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Morning Tack

Published by Raymond James & Associates

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August 24, 2018

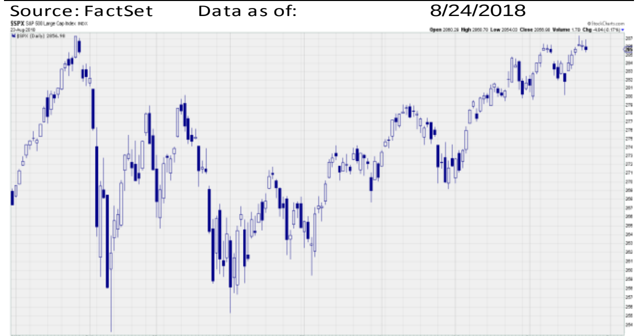
Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	**25656.98**	**-76.62**	**-0.30%**	**3.79**
Dow Jones Transports	**11260.36**	**-61.88**	**-0.55%**	**6.11**
Dow Jones Utilities	**728.77**	**-0.37**	**-0.05%**	**0.75**
S&P 500	**2856.98**	**-4.84**	**-0.17%**	**6.86**
S&P 400 Midcap	**2026.91**	**-7.58**	**-0.37%**	**6.65**
S&P 600 Smallcap	**1087.70**	**-3.50**	**-0.32%**	**16.17**
NASDAQ	**7878.46**	**-10.64**	**-0.13%**	**14.12**
Russell 2000 (Smallcaps)	**1717.05**	**-5.49**	**-0.32%**	**11.82**
BKX (Banking)	**110.26**	**-0.69**	**-0.62%**	**3.33**
BTK (Biotech)	**5148.15**	**-41.84**	**-0.81%**	**21.93**
XOI (Oil Index)	**1489.80**	**-2.25**	**-0.15%**	**11.55**
SOXX (Semiconductor)	**1356.14**	**1.61**	**0.12%**	**8.23**
XAU (Gold/Silver)	**65.30**	**-2.12**	**-3.15%**	**-23.43**

"When the stock market ignores bad news that's good news!"

. . . An old stock market axiom

Index		Cur Future		Change
Dow Jones		25,721		50.00
S&P 500		2,864		6.00
NASDAQ		7,445		20.50
Volume			**ADV/DEC**	
	1 Day Volume		**Volume**	**Issues**
NYSE	**619,660,589**		**0.42**	**0.54**
NASDAQ	**1,860,055,112**		**0.63**	**0.70**
Foreign Markets		**Intraday**	**Net**	**% Chg**
U.K.	FTSE 100	7,563	0.00	0.00%
Germany	Germany DAX (TR	12,396	30.59	0.25%
Brazil	Brazil Bovespa In	75,634	0.00	0.00%
Japan	Japan Nikkei 225	22,411	0.00	0.00%
Hong Kong	Hang Seng Index	27,672	-118.59	-0.43%
S&P Sectors		**Close**	**% Chg**	**1 mo %**
S&P 500 / Consumer Discretic		907.67	**-0.19%**	**1.89**
S&P 500 / Consumer Staples -!		554.90	**-0.21%**	**3.04**
S&P 500 / Health Care -SEC		1056.17	**-0.10%**	**5.16**
S&P 500 / Information Techno		1286.61	**0.18%**	**0.42**
S&P 500 / Telecommunicatior		155.61	**-0.09%**	**6.47**
S&P 500 / Energy -SEC		544.07	**-0.52%**	**-0.77**
S&P 500 / Financials -SEC		466.41	**-0.51%**	**0.79**
S&P 500 / Industrials -SEC		640.20	**-0.37%**	**3.25**
S&P 500 / Materials -SEC		365.95	**-0.70%**	**0.84**
S&P 500 / Utilities -SEC		270.10	**-0.01%**	**3.03**
S&P 500 / Real Estate - SEC		205.38	**-0.21%**	**2.92**
Key Commodity Prices		**Last**	**Net**	
Crude Oil WTI (NYM $/bbl) Con		68.690	0.88	
Natural Gas (NYM $/mmbtu) C		2.964	0.00	
eMini Gasoline (NYM $/gal) Cc		2.059	0.00	
Gold (NYM $		1197.700	3.90	
Silver (NYM $/ozt) Continuous		14.605	0.06	
United States Dollar Index		95.414	-0.25	
eMini Copper (NYM $/lbs) Con		2.654	0.00	
Cotton #2 (IFUS $/lbs) Continu		0.820	0.01	
Market Valuation		**2017E**	**2018E**	**2019E**
Consensus S&P 500 EPS		$125	$158	$177
P/E		22.9	18.1	16.1
Earnings Yield			5.5%	6.2%
Equity Risk Premium (10 yr)			2.7%	3.4%
Treasury Yields		**90D**	**10 Yr**	**30 Yr**
		2.08	**2.82**	**2.97**
Source: FactSet	Data as of:		8/24/2018	



S&P 500 (Source: Stockcharts.com)

"Leon Tuey Speaks!"

So, we are still on the West Coast doing gigs for our financial advisors and their clients and seeing accounts. Consequently it has been difficult to write a daily letter, which is why Andrew Adams has written all but two of them this week; "thanks!" In our absence the S&P 500 (SPX/2856.98), as expected since the February 9, 2018 "undercut low," has notched a new all-time high this week on an intraday basis. At that point we were telling accounts that on a trading basis the SPX should stall around the old highs and rebuild some internal energy before busting out for another leg to the upside. Also, we must apologize for not doing our daily verbal call, but while in our youth we could get up at 3:00 a.m. and do so from the West Coast. Now, in our late-sixties, the body is just not willing. This morning, however, we are sharing this week's missive from our pal Leon Tuey because the two of us think a lot alike, and because we are among the few that have seen real secular bull markets. Recall Leon was/is one of the best technical analysts in Canada and more than likely in the world. This week Leon writes:

> Investors have to be impressed by the market's ability to ignore "bad news." But, then again, the market always climbs a wall of worry. From late 2008 to date, investors have been bombarded with black headlines - "Global Depression," "China, China, China," "European Debt Crisis," "Arab Spring," "Japanese Tsunami," "Gridlock," "Overvaluation," "Fed Tightening," "Russian Collusion," "Inflation," "Inverted Yield Curve," "Trade War," "Turkey," "Contagion," ad nauseum. As the market climbs, the doomsayers become more numerous and more vociferous, but all fall on deaf ears as the market kept heading in a northeasterly direction. Why? Because earnings continued to improve and thanks to the Fed, earnings will continue to improve in the months and years ahead. That is what drives stock prices, earnings momentum, not headlines or P/E.

(Continued on page 2)

He continues:

> Why the motormouths on Wall Street have so much trouble predicting the market's direction is difficult to comprehend. All they need is a clear understanding of the market's logic, the economic cause/effect relationships that drive the markets. They need to have an understanding and appreciation of the mandate of the Fed. As pointed out on numerous occasions, one of the key mandates for the Fed is to “maintain orderly economic growth and price stability.” It’s a dual mandate and it is statutory. The only other thing they need to remember is that the stock market is a leading economic indicator; the economy does not lead the stock market. When the economy slows and heads into a recession, investors don't need an IQ of Mensa to know what action the Fed will take; the Fed will use all means at their disposal to turn the economy around. (The most powerful tools at the Fed's disposal to affect monetary policy changes are the Basic Monetary Policy Variables - the Bank Reserve Requirement, the Discount Rate, and the Margin Requirement. I wonder how many gurus on Wall Street ever heard of this?). If it doesn't work, they will keep easing until the economy responds. The market being a leading economic indicator, therefore, always bottoms six to nine months before a recovery begins, not after.
>
> Conversely, when the economy overheats; inflation surges; and speculation is rampant, the Fed will tighten monetary policy by raising the Discount Rate multiple times in succession; by draining liquidity from the system; and invert the Classic Yield Curve. The market, being a leading economic indicator will have peaked and started to head south long before the onset of a slowdown or a recession. This is like night follows day. Yet, this simple logic escapes most on Wall Street. Anyone with an IQ slightly above room temperature would understand this.
>
> Last week [August 13-August 17], "the market" reached another record high. "Not so!" growl the bears. No doubt, they will point out that the S&P 500 Index and the Dow Jones Industrial Average have not exceeded their respective January high. Clearly, they don't know which end is up. These are the same folks who will tell you that "the market" bottomed in March, 2009 which it didn't. "The bottom" was on October 10, 2008 when globally, investors panicked. On that day, over 90% of the U.S. stocks and most other world markets made their lows. These are the same folks who were certain that a bear market commenced in February, 2016, right at the bottom of the correction and a powerful rally ensued. In February of this year, they all thought the world was going to end, again.
>
> If they take their eyeballs off the major market averages; look at "the market;" try to understand the market's logic; and stop reacting to the headlines, they will see the world differently. Take a gander at the various internal measures. Last week, the following Advance-Decline Lines closed at record highs - SPX, DOW, NYSE, NYSE Common Stock Only, S&P Mid-Cap, and S&P Small-Cap. These A-D Lines tell investors more about "the market" than any market index. Given their bullish action, investors can absolutely be certain that the S&P and the Dow, too, will see record highs. Also, the S&P Mid-Cap Index, the S&P Small-Cap Index, and the Value Line Arithmetic Index closed at record highs. The Wilshire 5000 Composite Index stands within spitting distance of its record high and new highs are assured. By the way, two weeks ago, the NASDAQ Composite Index hit another record high.
>
> Make no mistake, Ladies and Gentlemen. You are witnessing the greatest bull market on record and the best is yet to come. Despite its longevity, this bull remains a calf.
>
> Take partial profits on stocks that are grossly overbought and show a loss of momentum. Accumulate stocks that have broken out of long bases and become oversold. But stay invested. As mentioned, one of the biggest mistake investors make is selling too soon in a bull market, particularly in a market such as this.
>
> Earlier this year, many talking heads felt that the market has seen its high for the year and some even declared that a bear market had commenced. Bear market? What bear market? Given their lousy track record, one wonders how they even have a job. Thankfully, they are not in the medical profession. As mentioned before, if these talking heads expend some effort trying to understand the market's logic instead of flapping their gums incessantly, they would improve their performance. Ignorance is bliss, I suppose. What about the Dow Jones Industrial Average and the S&P? Rest assured, they, too, will reach record highs.

Well said Leon . . .

U.S. Markets Index Information: *U.S. Treasury securities* are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The *Dow Jones Industrial Average* is an unmanaged index of 30 widely held securities. The *Dow Jones Transportation Average* is the most widely recognized gauge of the American transportation sector. The *Dow Jones Utility Average* keeps track of the performance of 15 prominent utility companies. The *S&P 500* is an unmanaged index of 500 widely held stocks. The *S&P Mid Cap 400 Index* is a capitalization-weighted index that measures the performance of the mid-range sector of the U.S. stock market. The *S&P Small Cap 600 Index* is an unmanaged index of 600 small-cap stocks. The *NASDAQ Composite Index* is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The *Russell 2000 index* is an unmanaged index of small cap securities which generally involve greater risks. The *KBW Bank Sector (BKX)* is a capitalization-weighted index composed of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The *NYSE Arca Biotechnology Index (BTK)* is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The NYSE Arca Oil Index (XOI) is a price-weighted index of the leading companies involved in the exploration, production, and development of petroleum. The *PHLX Semiconductor Sector Index (SOXX)* measures the performance of U.S.-traded securities of companies engaged in the semiconductor business, which includes companies engaged in the design, distribution, manufacture, and sales of semiconductors. The *Philadelphia Gold and Silver Index (XAU)* is an index of 16 precious metal mining companies that is traded on the Philadelphia Stock Exchange.

Futures: Futures prices are current as of the publication of this report, but will fluctuate. Please contact your financial advisor for updated information.

Foreign Markets Information: The FTSE 100 Index is a share index of the stocks of the 100 companies with the highest market capitalization listed on the London Stock Exchange. The *DAX* (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The *Bovespa* Index is a gross total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The *Nikkei 225* is a price-weighted index consisting of 225 prominent stocks on the Tokyo Stock Exchange. The *Hang Seng Index* is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Commodity Price Information: The *CRB Index* measures the overall direction of commodity sectors. The *US Dollar Index (USDX)* is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies. Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

Market Valuation Information: The *McClellan Oscillator* is a market breadth indicator that is based on the difference between the number of advancing and declining issues on the NYSE. Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share. The earnings yield is earnings per share divided by the current market price per share. The equity risk premium is the earnings yield minus the current rate on the 10-year U.S. Treasury note and is the excess return that the stock market provides over a risk-free rate.

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Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.
Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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