Redhawk's Weekly Update December 24, 2018 Vol. 2 No. 49 View this email in your browser

REDHAWK WEALTH ADVISORS

WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

Last week, stocks suffered the worst weekly loss this year, with most major indices now in correction territory and the Nasdaq in a bear market (down 20% from its peak). Additionally, panic was shown in Treasury Secretary Mnuchin's statement last night that he had spoken with CEOs of six of the major banks and they assured him their institutions have ample liquidity available for lending to consumer, business markets, and all other market operations.

The new concerns that emerged last week were fears that the Federal Reserve is raising rates more than the economy can support and a potential government shutdown. We think lack of any major catalysts until the end of the year and low liquidity conditions are also likely to blame for this sizeable drop. International developed and emerging markets also declined for the week but held up better than U.S. stocks. Positively bonds rallied, helping stabilize portfolios. In our opinion Fed policy will remain a key driver of equity markets in 2019 as the Fed negotiates the balance between higher rates, inflation, and a healthy but slower-growing economy. More moderate economic growth, in combination with still-low inflation justifies a data-dependent approach by the Fed.

Despite strong economic growth in 2018, the market entered last week with several worries, including trade disruptions, geopolitical concerns, and the backdrop of further Fed rate hikes next year. Additionally, the threat of a government shutdown drove a fresh bout of volatility in Friday's and Monday's trading. With last week's decision to raise short-term interest rates for a fourth time this year, the Federal Reserve tried to accommodate these market concerns and its assessment of a solid economy. The gap between the Fed's view of the economy and the market's view of risks can leave long-term investors wondering whether the bull market in stocks can outlive the market's short-term pessimism and recession fears.

Our outlook is that share prices will continue to rise next year, but at a slower pace. Additionally, we believe the lower valuations brought about by downbeat market sentiment across many different asset classes presents opportunities to diversify portfolios during the late stages of the bull market.

The Fed View - As was widely expected the Fed raised short term interest rates to a range between 2.25 and 2.5%. The Fed also signaled it would raise rates two more times next year. While that is down from the three times that it stated earlier, overall it is still suggestive of an economy that is growing even as the pace is slowing from the fading effect of the tax cuts and federal stimulus. We strongly feel that the Fed should move to a data dependent approach versus proactively stating that they are going to raise rates in 2019. So, what's our assessment?

1. *The economy is strong*. The Fed believes that the economy will continue to be solid and growing but at a slower pace next year than this year. The labor market continues to strengthen, creating an average of 206,000 jobs each month, business investment has slowed from its positive earlier in the year, consumer spending is still strong due to higher wage growth and low oil prices. Even the housing market, which had been signaling weakness all year, surprised to the upside as the pace of existing home sales increased from the previous month.

2. *Inflation is low, and the Fed is nimble.* The Fed acknowledged the economy was not perfect. There is slower growth abroad from Europe and China and an increase in stock market volatility that has choked financial markets in the latter part of the year. Yet, these imperfections are countered by moderate inflation growth that allows the Fed to be data-driven and adjust as economic conditions warrant.

3. *Valuations appear attractive*. The S&P is down 9.5% this year (12.2% including today), and 18% from its high, while earnings have increased. This means the price per earnings ratio is below its five-year average and presents an attractive buying opportunity, given the outlook for solid economic fundamentals and modest inflation next year. Additionally, international stocks are trading at a discount to U.S. equities and to their own histories.

4. *The yield curve is signaling modest growth ahead*. The shape of the yield curve may be, in part, a reflection of the pessimistic sentiment. The gap between short-term and long-term rates narrowed last week, but, importantly did not invert. An inversion of the long-term 10yr treasury and the yield on the 2-year treasury bill has proven to be a reliable signal of a recession. Although even when an inversion occurs (which has not happened yet) on

average, a recession occurred 16-months later.

If you're investing for the long term, the key takeaway is that fundamentals matter more than short-term market fluctuations. The economy and corporate earnings will continue to grow in 2019 but more slowly. Late cycle investing brings with it more market volatility and a slower pace of returns, but the recent volatility has also presented several opportunities, in both U.S. and international equities.

Victoria Capital's Strategy Update

Media market observers tell us we are in a "bear market." Yet a short three months ago, the equity markets were hitting record highs. Have the fundamentals that underlie stock ownership changed? Not to our knowledge. One fundamental factor that may have influenced an initial selloff was the surprising collapse of oil prices. Yet, the surge to $75 a barrel triggered a boom in domestic oil production. As we have said in our perspective on the Energy Renaissance, oil prices will stabilize because increasing U.S. output will put a lid on prices and a subsequent decline in prices will curtail that production. We forecasted a band of $45-$55 as a reasonable range for oil prices. After reaching a peak of $75+ oil has fallen back to the lower end of that band in December. The surge in U.S. production and subsequent abrupt decline in oil prices to $45 per barrel, panicked investors in both stocks and bonds.

This oil price collapse isn't enough to explain the unusual characteristics of the equity market decline. For example, on December 19th, the day that the Fed raised the Fed funds rate ¼%, the Dow Jones Industrial Average rose to a high of over 370 points to a low of a minus 600 points—a range of 900+ points—for a ¼% Fed funds increase? We don't think so. More to the point, a prolonged period of low interest rates encouraged speculators to own stocks using borrowed funds and for hedge funds to do the same. When those funds underperformed the market, investors lost confidence and wanted out—resulting in a rapid-fire liquidation of hedge funds, overwhelming the market's ability to absorb such large chunks of selling. Since many of these funds had to liquidate by the end of December, selling pressure on stocks accelerated as more than 150 hedge funds had to close their doors. Buyers were nowhere to be seen. Fundamentals weren't involved. And, no, it wasn't the Fed that caused the decline!

As it is the day before Christmas and, for some market participants is only a few lumps of coal in their stockings, let us attempt to lift spirits. What those media commentators have yet to point out is that, for many investors, their accounts get "rebalanced" at year end. What that means is if stocks have been weak and bonds strong (which was the case in the fourth quarter) then a rebalancing will take place early in January leading to a surge in demand for stocks and the sale of bonds to "rebalance the asset allocation in their portfolios." One estimate for pension fund rebalancing suggests that there will be a demand for $90 billion of stock purchases necessary to accomplish rebalancing and that doesn't include many individual IRA clients whose portfolios are also rebalanced. For long-term investors who are required to take a mandatory distribution from their retirement accounts based on yearend valuations, they will be getting a break as this interruption will lower the amount of money that they will have to send to the tax man.

The other good news is that the Fed's greatest value-added is that they are the lender of last resort. They stepped in when the market was falling back in 1987 and underwrote the NYSE specialists' ability to buy stock. The Swiss central bank and the Japanese central bank own stocks and ETFs so why can't the Fed buy stock low and sell high? The news isn't all bad!

Merry Christmas!

Redhawk's Strategy Update

We were extremely busy last week moving to a strong defensive position. The algorithms tripped at the close of the markets on Tuesday 12/18 and on Wednesday 12/19, we went defensive in our growth portfolios. All holdings that were sold occurred during the middle of the day and before Fed Chairman Powell announced the 0.25% rate hike and two more rate hikes in 2019 (through the end of today, that defensive move has avoided close to an 8% loss). The Redhawk Portfolio algorithms activated due to the VIX closing at a higher level over a predetermined timeframe. As a result, the following changes were made:

- **RSPC**– sold DGRO and kept the proceeds in cash. The LINCC portion of RSPC was not impacted by this change.
- **RSPM**– sold DGRO, PSCU, and JERIX and kept the proceeds in cash. The LINCM portion of RSPM was not impacted by this change.
- **RSPA**– sold DGRO, PSCU, and JERIX and kept the proceeds in cash. The LINCA portion of RSPA was not impacted by this change.
- **RGS**– sold all stock holdings and kept the proceeds in cash.
- **RHDS**– sold all stock holdings and kept the proceeds in cash.

We will run the stochastic models over the next two weeks to determine which non-correlated sub-categories to invest the cash. Depending on the results from the stochastic models, we may invest in all or none of these. The non-correlated sub-categories include:

1. Treasuries.
2. Utilities.
3. Consumer Staples.
4. Precious Metals.

Additionally, on Friday 12/21, changes were made to the high income and liquid income portfolios. It's been a volatile and very challenging fixed income market during 2018 and the major bond index is negative for the year. In order to position these portfolios for 2019, the following changes were made.

In general, bank loans were replaced with longer term bond funds. These changes lowered the risk score of the portfolios and improved the credit quality. Bank loans are also called floating rate funds and these funds buy loans made by banks or other financial institutions to companies. Bank loans are usually senior secured debt and are mostly rated below investment grade because the borrower's ability to repay may be viewed as speculative. These funds provide a hedge against rising interest rates and invest in debt where the coupons adjust with interest rates.

The broad U.S. fixed-income market has gone through a significant bout of volatility. The yield on the 10-year U.S. Treasury note jumped by more than 40 basis points between late August and early November, peaking at near 3.25% on November 8. This led to negative returns across most investment-grade fixed-income sectors. Additionally, the sharp credit spread widening in the high-yield market has led to a recent price weakness in bank loans.

Redhawk Model Signals

Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Utilities	RYU	Invesco S&P 500® Equal Weight Utilts ETF	Cash		
Bank Loan	RSFYX	RS Floating Rate Y	ITE		
Global Real Estate	JERIX	Janus Henderson Global Real Estate I	Cash		
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I	BAB		
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond	BSCJ		
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I	TLH		
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF	ICSH		
Bank Loan	LFRIX	Lord Abbett Floating Rate I	HYND		
Large Value	DGRO	iShares Core Dividend Growth ETF	Cash		
Large Blend	VOO	Vanguard S&P 500 ETF	Cash		
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		101.24	
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		100.58	
Long Government	TLH	iShares 10-20 Year Treasury Bond ETF		99.71	
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		98.80	98.80
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		96.56	
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		89.93	
Nontraditional Bond	HYND	WisdomTree Negative Dur High Yld Bd ETF		85.56	
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		83.81	83.81

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Intermediate Term Bond	CGBIX	Calvert Imp Green Bond I		106.18	102.41
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		76.88	93.63
Large Value	VHDYX	Vanguard High Dividend Yield Index Inv		57.34	112.45
Large Value	PKAIX	PIMCO RAE US Instl		39.03	94.14

Large Blend	VFTSX	Vanguard FTSE Soc Inv		33.21	63.40
Large Blend	ESG	FlexShares STOXX US ESG Impact ETF		15.30	45.49

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	RSFYX	RS Floating Rate Y	TLH		
Bank Loan	EIFAX	Eaton Vance FR Av I	FIHBX		
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I	ITE		
Ultrashort-term Bond	ICSH	iShares Ultra Short-Term Bond ETF	DBLTX		
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF	EIDOX		
Bank Loan	LFRIX	Lord Abbett Floating Rate I	BAB		
Ultrashort-term Bond	FLRN	SPDR Blmbg Barclays Inv Grd Flt Rt ETF	SHYG		
High Yield	SHYG	iShares 0-5 Year High Yield Corp Bd ETF		113.70	
Emerging Markets Bond	EIDOX	Eaton Vance Emerging Markets Dbt Opps I		111.92	
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		111.55	
Intermediate Bond	DBLTX	DoubleLine Total Return Bond I		111.16	
High Yield	FIHBX	Federated Instl High Yield Bond Instl		110.72	
Real Estate (REITs)	USRT	iShares Core US REIT ETF		108.17	114.04
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		100.22	
Long Government	TLH	iShares 10-20 Year Treasury Bond ETF		90.15	

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	RSFYX	RS Floating Rate Y	ITE		
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I	BAB		

Bank Loan	LSFYX	Cohen&Steers Pref S&I I	TLH		
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond	BSCJ		
Bank Loan	LFRIX	Lord Abbett Floating Rate I	HYND		
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF	ICSH		
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		111.40	
High Yield Muni	HIMYX	Pioneer High Income Muni Y		108.68	108.68
Muni Single State Short	LTBYX	Oppenheimer Rochester® LtdTerm NY MunisY		107.43	107.49
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		105.56	105.56
Muni National Interm	VWIUX	Vanguard Interm-Term Tx-Ex Adm		105.32	105.32
Nontraditional Bond	HYND	WisdomTree Negative Dur High Yld Bd ETF		105.20	
Muni National Short	PSDIX	PIMCO Short-Duration Muni Income Inst		103.29	103.29

Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		102.16	
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		101.39	
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		96.03	
Long Government	TLH	iShares 10-20 Year Treasury Bond ETF		90.84	
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		89.19	89.19
Muni National Short	MEAR	iShares Short Maturity Municipal Bd ETF		88.85	88.55

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	**Symbol**		**Action**	**Redhawk Score**	**Redhawk Score**
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		83.90	85.92
High Yield Bond	HYG	iShares iBoxx $HY Corp ETF		69.50	71.52
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		65.62	58.63
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		60.85	86.87
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		56.08	55.25
Large Value	VTV	Vanguard Value Idx ETF		37.36	68.45
Large Value	VYM	Vanguard High Dividend Yield ETF		34.55	65.64
Large Value	DGRO	iShares Core Div Growth ETF		33.06	64.15
Large Blend	IVV	iShares Core S&P 500 ETF		31.41	61.60
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		27.64	57.83
Large Blend	IWB	iShares Russell 1000		25.04	55.23
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		22.15	53.31
Foreign Large Blend	SCHF	Schwab International Developed Equity		21.14	42.18
Small Blend	VB	Vanguard Small-Cap ETF		8.01	42.51
Small Value	VBR	Vanguard SC Val Idx ETF		2.68	38.66
Small Value	IWN	iShares Russell 2000 Value		0.57	36.55
Small Blend	IJR	iShares S&P Small Cap Core		0.34	34.84
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		-2.30	29.75
Small Growth	VBK	Vanguard SC Gr Idx ETF		-34.06	0.26
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		-39.54	-10.07

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

Liquid Income Portfolios (LINCC, LINCM, and LINCA)

From			To	
Symbol	**Sub-category**		**Symbol**	**Sub-category**
MINT	Ultrashort-term Bond		MINT	Ultrashort-term Bond
GSY	Ultrashort-term Bond		GSY	Ultrashort-term Bond
FLRN	Ultrashort-term Bond		ICSH	Ultrashort-term Bond
TRBUX	Bank Loan		BSCJ	Short-term Bond
RSFYX	Bank Loan		ITE	Intermediate Government
LFRIX	Bank Loan		HYND	Nontraditional Bond
LSFYX	Bank Loan		TLH	Long Government
EIFAX	Bank Loan		BAB	Long-term Bond

High Income Portfolios (RBI, RHY, and RTHI)

From			To	
Symbol	**Sub-category**		**Symbol**	**Sub-category**
RSFYX	Bank Loan		TLH	Long Government
USRT	REIT		USRT	REIT
EIFAX	Bank Loan		FIHBX	High Yield
LSFYX	Bank Loan		ITE	Intermediate Government
ITE	Intermediate Government		EIDOX	Emerging Markets Bond
ICSH	Ultrashort-term Bond		DBLTX	Intermediate Bond
LFRIX	Bank Loan		BAB	Long-term Bond
FLRN	Ultrashort-term Bond		SHYG	High Yield

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.