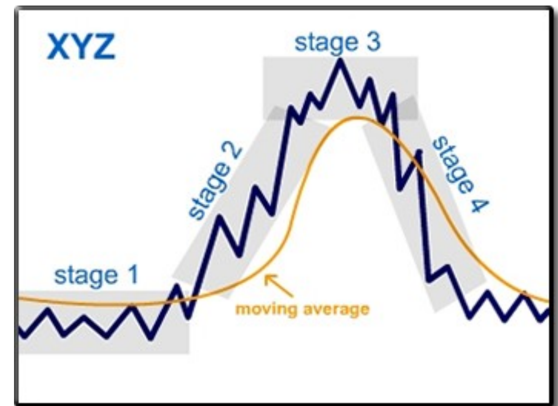
WallStreetWindow PowerInvestor

My Stock Market Game Plan for 2017 - Mike Swanson (01/01/2017)

Toady is the first day 2017 and it's time to map out what to do in the coming year. During this time of year you'll find predictions on the various markets everywhere in the financial media, because people LOVE predictions.

I'll give you my views on various sectors and markets in a few moments, but first I need to make a few observations about the past year and map out for you how I plan to navigate the coming year. What is more important is not to come up with predictions or follow predictions, but to HAVE A GAME PLAN for the coming year! That is something you won't see on TV. Instead predictions are designed to give people what they want - and that is statements that the market will go up for them and they can just sit there and do nothing and get rich. That's why if you open up this year's Barrons "roundtable" every prediction is for a market gain in 2017!

` In reality though a lot of people lagged the markets in 2016! We don't



"….most of the chart Nasdaq 100 have charts like Amazon…."

STAGE ANALYSIS OF KEY MARKETS

S&P 500

Long-term: Deep in stage two bull market or starting stage 3.

Short-term: Stock market ready for a pullback.

GOLD

Gold Long-term: Stage Two Bull Market, but big sideways phase playing out.

Short-term: Gold stocks oversold rally acting better than gold again, which is a long-term positive.

have the final year numbers for hedge funds yet, because the data for them is delayed, but I can tell you that by the end of November the Barclay's hedge fund index was up only 4.89% year-to-date.

At the end of the year the S&P 500 was up 9.77% so most hedge funds lagged. In case you want to know I finished the year up almost 11% in my main large account, but I was up over 20% at one point in the summer. I hurt my returns when I went on margin in August. In another account I manage that I positioned like the model rebalancing portfolio and did not use margin I finished the year up over 13%. So I would have made more money myself if I was quicker to close out short positions I came into the year with and did not go on margin.

I always spend the time of year after Christmas going through my results and looking at what trends to expect in the coming year. It is really the time of year I do the most thinking about investing. I think it's a great time for everyone to pause and reflect and set themselves up to have a great year going forward.

So even though I "beat" the market I want to do better. And the main way I plan on doing that is not to go on margin as much as I have at times in the past and probably not at all. I also am coming into this year positioning myself to do the most reliable type of trade that I know of. I will continue to use the 20% rebalancing money management system for my core positions.

But the best way I know of to get into a position in any given year is to start the year with some cash reserves and then WAIT for the stock market to pullback. Then once the market shows signs of panic you look to buy into sectors and asset classes that hold up the best during the drop as those tend to become the big leaders on the next rally. Chasing market rallies and buying into surges does not provide for a safe entry point.

By waiting for a pullback you do eliminate much of the risk you get into when you buy into "momentum" mania tops that is so easy to do as that is what everyone advocates. Watch "Fast Money" on any night on CNBC and almost every trade recommendation is to buy into something that has gone up the most on that day. But when the market pulls back it shows you what the next new leadership group is likely to be by letting you see what holds up and shows strength during a market drop.

This past year ironically the gold stocks did exactly this in January while the stock market dumped. And interestingly the financials stocks also held up and became huge leaders that smashed the market averages.

So in order to further do this I am selling the IYT and VIS ETF positions in the core portfolio to start the year out and raise even more cash! I also am buying the BIS ultra-short 2X ETF to serve as a hedge to my XLF long position. More on that in a bit.

There is something you need to know about the stock market. While the S&P 500 went up 9.77% in 2016 the XLF ETF went up 18.15% while gold finished the year up 10.14% and the GDX gold stock ETF went up 51.82%! And that's a massive return despite the big correction gold stocks started in August. So financials and gold were the big winners of 2017.

At the same time CNBC and almost everyone has been obsessed over the past two years with buying big cap fad tech stocks and biotech stocks. In December of 2015 I saw a segment on CNBC where someone said that most stocks were doing bad (remember the internals were really poor that Fall) so you should just put your money into the stocks that will go up, which he claimed were Facebook, Amazon, Netflix, and Google. I recall someone on Fast Money saying these were the only stocks you should own in September 2015 too.

Well those stocks have been trading like crap overall for the past few months and many of the other "must own" tech

stocks like Apple have acted as complete millstones on people's necks while the insiders have dumped their shares like crazy.

Here is the thing. The Nasdaq 100 only went up 5.9% in 2016. That's a pathetic return, especially when you consider that the people who made that their main play for the year were taking on huge risks when you think of the valuation level of the Nasdaq 100. The QQQ's are trading with a P/E of 34.69.

Every month I take a look at the Ameritrade Index, which shows you the most widely bought and sold stocks in any given month. For almost every month of the year they have been these fad tech stocks with usually Amazon, Netflix, Facebook, or Google at the top of the list. I think it's safe to say that most of the small fry stock traders have lagged the market in a miserable fashion in 2016.

In fact I would say that very few of them ever bought or traded the financials and gold stocks at all last year and that was a reason why they lagged the market.

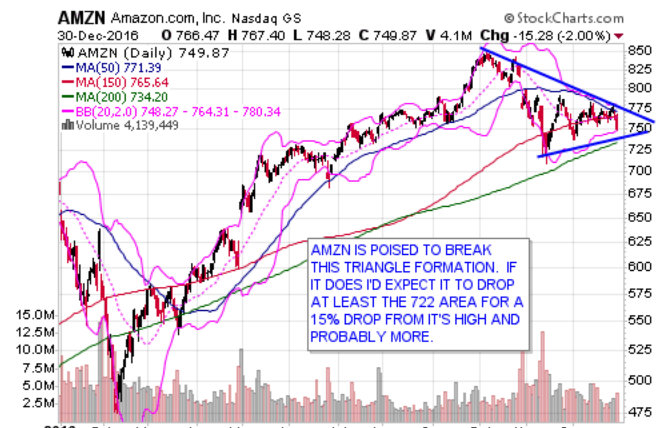
The big lesson out of all of this is it shows us how important it is to be in the right sectors. We must be in the best sectors of the market more than ever now to be able to beat the market averages. Just doing what everyone else is doing works early in a bull market phase or even in the middle of a bull market cycle, but when you are in the final innings of a stage two bull market or even in a stage three top it leads to trouble.

We have had a nice rally in the market since the election of Donald Trump, especially with the DOW and the financial sector in particular (which is really what helped make the DOW go up so much with GS, BAC, JPM, AXP, and TRV in particular), but the tech sector has lagged on the rally badly with most of the Nasdaq 100 stocks even or down since Trump's election.

Really the market averages put on limited gains in 2016 and I think that is likely to be the case again in 2017. In fact right now I think the averages are likely to go through a correction in the first quarter of the year, which is another rea-

son I am raising cash in the model rebalancing portfolio in order to be able to buy later.

I looked through all of the stocks in the Nasdaq 100 and just about every single one of them looks to me like it is going to pullback or at best go sideways and pause. Yes NVDA is the strongest stock (which is the one stock the momo people are now obsessed with), but it had what looks like a key reversal day last week.



That's bad, because NVDA has been the top gaining stock for 2016 in the Nasdaq 100. So it is now attracting the maniac chasers.

More importantly though most of the Nasdaq 100 stocks have charts like Amazon. They have gone sideways in the past few weeks and created support levels that they look like they could easily break in January. At the same time they have declining relative strength compared with the S&P 500, meaning they are lagging the market. And they have declining on-balance-volume indicators, which means there is more volume on down days than up days.

You can see the same pattern in Google too, but this is how

the majority of the stocks in the Nasdaq 100 now look. They look to me like they are about to correct. In fact the individual charts look more poised for a correction than they did in August and September when I was more vocal about a coming correction than I am being now.

Most likely we're on the verge of a 15% drop in these big cap tech stocks. It could happen suddenly or take 6-8 weeks to play out. Once it is over though we'll have a great entry point to see what has held up the best in the market and buy. My guess is it'll be bank stocks and gold stocks again, but there will be other sectors beyond just two.

And it'll be worth looking at entire asset classes too. Will commodities hold up during a market drop? What about oil stocks? What about REIT's? How about the Russian stock market? And so forth. A correction gives us the opportunity to judge all asset classes, sectors, and markets all over the world to see what is best.

At best these tech stocks are just going to go sideways and form a base. If you look at NVDA as it is the strongest stock you can see that it could just go sideways for weeks after having a key reversal day, but is very unlikely to make new highs and have another surge up in the immediate future without consolidating first. So if NVDA is the best looking stock that gives you the best case scenario. But every other stock in the Nasdaq 100 looks much worse than that.

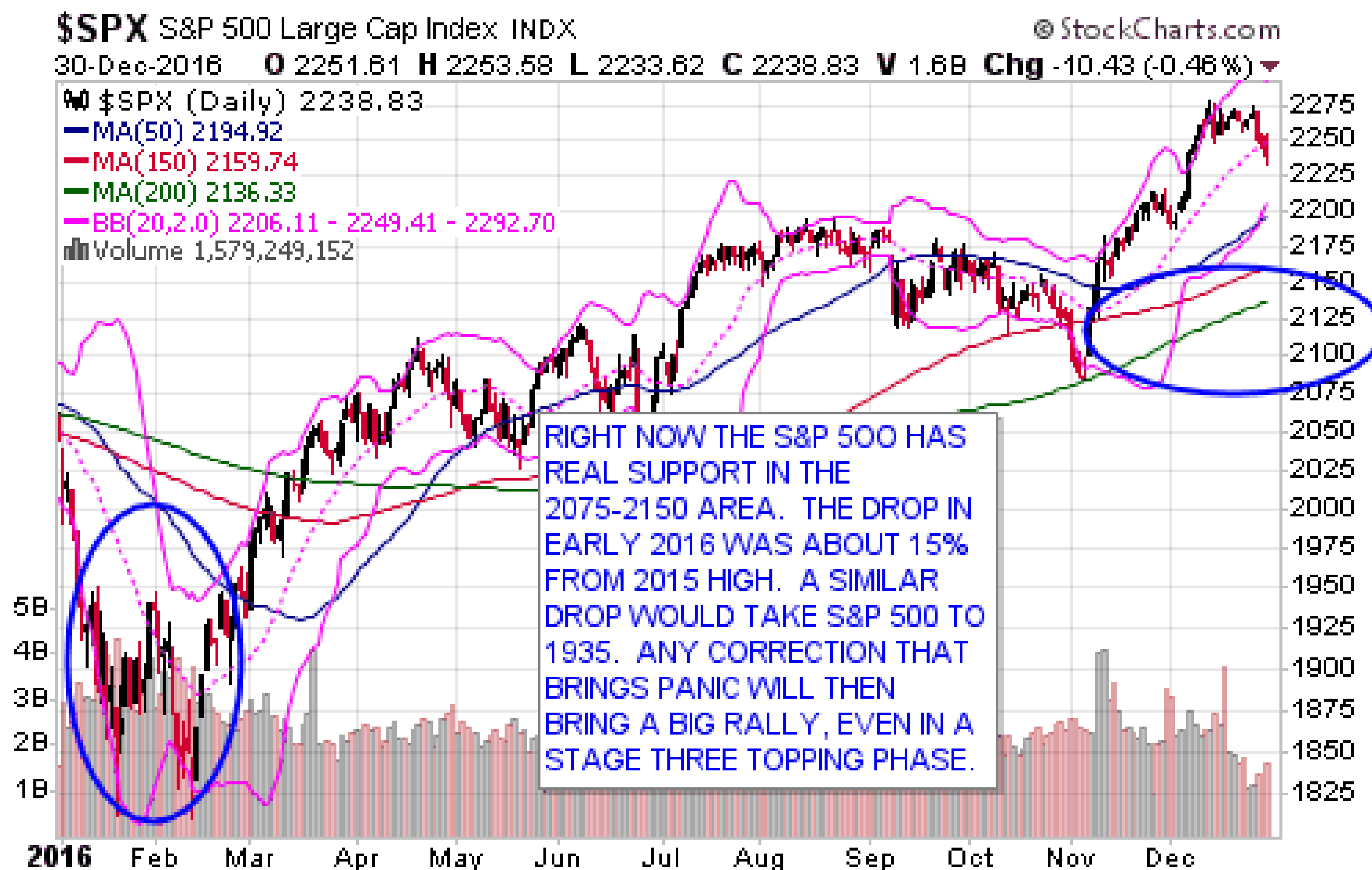
The thing is if the market does drop the drop is going to be led by big cap tech and biotech, because these are the lagging sectors going into a drop. When the market fell this year in January and February the Nasdaq 100 went down almost 18% from it's November 2015 high while the DOW fell 13%. That trend of big cap tech falling worse than the DOW is likely to be even worse next time. There will be a real panic in the "must own" FANG fads.

But biotech has been the worst sector all of 2016. It was red hot in 2014 and into the summer of 2015 and if you can re-

call it became an obsession on CNBC back then just like the restaurant stocks were (remember Cramer's Chipolte obsessions). All of these people chased these stocks up without any idea of what they were buying. Outside of well known big cap biotechs like Amgen, the majority of the biotech stocks MAKE NO MONEY and are pure speculations. There are like 300 of these stocks and they are all garbage.

The liquidity in the entire biotech sector vanished overnight in the "flash crash" of August 2015 and has never come back. The biotech stocks not inside one of the major biotech ETF's have been falling ever since that event without ever really rallying. It's a sign that outside of people trading ETF's or buying the few big cap biotech stocks inside the S&P 500 or Nasdaq 100 that the ENTIRE sector is walking dead.

So I'm picking the biotech sector as the number one sector to bet against right now. You can do that by going long the BIS 2X short biotech ETF, which I'm doing in the model rebalancing portfolio. You can also just short the 2X long BIB biotech ETF as an alternative. I'm long BIS in my IRA right now and short BIB in my main account. All of these 2X and 3X ETF's have decay factors in them so when you short them you can put that in your favor.



If you want to bet against the market and do it against the averages instead of just one sector than I'd look to do it against the Nasdaq 100. QID is the ultra-short 2X Nasdaq 100 ETF.

A lot of people go nuts when I mention stocks pulling back. I did an interview the other day with David Skarica in which we talked about NVDA and we got a bunch of emails from people going crazy.

The thing is pullbacks happen all of the time in a market. You should EXPECT the market averages to go to their 150 and 200-day moving averages at least once a year. The S&P 500 did that THREE times in 2016. To think that it is going to do that again before it goes up in any meaningful way going forward is pretty reasonable. The fact that the notion drives people crazy makes it even more likely.

The Investors Intelligence survey finished the year out with 59% bulls and the VIX went below $12.00 in December. You want to use big rallies and times of overly bullish sentiment

to do some selling. Then you have cash on hand to buy into good stuff after a dip.

So that's what I'm doing to set myself up to have a good 2017. Now in the summer I was holding a big short position and even had built it using margin looking for a market drop.

The market did drop slowly, but the day after the Trump election I closed out my short positions and then went long Trump favored sectors with the XLF, IYT, and VIS ETF's. IYT is the ETF for the DOW Transports and VIS is a broad based industrial ETF holding roughly 300 stocks.

We saw money flow into these Trump favored sectors. But when I looked through all of the stocks in IYT and VIS they look like they are likely to pullback to me also. The banks stocks look the strongest and are likely to pullback just a little or consolidate. As I do not want to sell all long positions I therefore am holding them and selling IYT and VIS to raise cash.

A problem with buying sectors during a rally is that the best way to tell whether or not a sector is REALLY going to go up as a new leader is that the only reliable way to know that is to see it display strong relative strength during a market drop.

So when you buy sectors or stocks during a big rally you are essentially chasing and can only make a profit by getting off the ride before things turn down. So I'm selling IYT and VIS in the model rebalancing portfolio.

One problem with the market is that it is incredibly overvalued from a historical valuation standpoint. The CAPE ratio for the S&P 500 is now over 26. When I look through the stocks that are in the VIS ETF most of them have P/E's around 20 and often higher.

That doesn't meant they cannot go up more in the coming year, but frankly it makes it hard to think you are investing at a good valuation standpoint. This is a problem for the

whole stock market and why the market could only provided limited gains last year with a 5.9% gain in the highly valued fad Nasdaq 100.

Valuations matter. One thing about the market though is that everyone has become lulled asleep by the action of the past two years. Yes there was a quick drop in the first two months of 2016 and in August of 2015, but everyone has forgotten about those drops by now.

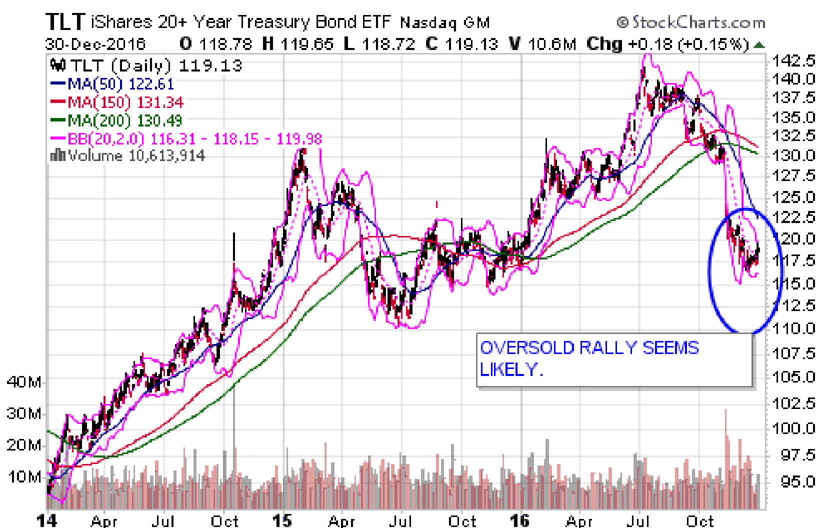
The big story about the market has really been one of extremely low volatility and a narrow trading range. This is why the focus at times has been on just a few stocks going up like "FANG" and NVDA instead of the stock market as a whole as being a good opportunity.

Low volatility markets make for a market that bore people, because they can be difficult to make money in. But now volatility is starting to pick up and is likely to continue to pick up.

Outside of the stock market I believe we have seen a big epic top in the global bond market. TLT, which is the ETF for the 20-year treasury bond, peaked out in the summer and has fallen sharply since the Trump election.

I expect interest rates to continue to go up from their secular lows of the summer so a bear market in TLT is going to be a big trend over the coming years. However, TLT is oversold now and looks like it is likely to rally for a bit.

And you would think it would if the stock market corrects for a few weeks or months. So one thing I am looking at is to take a short position in the US bond market once we get a rally in TLT.



I also will be watching commodities to see what they do in comparison to the stock market if we get a stock market pull-back. If commodities hold up during a market drop and provide good relative strength then I may be a buyer there. DBA is an agriculture ETF I have bought in the past and may buy again.

It is putting on what appears to be a giant stage one base. I bought it early last year and sold it in the summer as the stage one failed to launch a stage two bull market. But the more time it stays in stage one the more likely a bull market is to begin. At the least I'd expect DBA to rally back up to the $22-$23 range in 2017. And unlike NVDA and "FANG" NO ONE on CNBC talks about commodities and the masses are TOTALLY asleep on them.

Of course you can say the same thing about gold and mining stocks too. Despite their pullback since the summer I still believe that they began a new stage one bull market last year after having been in a bear market for over four years.

When you get a new bull market after such a long and deep bear market typically you see massive gains at the start of it that simply take people by surprise. Things can double in just a few months. That is what the stock market did in the Spring of 2009 for instance and in 2003.

But then after such a big sudden move to launch a new bull market you typically then will get a correction within a long drawn-out consolidation phase that can last from three to ten months. So if you think back to the stock market that is what it also did in the summer of 2009 and in 2004.

Gold and mining stocks appear to be in such a phase now, which will end at some point in 2017. Right now though gold appears to be in some sort of bottoming phase like we saw in November/December 2015 or from July to December 2015. Both of these periods were marked by sideways action. I got two circles drawn to show you what I mean and to also suggest that I do not know if gold is going to bottom over the course of just a few weeks and then begin a giant run or if it will take a few months for such a bottom to play out. A huge positive though is that the mining stocks are really acting better than gold

even though they dropped after the Fed meeting. That's huge because typically the performance of the stocks relative to the metals leads the action in both. So in a gold bull market you want to see gold stocks do better than gold.

So gold and mining stocks is something I expect to buy in 2017 at some point.

I also will be watching all of the sectors in the US stock market and global markets around the world such as Russia and Vietnam to name two as potential buys.

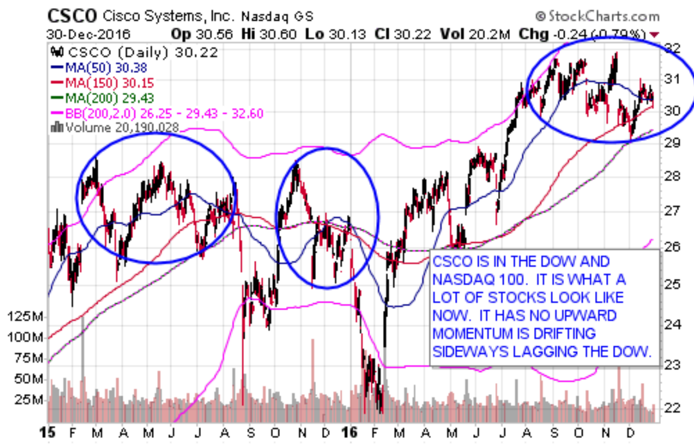
Once a correction in the market plays out for a few weeks we will then be able to rank everything by terms of relative strength and start to make buy lists.

So this is my game plan for 2017. I just want to raise some cash now, be a little cautious to start the year after the market having rallied for months without a real pullback and now with many key stocks faltering looking ready to drop.

A drop is nothing to be scared of when you look a few months ahead and not just obsess over day to day gyrations in the stock market.

I think this is going to be a fun year to be in the markets and trade them, but we are going to have to be on our toes. The big thing is I expect volatility to increase in markets all over the world, which is something people are not used to. Now that creates big opportunities when you get things right and prepare for it, but when people are asleep they just get taken by surprise.

Everyone has their opinions on Donald Trump, but one thing he is going to mean is change and that means volatility for the coming years. This idea of zero rates forever and the market will just go up forever like a stairway is OVER. This is why new sectors are doing better and the fads are fading fast. That will be the story of 2017 in my opinion and that means the end of the pure lazy brain bubble bull who thinks all they have to do is buy Apple or NVDA and they will get rich.


CSCO Cisco Systems, Inc. Nasdaq GS
©StockCharts.com
30-Dec-2016 Op 30.56 Hi 30.60 Lo 30.13 Cl 30.22 Vol 20.2M Chg -0.24 (-0.79%)
CSCO (Daily) 30.22
MA(50) 30.38
MA(150) 30.15
MA(200) 29.43
BB(200,2.0) 26.25 - 29.43 - 32.60
Volume 20,190,028
CSCO IS IN THE DOW AND NASDAQ 100. IT IS WHAT A LOT OF STOCKS LOOK LIKE NOW. IT HAS NO UPWARD MOMENTUM IS DRIFTING SIDEWAYS LAGGING THE DOW.

AAPL Apple, Inc. Nasdaq GS
©StockCharts.com
30-Dec-2016 O 116.65 H 117.20 L 115.43 C 115.82 V 30.6M Chg -0.91 (-0.78%)
AAPL (Daily) 115.82
MA(50) 112.71
MA(150) 107.08
MA(200) 105.43
Volume 30,586,264
APPLE HAS LAGGED THE MARKETS FOR 1 1/2 YEARS. NOW IT HAS MADE A DOUBLE TOP LIKE IT DID IN FALL OF 2015. AT BEST IT WILL PAUSE HERE AND BUILD A BASE IN ORDER TO MAKE A BREAKOUT RUN, BUT IT' JUST AS LIKELY TO DUMP AGAIN FROM HERE.

FB Facebook, Inc. Nasdaq GS
©StockCharts.com
30-Dec-2016 O 116.60 H 116.83 L 114.77 C 115.05 V 18.7M Chg -1.30 (-1.12%)
FB (Daily) 115.05
MA(50) 121.28
MA(150) 122.25
MA(200) 120.38
BB(200,2.0) 108.33 - 120.38 - 132.43
Volume 18,684,106
THE FB FAD STOCK DUMPED ON EARNINGS AND HAS LAGGED SINCE TRUMP'S ELECTION. IT IS NOW SITTING RIGHT ON SUPPORT OF $115. IF IT BREAKS THAT A LOT OF PEOPLE WILL GET HIT, BECAUSE SO MANY ARE INTO THIS FAD STOCK. A FORMER LEADER IS NOW DYING.

INTC Intel Corp. Nasdaq GS
©StockCharts.com
30-Dec-2016 Op 36.79 Hi 36.80 Lo 36.20 Cl 36.27 Vol 17.5M Chg -0.39 (-1.06%)
INTC (Daily) 36.27
MA(50) 35.33
MA(150) 34.77
MA(200) 33.73
BB(200,2.0) 28.84 - 33.73 - 38.62
Volume 17,467,984
NVDA ALONE HELPED PUSH THE SOX INDEX UP WHILE INTC LAGGED AND HAS MADE A DOUBLE TOP. ALMOST ALL NASDAQ 100 STOCKS HAVE MADE A DOUBLE TOP OR TRADING ON A RECENT SUPPORT LEVEL RIGHT NOW.

SYMC Symantec Corp. Nasdaq GS
©StockCharts.com
30-Dec-2016 Op 24.23 Hi 24.37 Lo 23.82 Cl 23.89 Vol 3.7M Chg -0.34 (-1.40%)
SYMC (Daily) 23.89
MA(50) 24.46
MA(150) 22.84
MA(200) 21.50
Volume 3,747,121
THIS LOOKS LIKE ANOTHER STOP MAKING A BIG TOP.

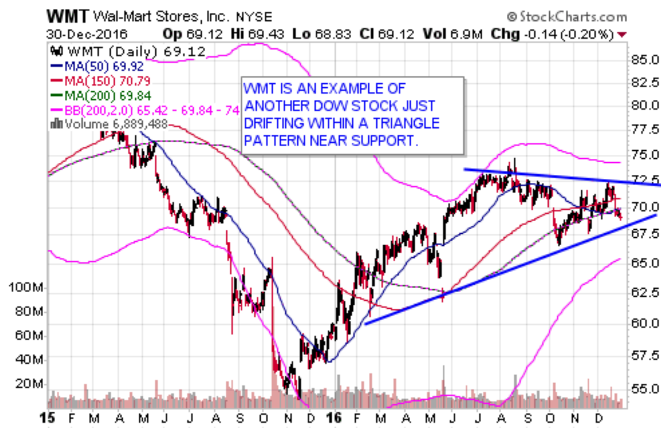
SWKS Skyworks Solutions Inc. Nasdaq GS
©StockCharts.com
30-Dec-2016 Op 76.83 Hi 76.83 Lo 74.32 Cl 74.66 Vol 1.8M Chg -1.90 (-2.48%)
SWKS (Daily) 74.66
MA(50) 76.62
MA(150) 71.77
MA(200) 71.36
BB(200,2.0) 59.91 - 71.36 - 82.81
Volume 1,844,970
REMEMBER CRAMERS BIG FAD FAVORITE SWKS OF 2015? WELL ITS A TOTAL LAGGARD NOW AND LOOKS LIKE IT IS GETTING READY TO DUMP AGAIN!

EA Electronic Arts, Inc. Nasdaq GS
©StockCharts.com
30-Dec-2016 Op 80.56 Hi 80.56 Lo 78.52 Cl 78.76 Vol 1.8M Chg -1.40 (-1.75%)
EA (Daily) 78.76
MA(50) 79.56
MA(150) 79.44
MA(200) 76.38
BB(200,2.0) 63.65 - 76.38 - 89.11
Volume 1,815,869
EA IS ANOTHER EXAMPLE OF WHAT JUST ABOUT EVERY SINGLE STOCK IN THE NASDAQ 100 LOOKS LIKE RIGHT NOW. ALMOST ALL HAVE BEEN LAGGING THE S&P 500 AND DOW SO ARE POISED TO LEAD TO THE DOWNSIDE ON ANY MARKET DROP.

IBM International Business Machines NYSE
©StockCharts.com
30-Dec-2016 Op 166.44 Hi 166.70 Lo 165.50 Cl 165.99 Vol 3.0M Chg -0.61 (-0.37%)
IBM (Daily) 165.99
MA(50) 160.10
MA(150) 156.41
MA(200) 153.58
BB(200,2.0) 139.42 - 153.58 - 167.73
Volume 2,952,825
AND HERE ARE WHAT MANY DOW STOCKS LOOK LIKE. THIS IS IBM. DOES IT LOOK LIKE IT IS GOING TO SUDDENLY SHOOT UP TO 180 OR 200? TO DO THAT IT WOULD PAUSE AND BASE FOR A FEW WEEKS FIRST. IMPLICATION IS LITTLE UPSIDE IN COMING IN THE MARKET SHORT-TERM.

DIS Walt Disney Co. NYSE
30-Dec-2016 O 104.57 H 105.00 L 103.96 C 104.22 V 7.0M Chg -0.34 (-0.33%)
DOW STOCK DIS LOOKS LIKE IT IS MAKING A TOP HERE.

MCD McDonalds Corp. NYSE
30-Dec-2016 O 122.79 H 123.16 L 121.44 C 121.72 V 3.6M Chg -1.07 (-0.87%)
MCD ALSO LOOKS LIKE IT IS MAKING A TOP. ALMOST ALL DOW STOCKS LOOK LIKE THIS TOO.

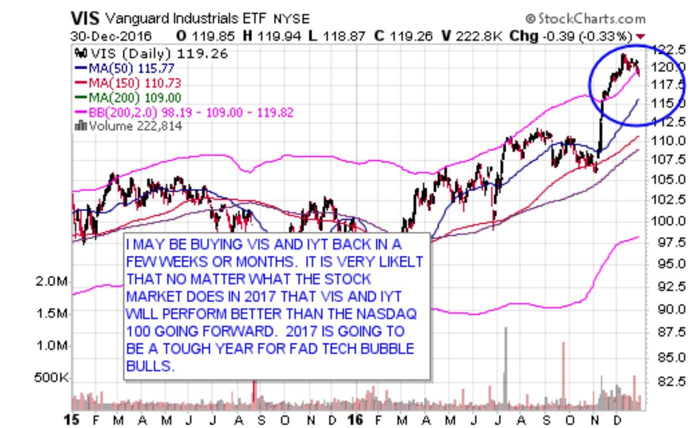

WMT Wal-Mart Stores, Inc. NYSE
30-Dec-2016 Op 69.12 Hi 69.43 Lo 68.83 Cl 69.12 Vol 6.9M Chg -0.14 (-0.20%)
WMT IS AN EXAMPLE OF ANOTHER DOW STOCK JUST DRIFTING WITHIN A TRIANGLE PATTERN NEAR SUPPORT.

MMM 3M Co. NYSE
30-Dec-2016 O 179.00 H 179.48 L 178.29 C 178.57 V 1.6M Chg +0.16 (+0.09%)
MMM IS ONE OF THREE SUPER STRONG DOW STOCKS THAT HAVE HELPED PUSH THE DOW UP TOWARDS 20,000. IS IT GOING TO BREAKOUT? IT IS NEAR A HIGH, BUT COULD EASILY JUST GO SIDEWAYS...BUT THE POINT IS THERE ARE ONLY TWO OTHER STRONG DOW STOCKS LIKE THIS NOW!

GS Goldman Sachs Group, Inc. NYSE
30-Dec-2016 O 238.51 H 240.50 L 237.40 C 239.45 V 2.4M Chg +1.27 (+0.53%)
GS IS ONE OF THE OTHER SUPER STRONG DOW STOCKS. IT IS HARD TO THINK IT IS GOING TO SUDDENLY ARSH DOWN TO 160, AND YET IT ISN'T LIKELY TO GO MUCH HIGHER FROM HERE EITHER UNTIL IT AT LEAST DIGESTS THESE RECENT GAINS FOR SEVERAL WEEKS, IF NOT MONTHS. THERE IS JUST VERY LITTLE UPSIDE POTENTIAL HERE OF ANY MAGNITUDE FOR THE SHORT-TERM.

TRV The Travelers Cos., Inc. NYSE
30-Dec-2016 O 122.79 H 122.84 L 122.05 C 122.42 V 1.0M Chg +0.13 (+0.11%)
TRV IS ANOTHER BIG DOW LEADER. AGAIN WHAT IS THE UPSIDE POTENTIAL FOR THE SHORT-TERM? I JUST DON'T SEE IT. BUT THESE ARE THE THREE STRONGEST DOW STOCKS WHILE MOST OTHERS ARE TRADING ON SUPPORT OR DRIFTING DOWN SLIGHTLY.

DAL Delta Air Lines Inc. NYSE
30-Dec-2016 Op 49.34 Hi 49.56 Lo 48.87 Cl 49.19 Vol 4.5M Chg -0.12 (-0.24%)
DAL IS ONE OF THE STOCKS IN THE TRANSPORTATION AVERAGE. MOST OF THE OTHERS HAVE CHARTS JUST LIKE IT AND I DON'T SEE MUCH SHORT-TERM UPSIDE POTENTIAL IN THEM....AND SO I DID SOME SELLING. MAYBE I WILL BUY BACK MY IYT AND VIS POSITIONS LATER, BUT I WILL HAVE TO SEE HOW EVERYTHING PERFORMS AND HOLDS UP. THEY LED THE RALLY, BUT WILL THEY CONTINUE THEIR MARKET LEADERSHIP? WE WILL SEE.


VIS Vanguard Industrials ETF NYSE
30-Dec-2016 O 119.85 H 119.94 L 118.87 C 119.26 V 222.8K Chg -0.39 (-0.33%)
I MAY BE BUYING VIS AND IYT BACK IN A FEW WEEKS OR MONTHS. IT IS VERY LIKELT THAT NO MATTER WHAT THE STOCK MARKET DOES IN 2017 THAT VIS AND IYT WILL PERFORM BETTER THAN THE NASDAQ 100 GOING FORWARD. 2017 IS GOING TO BE A TOUGH YEAR FOR FAD TECH BUBBLE BULLS.

MODEL REBALANCING ETF PORTFOLIO ALLOCATION

The goal of this portfolio is to have five have core positions with no more than 20% invested in each one that together provide an investment allocation with a low intra-portfolio matrix. This makes it so that when one ETF goes down another can go up overtime. Traditionally people do this with using US stocks and Treasury bonds, but in the long-run a mix of more diversified assets can generate superior investment returns and if one day stocks and T-bills go down together then it will be a necessity.

To make the strategy work one must also rebalance the positions to maintain the fixed allocation percentages. Rebalancing also boosts returns overtime and lowers the overall volatility of the account. To make this work monthly or weekly rebalancing is best.

For more on how this strategy works read my January monthly newsletter from 2015.

http://wallstreetwindow.com/wswmonthly/wswmonthly01012015.pdf

Also see module 7 of my "Bear Market Power Pack" for several videos and academic papers about this market strategy:

http://www.wallstreetwindow.com/powerinvestor/?page_id=1346

Right now my recommended mix of ETF's is the following:

60% - CASH

20% - XLF: Financial ETF's—this is a Trump trade higher rates.

20% - BIS: 2X Short Biotech ETF or short BIB @2X long biotech ETF.

This ETF allocation creates a correlation ratio of 0.40 A 50% in TLT and 50% in SPY currently generates a correlation of 0.29.

You can use your own ETF's or funds to play with correlations by going to this website:

http://www.investspy.com/

A correlation of 1.00 would mean that everything in a portfolio is trading together. I have core positions in my trading and investment accounts roughly invested like this model portfolio is.

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