

No changes were made in the Growth Equity portfolio or in the Target Return models.

Redhawk's Strategy Update

Last week's trading was characterized by big intraday swings in stock prices, an occurrence that has become increasingly common this year. The spread between the S&P 500's daily high and low has exceeded 1% on 100 days so far this year, according to S&P Dow Jones Indices. That's up from just 10 such instances in all of 2017, a year of unusually low volatility. Stocks appeared to be on the verge of coming back from the prior week's steep decline, but momentum turned negative midweek. The biggest daily decline came on Friday, and the major indexes were down around 1% for the week, with the Dow at its lowest level in more than 7 months.

China's industrial production growth rate fell to its lowest monthly level in nearly three years, while growth in the nation's retail sales dropped to its lowest point in more than 15 years. In Europe, the European Central Bank cut its economic growth forecast. U.S. small-cap stocks are close to bear-market territory, as the Russell 2000 Index has fallen around 19% from the benchmark's record high reached on August 31. The index would be in a bear market if the decline reaches 20%.

The U.S. Federal Reserve Board is widely expected to approve another increase in short-term interest rates when it concludes a two-day meeting on Wednesday. If the Fed decides on another quarter-point increase, it would be the fourth this year, boosting the federal funds rate to a target range of 2.25% to 2.50%.

Redhawk Model Signals

Time Period:				12/17/2018	12/10/2018
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Utilities	PSCU	Invesco S&P SmallCap Utilities ETF	RYU		
Utilities	RYU	Invesco S&P 500® Equal Weight Utilts ETF		104.34	
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		98.80	96.78
Bank Loan	RSFYX	RS Floating Rate Y		86.47	92.31
Global Real Estate	JERIX	Janus Henderson Global Real Estate I		86.30	101.20
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		84.79	96.40
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		84.75	89.11
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		83.81	85.74

Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		76.80	67.57
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		76.28	100.66
Bank Loan	LFRIX	Lord Abbett Floating Rate I		66.65	86.04
Large Value	DGRO	iShares Core Dividend Growth ETF		62.65	83.34
Large Blend	VOO	Vanguard S&P 500 ETF		61.62	

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Large Value	AMGIX	American Century Income and Growth I	VHDYX		122.96
Large Value	VHDYX	Vanguard High Dividend Yield Index Inv		112.45	
Intermediate Term Bond	CGBIX	Calvert Imp Green Bond I		102.41	96.39
Large Value	PKAIX	PIMCO RAE US Instl		94.14	116.10
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		93.63	101.20
Large Blend	VFTSX	Vanguard FTSE Soc Inv		63.40	77.91
Large Blend	ESG	FlexShares STOXX US ESG Impact ETF		45.49	58.88

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	HFHYX	Hartford Floating Rate High Inc Y	ITE		
Ultrashort-term Bond	FLTR	VanEck Vectors Investment Grd Fl Rt ETF	ICSH		
Bank Loan	RSFYX	RS Floating Rate Y		115.94	114.39
Real Estate (REITs)	USRT	iShares Core US REIT ETF		114.04	107.18
Bank Loan	EIFAX	Eaton Vance FR Av I		110.09	114.17
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		105.16	87.08
Ultrashort-term Bond	ICSH	iShares Ultra Short-Term Bond ETF		101.31	
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		100.25	
Bank Loan	LFRIX	Lord Abbett Floating Rate I		93.36	105.13
Ultrashort-term Bond	FLRN	SPDR Blmbg Barclays Inv Grd Flt Rt ETF		82.17	105.75

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
High Yield Muni	PHMIX	PIMCO High Yield Muni Bond I	VWIUX		
Bank Loan	RSFYX	RS Floating Rate Y		120.05	116.86
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		114.89	118.85
High Yield Muni	HIMYX	Pioneer High Income Muni Y		108.68	114.26
Bank Loan	LSFYX	Cohen&Steers Pref S&I I		108.16	91.22
Muni Single State Short	LTBYX	Oppenheimer Rochester® LtdTerm NY MunisY		107.49	109.12
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		105.56	103.01
Muni National Interm	VWIUX	Vanguard Interm-Term Tx-Ex Adm		105.32	

Muni National Short	PSDIX	PIMCO Short-Duration Muni Income Inst		103.29	96.87
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		102.13	99.38
Bank Loan	LFRIX	Lord Abbett Floating Rate I		98.31	109.93
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		89.19	90.59
Muni National Short	MEAR	iShares Short Maturity Municipal Bd ETF		88.55	88.69
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		84.12	107.97

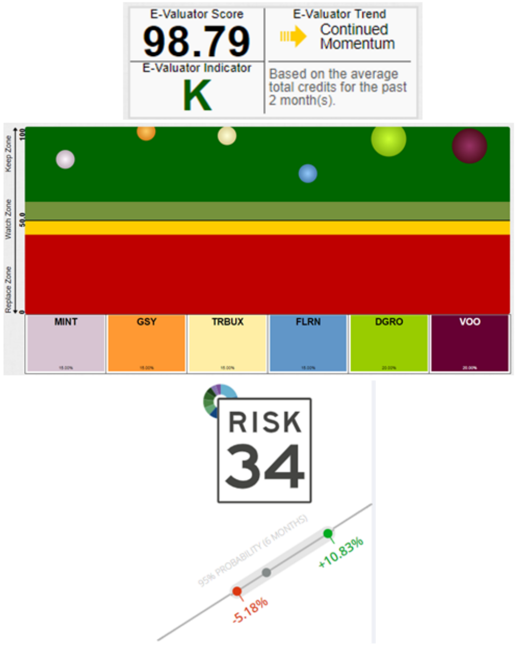
Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		86.87	78.88
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		85.92	71.72
High Yield Bond	HYG	iShares iBoxx $HY Corp ETF		71.52	76.62
Large Value	VTV	Vanguard Value Idx ETF		68.45	81.52
Large Value	VYM	Vanguard High Dividend Yield ETF		65.64	34.35
Large Value	DGRO	iShares Core Div Growth ETF		64.15	83.34
Large Blend	IVV	iShares Core S&P 500 ETF		61.60	72.84
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		58.63	34.43
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		57.83	71.97
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		55.25	67.62
Large Blend	IWB	iShares Russell 1000		55.23	70.25
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		53.31	71.73
Small Blend	VB	Vanguard Small-Cap ETF		42.51	39.75
Foreign Large Blend	SCHF	Schwab International Developed Equity		42.18	65.68
Small Value	VBR	Vanguard SC Val Idx ETF		38.66	33.59
Small Value	IWN	iShares Russell 2000 Value		36.55	45.24
Small Blend	IJR	iShares S&P Small Cap Core		34.84	49.16
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		29.75	69.05
Small Growth	VBK	Vanguard SC Gr Idx ETF		0.26	-24.62
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		-10.07	-18.39

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

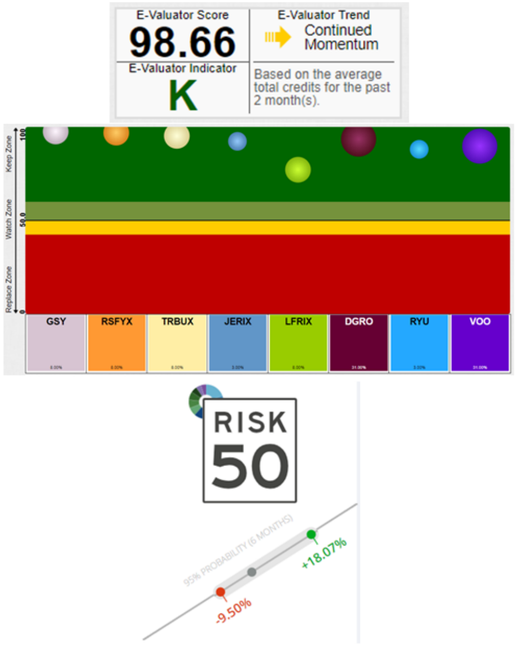
S&P Portfolios: Replaced the Utilities sub-category (PSCU) with (RYU) because the bubble score for PSCU fell below 70. Invested 50% of the Large Value sub-category (DGRO) into the Large Blend sub-category (VOO) in order to further diversify the portfolio.

S&P Portfolio Bubble Reports as of 11/30/2018

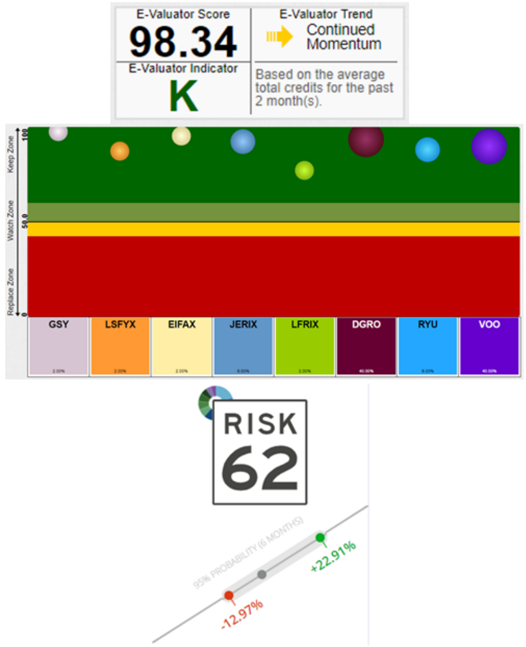
RSPC



RSPM



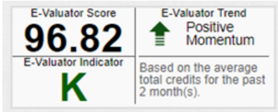
RSPA

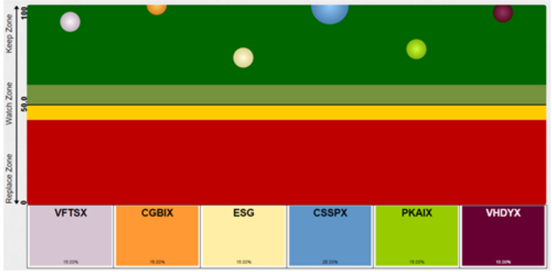


Environmental, Social, and Governance Portfolio: Replaced the Large Value sub-category (AMGIX) with (VHDYX) because the bubble score for AMGIX fell below 70.

Portfolio Bubble Reports as of 11/30/2018

RESG





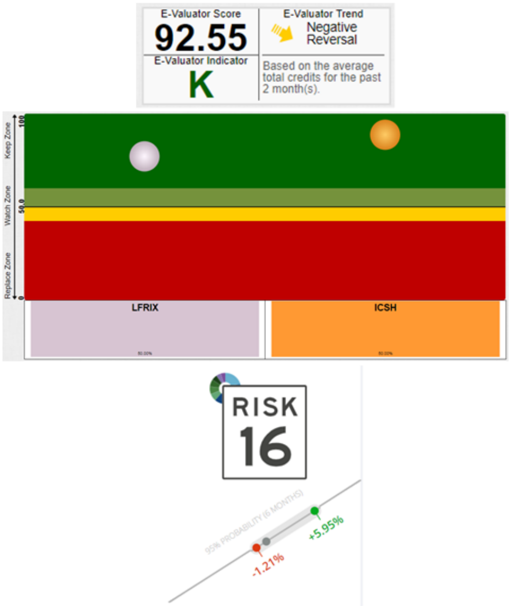
Growth Stock Portfolio: Sold M&T Bank Corp (MTB) due to under performance and kept the proceeds in cash.

High Dividend Stock Portfolio: Invested 13.50% of the portfolio from available cash into Gaming and Leisure Properties Inc. (GLPI representing 4.50% of the portfolio), Omega Healthcare Investors Inc. (OHI representing 4.50% of the portfolio), and Plains All American Pipeline LP (PAA representing 4.50% of the portfolio).

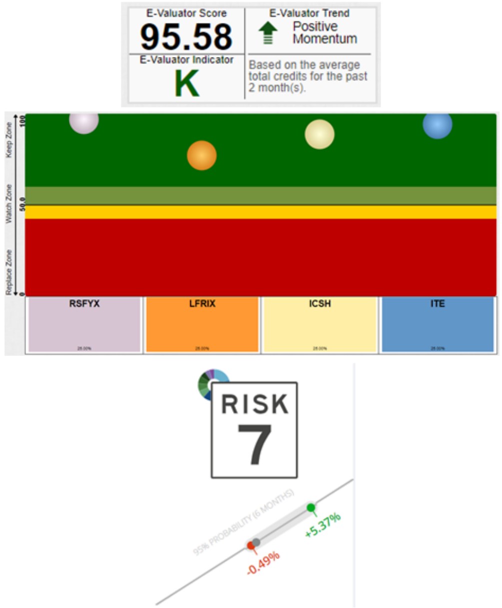
High Income Portfolios: Replaced the Ultrashort-term Bond sub-category (FLTR) with (ICSH) because the bubble score for FLTR fell below 70. Replaced the Bank Loan sub-category (HFHYX) with the Intermediate Government Bond sub-category (ITE) because the bubble score for HFHYX fell below 70.

High Income Portfolio Bubble Reports as of 11/30/2018

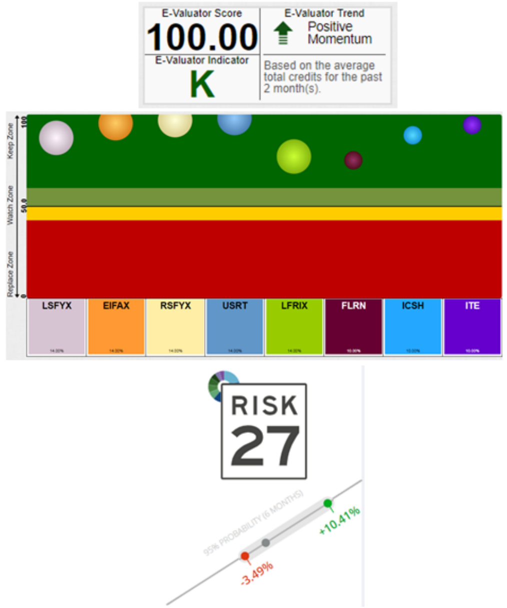
RBI



RHY



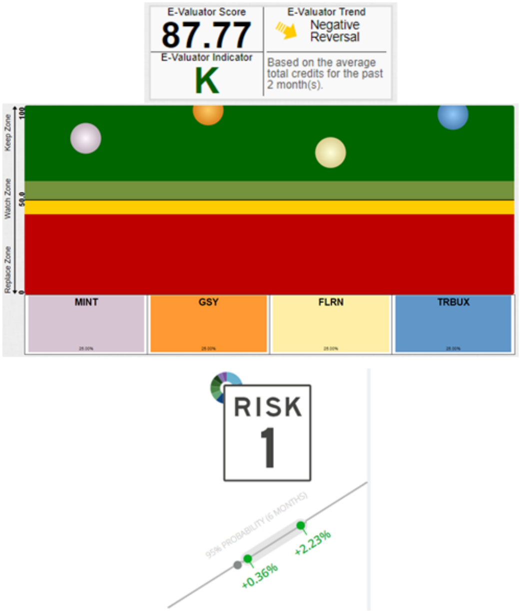
RTHI



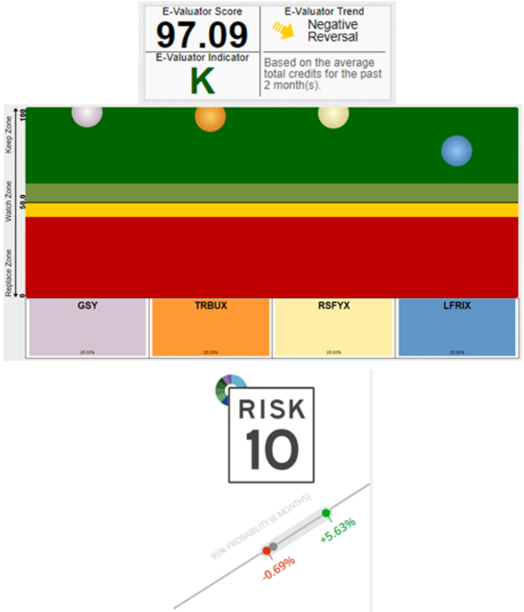
Liquid Income Portfolios: Replaced the High Yield Muni sub-category (HIMYX) with the Muni National Intermediate sub-category (VWIUX) due to under performance.

Liquid Income Portfolio Bubble Reports as of 11/30/2018

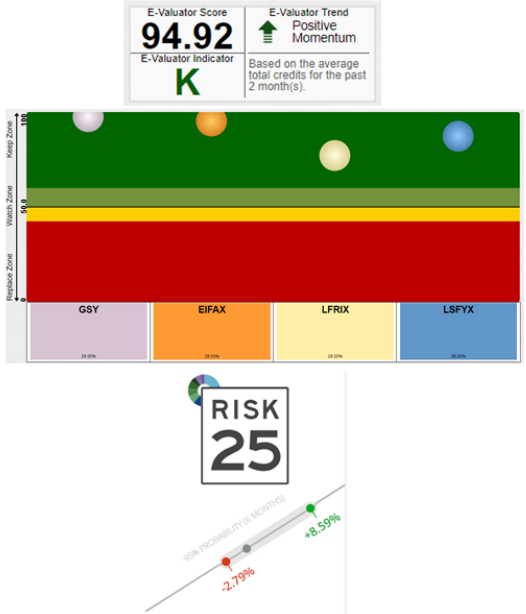
LINCC



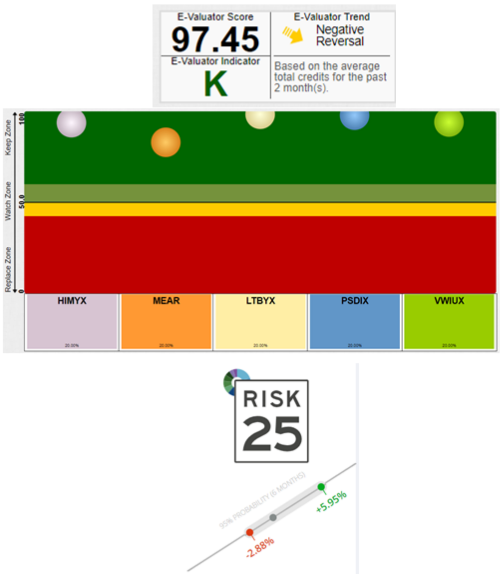
LINCM



LINCA



LINCB



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Economic Data for this Week

Monday:

1. Housing Market Index, National Association of Home Builders.

Tuesday:

1. U.S. Federal Reserve Board opens two-day policy meeting.
2. Housing starts, U.S. Census Bureau.

Wednesday:

1. U.S. Federal Reserve Board concludes two-day policy meeting, Chairman Jerome Powell holds press conference.
2. Existing home sales, National Association of Realtors.

Thursday:

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

Friday:

1. Third-quarter GDP, third estimate, U.S. Bureau of Economic Analysis.
2. Durable goods orders, U.S. Census Bureau.
3. University of Michigan Index of Consumer Sentiment.
4. Personal income and consumer spending, U.S. Bureau of Economic Analysis.

One of our signals tripped to the "watch" position and we have intensified our monitoring efforts. We will continue to gather relevant data points on the market while in this watch period that will drive a decision to either stay the course or to go defensive and move to the "risk off" position.

Redhawk Risk Management Signals

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.