Redhawk's Weekly Update March 4th, 2019 Vol. 3 No. 9

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

Last week U.S. stocks finished slightly higher for the week, as the market consolidated recent gains. The end of February marked the best two-month start to the year for the S&P 500 since 1987, with the index up 11.5%. The White House announced that it would delay the March 1 trade deadline for additional tariffs on Chinese goods as negotiations are progressing. Stocks didn't react much to the news as a delay was already priced in, with investors now focused on a trade agreement materializing. Michael Cohen's testimony and the U.S. North Korea summit in Vietnam generated a lot of headlines, but without any direct market implications. Lastly, on the economic front, fourth-quarter GDP came in slightly stronger than expected at 2.6%, and 2.9% for full-year 2018.

After three days of moving downward, stocks ended the week on Friday rising 0.4% resulting in a 10th straight week of price gains for the best two-month start to the market in 32 years. Heading into the week there was investor uncertainty around four continuing market concerns:

1. Recession worries.
2. Trade tensions.
3. Global slowdown.
4. Future Fed rate hikes.

Below is a rundown of the four primary investor questions heading into last week:

Recession Worries

The release of fourth-quarter data, delayed by the government shutdown, reassured markets that the economy is on solid footing heading into 2019. U.S. economic growth advanced by 2.6% in the last three months of 2018 and finished up 2.9% for the year. The report also showed that consumer spending, the engine of growth for the economy, moved forward at a solid 2.8% in the fourth quarter, despite disappointing retail spending numbers for December. Business investments also picked up, fueled by increased corporate spending in equipment, software and research.

For investors, this good economic news outweighed the ongoing slump in residential investment, as well as concerns that a pickup in inventories in the fourth quarter was signaling slower manufacturing activity ahead. With last year's tax cut and fiscal stimulus having less of an impact, economic outlook is for moderate growth near 2.5%, right around the average pace of the current 10-year expansion at 2.3%. Though slower, this pace supports an upward climb for stock prices this year.

Trade Tensions

Trade tensions have been a constant source of market volatility over the past year, as negotiations between the world's two largest economies continue to play out. The critical component for the Friday rally was the assurance by the White House that a new round of tariffs would be postponed while talks continued. Our expectation is that trade talks will be lengthy due to the complexity of the intellectual property items that must be negotiated for an enduring trade agreement.

A quarter of the U.S. economy and over half of global growth is tied to trade. Though trade is less important to the U.S. than China, 40% of revenues of S&P companies are earned abroad. Thus, the importance of trade in stabilizing global growth is a key driver of earnings for U.S. large-cap firms.

Global Slowdown

An early indicator of economic growth, the Purchasers Manufacturing Index (PMI), showed weakness in manufacturing activity across the eurozone and China. Notably, a drop in China's exports led factory orders to fall to 49.2, the weakest level in three years and just below the 50-mark that signals expansion. The eurozone also fell into contraction territory for the first time in five years due to a slowdown in Germany and Italy. U.S. manufacturing was also not immune to the global slowdown, falling to 54.2 from 56.6 in January. Despite the softness in the data, global equities still rallied last week on optimism that improving trade tensions would eventually stabilize global growth.

Investor optimism is warranted for three reasons. First, central banks around the world remain accommodative and continue to stimulate their economies. Second, China's efforts to stimulate its economy through tax cuts and easing financial condition will likely help to increase near-term growth. Over the long haul, China's growth will stabilize to a more moderate level but also more sustainable pace than in the past due to a maturing economy, aging demographics, and the shift to a consumption-led versus investment-driven growth economy. Third, ongoing resolutions of trade tensions between the U.S. and China and other major trading partners are likely to be a tailwind to global growth in coming months.

Future Fed Rate Hikes

In semiannual Congressional testimony this week, the Federal Reserve chairman acknowledged solid economic fundamentals while pointing out persistent market risks, including tight financial conditions tied to the late-2018 sell-off and the global slowdown. The Fed is waiting to see if these two risks negatively impact its two mandates of price stability and full employment. Currently, these risks look low, as financial conditions are favorable compared with past levels and while the slowdown in global growth is contained.

Moreover, the Fed can afford to remain in "wait and see" mode due to a strong labor market and low-price growth. New data on the Fed's preferred inflation measure showed that inflation is at 1.9%, near the Fed target of 2%. If inflation stays near the target, the Fed can afford to stick to its patient approach, which will help extend the bull market.

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	26,026	0.0%	11.6%
S&P 500 Index	2,804	0.4%	11.8%
NASDAQ	7,595	0.9%	14.5%
MSCI EAFE*	1,874	0.2%	8.9%
10-yr Treasury Yield	2.76%	0.11%	0.08%
Oil ($/bbl)	$55.75	-2.6%	22.8%
Bonds	$106.63	-0.5%	0.6%

Source: Bloomberg, 03/01/19. *5-day performance ending Thursday. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results. *5-day performance ending Friday.

Victoria Capital's Strategy Update

The sudden surge in Robin Hood economics (steal from the rich and give to the poor) among a relatively large group of politicians deserves some further analysis and evaluation. After the favorable record of tax rate cuts and subsequent economic expansion (Kennedy's cuts in the Sixties, Reagan's cuts in the Eighties and Trump's cuts in 2018) one would think a political strategy of tax increases on the rich wouldn't make much sense. Yet, here we are with proposals to raise the personal tax rate to 70%, to increase the estate tax and to introduce a wealth tax of 2-3% on an annual basis. The arguments for these proposed wealth transfers are based on the notion of growing income inequality between "rich" and "poor" in America. For individuals who must feed a family, the important fact has nothing to do with "inequality" but whether their real earnings are increasing or decreasing. To measure this information, three statistics are important: the number of employed individuals, the change in real income (actual income adjusted for inflation) and the impact of taxes on income. According to the Associated Press ("the AP"), January experienced an increase in jobs of 200,000 and wages rose at the fastest pace in more than eight years. With unemployment at a low of 4.1%, the lowest level since 2000, one would be hard pressed to say that Middle America is worse off. Also, real personal consumption expenditures per capita are at record levels. Certainly, taxes are having a smaller negative impact on income because the tax cuts doubled the standard deduction and eliminated personal exemptions. In fact, the AP estimates that 94% of taxpayers will take the standard deduction.

Let's take some of the "new" tax ideas and put them into context. Consider that Manny Machado, a superlative baseball player, just agreed to a 10-year contract worth $300 million. How could the proposed tax law affect him? Assuming he will receive $30 million per year (before endorsements and related contracts), $20 million of that income would be taxed at 70% (at what point is it confiscation?) leaving him with $6 million plus an undetermined rate on the first $10 million. But, with his state of residence being California where the maximum personal income tax rate is 13.3%, the new federal tax law limits the deduction of that 13.3% state tax to a maximum of $10,000. Thus the 13.3% is equal to another $2.5 million in tax. So, on that incremental income of $20 million, Manny might get about $3.8 million! But then there is the wealth tax that, over time, could just about wipe out most of that $3.8 million—clearly not the result that this proposal is hyping.

While we may not be accurate on our back-of-the-napkin calculation above, the point is clear—this proposal is much more than a tax increase. A few years ago, a survey that asked Americans what the maximum tax should be indicated that 25% was the preferred rate. Stay tuned!

There were no changes to the Growth Equity or Target Return portfolios last week.

Redhawk's Strategy Update

Although the S&P 500's February gain wasn't nearly as big as January's 7.9% surge, it was another strong month, as the index added nearly 3.0%. The S&P 500's cumulative two-month gain of 11.1% was the fastest early-year start for the market since 1991, according to S&P Dow Jones Indices. The British pound climbed on Tuesday to its highest level in five months versus the U.S. dollar, lifted by political developments that could derail the United Kingdom's scheduled March 29 exit from the European Union. Labor Party leaders proposed holding a second Brexit referendum that could potentially overturn the initial 2016 vote.

U.S. crude oil prices fell slightly for the week, but it did little to take the shine off the commodity's year-to-date rally. Oil prices rallied around 25% over the first two months of the year, the best two-month stretch since 2016. A major Chinese equity index has gained more than 20% year to date, making it one of the world's top performers in 2019. An economic policy announcement by China's government on Monday lifted the index to a more than 5% gain, its biggest single-day percentage gain since 2015.

The U.S. equity bull market is about to celebrate its 10th birthday. The bull started after the S&P 500 sank to its financial crisis low point on March 9, 2009. Since then, the index has posted an annualized 17.7% total return, according to S&P Dow Jones Indices.

Redhawk Live Update - Click Here

Redhawk Model Signals

Time Period:				3/4/2019	2/25/2019
Redhawk S&P 500 and Dynamic Portfolios (RSPC, RSPM, RSPA, RDA, RDC, RDA)	Symbol		Action	Redhawk Score	Redhawk Score
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		184.88	96.49
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		177.10	98.96
Intermediate Government	IEI	iShares 3-7 Year Treasury Bond ETF		161.38	91.10
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		145.40	79.35
Mid-Cap Growth	IWP	iShares Russell Mid-Cap Growth ETF		143.02	143.18
Technology	VGT	Vanguard Information Technology ETF		135.57	138.96
Diversified Emerging Markets	SPEM	SPDR® Portfolio Emerging Markets ETF		114.79	114.39
Large Growth	SPYG	SPDR® Portfolio S&P 500 Growth ETF		108.74	108.58
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		102.94	102.98
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		100.87	100.85
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		100.04	101.14
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		96.52	102.12

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Mid-Cap Growth	AVEGX	Ave Maria Growth		145.50	145.66

Mid-Cap Growth	AVEGX	Ave Maria Growth		143.50	143.00
Large Growth	CEYIX	Calvert Equity I		131.99	131.83
Large Value	VHDYX	Vanguard High Dividend Yield Index Inv		127.06	127.03
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		119.41	127.74
Mid-Cap Value	PMVYX	Putnam Sustainable Future Y		109.88	117.05
Intermediate Term Bond	CGBIX	Calvert Imp Green Bond I		93.23	94.63

Redhawk Income Portfolios (RBI, RHY, RTHI)	**Symbol**		**Action**	**Redhawk Score**	**Redhawk Score**
Emerging Market Local Currency	EMLIX	MFS Emerging Markets Debt Lcl Ccy I		109.84	109.81
Emerging Market Bond	ESFIX	Ashmore Emerging Markets Short Dur Instl		96.03	96.09
Long Government	SCHR	Schwab Intermediate-Term US Trs ETF		95.03	95.06
High Yield	FIHBX	Federated Instl High Yield Bond Instl		94.81	94.90
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		94.46	93.44
Intermediate-term Bond	DBLTX	DoubleLine Total Return Bond I		93.56	93.59
World Bond	RIGS	RiverFront Strategic Income ETF		90.65	91.61
Emerging Markets Bond	CEMB	iShares JP Morgan EM Corporate Bond ETF		89.27	89.30

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	**Symbol**		**Action**	**Redhawk Score**	**Redhawk Score**
Muni National Long	FTABX	Fidelity® Tax-Free Bond		105.15	105.15
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		105.14	105.14
Muni National Interm	VWIUX	Vanguard Interm-Term Tx-Ex Adm		105.01	105.01
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		104.78	104.78
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt		102.23	102.23
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		100.42	100.42
Intermediate Government	ITE	SPDR® Blmbg Barclays Interm Term Trs ETF		98.17	98.17
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		96.47	96.47
Long-term Bond	BAB	Invesco Taxable Municipal Bond ETF		94.52	94.52
Intermediate Government	IEI	iShares 3-7 Year Treasury Bond ETF		87.77	87.77
Muni National Interm	AXBIX	American Century IntermTrm Tx-Fr Bd I		87.34	87.34
Muni National Long	LMCIX	Lord Abbett AMT Free Municipal Bond I		81.30	81.30
Short-term Bond	BSCJ	Invesco BulletShares 2019 Corp Bd ETF		79.24	79.24

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	**Symbol**		**Action**	**Redhawk Score**	**Redhawk Score**
Small Blend	VB	Vanguard Small-Cap ETF		129.21	135.39
Small Growth	VBK	Vanguard SC Gr Idx ETF		126.55	127.68
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		122.31	127.24
Small Value	VBR	Vanguard SC Val Idx ETF		122.05	129.53
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		116.44	118.08
Large Value	VTV	Vanguard Value Idx ETF		115.87	118.34
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		114.79	114.39
Large Value	VYM	Vanguard High Dividend Yield ETF		114.65	117.12
Large Blend	IWB	iShares Russell 1000		114.45	116.09
Large Value	DGRO	iShares Core Div Growth ETF		113.18	115.65
Large Blend	IVV	iShares Core S&P 500 ETF		109.31	110.95
Small Value	IWN	iShares Russell 2000 Value		108.79	116.27
Small Blend	IJR	iShares S&P Small Cap Core		107.76	113.94
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		104.59	101.90
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		102.29	102.33
High Yield Bond	HYG	iShares iBoxx $HY Corp ETF		100.43	97.74
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		95.45	102.62
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		92.83	95.84
Foreign Large Blend	SCHF	Schwab International Developed Equity		84.72	86.21
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		65.02	65.18

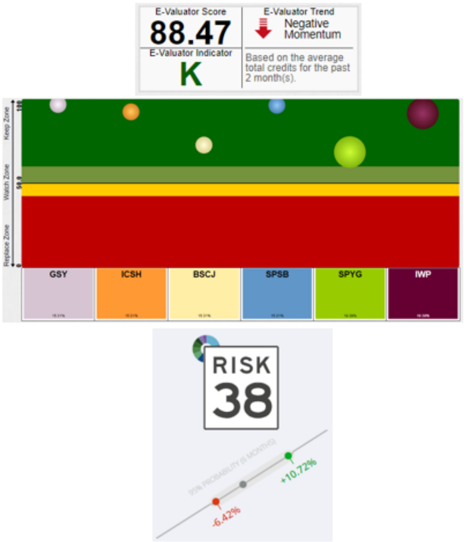
Keep	Keep.	
Watch	Watch.	
Replace with another fund.	Replace with another fund.	FUND

Replace with cash.	Replace with cash.	

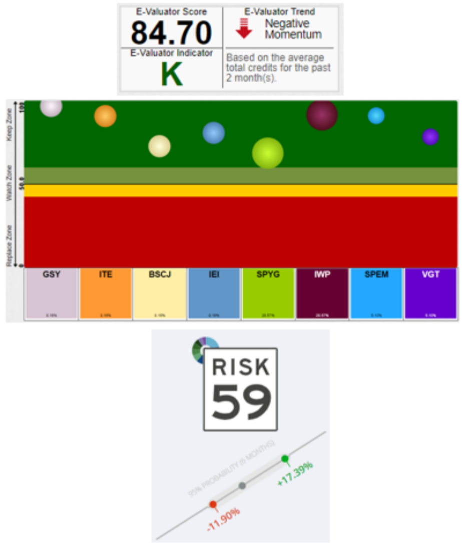
S&P Portfolios: Kept the Technology sub-category (VGT) on the watch list due to improved performance in other sector based sub-categories. Kept the Diversified Emerging Markets sub-category (SPEM) on the watch list due to under-performance.

S&P Portfolio Bubble Reports as of 1/31/2019

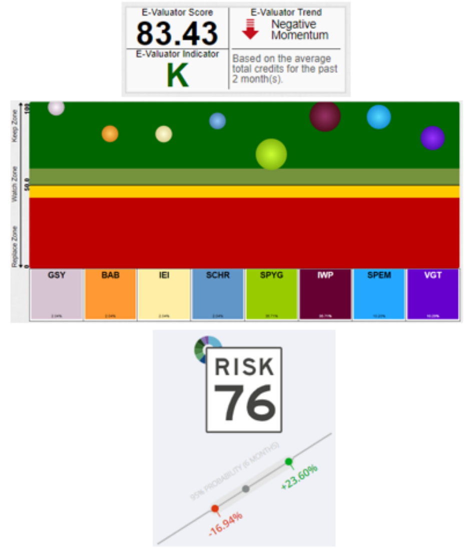
RSPC



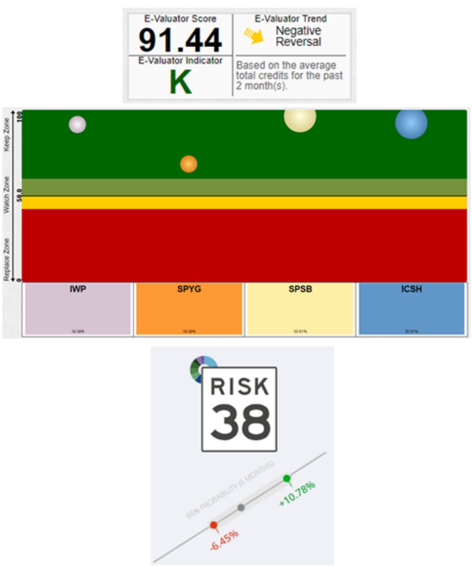
RSPM



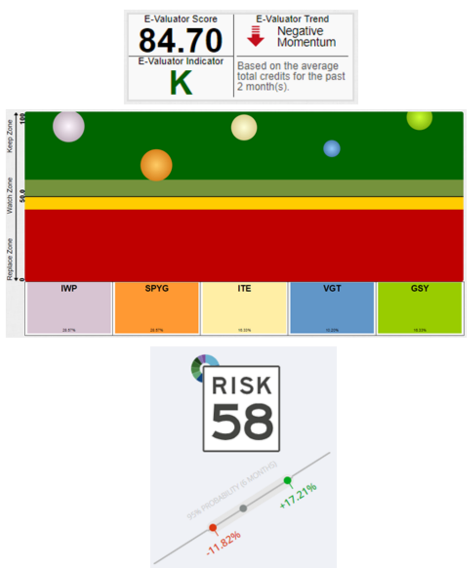
RSPA



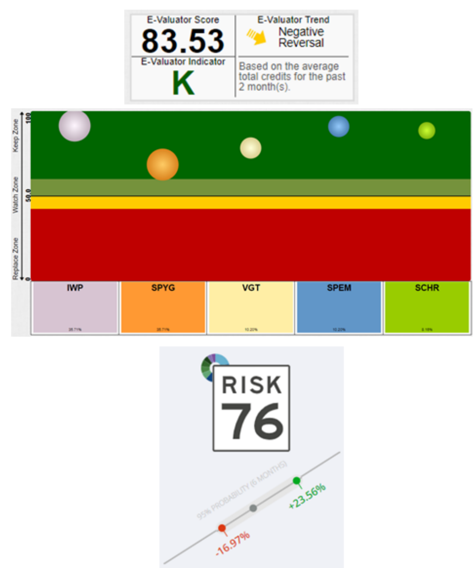
RDC



RDM



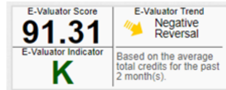
RDA

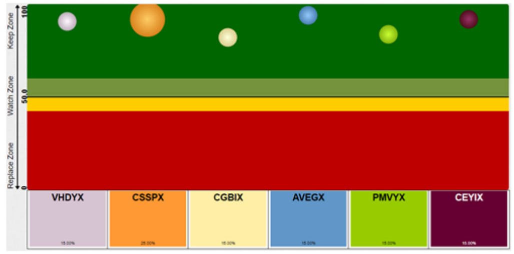


Environmental, Social, and Governance Portfolio: Kept the Mid-Cap Value sub-category (PMVYX) on the watch list due to lagging performance.

Portfolio Bubble Reports as of 1/31/2019

RESG





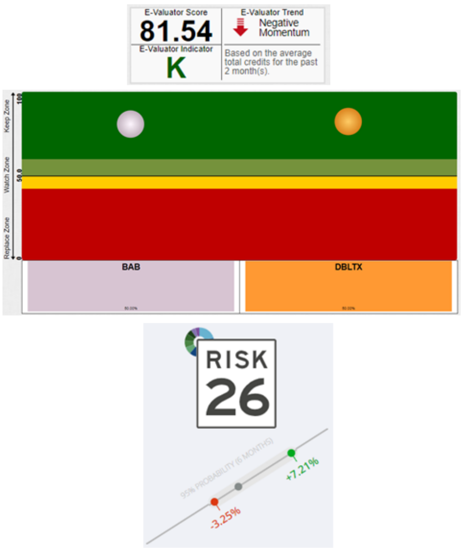
Growth Stock Portfolio: No changes.

High Dividend Stock Portfolio: Replaced Shell Midstream Partners LP (SHLX) with Magellan Midstream Partners, L.P. (MMP) and replaced Spirit Realty Capital Inc (SRC) with CVR Energy, Inc. (CVI).

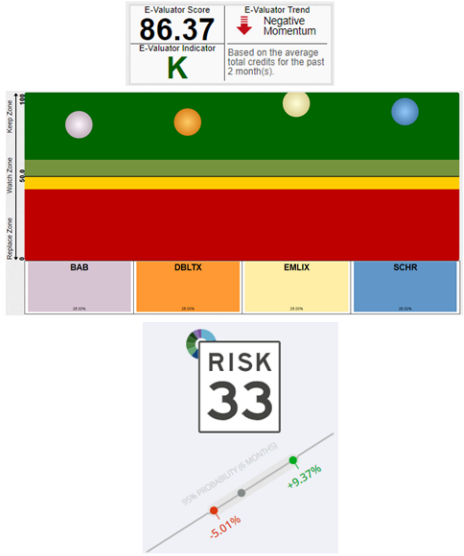
High Income Portfolios: No changes.

High Income Portfolio Bubble Reports as of 1/31/2019

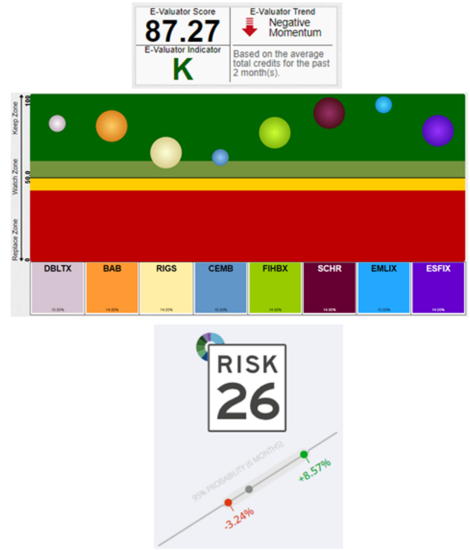
RBI



RHY



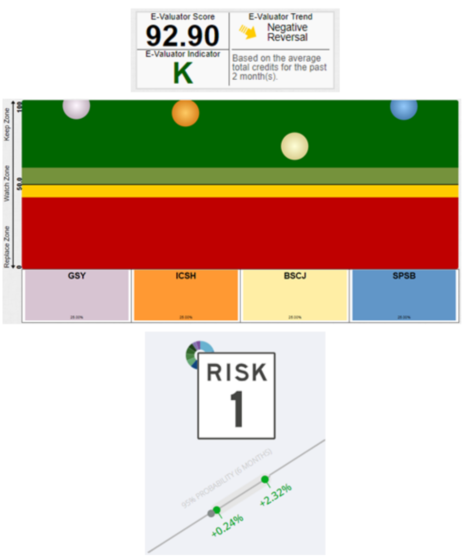
RTHI



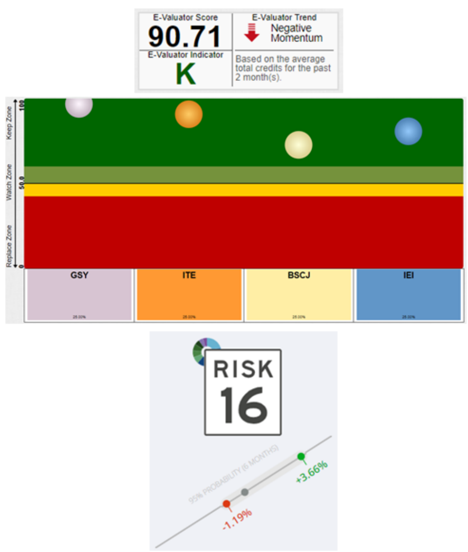
Liquid Income Portfolios: No changes.

Liquid Income Portfolio Bubble Reports as of 1/31/2019

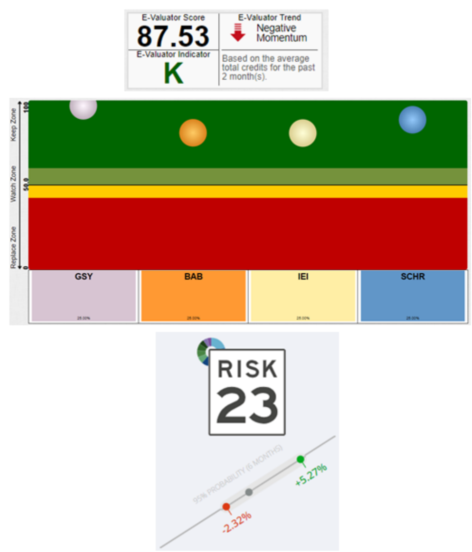
LINCC



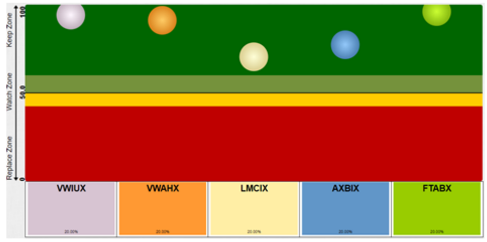
LINCM



LINCA



LINCB



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Economic Data for this Week

Monday:

1. Vehicle sales, U.S. Department of Commerce.
2. Construction spending, U.S. Census Bureau.

Tuesday:

1. New home sales, U.S. Census Bureau.
2. Institute for Supply Management's nonmanufacturing index.
3. Federal budget, U.S. Department of the Treasury.

Wednesday:

1. ADP National Employment Report, ADP.
2. Trade balance, U.S. Census Bureau.

Thursday:

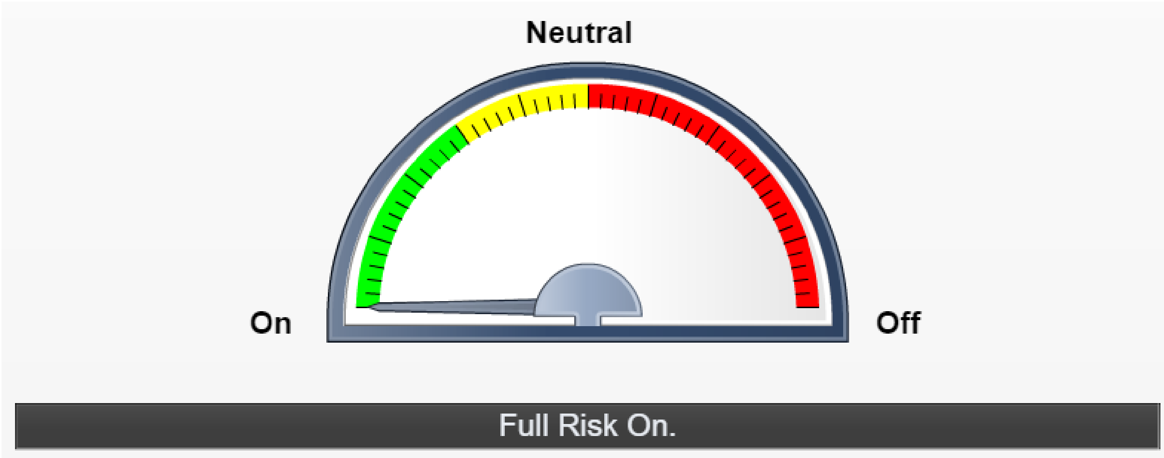
1. Consumer credit, U.S. Federal Reserve.

Friday:

1. Jobs and unemployment, U.S. Bureau of Labor Statistics.

The algorithms, for the growth portfolios, tripped to "Risk On" after the market closed on Thursday 1/31/2019. The

"Risk On" algorithm tripped because the VIX has gradually settled down over the last several weeks. As a result, all defensive equity positions were liquidated and were invested in the best performing categories (see below for more details). We will continue to gather relevant data points on the market and monitor the portfolios daily and communicate when we make any changes.



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.