

# WALL STREET STRATEGIES

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**August  
12  
2019**

## **Payne's Perspective Mind the Gap**

It was a crazy week for the stock market. Once the dust settled by the closing bell on Friday, anyone on vacation that hadn't seen the action or paid attention to the news would have figured out it was a ho-hum week and congratulated themselves for taking the week off.

Of course, it was more like a humdinger than a ho-hum as the US-China trade war moved into a new phase that includes open currency manipulation and conventionally moving farther away from the notion there will be a resolution. I think the market had already come to grips with the notion that a deal would be a long way off – many believe it will never happen.

Be that as it may, China allowed the yuan to move to 7/USD, which is considered a red flag by many, and a declaration of a currency war by the administration. Those developments roiled the market and have made the cloud of doubt over trade larger, darker, and more ominous. The saga continues!

### **Remember Earnings**

The stock market made some remarkable bounces during the week as another factor beyond the trade war and the Federal Reserve's influence on investing decisions: corporate earnings. Don't look now, but the long-feared earnings recession isn't going to happen. On the contrary, the results are looking very good.

### Earnings Scoreboard

The second-quarter 2019 (2Q19), 450 companies have reported:

#### Revenue

- 56.6% beat consensus (long-term average 60%)
- Blended average: +4.7%
- Ex-energy: +5.2%

#### Earnings

- 73.3% beat consensus (long-term average 65%)
- Blended average: +2.8%
- Ex-energy: +3.5%

## Guidance

- 54 issued negative third quarter (3Q19) warnings
- 19 positive (3Q19) guidance
- (f) Price-to-earnings (P/E) ratio: 17.1%

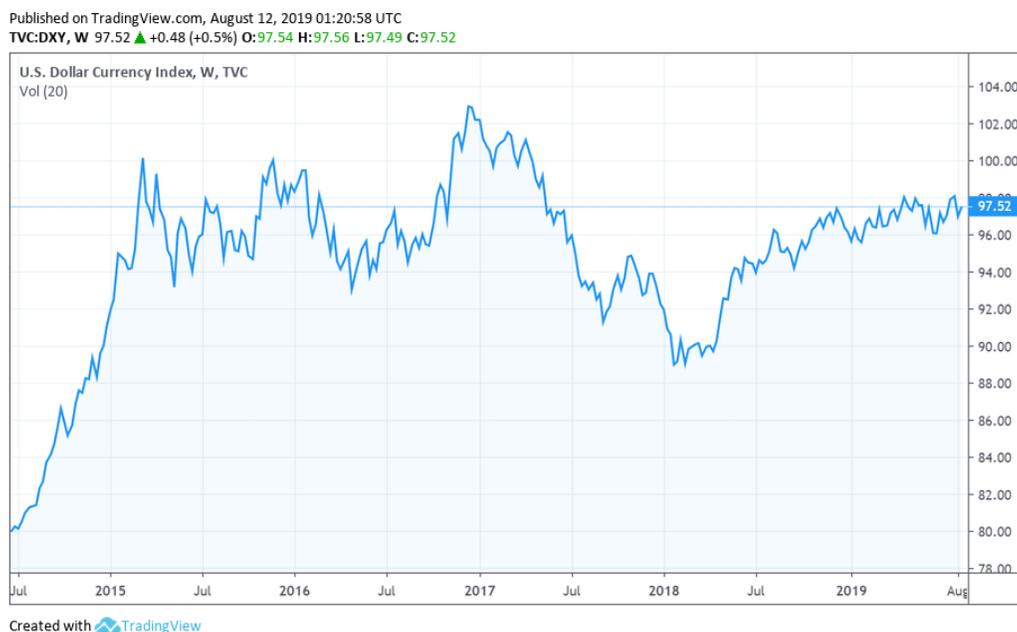
Eleven S&P companies will report this week that will include names to give us a better understanding of the impact of current tariffs and potential impact from proposed tariffs. Technology names and their percentage of sales in China include Cisco (CSCO) (16%), Nvidia (NVDA) (16%), NetApp (NTAP), and Applied Materials (AMAT) (19%).

John Deere (DE) is also reporting and will give insight into the farm equipment demand in the United States.

## **King Dollar**

With China allowing its currency to weaken, the People's Bank of China (PBOC) mitigated the impact of the trade war; it comes at a monster cost, which is the country's economy. President Trump was very vocal about the negative impact of the strong dollar in a world of declining global currencies. While I'm inclined to agree with my friend Steve Forbes, we want the dollar to be strong. There are circumstances when it can be too strong.

If the Dollar Currency Index (DXY) were to dip toward \$92.00, it would help U.S. corporations and investors, and it wouldn't threaten its role as the world's reserve currency.



The strong dollar is an earnings killer for multinational businesses like Procter & Gamble (PG). In its last earnings release, PG posted beats on the top and bottom, but the stock soared because of organic sales. Nonetheless, look at how much stronger the results would have been if the dollar (FX or foreign currency impact) wasn't so strong.

P&G 2Q19 Sales	Volume	Price	Mix	FX	Net
Beauty	+2%	+2%	+5%	-5%	+3%
Grooming	-1%	+3%	+1%	-6%	-3%
Health Care	+8%	+3%	+4%	-4%	+13%
Fabric & Home Care	+5%	+4%	+1%	-4%	+5%
Baby & Family Care	+1%	+3%	+1%	-4%	+1%
<b>Total</b>	<b>+3%</b>	<b>+3%</b>	<b>+2%</b>	<b>-4%</b>	<b>+4%</b>

### “Watch” List

Today, my watch list really does focus on watches- Apple (AAPL) Smartwatches.



I always talk about spotting trends and doing my homework to see if they could be worthwhile investments. The trend increasingly growing before our very eyes is the smartwatch.

I admit I was skeptical when Apple introduced the Apple Watch in September 2014.

Sure, there was this cool factor that had been around this kind of watch since Dick Tracy introduced his two-way radio watch in the 1946 comic series. Over the years, that gee-whiz factor faded.

The initial results for the iWatch also suggested it would be a nice novelty product, but it couldn't generate the kind of revenues and profits for a behemoth like Apple to make up from stalling smartphone sales.

And that meant the smartwatch would never be a factor for investors. And that has certainly changed.

### Everywhere I Look

My wife was an early fan of the Apple watch, but only recently have I noticed the growth of users. The watch is on the cusp of becoming ubiquitous. Two Saturdays ago, I was shopping for the grandchildren at Pottery Barn Kids and a salesperson recognized me from television. We had a great chat, and soon her co-workers joined the conversation.



I noticed three of the four were wearing Apple watches. I asked about their watches and they gushed and told me about their daily rivals to take the most steps and to close the most circles.

The more they talked about their watches, the more it was clear these devices have become integral parts of their everyday lives.

This past weekend, I saw more of the same; instead of New Jersey suburbanites, it was all the hip waiters at a couple of the Manhattan restaurants.

The story was the same; they loved their watches.

I continued to ask around and discussed that the band is the new status symbol, which probably was going to happen after the company Brikk sold two iced out versions in 2015 for \$115,000 each. Now everyone is making bands, and the Gucci knock-off is very popular for those that can't afford the real deal.

The Apple Watch is going to be a monster seller this Christmas season, so let's look at the stock.

### **Beyond Anecdotal**

I had already suspected my early skepticism was misplaced after Apple's financial release on July 30. The news sent shares of the stock higher, even as smartphone sales came in less than expected.

The third-quarter 2019 (3Q19) Apple Revenue Results (three months ended June 30, 2019)

- iPhone: \$25.98 billion -11.8%
- Mac: \$5.82 billion +10.7%
- iPad: \$5.02 billion +8.4%
- Wearables: \$5.52 billion +48.-%
- Services: \$11.45 billion +12.6%

Apple proved it was more than a one-trick pony (although smartphone sales must rebound to help the stock) with its best June quarter ever and record revenues from services (which still missed Wall Street's consensus). The numbers are looking great, and while there are unknowns, the watch story must be watched.

The result is earnings consensus have begun to soar, and that's often a harbinger for the underlying share price.

### **Technical View**

Apple stumbled around \$212 twice, making that a potential buy trigger once it cleared in the future. The other trend is higher lows, putting the chart in an ascending triangle formation. There will be a significant move coming soon.

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BATS:AAPL, D 200.99 ▼-2.44 (-1.2%) O:201.30 H:202.76 L:199.29 C:200.99



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## Broad Market

The Dow Jones Industrial Average rallied almost 1,000 points higher from the early-morning lows of last Wednesday to the close on Thursday. There is no doubt that buyers are lurking, and it's not dumb money.

The S&P 500 and the NASDAQ turned positive for that week, while the more dollar-sensitive Dow Jones Industrial Average continued to lag.

The S&P 500 and the NASDAQ are within shouting distance of their respective gaps (Friday's close), so that will be an earlier resistance. These numbers are so important because they held as resistance again on Friday when a late rally faded into the close.

Pay attention to those August 2nd closing numbers. If they are cleared early this week, it's a great buy signal at least for traders.

Mind the Gap	Aug 2 Close	Aug 5 Open	Aug 7 Close
S&P 500	<b>2,943</b>	2,898	2,938
NASDAQ	<b>8,056</b>	7,823	8,039
Dow Jones Industrial	<b>26,528</b>	26,259	26,378



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