WALL STREET STRATEGIES

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September 23 2019	Payne's Perspective Much Better Than You Think

After a string of strong weeks, the market finally ran out of steam, as the Federal Reserve did its thing but left President Trump wanting more and Wall Street very confused. Don't get me wrong; Wall Street always wants more, but they believe they can quietly persuade the rudderless Fed to do its bidding.

For all the handwringing about Trump's attacks on Jay Powell, it's Wall Street selling tantrums that make the most noise in the halls of the Federal Reserve.

The oil crisis came and went, although it was big enough at the start of the week to make Energy the biggest winner for the week. (more on potential Black Swans and how well the market handled them.)

Utilities and Real Estate fared well, reflecting the return of anxiety. On the flip side, Consumer Discretionary was the biggest loser, as that "value" trade that saw buyers flock to the biggest losers (not always indicative of value) reversed itself. It's still obvious winners in retail will win big, and the rest will meet the fate of Wanamaker's, Marshall Field's and Woolworth (in the United States).

Then there's Technology, which saw the circular firing squad in the streaming space finally succumb to trader worries and itchy fingers. Perhaps the final straw was the announcement of Comcast's (CMCSA) entry into the crowded space with its Peacock streaming.

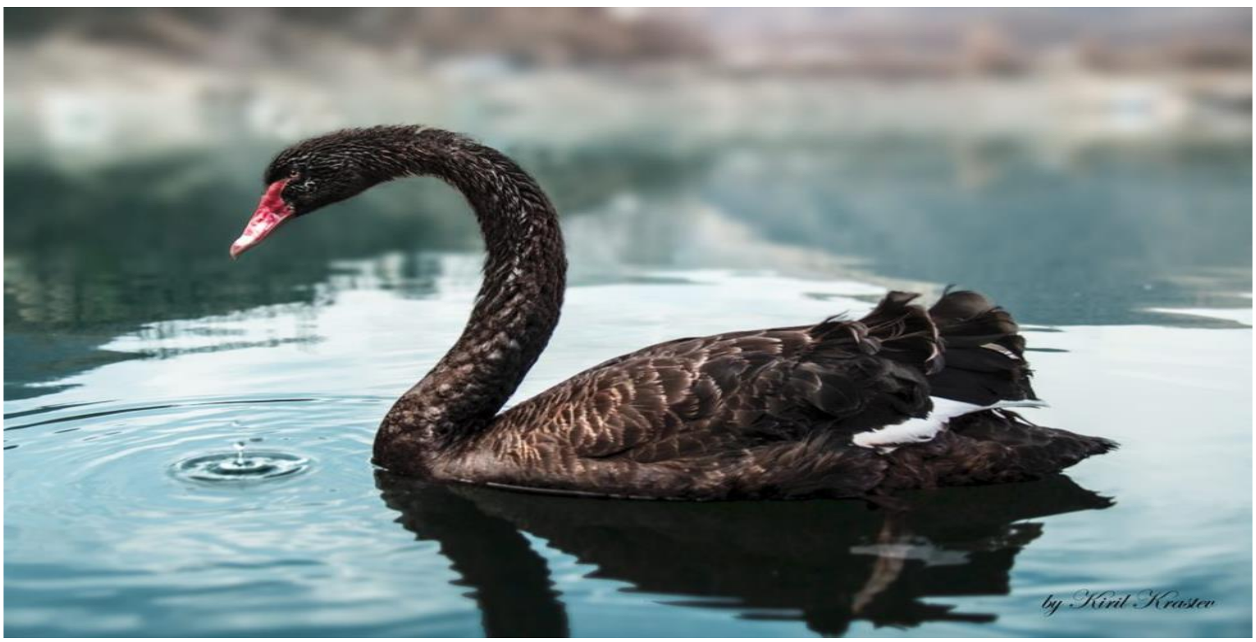
Shorts are finally winning with the two shorts that have largely crushed them, and now that has Wall Street wondering if there will be any winners.

The rest of the market mostly marked time, which is surprising since I thought there could have been a more definitive move after the rate decision.

There was a sell-off into the close on Friday after President Trump said he wasn't looking for a partial deal with China because he wants its all or nothing at all (I am sure there's a hit song in this sentence).

S&P 500 Index		**-0.09%**
Communication Services (XLC)		-0.47%
Consumer Discretionary (XLY)		-1.20%
Consumer Staples (XLP)		-0.85%
Energy (XLE)	+1.96%	
Financials (XLF)	+0.42%	
Health Care (XLV)	+0.34%	
Industrials (XLI)		-0.25%
Materials (XLB)	+0.46%	
Real Estate (XLRE)	+1.25%	
Technology (XLK)		-0.37%
Utilities (XLU)	+1.22%	

Black Swan



In financial markets, the term Black Swan is associated with singular events that result in substantial economic damage and massive stock market losses. The term became a household term after former Wall Street trader Nassim Nicholas Taleb wrote about the concept in his 2001 book *Fooled by Randomness.*

Attributes of Black Swan Events according to Taleb:

- Unpredictable Event
- Results in a severe event and the widespread consequences
- After an event, people will rationalize it as having been predictable

Last week, the stock market came face to face with two potential Black Swan events and survived. The fact that there weren't severe and widespread consequences is why these weren't officially Black Swans, but that wasn't always the case.

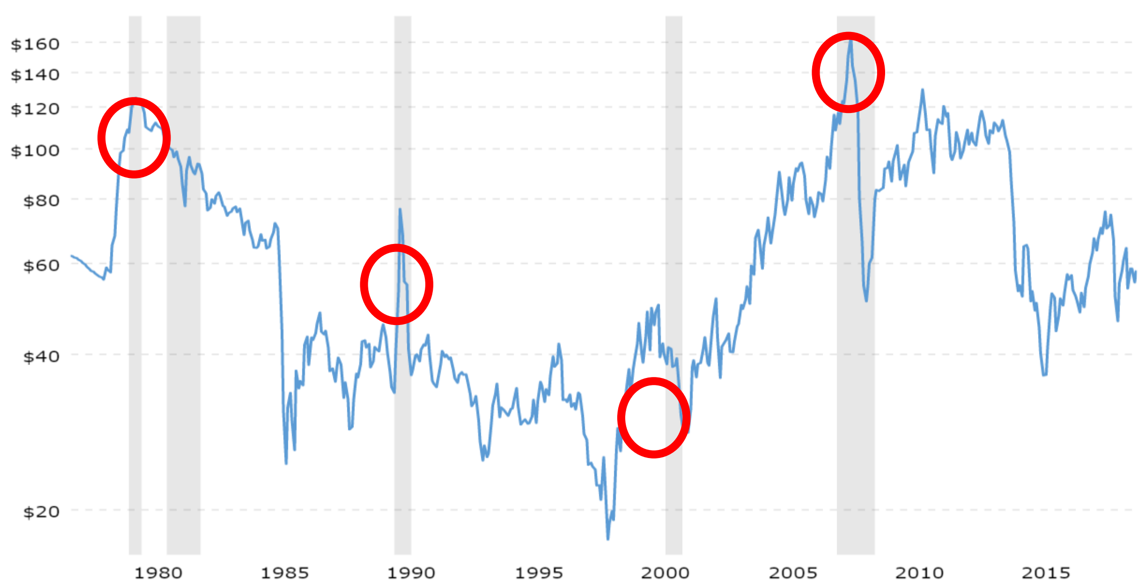
You may remember on September 11, 2008, when Tim Geithner told Hank Paulson of Lehman Brothers that he needed $230 billion to stay in business. On September 15, Lehman filed for bankruptcy protection. The news sent the Dow down 4.5% that day, adding to the market freefall that would last until March 2009.

During that week, the U.S. financial market ran out of cash and the Federal Reserve had to step in to provide liquidity. The $203 billion injections over three days didn't rattle the market but instead added a sense of calmness.

On December 18, 2010, the Arab Spring officially began sending crude oil prices erupting. Over the next three months, West Texas Intermediate (WTI) was up 30%. It wasn't the first time the oil market reacted to shock with a surge in prices.

- 2003 U.S. Invasion of Iraq
- 1990 Iraq -Kuwait War
- 1979 Iran Revolution

While Brent spiked 19% when it opened for trading, it pulled back the same day and has since leveled off. Moreover, there never was a sense of panic. That's good because the last four recessions all began with a spike in oil prices.



There are so many known issues casting a shadow over the market from trade uncertainty, the global economy, and Gulf tensions - but what about what we aren't prepared for? There's a strike that could grow longer, and then there's the calendar as we head into October, which has seen some of the most gruesome moments for investors.

We aren't supposed to know the next Black Swan because it's supposed to be unpredictable. However, we have survived many issues, including mind-boggling forces (big business organizations, media, and think tanks) pushing for economic disaster to validate their theories or dissuade future presidents from shaking things up too much.

One of My Favorite Investing Lessons

While the media celebrated the iPhone 11, I was thinking this is a great time to remind individual investors that don't take their investing cue from local news that it's always better to be a part-owner of stuff the masses are going nuts over (although I am not sure that's the right description for the new Apple (AAPL) smartphone, which has a great camera but probably benefits more from elongated replacement cycle), not just another consumer.

In the early summer days of 2007, everyone was pumped about the new iPhone, which was a truly global event. I had a conversation with my niece that I had with so many others back in the days leading up to the unveiling. "Why not buy a cheap smartphone and take your $599 and buy Apple stock?"

She pondered our conversation for a few nanoseconds and then kissed me on the cheek, saying she had to get down to the store to stand in line - iPhone on sale June 29, 2007.

Apple Share Price:

- $20.55: June 27, 2007
- $17.13: August 15, 2007
- $28.55: December 28, 2007
- $220.96: September 19, 2019

My niece's $599 iPhone would be $6,413 today, which means she could get the most expensive version of the newest iPhone and still have $5,000 leftover, presumably to buy apple shares. A $5,000 investment would be worth $53,528, which is enough money to help cover college tuition or a more golden retirement.

Apple Stock since iPhone (see arrow)

Fending off Disaster & Bracing for Disaster

As the market fended off would-be Black Swans, it braced for a disaster promised by a deluge of news stories and economic and political genius that had been predicting such catastrophes for 18 months. It was mainly a response to Americans attempts to curb the economic and trade abuses of China. A strange thing has been happening; economic data has been crushing it!

Surprise, Surprise…Surprise

Don't look now, but the economy is doing better than the experts told us it would. In fact, the economy is doing much better than the experts told us.

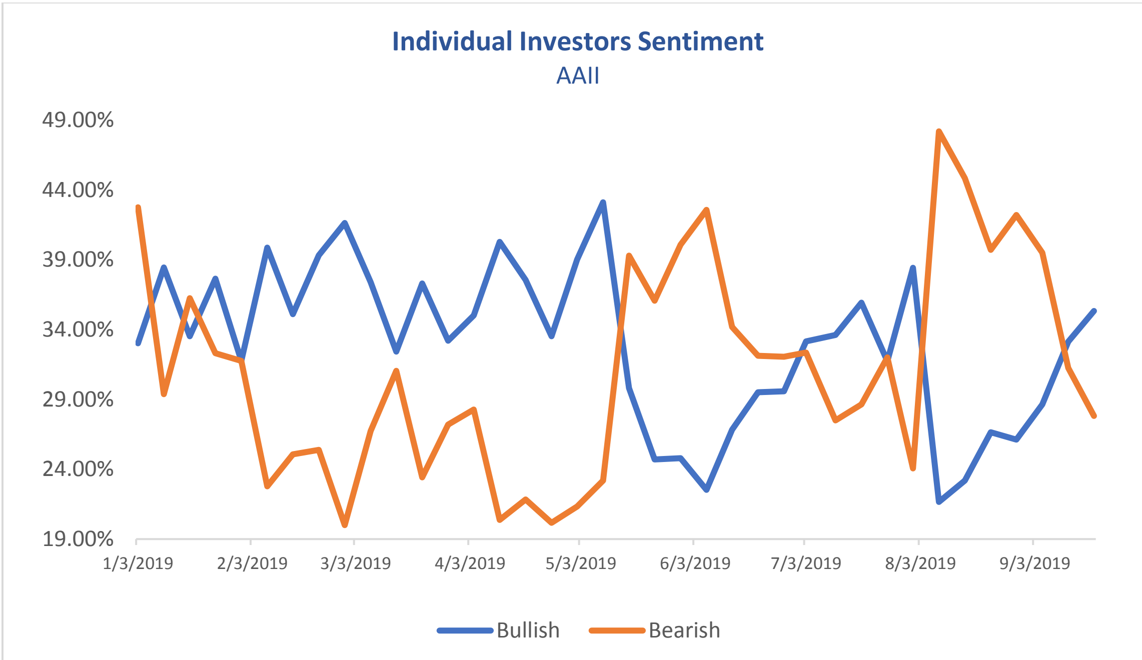
- Bloomberg Economic Surprise Index hit an 11-month high last week
- Citigroup Economic Surprise Index (CESI) is now at its highest level since April 2018

The CESI was cited by many market prognosticators predicting doom when it was collapsing, moving into negative levels not seen since the Great Recession. To be fair, it is unnerving when a string of reports miss consensus. It's not the same as being "bad news." However, it's difficult to know other than knee-jerk reactions and what to make of them.

The CESI has a track record or correlation to the stock market, which is intriguing in that for the most part over the next three months, the market is usually higher, even when its index is negative (below zero):

CESI	% Market Higher	Average Gain
Above Zero	74%	1.9%
Below Zero	63%	1.7%

Meanwhile, individual investors have been warming up to the stock market, although the plurality continues to have neutral sentiment, which has been the hallmark most of the year. Sadly, this has been a great year that too many have missed or been shaken out of.



Hang Onto To Your Hats

Goldman Sachs (GS) is saying October is going to be more volatile than usual, which is saying a lot. It points to the usual suspects of a slowing global economy, trade war, and some new things like the Federal Reserve having to swoop in and inject cash into the financial system. These emergency measures will become permanent until October 10th.

Essentially, the New York Fed will offer $75 billion in cash on a very short-term basis each morning in exchange for secure assets. Additionally, there will be three 14-day $30 billion repo programs. There is no doubt when a firm like Goldman Sachs predicts craziness, it creates an atmosphere where there could be excessive reactions to news and speculation, so investors should be prepared.

Approach & Watchlist

During periods of increased angst and caution, one aspect of investing becomes extremely important: profits. Consider that 2019 was supposed to be the year of Unicorns, sending the overall market higher and ushering in a new period of excitement and prosperity.

The market is higher, despite those overpriced initial public offerings (IPOs), as investors have become hip to them being the suckers and buying up overhyped stocks (a bid up in value privately among a select few).

Mostly, investors are looking for companies that are profitable or have a chance of becoming profitable. That's why WeWork (rebranded as "We" company) has been such a visible disaster and an insult to individual investors who at one point were expected to buy in at a $47 billion valuation. Now, the stock might go public with a $10 billion valuation.

However, the WeWork business space is a great space for investors to have exposure. I'm talking about office/building and manufacturing space, which has been very profitable. As the world shifts to smarter factories and distribution centers, there is enormous room for innovative growth. The ambitions of the company don't have to change the world, but they just need to benefit and lead practical evolution.

Brings us to ***Prologic (PLD).***

Company Profile:

- 786 million square feet space
- 3,771 buildings
- 5,100 customers
- 1,600 employees
- 19 countries on 4 continents
- $104 billion in assets under management

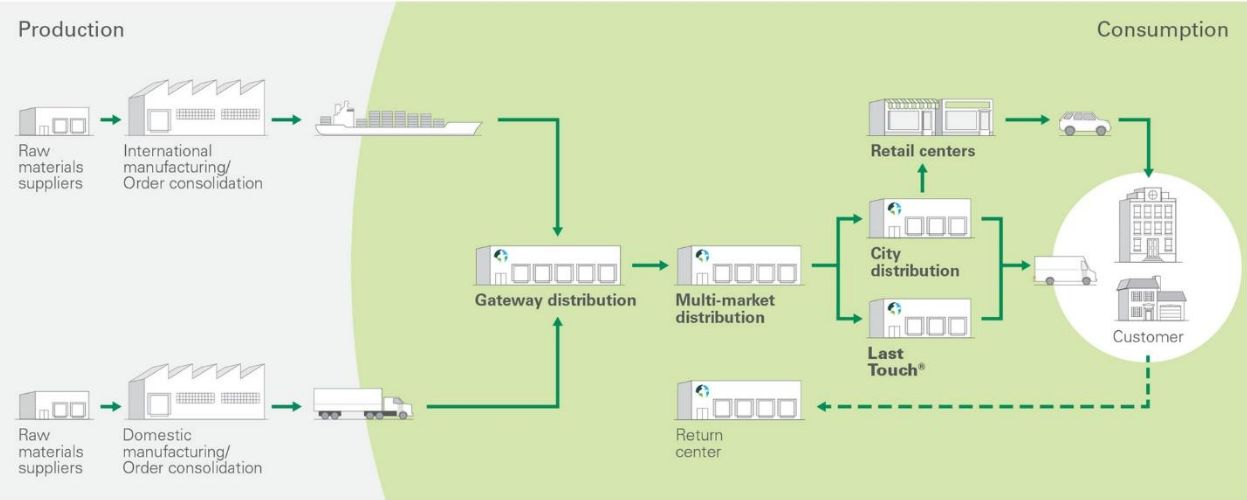
Execution

In the last four quarters, management has posted earnings results that have beaten consensus:

- 71%
- 124%
- 67%
- 67%

Earnings Estimates Turning Higher

As a result, we are seeing next year's earnings consensus turn after drifting to $1.42 a week ago. Now it's $1.48, but I think it goes much higher. The company has been in business since 1983 and has become a leading innovator in several areas, including the modern supply chain (see below).



In a volatile market, the stock changes hands at a low Beta (0.98) and pays $2.12 dividend or 2.49% yield.

Technically, the stock is in a great uptrend. While I understand many investors are reluctant to "chase" stocks, remember you should "chase" improving underlying fundamentals. This is a stock worth considering, as you would get paid to ride out volatility and the shares have the potential to rally to $100.00.

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