

WALL STREET STRATEGIES

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**September
3
2019**

**Payne's Perspective
Know the Risk & Know the Facts**

The trickle of misinformation has become an avalanche and I fear this kind of stuff which has dominated non-financial news will become the norm in financial media. I'm talking headlines of potential worst-case scenarios instead of headlines of actual economy data and most powerful trends.

Amazing data missed or severely under-reported heading into September

Corporate Earnings have been remarkable considering we were supposed to see an earnings recession - retail has been remarkable and several companies including Restoration Hardware (RH) and Nordstrom's (JWN) saying the next round of tariffs will have nominal impact. 496 companies have reported:

Revenue

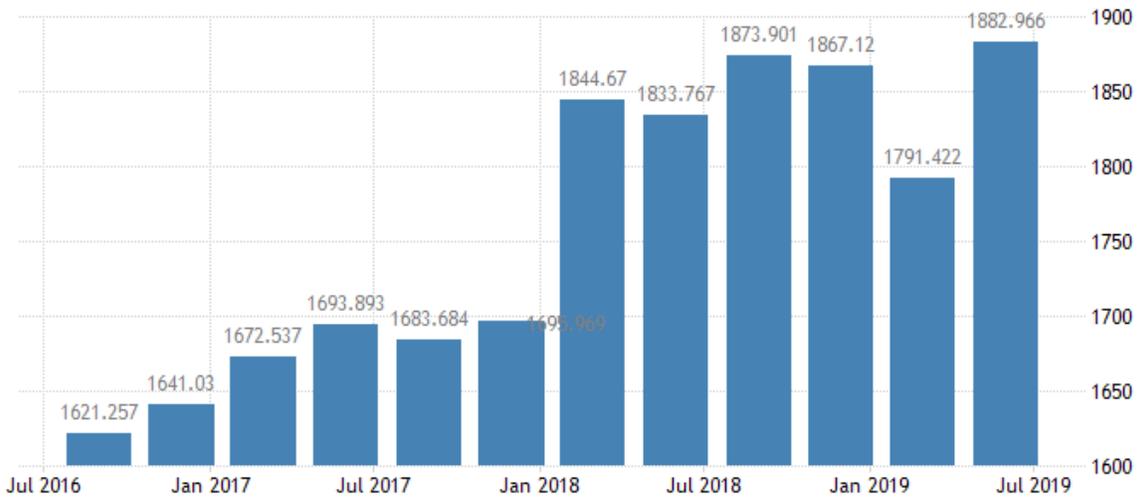
- 56.5% beat
- 4.6% blended increase
- 5.1% blended increase ex-energy

Earnings

- 73.8% beat
- 3.2% blended increase
- 3.9% blended increase ex-energy

Many stocks took off like rockets on earnings news, but some pulled back with the broad market creating numerous investment opportunities. Several Wall Street firms have lowered earnings estimates for the current quarter and I suspect at some point they'll be right especially considering comparisons to record third quarter corporate profits.

US Corporate Profits



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMICS ANALYSIS

Summation

There were also several instances of companies with mixed results still seeing their share price surge including Deere (DE) and Nordstrom's (JWN) and I think that underscores investor willingness to look much deeper than headline results to listening and acting on strong and positive management comments.

Business Investment

Durable Goods for July came in much better than expected but it was business investments that caught my eye haven't grown three months in row coming and, in the process, much better than Wall Street estimates.

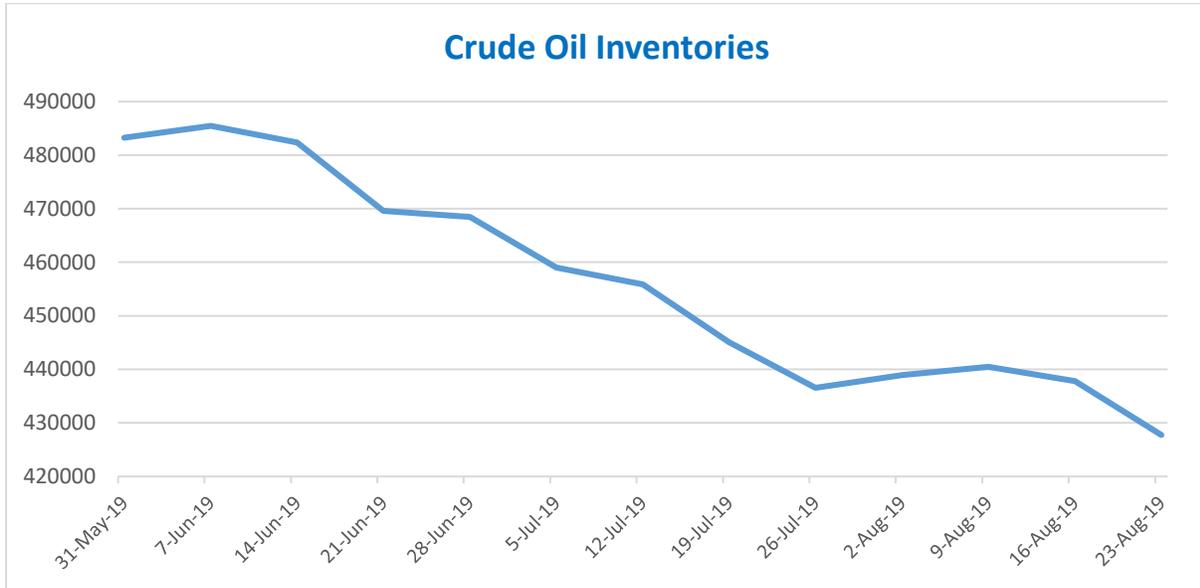
There is no doubt business investment has drifted but in a historic context it's not off much. Moreover, businesses are investing a lot more into intellectual property that allows automation and to be present on the cloud than building factories.

Still, it was good to see positive business investment especially as Wall Street keeps saying it's not happening.

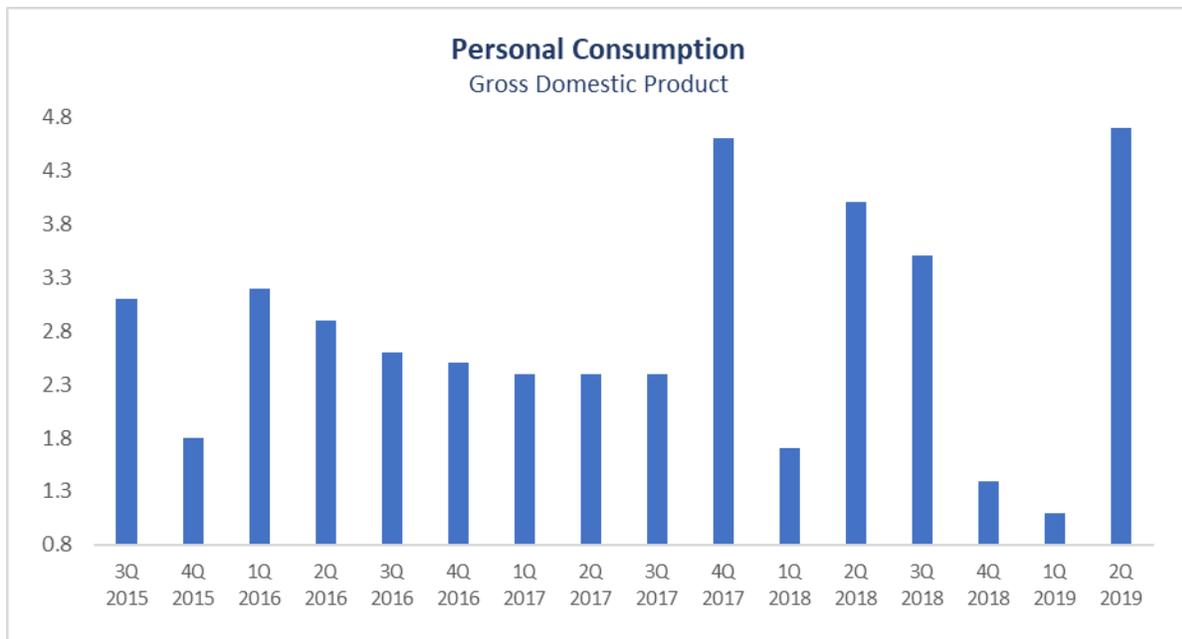
Business Investment	Estimate	Actual
May	+0.1%	+0.3%
June	+0.2%	+0.9%
July	-0.1%	+0.4%

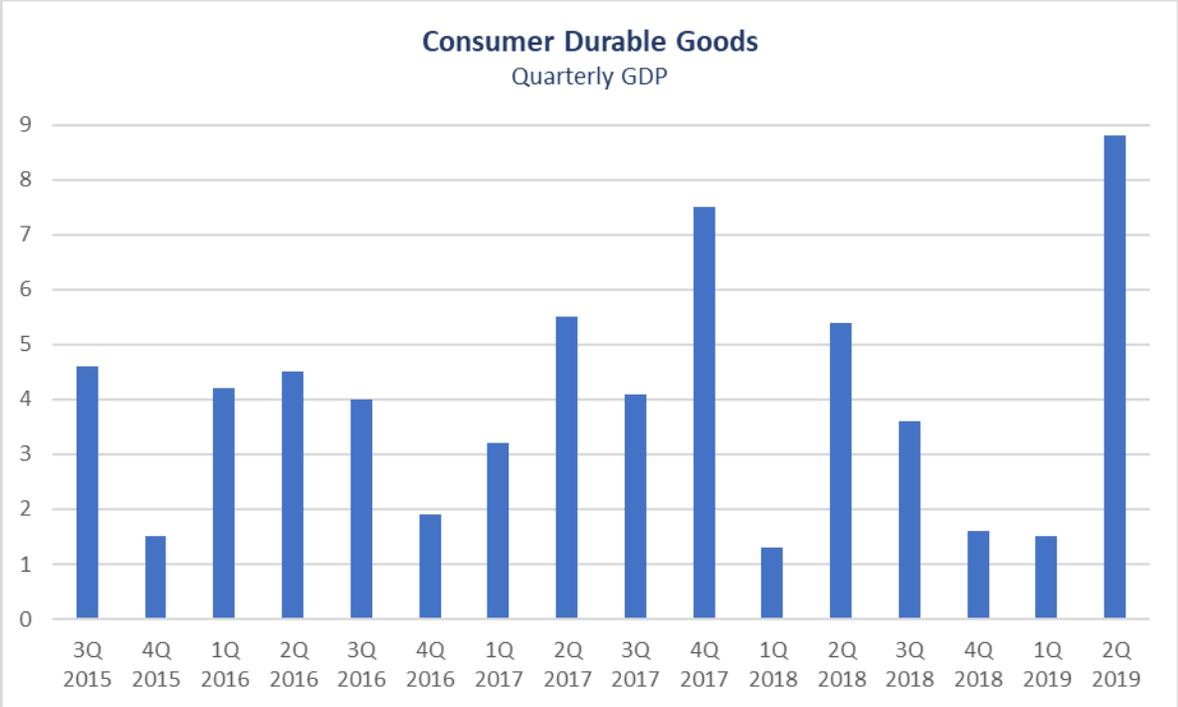
Crude Demand

Crude oil drawdown this week 10 million barrels was 500% more than anticipated and down 55 million barrels since May 31.



Consumer Strength: Amazing - we were reminded by this, with GDP revision and I heard anybody from media outlet mention just how strong consumer has been. Second higher month-to-month consumption increase ever and driven by durable goods spike





Strong but Disciplined Consumer

For those arguing this happens before recessions this isn't like other pre-recession periods - see savings 7.7% in August versus 3.1% November 2007 month before recession and 3.6% December (the low was July 2005 2.2%)



Also note consumers are still caution in June quarter we used debit more than credit via Visa and MasterCard

U.S. Volume (billion USD) Mar – June	Visa	MasterCard	Total
Credit	\$542 billion +6.9%	\$237 billion +12.5%	\$779 billion
Debit	\$624 billion +8.5%	\$249 billion +7.6%	\$873 billion

Cause for Concern

There are legit causes for concern in the economy including housing and manufacturing but recent data points in both has flashed signs of recovering.

I continue to say the greatest recession fear is media driven hysteria that ignores great news, focus on worst potential developments and then feigns shock when Main Street begins to display concerns.

Stock Market Resolve

Last week the market exhibited the kind of resolve that makes investors begin to sharpen their watch list to a few names with strong conviction. In other words, the market is signaling it might be ready to make a big move higher. The only caveat and it's a serious caveat, there was very light late-summer volume.

Still, there are several aspects of the session I want to point out.

Monday got a sigh of relief bounce after President Trump eased tensions and stopped talking about making business act the way he wants them to act (see huge upside opening gap).

Those gains carried over Tuesday morning but soon the market was sliding again. But just when it looked like anxiety was breaking the market again stocks made the most improbable reversal after the USTR made the next round of tariffs official. The Dow reversed from down one hundred to closing up about 250 points.

For the week the Dow gapped open higher four times and the one day it opened down staged an impressive intra-day turnaround.

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DJCFD:DJI, 5 26403.3 ▲ +41.0 (+0.16%) O:26388.3 H:26403.3 L:26388.3 C:26403.3



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The only downer for the seek is how stubbornly those key resistance levels held for major indices including the Dow Jones Industrial Average.

26,485 was the close for the DJIA On August 2 and has held (on closing basis) ever since. So while I'm impressed the index closed higher on Friday into Labor Day weekend it could hold its high of 26,514 which would have been a clear buy signal.

Week Ahead

The United States and China have assigned tariffs on additional items added to the angst of those worried the trade war will go too far. There aren't going to be any goods left but tariff rates could increase. There was a sense calmer heads were prevailing last week and maybe the latest salvos push a resolution sooner rather than later but its a wild card.

The Federal Reserve remains a wild card as well.

Watch list (AMBA)

In the months before Go Pro went public I went on television and told the audience about the company making the chips for all the drone companies. The company, Ambarella saw its shares take off but it was labeled a drone play and soon began to lose altitude as drone hysteria faded.

Meanwhile, management at Ambarella kept working toward a goal of being more than a camera company known for outfitting crones.

It looks like that have reached that goal of being true artificial intelligence (AI) company. When the company reported last week, share popped in part because revenue came in at \$58.1 million a decline from a year earlier but better than \$53.0 million guidance.

Earnings per share were \$0.21 the street was looking for \$0.11.

The big story is the expanding array of products:

- Low-power high resolution cameras
- Stereovision (takes flat 2D makes 3D)
- Automation (partial, conditional, high and full)
- Computer Vision (CV) algorithms chip architecture which is a system on a chip with deep neural network AI processing

Areas of application:

- Automotive
- Security
- Consumer
- Industrial and Robotics

Investment Proposition

Management is exhibiting the ability to management quarterly expectations which is very important. In addition, the bar will climb after management has signaled its \$300 million investment in CV has paid off. Now it's time to deliver.

Technically the stock closed above several key resistance points and from here upside tests would include \$66.00 then \$75.00 (keep in mind the stock hit \$124 a share back in July 2015).

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BATS:AMBA, W 55.87 ▲ +8.50 (+17.94%) O:45.51 H:56.90 L:43.01 C:55.87



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The CV chip has forty buyers split between security and automotive. The company has customers in China which could be influenced by the ongoing trade war. I think this company has turned the corner and its clear there is enormous upside even possibility doubling over the next couple of years if management can deliver the goods.

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