Highlights

- I explain how to read and make use of my new and improved **Key Market Indicators** dashboard.
- The global economy is picking up strength, but the U.S. is beginning to lag behind.
- Earnings, revenues, and profit margins in the U.S. are strong.
- China avoided a possible meltdown last year, and some concerns remain.
- Has the U.S. stock market entered the "**Greater Fool**" stage?

Key Market Indicators

Before we get to the usual rundown for the economy, markets, and geopolitics, I want to take a moment to explain how the centerpiece of this newsletter – the **Key Market Indicators** dashboard – can be useful as a risk management and asset allocation tool. The KMI dashboard is designed to assess the current health of the U.S. stock market. Its purpose is to help you answer the question, "Should I stay fully invested in equities, or should I cut back on my stock market risk?"

I designed the KMI to be a simple, intuitive representation of market health across four types of indicators:

- Fundamental – are companies growing? Sales & earnings increasing? Profit margins expanding?
- Technical – are stock prices rising? Trading volume increasing? Breadth & leadership o.k.?
- Valuation – based on earnings & dividend growth, is the market cheap, fair, or expensive?
- Risk – is a recession coming? Price momentum slipping? Volatility increasing?

Each of these four indicators has its own set of parameters, and exerts its own unique influence over the trend and health of the market. I chose the traffic light metaphor because it's simple and easy to understand. But don't mistake its simplicity of design for a lack of rigorous research. You'll see what I mean as I lay out the details for you.

The Traffic Lights

Below is the latest reading of Key Market Indicators. Following that is a brief summary of what the lights mean.

Traffic Light Indicators

The traffic lights reflect the current state of four indicators of market strength.

They are based on trends observed over the last 6 months.

They forecast whether these trends are likely to persist over the next 6 months.

GO
A green light tells us that the trend is positive for this indicator, and is likely to remain so.

CAUTION
A yellow light tells us that the trend observed over the last 6 months is showing early signs of a possible reversal.

STOP
A red light tells us that the trend is clearly negative and it will likely remain so.

The 4 Indicators and their supporting Components

Each of the four indicators is made up of three sub-components, and each component has its own set of parameters.

Fundamental. The bedrock of market health is the trend of company revenues and earnings. If they are rising, investors will pay more for a claim on future cash flow. Next is the level and trend of corporate profit margins. If they are fat, a higher percentage of revenues will flow to the bottom line.

And the third measure is credit conditions. When money is available and cheap, companies can afford to expand by investing in property, plant, equipment, technology, and people.

I won't go into the other 3 indicators here, but if you're interested, just contact me at info@zeninvestor.org

Below is a summary of the current conditions for each of the 12 components that feed into the traffic lights. I score each of the components on a scale of 1 to 10, with 10 being the most positive score. I do this by looking at the history of each component, going back to 1950.

I then separate the historical data into deciles. Scores of 1-2-or-3 are associated with weak or outright bear markets, so they earn a red light. Scores of 4-5-6 earn a yellow light, because they are associated with a sideways or choppy market. Scores of 7-8-9-10 earn a green light because they are associated with strong and durable bull markets.

The far right column in the tables shown below is a summary score for each component. The combined score for each of the four indicators drives the color of the traffic light.

Fundamental	Dec	Jan '17	Feb	Mar	Apr	May	Score
Revenue & Earnings	6.82	7.21	7.54	8.28	8.72	9.02	7.93
Profit Margins	8.06	8.16	9.22	7.61	9.88	9.76	8.78
Credit Conditions	6.82	6.44	6.29	6.05	5.73	5.66	6.16

Technical	Dec	Jan '17	Feb	Mar	Apr	May	Score
Momentum	6.40	7.11	6.92	7.86	8.1	8.85	7.54
Breadth	6.88	7.07	7.55	7.61	6.82	7.44	7.23
Leadership	7.04	6.81	6.29	6.05	5.73	5.66	6.26

Valuation	Dec	Jan '17	Feb	Mar	Apr	May	Score
Price Ratios	2.82	3.21	3.54	4.28	4.72	5.02	3.93
Risk Premium	5.06	4.16	4.22	3.61	5.88	5.76	4.78
Overbought	2.82	2.44	2.29	2.05	1.73	1.66	2.16

Risk	Dec	Jan '17	Feb	Mar	Apr	May	Score
Recession Threat	7.09	7.14	8.21	6.15	7.62	5.21	6.90
Bear Mkt Threat	7.86	8.07	6.11	8.08	6.21	7.76	7.35
Volatility	6.27	5.04	5.23	6.37	5.81	5.44	5.69

(Optional – for those who want to dig down even farther into the weeds.)

Indicator	Dec	Jan '17	Feb	Mar	Apr	May	*Sum*	Basis for indicator
ZOD	9.36	12.41	16.98	14.88	12.24	-0.70	*GREEN*	YOY SPX price change
Recession Risk	355	335	341	337	336	384	*GREEN*	Unemployment, inflation, yield curve
Momentum	313	-421	36	57	-28	222	*Red*	nyse a/d
Credit Spread	4.51	4.05	3.78	3.52	3.98	5.97	*Red*	BAML option adjusted junk bond spread
Volatility	12.19	12.58	12.56	11.62	11.41	14.85	*GREEN*	VIX level and trend
Moving Avg	2.64	4.18	3.69	3.19	2.70	2.79	*GREEN*	10-50, 50-200 SMA
Drawdown	-0.01	-0.76	-1.02	-1.27	-1.43	-1.59	*GREEN*	Curr price/all-time high price
Valuation	28.26	28.18	29.61	29.45	29.12	25.69	*Red*	Shiller CAPE, price ratios, risk premiums
Bandwidth	4.96	2.37	5.10	4.96	4.55	5.97	*GREEN*	Bollinger: Curr price +/- 2 std dev
Earnings Growth	5.20	6.10	6.20	7.60	8.60	-10.87	*GREEN*	S&P Earnings growth, estimates, revisions
Market Internals	5.20	6.10	-1.20	-0.80	1.24	-10.87	*GREEN*	Highs-Lows; % Above 50 DMA

The KMI process is a flow chart

The stock market is what economists call a complex adaptive system. It has many components, each interacting with the others in ways that are not very stable. The KMI process starts at the most granular level of indicators, and then flows up the chain of indicators step by step until it reaches the four main indicators of market trend and health, displayed as traffic lights.

How to use the KMI dashboard

I use the KMI dashboard as an asset allocation and risk management tool with my clients. For example, the more the KMI deteriorates, the less exposure we want to risk assets like equities. It's a matter of degree of risk exposure, rather than an all-in or all-out market timing tool.

If you want more information about the KMI dashboard, contact me through my website. Now let's return to the usual discussion of markets, economies, geopolitics, and Picks & Pans.

Geopolitical Landscape

The geopolitical landscape has improved somewhat since last month's report. After the defeat of Marine Le Pen in France, the European Union is less likely to split apart. President Trump is signaling his desire to reduce tensions in the Middle East. North Korea is still a concern, but China has indicated an interest in cooperating with the U.S. to pressure North Korea over their nuclear program.

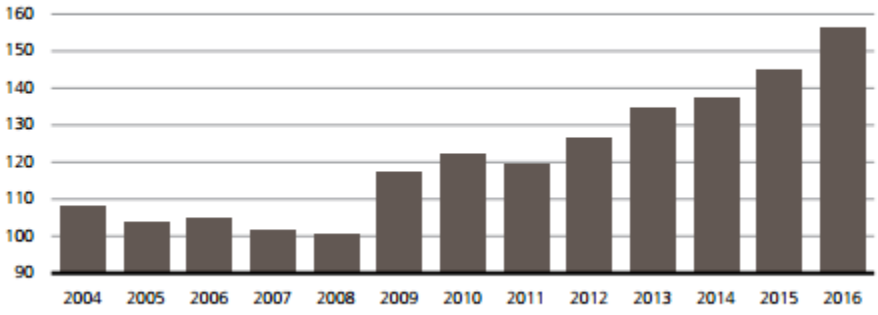
Global Economy

While the global economy continues to improve, there are still some concerns about China. First, global investors have to pay closer attention to China's policy shifts. The policy makers in China are trying to grapple with several challenges at once.

They want to tackle overcapacity (housing stock sitting empty) and prevent growth from dipping below 6.5%. On top of all that, they are also also trying to prevent sharp currency moves while keeping their 150% corporate debt-to-GDP ratio and USD 8.5tr shadow banking sector in check. This monumental juggling act inevitably means frequent shifts in policy and volatility in interest rates, the yuan, commodity demand, and economic growth.

Fig. 2: China's rising corporate debt burden is a concern.

Corporate debt as a percentage of GDP, in %



Source: Bloomberg Finance L.P., UBS, as of 31 December 2016.

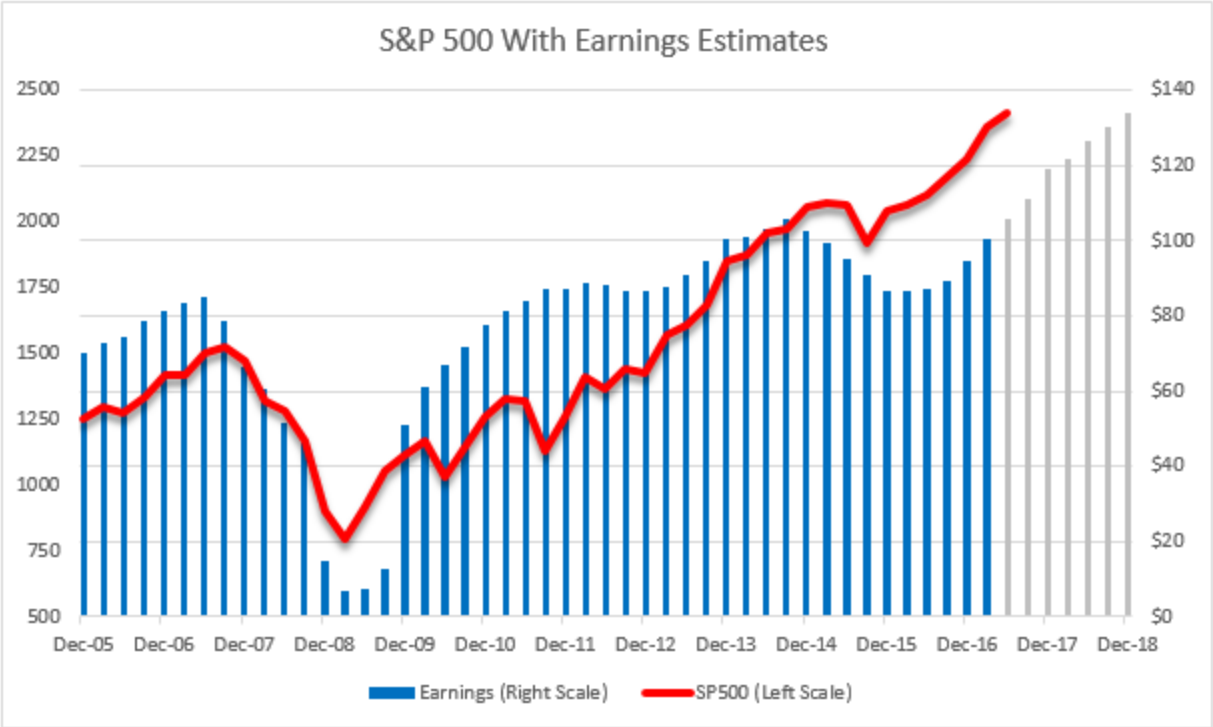
Details

Global Markets

We are making some changes to our global asset allocation. Even though earnings and revenue growth is robust and we are still confident in the US economy, the recent rise of the US stock market leaves it more expensive and therefore less likely to outperform global equities. We remove our overweight in US equities and replace it with an increased overweight in global stocks, relative to government bonds.

U.S. Markets

The US market has made a series of new all-time highs in 2017 (22 record high closes by my count). The market has gotten ahead of itself, in my opinion. Earnings are accelerating, but not as fast as stock prices. Something has to give, but I don't think it's a good idea to fight this tape yet. Take a look at this chart and you'll see that stock prices are at their highest premium relative to earnings since 2006.



European Markets

Investors are encouraged by improving economic conditions, the defeat of Marine Le Pen in France, and a growing realization that the exit of the U.K. will probably not signal the end of the European Union. European markets are outperforming the U.S. markets this year, and that trend looks likely to continue.

The chart below compares the year-to-date performance of U.S. stocks (lower panel) to All World ex-US stocks.

Stock market outlook

Chart 1. S&P 500 with Zone of Death Parameters

Chart 1 shows the track of the year-over-year percent change in the S&P for the last 12 months. The green line represents the price level that is 10% above where the market was trading one year ago. The red line represents a 10% decline from year-ago prices. The **Zone of Death** is the area between these two lines.

The current reading is a healthy 15.1% gain over the last 12 months. We watch this line for early clues about deteriorating market momentum.

Chart 2. Market Momentum

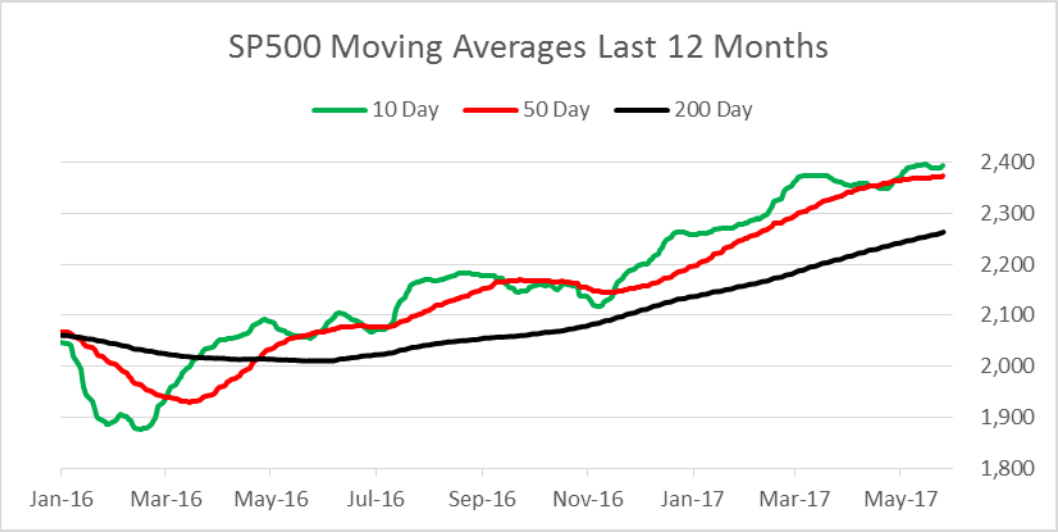


Chart 2 shows market momentum as represented by the relationship between the short term (green line), medium term (red line), and long term (black line) moving averages. The black line is the 200 day moving average. The red line is the 50 day moving average. The green line is the 10 day. The current state of this indicator is very healthy, which further supports our case that the bull market is still in place.

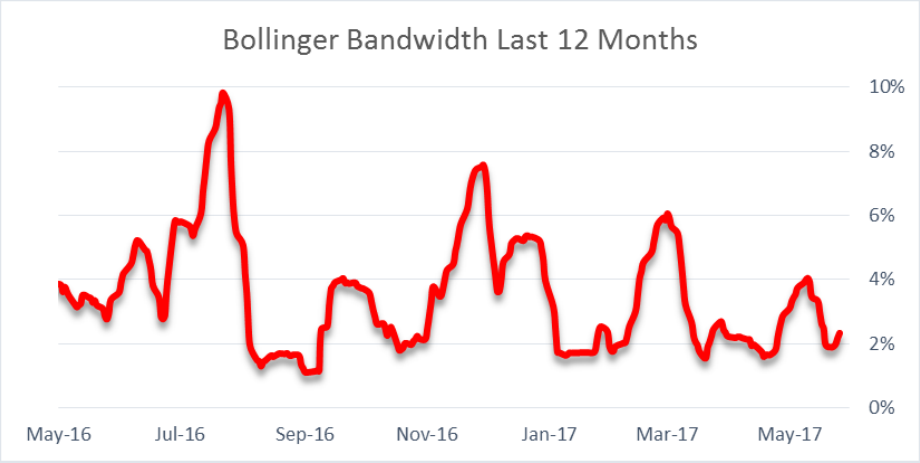
The next two charts show how calm the market has been over the past year. The Bollinger Bands represent the magnitude of daily price swings in the market, averaged over the last 20 days. It has been trending lower all year. This means that the tug-of-war between buyers and sellers has reached a near stalemate.

The Treasury-Junk Bond spread represents the strength of resolve among risky bond buyers, which implies that they're optimistic about the near-term economic future. As this number trends lower, bond buyers and other yield-seekers are becoming increasingly bold.

Charts 3 & 4. Volatility

Bollinger bandwidth is a measure of the daily variability of prices. Over the long term, the bandwidth is about 5%. Today it's less than half that, which indicates a calm and confident market. But notice the uptick over the last few days. It could be nothing but noise, but it's worth keeping an eye on.

The last three spikes in volatility are shown on the bandwidth chart. Brexit, the start of the Trump rally, and Trump's address to Congress all triggered mini-spikes in market volatility. Keep in mind that the Bollinger reading doesn't discriminate between up or down moves in the market. It just indicates that there's a disturbance in the force that merits further investigation.



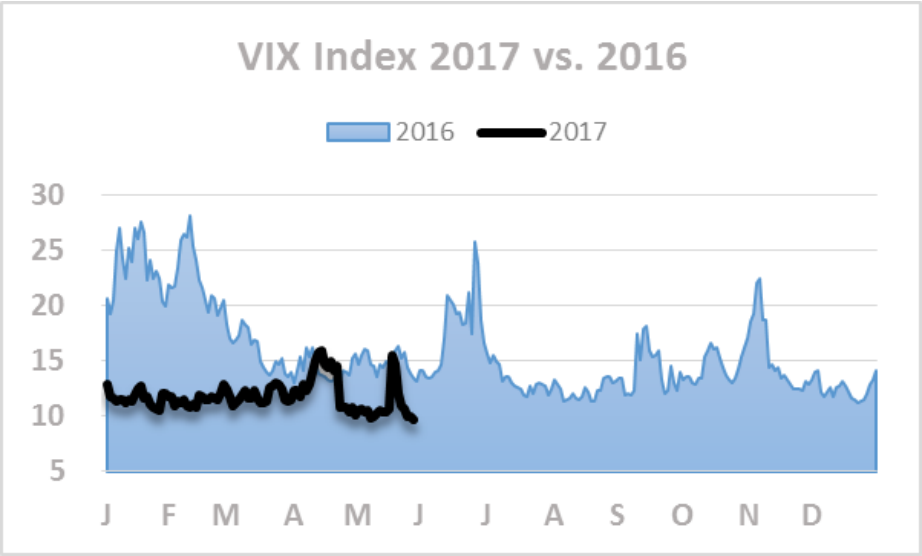
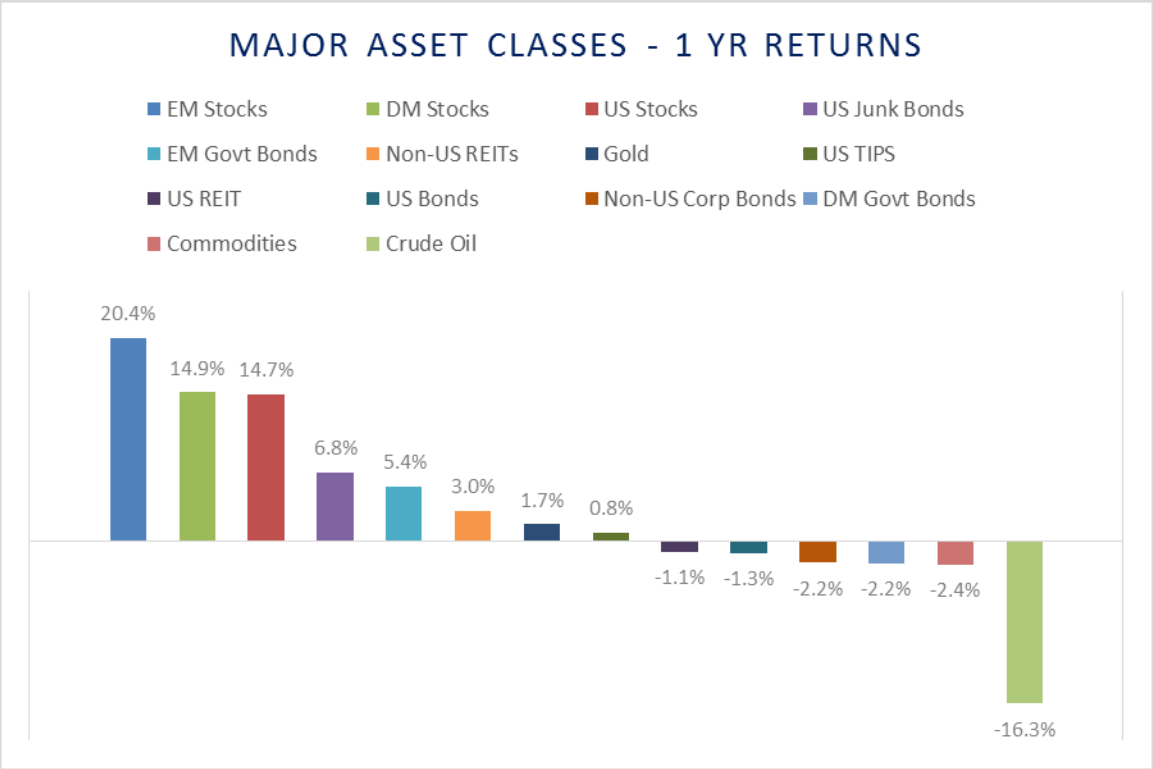


Chart 5. Interest rate spread between Junk and Treasury Bonds

After a full year of narrowing, the Junk-Treasury spread is now trading sideways. This may just be a temporary pause, but it could also be a sign that bond investors are becoming concerned about rising rates.

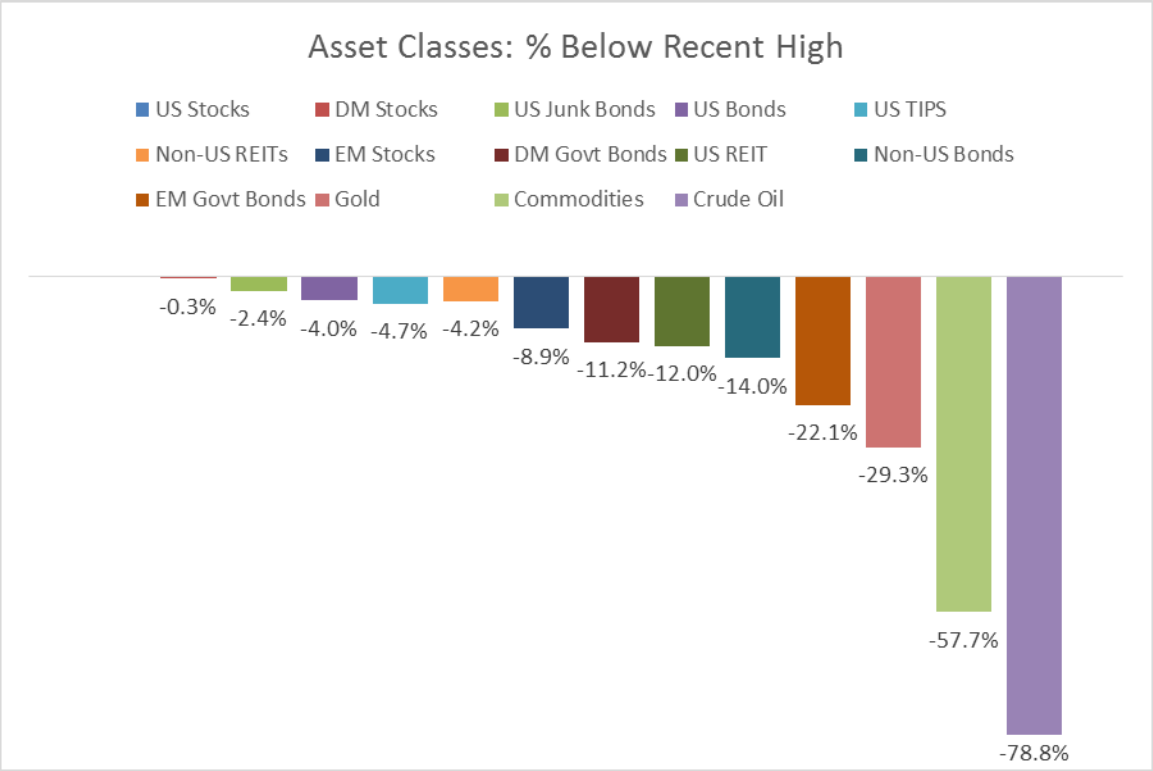
Asset Class Leaders & Laggards

As I noted earlier, the U.S. stock market has now fallen behind foreign stock markets. Crude oil remains in last place as an asset class.



Drawdowns

Another way to compare asset classes is to look at drawdowns, a measure of how far each asset class has declined in price, relative to its most recent all-time high. As you will see in the next chart, U.S. stocks are very close to their highs, while crude oil is 77% below its high water mark.



Picks & Pans

ZI 10 Best ETFs: The 10 most undervalued asset class ETFs

		--------- Returns ----------		
Symbol	**Undervalued**	**1 Year**	**3 Year**	**5 Year**
NGE	Global X MSCI Nigeria ETF	-43.8%	-70.8%	N/A
EGPT	VanEck Vectors Egypt Index ETF	-23.7%	-57.0%	-33.2%
PXJ	PowerShares Dynamic Oil & Gas Services ETF	-16.3%	-62.7%	-43.8%
KWT	VanEck Vectors Solar Energy ETF	-14.1%	-49.3%	13.9%
TAN	Guggenheim Solar ETF	-12.1%	-50.6%	27.7%
MOM	U.S. Market Neutral Momentum Fund	-10.4%	-6.5%	N/A
FRAK	VanEck Vectors Oil Gas Fracking ETF	-9.6%	-50.6%	-25.9%
FCG	First Trust Reserve Nat Gas Index Fund	-8.6%	-78.4%	-69.5%
WDTI	WisdomTree Managed Futures Fund	-7.1%	-3.5%	-5.2%
FTGC	First Trust Global Tactical Commodity Fund	-4.9%	-41.1%	-14.0%

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ZI 10 Worst ETFs: The 10 most overvalued asset class ETFs

Symbol	Overvalued	--------- Returns ---------- 1 Year	3 Year	5 Year
RSXJ	VanEck Vectors Russia Small-Cap ETF	68.5%	41.5%	-11.3%
PSI	PowerShares Dynamic Semi Portfolio ETF	71.3%	109.1%	197.6%
KOL	VanEck Vectors Coal ETF	62.1%	-20.4%	-50.3%
EWZS	iShares MSCI Brazil Small-Cap ETF	59.5%	-22.4%	-39.6%
BRF	VanEck Vectors Brazil Small-Cap ETF	58.8%	-24.2%	-45.2%
SOXX	iShares PHLX Semiconductor ETF	58.6%	78.7%	173.6%
SOCL	Social Media Index ETF	49.8%	64.3%	119.3%
QTEC	First Trust NASDAQ-100-Tech Sector Fund	47.8%	72.5%	144.8%
SCIF	VanEck Vectors India Small-Cap Index ETF	47.1%	63.7%	34.3%
SMIN	iShares MSCI India Small-Cap ETF	46.4%	94.0%	95.9%

5/26/2017

ZI 10 Best Stocks: The 10 most undervalued stocks

Company	Ticker	Current Price	Avg Daily $Volume	P/E using 12 mo Est	Price/ Sales	Price/ Book	Earnings Est Revisions	Technical Grade	Funda-mental Grade
Arcelor Mittal	MT	$22.26	143,416,880	7.43	0.38	0.67	9.49	A	A
Av Homes Inc	AVHI	$15.95	1,074,202	15.95	0.44	0.79	19.05	B	A
Cohu Inc	COHU	$18.20	4,831,248	15.42	1.67	2.00	31.11	A	A
Eaton Corp Plc	ETN	$77.56	174,802,448	16.84	1.75	2.29	3.72	A	B
Emcor Group Inc	EME	$63.57	14,919,746	18.37	0.49	2.45	1.96	B	B
Johnson Outdoor	JOUT	$43.42	1,670,218	18.02	0.95	1.96	21.41	B	A
Kelly Svcs A	KELYA	$23.17	4,323,812	13.47	0.17	0.84	13.16	B	A
Office Depot	ODP	$5.04	32,306,606	9.53	0.23	1.33	8.86	B	B
Solaredge Tech	SEDG	$18.60	17,059,870	16.71	1.61	2.51	14.38	A	A
Sorl Auto Parts	SORL	$8.69	17,419,350	6.74	0.57	0.98	37.23	B	A

The stocks in the table above have two things going for them. They are all undervalued (cheap), and they get high marks for fundamental strength. Don’t rush out and buy them based on this list alone. Consider this a watch list that bears further study.

ZI 10 Best Shorts: The 10 most overvalued stocks

Company	Ticker	Current Price	Avg Daily Volume	P/E using 12 mo Est	Debt/ Equity	% Chg Earnings Est This Year	% Chg Earnings Est Next Year	Technical Grade	Funda-mental Grade
Asure Software	ASUR	$14.40	150,500	253.63	1.55	-117.24	-51.52	C	C
Cardiovasclr Sy	CSII	$30.19	465,750	225.73	0.18	-51.16	-54.55	C	C
Cf Indus Hldgs	CF	$28.13	4,854,025	376.97	0.91	-163.11	-49.35	D	F
Cimpress Nv	CMPR	$90.21	151,615	60.24	11.42	-533.51	-27.59	D	F
Contl Resources	CLR	$39.61	2,751,230	60.29	1.51	-32.24	-26.52	D	C
Kcg Holdings	KCG	$19.85	442,568	51.5	1.42	-48.15	-36.47	F	D
Line Corp -Adr	LN	$34.92	231,009	64.15	0.00	-23.53	-27.50	D	D
Omnicell Inc	OMCL	$41.10	272,331	61.61	0.47	-30.95	-0.81	F	D
Primo Water Cp	PRMW	$12.27	286,648	626.39	4.32	-1575.00	-2.88	F	F
Salesforce.Com	CRM	$90.83	5,021,115	183.07	0.09	-16.02	-11.17	D	C

The stocks in the above table are the bottom of the barrel, in terms of high valuations, and low marks for fundamental and technical soundness. Consider them as short candidates, but do your own due diligence before acting on them. Some of them are hard to borrow, so you may not be able to short them at all.

Our Forecast for the U.S. Economy

Moderate expansion - Probability: 70%
Corporate earnings are on the rise. This improving trend should continue with S&P 500 earnings growth turning even more positive in the 2ND quarter. The pickup in growth overseas will help the U.S. economy in two ways. Higher demand for our exports, and increased foreign earnings for U.S. based companies with overseas operations.

Strong expansion - Probability: 10%
Higher interest rates and rising commodity prices, driven by improving global growth prospects, could produce stronger-than-anticipated S&P 500 EPS growth as energy and financials – roughly 25% of S&P 500 profits – could see a meaningful profit improvement.

Growth recession - Probability: 10%
A downturn in US and global growth could lead to weaker-than-projected revenues for S&P 500 companies. Wage pressures, unaccompanied by improving consumer and business demand, could pressure profit margins and earnings growth rates.

Outright recession - Probability: 10%
Our indicators, both leading and coincident, point to continued growth in the U.S. We view the election of Donald Trump as a source of uncertainty for the global economy and markets. Other risks would be a major terrorist attack, a policy mistake by the Fed, or the onset of a trade war between the U.S. and China or Mexico or Canada.

Key Recession Indicators

The risk of the US economy sliding into recession in the next 6 months is very low - just 10% as of the end of April. We base this estimate on a combination of factors (see the table below) that have proven accurate in calling turns in the business cycle. Our model will tell us when the conditions are in place for a turn in the cycle.

The latest readings (for April 2017) show a slight improvement over last month's numbers. The two leading indicators, Market Stress and Market Trend, are forecasting continued economic growth and positive market momentum for the next 3 to 6 months. The coincident indicators are confirming this outlook.

The takeaway from all of this is that the economy is strong enough to support the stock market. In the absence of a recession, corrections in the stock market are limited. It's not unusual to see a 10% to 15% decline in the market without a recession taking place. We think the probability of a correction of this magnitude, in the next 3-6 months, is about 40%. That's high enough for us to raise a little cash, so that we will be in a better position to buy stocks at cheaper prices over the next few months.

Recession Watch

Indicator	Nov	Dec	Jan-17	Feb	Mar	Apr	May est.
R-Score	353	355	278	256	279	258	248
Employment	1.9	1.7	1.8	1.8	1.7	1.6	1.5
Ind Production	-0.3	0.8	0.0	0.3	1.5	1.2	1.7
Market Trend	4.6	9.5	17.5	19.1	14.4	15.3	13.7
Market Stress	13.7	15.5	19.5	26.4	24.7	22.5	25.1
Junk Spread	4.7	4.2	4.0	4.1	3.9	3.7	3.6

Red numbers indicate warning, based on these parameters:

R-Score	< 200	This indicator combines the treasury yield curve, inflation, and unemployment.
Employment	< 1%	Year-on-year changes in private non-farm employment.
Ind Production	< 1%	Year-on-year changes in industrial production.
Market Trend	< -5%	Year-on-year changes in the S&P 500 index.
Market Stress	< 0	△△Combination of stock market price change and the unemployment rate change.
Junk Spread	> 7.5%	Difference between Junk bond yield and Treasury bond yield

Our Forecast of Asset Prices

12 Month Forecast of Asset Prices

Asset Class	Benchmark	Current Value	12 Month Forecast
Stocks			
U.S.	S&P 500	2395	2250
Non-U.S. Developed	VEA	41.53	43.00
Emerging Markets	EEM	41.73	43.00
Bonds			
U.S. Govt	10yr T-Bond	2.3%	2.9%
U.S. Corporate	Current Yield	3.2%	4.2%
U.S. High Yield	Current Yield	5.5%	6.8%
Munis	Current Yield	1.9%	2.5%
Other			
Gold	Spot	1271	1300
Oil	WTI	49.78	53
NatGas	Henry Hub	3.11	3.55

As of 5/26/17 *Source: Bloomberg; Atlanta Fed; UBS*

For now, we expect a continuation of the rally that could take the S&P 500 to 2500, or maybe even a little higher. But at some point, the effect of gravity (valuations) and rising rates will start to weigh on the stock market. Valuations are stretched, and the market can't sustain itself without a sizeable boost in corporate earnings. The 8% increase that analysts are predicting will only bring valuations closer to long term averages.

In addition, the risks of a serious policy mistake by the new administration will probably cause a spike in volatility at some point. The question then becomes, how resilient will the economy be to these events? That's why I'm calling for a flat year. And it would not surprise me to see an intra-year drawdown on the order of 15% or so, before recovering to end the year flat.

As long as the internal indicators of market health and economic expansion remain positive, I will continue to advocate a fully invested asset allocation. As I said earlier, raising a little extra cash would be fine, but take it slow.

Subscribers to this letter will get advanced warning from me before I go public with a major change to a defensive posture.

Asset allocation

Improving global growth, rising earnings, and stock price momentum justify a moderately risk-on stance for now. But we also want to try and limit the downside in the event of increased volatility or negative economic surprises over the next 6 to 12 months.

Accordingly, we are reducing our risk exposure by taking 5% out of equities and adding it to our cash reserve. We think the market will present us with an opportunity to return to a full equity allocation sometime later this year.

The uptick in global economic data has been broad-based across developed and emerging markets alike. Over 70% of the developed markets that we monitor are showing stronger earnings-per-share momentum than six months ago. And while equity valuations are no longer cheap, the MSCI All Country World Index is trading close to its 20-year average, a level that hasn't historically prevented further appreciation.

We are now slightly overweight non-U.S. equities, both in developed and emerging markets.

We are overweight US high yield credit. US high yield offers an attractive yield to maturity of 6.1%, and credit quality is being boosted by accelerating economic growth. The asset class has struggled in the face of a weaker oil price (energy firms are almost 15% of the market) and heavy new issuance. But we expect the oil rally to resume as production cuts from OPEC start to reduce the global oversupply.

We are underweight government bonds overall, as low yields suggest that income and capital gains for developed market government debt are limited.

Our Current Asset Allocation

Taxable accounts

Investor Risk Profile ----->	Conservative	Moderate	Aggressive
Summary			
Stocks	**33.5**	**38.0**	**53.0**
Bonds	**37.5**	**35.0**	**25.0**
Commodities	**4.0**	**5.0**	**5.0**
Cash	**12.0**	**10.0**	**8.0**
Non-traditional assets	**13.0**	**12.0**	**9.0**
	100.0	**100.0**	**100.0**
Details			
US Large Cap Stocks	8.0	10.0	14.0
US Mid Cap Stocks	4.0	6.0	8.0
US Small Cap Stocks	4.0	3.0	5.0
US Stocks Total	**16.0**	**19.0**	**27.0**
Intl Developed Mkt Stocks	9.5	10.0	14.0
Intl Emerging Mkt Stocks	8.0	9.0	12.0
Non-US Stocks Total	**17.5**	**19.0**	**26.0**
US Treasury Bonds	5.0	3.0	2.0
US Muni Bonds	20.0	17.0	9.0
US Corporate Bonds	3.0	4.0	2.0
US High Yield Bonds	3.5	4.0	5.0
US Bonds Total	**31.5**	**28.0**	**18.0**
Intl Developed Mkt Bonds	3.0	3.0	2.0
Intl Emerging Mkt Bonds	3.0	4.0	5.0
Non-US Bonds Total	**6.0**	**7.0**	**7.0**
Cash Total	**12.0**	**10.0**	**8.0**
Energy	1.0	1.0	1.0
Precious Metals	1.0	1.0	1.0
Crops & Livestock	2.0	3.0	3.0
Commodities Total	**4.0**	**5.0**	**5.0**
Hedge Funds	8.0	6.0	4.0
Managed Futures	5.0	6.0	5.0
Non-traditional assets Total	13.0	12.0	9.0
	100.0	100.0	100.0

As of 5/26/17

(The above allocation is for taxable accounts with an investment horizon of 20 or more years.)

Tax-deferred accounts

Asset allocation: tax-deferred

Investor Risk Profile ----->	Conservative	Moderate	Aggressive
Summary			
Stocks	**29.0**	**38.0**	**51.0**
Bonds	**42.0**	**35.0**	**27.0**
Commodities	**6.0**	**5.0**	**5.0**
Cash	**14.0**	**12.0**	**10.0**
Non-traditional assets	**9.0**	**10.0**	**6.0**
	100.0	**100.0**	**99.0**
Details			
US Large Cap Stocks	9.0	12.0	17.0
US Mid Cap Stocks	3.0	5.0	7.0
US Small Cap Stocks	2.0	3.0	6.0
US Stocks Total	**14.0**	**20.0**	**30.0**
Intl Developed Mkt Stocks	10.0	10.0	12.0
Intl Emerging Mkt Stocks	5.0	8.0	9.0
Non-US Stocks Total	**15.0**	**18.0**	**21.0**
US Treasury Bonds	20.0	15.0	10.0
US Muni Bonds	0.0	0.0	0.0
US Corporate Bonds	7.0	5.0	2.0
US High Yield Bonds	8.0	8.0	8.0
US Bonds Total	**35.0**	**28.0**	**20.0**
Intl Developed Mkt Bonds	4.0	3.0	2.0
Intl Emerging Mkt Bonds	3.0	4.0	5.0
Non-US Bonds Total	**7.0**	**7.0**	**7.0**
Cash Total	**14.0**	**12.0**	**11.0**
Energy	2.0	2.0	2.0
Precious Metals	2.0	1.0	1.0
Crops & Livestock	2.0	2.0	2.0
Commodities Total	**6.0**	**5.0**	**5.0**
Hedge Funds	6.0	6.0	3.0
Managed Futures	3.0	4.0	3.0
Non-traditional assets Total	9.0	10.0	6.0
	100.0	100.0	100.0

As of 5/26/17

(The above allocation is for tax-deferred accounts with an investment horizon of 20 or more years.)

Final Thoughts

I remain in the bullish camp for now. But I also think we have entered the final phase of this historic bull market. The blow-off stage can take months, or even years to play out. I'll leave you with one piece of advice on this topic. Don't be the Greater Fool. If you are tempted to buy a stock, bond, or fund simply on the basis of "fear of missing out," there is a

good chance you might be counting on a Greater Fool to come along and take it off your hands at a higher price. That is usually a mistake. For a more detailed explanation of The Greater Fool Theory, see this article.