WALL STREET STRATEGIES

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September 09 2019	Payne's Perspective Fundamental Flower

The week before Labor Day saw some very intriguing action, and I was thinking out loud and writing that perhaps smart money had begun to buy dips ahead of the return of all the big players eager to get into the action, and perhaps pay for their Hamptons getaway.

It was obvious to me what was happening. However, what would be the catalyst for the market to finally break out of a four-week range that had major indices bouncing up and down with whirlwind velocity? Ostensibly, China announcing its trade negotiating team was coming to America in October provided a sigh of relief, but stocks were powered by fundamental fuel.

The same day the China news broke, we saw three economic reports come in better than expected:

- ADP Jobs Report
- Unit Labor Cost
- ISM Nonmanufacturing (service) Report

The Message Of The Market & Lessons In Investing

Contrarian

- Noun: a person who opposes or rejects popular opinion, especially in stock exchange dealing.
- Adjective: opposing or rejecting popular opinion; going against current practice.

Folks, if you listened to the fear-mongers in August, there is no way you made maximum gains in the stock market. Consumers and Retailers were supposed to be crushed by the next round of tariffs, yet it was the hottest sector in the market last week led by Tapestry (TPR), which rallied 14.7%. A part of the reason so many retailers had monster sessions was that bad news was already built into share prices.

Therefore, it's so important to understand the fundamentals of what you own in your portfolio.

This isn't to say you won't have laggards in your portfolio that should eventually be sold but be careful at the height of Wall Street hysteria, where all the talking heads are singing the same chorus not to panic.

Their words and warnings not only nudge stocks lower, but they also play a major role in turning those proverbial snowball moves into boulder moves, as each tick lower in a stock triggers selling from a greater pool of human shareholders and machines.

You want to avoid taking the worst loss in the throes of general panic; by the same token, while the underlying fundamentals will let you know a stock is oversold, they might also let you know the stock isn't getting back to your cost anytime soon.

In other words, sometimes you use the bounce to take a smaller loss, or sometimes you use panic to buy more.

The Week That Was

After Consumer Discretionary, the next best performing sector was Energy, which is very interesting. Consider that oil popped on news the Trump administration is willing to talk with Iran. If sanctions are loosened or removed on Iran, that would mean more (legal) oil in the world market, which logically would pressure prices lower - not send them higher.

#Contrarian

We did see U.S. crude inventories drawdown again, bringing the tally since May to 60 million barrels.

S&P 500 Index	+1.79%
Communication Services (XLC)	+2.42%
Consumer Discretionary (XLY)	+2.75%
Consumer Staples (XLP)	+1.19%
Energy (XLE)	+2.70%
Financials (XLF)	+1.93%
Health Care (XLV)	+0.74%
Industrials (XLI)	+1.90%
Materials (XLB)	+0.97%
Real Estate (XLRE)	+1.50%
Technology (XLK)	+2.48%
Utilities (XLU)	+0.37%

Throwing Darts Isn't So Easy

Another problem with the advent of financial media is the generalization of the stock market. The Dow Jones Industrial Average (DJIA) is just 30 stocks, and its biggest contributor Boeing (BA), could negate opposite moves in the other 29 names.

The real problem with generalization is the assumption all names move with the same macro news or developments. Consider Friday's reaction to earnings in the sizzling software application/cloud space:

Winners

- DocuSign Inc (DOCU): +18.7%
- Guidewire (GWRE): +15.5%

Losers

- Domo Software (DOMO): -35.9%
- Precision Drill (PD): -6.2%

Biggest Bubble: Doom & Gloom

After the last two market crashes, investors have been on guard for the next bubble. The focus has been on stock valuation, the unstoppable bond market rally, and consumer debt - anything that's grown well above its historical average and at unsustainable levels. The thinking is everything comes back to the mean and everything is cyclical.

The problem is when those adjustments are abrupt, and they crash below the mean.

These days, the only bubble I see - and make no mistake, it's very dangerous - is the chorus of doom and gloom.

The latest example of this comes in the *New York Times* Op-Ed by Paul Krugman, who is complaining that Donald Trump's trade war is bad for business. Of course, this is the same Paul Krugman that cheerfully predicted doom and gloom on election night:

It really does now look like President Donald J. Trump, and markets are plunging. When might we expect them to recover?

Frankly, I find it hard to care much, even though this is my specialty. The disaster for America and the world has so many aspects that the economic ramifications are way down my list of things to fear.

Still, I guess people want an answer: If the question is when markets will recover, a first-pass answer is never.

Under any circumstances, putting an irresponsible, ignorant man who takes his advice from all the wrong people in charge of the nation with the world's most important economy would be very bad news. What makes it especially bad right now, however, is the fundamentally fragile state much of the world is still in, eight years after the great financial crisis.

So, we are very probably looking at a global recession, with no end in sight. I suppose we could get lucky somehow. But on economics, as on everything else, a terrible thing has just happened.

Newest Prediction

Krugman's article says consumer confidence is "plunging" when in fact, the most recent Consumer Confidence report saw present conditions at the highest level since November 2000.

He says prices will rise because of tariffs. However, the CEO of Target has said just about what every other retail CEOs have said; consumers will not pay for the tariffs. Others have said there could be nominal price increases.

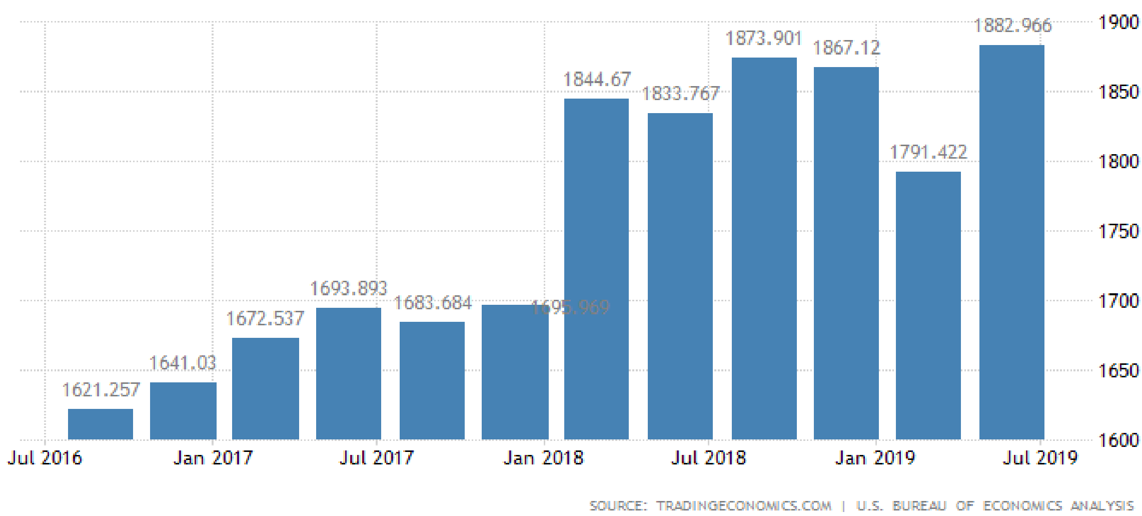
Moreover, prices for things such as steel and lumber where tariffs have been in place the longest prices are plunging. It's not what the experts promised, but all of them continue to write articles, making the same onerous claim.

I'm worried about a deflationary death spiral in so many commodities, and even persistently low inflation for consumer items. I think the Fed would be justified cutting rates by 50 (bps) basis points.

Business Is Doing Fine, Thank You

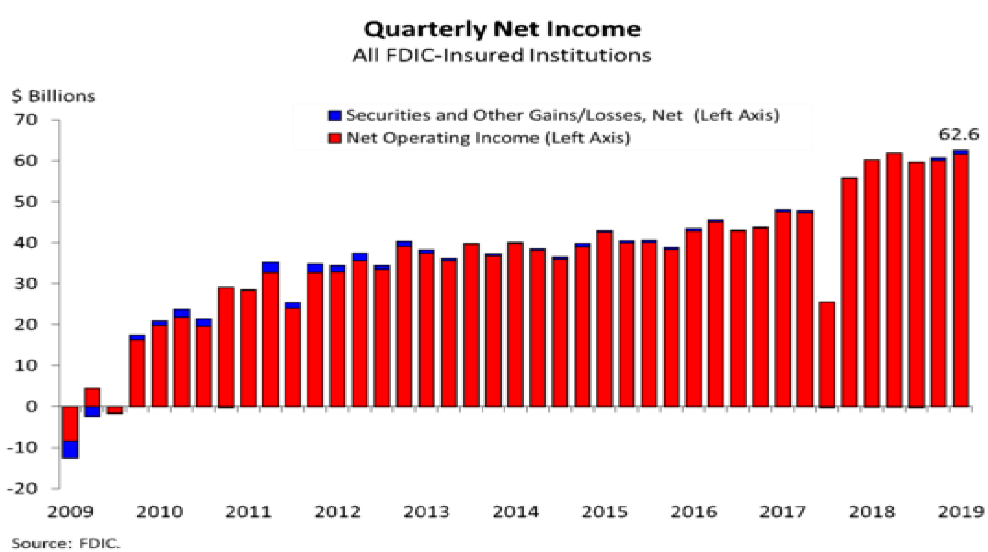
As for business bottom lines, they are doing very well under President Trump. Corporate profits after taxes with inventory and capital consumption adjustments hit an all-time high in the second quarter.

Corporate Profits



Banks, Big Bucks

The net operating income for 5,303 FDIC insured banks hit an all-time high of $62.6 billion last quarter. By the way, the financial sector is finally showing real life.



Fear At The Fed

Federal Reserve economists say that the increased uncertainty over trade is likely to reduce the U.S. economic output. These economists studied newspaper articles and earnings calls for words and terms like:

- Risk
- Threat
- Uncertainty
- Import duty
- Anti-dumping

Ironically, the six Fed economists who conducted the research admitted there is some degree of uncertainty around their specific estimates.

Speaking of the Federal Reserve, Jerome 'Jay' Powell was in Zurich, Switzerland, where he didn't seem fazed by those six Fed economists or anything else. Of course, he has been the target of blistering criticism from President Trump and quieter but equally blistering criticism from many on Wall Street.

Key Comments:

"We're going to act as appropriate to sustain the expansion…I don't have anything other than that to say here tonight."

"We're not forecasting or expecting a recession"

"Our obligation is to use our tools to support the economy"

More than likely, the Fed will cut rates no matter what, but keep an eye on the Producer and Consumer Price data out this week to determine if the cut will be 25 or 50 basis points.

Watch List

It is getting more difficult to find diamonds in the rough, and the biggest risk in the market these days is trying to pick bottoms too soon rather than simply chasing.

Rebirth By Fire

It's unusual to see a company immolate itself in the name of future growth, but that's the risk the CEO of Stamps.com (STMP) took back in February when he decided to end an exclusive relationship with the United States Postal Service. Management said its customers were insisting on doing business with Amazon, FedEx, and UPS.

On February 22, shares of STMP closed at $83.00 from $198 the day before. The fact of the matter is management was right, as the stock was already moving lower after peaking at $281 on June 11, 2018.

The six-month chart looks great, revealing stock momentum as earnings estimates are moving higher. Now, the Street sees fiscal year (FY) 2020 earnings of $3.23 from $3.17 a week earlier.

The stock has potential to rally to $87.00, and of course, if this gamble pays off, we could see a stock that rallies back to $200.00 over some time.

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