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Time to Reduce European Allocations
The Dramatic Change in Outlook and Risks
The End of the "Euroboom" vs. Continued Strength in the U.S

Key Action Suggestions:

1) Reduce allocations in Europe and Japan. Although not included in this report, Japan also has a negative economic outlook. While growth is slowing, the U.S. has comparatively stronger economics than most global economies.
2) Consider more U.S. Small-Mid caps which overall are less dependent on European sales. With revenues more from within the U.S., they do not have the currency risk of a stronger dollar that reduces foreign earnings. Smaller companies have the potential for faster growth, and with so many more smaller companies than large, good research can potentially find hidden gems. Smaller companies' stocks are often more volatile with less trading volume, but over the long term have rewarded investors.
3) Consider other risk reduction techniques – including carefully selected guaranteed[1] fixed rate or indexed annuities where participate only in equity gains and not losses.

Barron's Feb 2019: "The U.S. economy still appears to be sailing on serenely, while the rest of the world economy sinks like a stone."

FactSet 3/8/2019 S&P500 Companies with More Foreign Exposure Could See Double-Digit Earnings Decline in Q1
For companies that generate less than 50% of sales inside the U.S., the estimated earnings decline is -11.2%. for Q1 of 2019.

What Companies are Saying
"The global expansion is continuing to lose steam, and faster than anticipated a few months ago. Growth in Europe has been particularly disappointing, as trade growth both within the EU and with external partners has stalled. Business and consumer confidence have plummeted in advanced economies as trade tensions persist, high levels of policy uncertainty in Europe linger, and the pace of China's slowdown continues to raise concerns." -Laurence Boone, OECD Chief Economist (March 6).

The ECB (European Central Bank) announced on March 7th, 2019 that Europe's slowdown was nearing a recession and was longer and deeper than earlier though.

The Guardian (UK) 3/6/2019 reports that "a no-deal Brexit would plunge UK economy into recession," which also hurts other European countries.

"And annual growth will slip below 1% this year for this first time since the financial crisis even if a deal is secured, the Organisation for Economic Cooperation and Development (OECD) has warned. Even with a smooth Brexit, the UK economy would slump to 0.8% growth in 2019 from 1.4% in 2018 as Brexit uncertainty and Donald Trump's trade war with China harmed the UK's economic prospects.

The OECD said a steep fall in investment over the past year by UK-based firms had left the economy in a weak position to boost its poor productivity rates and increase wages growth."

2/26/2019 The EU Serves as Early Warning as It Nears Economic Crisis
Highlights from seekingalpha.com article:

The EU's fourth-quarter GDP numbers were awful, with the slowest growth since the end of the double-dip recession in 2013.

The fact that the EU economy is almost screeching to a halt, while others are just slowing, is indicative of the fact that it is the weakest major economy.

Italy and Germany are countries of worry because together they make up about 40% of the eurozone economy, and Germany's economy shrank in the third quarter and stagnated in the fourth.

Italy's economy is officially in recession, with two consecutive quarters of decline. France's economy is not doing much better, with only minimal growth of less than 1% compared with the same quarter from last year. Things are already looking bleak going forward as well, with the EC now estimating EU growth for this year to be only about 1.3%, and even that is likely to be a missed forecast given all the potential downward trends.

The reason the EU is showing the first signs of severe economic distress is that it was always the most fragile and fragmented economic entity.

With an openly declared ideological civil war, Brexit as well as global turmoil, things will likely get very tough for Europe's economy this year or next at the latest.

The eurozone's waning fortunes reflect a drastic turn of events from just two years ago
Highlights from Wall Street Journal February 7, 2019:

Europe's economy faces a daunting combination of weaker demand for its exports from China and elsewhere, the prospect of a messy divorce with the U.K. and political problems closer to home.

"This slowdown is set to be more pronounced than expected last autumn, due to global trade uncertainties and domestic factors in our largest economies," said Pierre Moscovici, EU commissioner for economic and financial affairs, taxation and customs.

The eurozone's waning fortunes reflect a drastic turn from just two years ago when the currency area grew by 2.4% in 2017—the fastest pace in a decade. But the end of the so-called "euroboom" has resurrected old structural problems, from debt sustainability to political resistance to economic reforms.

"The EU economy is facing an exceptional amount of uncertainties, which could weigh as well on investment and consumption more severely than currently expected," Mr. Moscovici said. "We always establish the balance of risks, and clearly this time the balance moves to the downside."

US News– "Stocks may have started the new year on a better footing, but equity investors in Europe are hanging on to unusually big cash piles, signaling growing unease over the market's prospects. Worries that turned a promising 2018 into a brutal year remain high, and fund managers are dismissing the early rebound as a false start, anticipating more turbulence ahead."

Milan - AP article "Italy slides into recession, darkening outlook for Europe" highlights:
"Italy has fallen back into recession, intensifying concerns about the 19-country eurozone economy. Italy's recession is one reason why the wider eurozone slowed in 2018. Though the eurozone is performing better than in the dark days of the debt crisis, which threatened to break up the euro currency, it's still lagging the U.S. economy."

Risk of Stronger U.S. Dollar Grows
Barron's goes into the problem of the stronger dollar – which gained about 8% relative to other currencies during the run that started in mid-2018 reducing U.S. corporate foreign revenues.

Marketwatch "Why the dollar is back on the rise despite the Fed's dovish turn."

The dollar index recorded its biggest percentage gain in six months, as the dollar as a safe haven - after warnings of the downturn in Europe - appears to be trumping the recent Fed's dovish tilt.

The pause in the Fed's rise in interest rates is more than offset by concerns of weakness in foreign economies.

In comparison, for now, the U.S. economy still looks healthy, particularly in comparison with its peers, MarketWatch reports.

Action Plan Recommendations

Increase growth objective allocations to more U.S. equities.

Instead of "dumb" index funds with no stock selection based on individual company outlooks, or similar ETF's (only make sense for traders, not investors), I suggest managers with long-term track records of outperformance compared to the category they invest in and compared to the risk taken (Alpha vs. Beta in investment terms) – not just raw returns.

While more volatile, smaller companies may have favorable opportunities, with less foreign market revenue reliance, potentially not affected negatively as much by a strong U.S. dollar, and often more hidden opportunities than the widely followed large companies.

For those who want to build an ark for some of their funds for more protection I recommend a strategy that participates in part of equity gains without downside risk and not having to recover market losses to have future annual gains, backed by a strong insurance company[1]. Guaranteed[1] fixed annuities are also an option. However, we only recommend a few of these carefully selected options.

[1]Index annuities are insurance contracts that, depending on the contract, may offer a guaranteed annual interest rate and some participation growth, if any, of a stock market index. Such contracts have substantial variation in terms, costs of guarantees and features and may cap participation or returns in significant ways. Any guarantees offered are backed by the financial strength of the insurance company, not an outside entity. Investors are cautioned to carefully review an index annuity for its features, costs, risks, and how the variables are calculated.