

# WALL STREET STRATEGIES

*Wall Street Strategies- providing independent stock market research since 1991 through a balanced approach to investing and trading*

**September  
30  
2019**

## **Payne's Perspective Got To Know When To Fold Them**

*Set it and Forget it!*

-Ron Popeil

While I'm an evangelist for buying and holding the right stocks when it comes to most investments, there are times when investors should consider ringing the register. This is not to say to pick tops and bottoms. When the signs are there, including the decline of key financial metrics and you are sitting on a big profit, don't be afraid to take it.

Look at the S&P 500 (broken into its eleven industry sectors). It underscores there are times you can take profits and return to the stock, preferably at a lower share price (sometimes at a higher entry when it's clear you have sold too soon).

Investors would have made more money buying defensive sectors one year ago than if they owned them for the past ten years:

- Consumer Staples (XLP)
- Utilities (XLU)
- Real Estate (XLRE)

Investors would have larger gains if they bought these sectors three years ago than if they bought and held onto them five years ago:

- Financials (XLF)
- Industrials (XLI)
- Materials (XLB)
- Technology (XLK)

Sector	1 Year	3 Year	5 Year	10 Year
XLC	1.79	NA	NA	NA
XLY	3.76	15.70	13.32	18.13
XLP	16.19	6.64	8.99	12.38
XLE	-20.16	-2.81	-7.60	3.58

XLF	-2.98	12.57	9.31	10.35
XLV	-0.67	9.32	8.92	14.10
XLI	0.43	11.14	9.22	14.03
XLB	-2.28	7.40	4.44	9.06
XLRE	20.25	9.42	NA	NA
XLK	6.79	20.97	16.50	16.68
XLU	21.02	12.03	11.38	11.99

The moral of this lesson is: not only is it okay to take profits but sometimes you also must take profits. On that note, there are stocks that are worth holding through periodic dips in long-term accounts, including Boeing (BA), even with its well-known woes.

Some of the hottest names during recent years in the stock market continue to look like names investors should hold, even through rough patches, but it's easier said than done.

### Watch List

#### (Not) The Hot Momo Names

I continue to believe Facebook (FB) and Amazon (AMZN) are stocks you don't touch in retirement accounts, and both are worth looking at for trading accounts. The names of the most concern and declines from September highs:

Facebook (FB) -6.8%

- **Risk**

The stock hasn't held any key moving averages or other potential support points and looks vulnerable to forming a double bottom at \$164.00.

- **Contradiction**

The company posted earnings in the last two quarters that were huge misses; 48% and 52% respectively, and fiscal year 2020 (FY2020) earnings consensus continues to edge higher.

- **Buy Signal**

Right now, I wouldn't add to the position or form a new one until the share price got above \$190.00 on a better-than-average volume.

Amazon (AMZN) -5.3%

- **Risk**

The stock is retreating quickly, despite two Wall Street upgrades in September and a half dozen in July. The stock forms a double bottom at \$1,692.

- Contradiction

The company posted financial results that missed the Street last quarter and fiscal year (FY2020) consensus has tumbled to \$33.21 from \$38.25 three months ago.

- Buy Signal

Although there are trading opportunities for buy and hold investors, I would wait for the stock to close above \$1,850 before aggressively buying.

Netflix (NFLX) -11.7% isn't an automatic 'buy and hold forever' name. I think Wall Street is making a mistake by thinking the company losses are in the streaming wars. That said, there is no urgency to force the issue for long-term 'buy and hold' investors, but this stock must be on everyone's watch list.

### The Message of the Market

We've seen this repeatedly this year, the market goes into a sort of crouch, as it waits for clarification, economic data, or maybe the right tweets.

Consumer Staples was the best-performing stocks (every investor should have exposure to the sector) while Real Estate and Utilities were also safe-havens.

S&P 500 Index	-1.01%
Communication Services (XLC)	-2.80%
Consumer Discretionary (XLY)	-0.60%
Consumer Staples (XLP)	+1.33%
Energy (XLE)	-2.69%
Financials (XLF)	-0.04%
Health Care (XLV)	-2.90%
Industrials (XLI)	-0.37%
Materials (XLB)	-1.08%
Real Estate (XLRE)	+0.43%
Technology (XLK)	-0.71%
Utilities (XLU)	+1.30%

On Friday, the market rallied on better-than-expected economic data, and signs Democrats may sign onto the United States-Mexico-Canada Agreement (USMCA) trade deal.

### **Trial Balloon or Lead Balloon**

However, reports that the administration was considering restricting (even prohibiting) U.S. investments in China and delisting Chinese stocks on American exchanges resulted in a 300-point intraday reversal lower. The market edged a little higher into the close as most investors realized this trial balloon was a lead balloon, an idea that would-be dead-on-arrival.

There are over 150 Chinese stocks listed on the U.S. exchanges worth \$1.2 trillion. Moreover, the pipeline of Chinese initial public offerings (IPOs) has performed better than many hyped U.S. unicorns. Still, there has to be greater scrutiny of these names as they face fewer hurdles to reaching American investors than Chinese companies face.

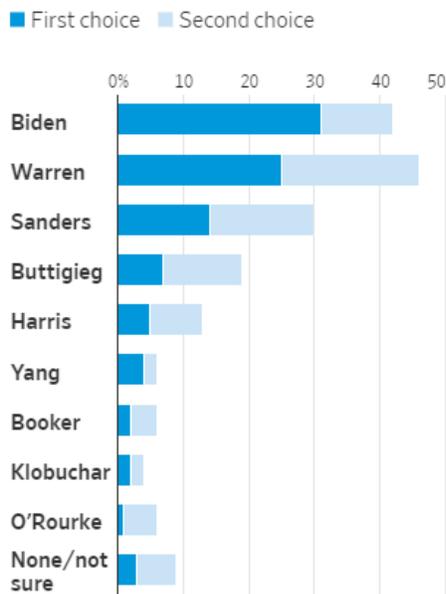
As for buying big Chinese names, I don't see the need to force it, as they have been disasters:

- Alibaba Group Holding Ltd (BABA): \$166 from \$208, June 15, 2018
- Baidu Inc (BIDU): \$101 from \$269, March 11, 2018

### **Elizabeth Warren the New Elizabeth Montgomery**



I saw this move almost two months ago, as Elizabeth Warren continued to pump out policy papers while her Democratic rivals continued to pump out bumper sticker slogans.



Note: Candidates with less than 2% total not charted  
 Source: WSJ/NBC News telephone poll of 506 Democratic primary voters conducted Sept. 13-16; margin of error +/- 4.36 pct. pts.

(Perhaps because I do so much research and writing, I had a special feeling about how important and the appreciation for that kind of work.)

While I appreciate the work, I'm scared as heck over the prospects of a President Warren. However, she is surging and now with the highest combined polls for first and second choices.

Already, I'm seeing the market flinch at the prospects. Earlier last week, a report she bypassed Biden in New Hampshire sent drug stocks spiraling lower.

When asked how she will pay for her economic utopia, her response has been mostly enthusiastic gibberish.

I've been joking on my show and other television appearances that Elizabeth Warren is the new Elizabeth Montgomery when she starred in the hit television show *Bewitched*.

(I envision a new TV version of the show with Joe Biden playing the nosy neighbor and Trump, her husband's boss.)

She'll pay for all the grand schemes with the twitching of her nose. While I'm joking, the fact of the matter is that I'm not sure she will have to ever explain how she'll pay for the grand schemes. I think the narrative is that everything is unfair and must be fixed at any cost.

### Income Inequality versus Upward Mobility

Consider politicians and media today jumping on a report that says income inequality has leaped to its highest level in 50 years. It's the kind of headline that sounds scary and makes people angry. There is more to this story.

This news comes from the Census Bureau American Community Survey (ACS), a companion report to its Current Population Survey (CPS) released two weeks ago. Both surveys underscore what I think is the most important trend we should be celebrating: upward mobility.

The lowest five household income brackets experienced declines in the percentage of total household incomes. That's great news, as there was an increase in the top five brackets, starting with the bracket that starts at \$75,000.

The increase in income inequality comes from the largest percentage increase, occurring in the \$200,000+ bracket.

Household Income Brackets	Under	\$15,000	\$25,000	\$35,000	\$50,000
	15,000	\$24,999	\$34,999	\$49,999	\$74,999
<b>2019</b>	<b>10.6</b>	<b>9.0</b>	<b>8.9</b>	<b>12.4</b>	<b>17.4</b>
2018	11.0	9.3	9.1	12.7	17.6

Household Income Brackets	\$75,000	\$100,000	\$150,000	\$200,000
	\$99,999	\$149,999	\$199,999	
<b>2019</b>	<b>12.6</b>	<b>15.0</b>	<b>6.6</b>	<b>7.6</b>
2018	12.5	14.6	6.3	6.9

Economists use the so-called Gini measure to determine income inequality with 0.0 as a perfect score, where all households earn the same income while 1.0 means only one household gets all the money. The national Gini score is 0.485 and 38 states have Gini scores lower than the national average, while only five have scored higher:

- Puerto Rico: 0.542
- District of Columbia: 0.524
- New York: 0.513
- Connecticut: 0.501
- California: 0.491

There are so many other factors and correlations that influence income inequality, including education, living in cities versus the country, and some would say race and gender.

If we are being told to punish these folks in the higher-income bracket while discouraging mobility, it wouldn't change any of the real mitigating factors. Still, I'm sure this will be a major rally cry in the race for the White House.

As we approach 2020, the presidential race will start to have a greater influence and impact on the stock market.

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