Saut Strategy

Saut Strategy LLC
Jeffrey D. Saut
jeff@sautstrategy.com
12-23-19

Soooooooooooooooooo?!

Yearend letters are always difficult to write because there is a tendency to write about what predictions you got wrong, what you got right, and what you totally missed in the year gone by. Quite frankly, such writings are worthless, which is why we have refrained from such machinations. So, to respond to the thousands of requests I have received over the past the past eight months for why I left Raymond James, here you go.

A year ago, this month, after 20 years of doing my own thing, I was told I had to use Raymond James' "official" yearend 2019 price target for the S&P 500 of 2940 (SPX/3221.22). I said, "But I don't believe that is the right price target because I am using 3200; and, I am not going on CNBC with a yearend price target I do not believe is correct. Normally, I do not like to even give yearend price targets because my father used to tell me, "If you get the stock market directionally correct you are WAY ahead of the crowd!" Then I was told I could not quote folks like my dear friend Arthur Cashin (UBS) because he works for a competitor firm. Further, I was told if I wanted to discuss my long-term, intermediate, short-term, and internal energy models, I would have to disclose what was in them and how they are constructed. I said, "What do you not understand about p-r-o-p-r-i-e-t-a-r-y?!

So, I sat down with senior management and said if this doesn't get fixed, I am out of here. I was told, "I will dig into it and get back with you." I waited two and a half months and never heard anything. Subsequently, on a Sunday night in April of 2018, after a bottle of red wine, I issued a blast email to over 10,000 people that as of next Friday I am no longer with Raymond James. The next morning my phone started ringing at 5:00 a.m. The rest, as they, is HISTORY.

Subsequently, I tried to retire. That retirement lasted only three weeks. There was such a demand for our stock market strategy letter that we dialed up our previous Raymond James' associats, Andrew Adams and Harry Katica, and began writing The Saut Strategy Report (www.sautstrategy.com) where I write on Monday, Andrew has brought back "Charts of the Week" on Wednesdays, and Harry writes on Fridays. Moreover, I am helping to manage $1.6 billion at Capital Wealth Planning (https://www.capitalwealthplanning.com/) the Naples-Florida based money management firm.

We are a five-star rated money manager, number one in our category, have an 85% to 90% upside "capture" rate, but only a 60% - 65% downside capture rate, and tend to generate a 5% -7% taxable income distribution.

Sooooo, what do we think about the stock market now? Well, we have been bullish of stocks after identifying the downturn from early-October 2018 into the December 24, 2018 low, where we said "buy 'em!" That said, we think stocks will rally into the new year, but in mid-to-late January the stock market will have to deal with slowing GDP numbers. It is not the Boeing employees that are going to be laid off, and slow the economy, but rather the supply-chain companies that are going to be affected. Last week we talked with a parts supplier to Boeing's 737max who told us that if the 737max does not get recertified in three months, they are "out of business." Ladies and gentlemen, this is a big deal in the supply-chain, and nobody is talking about it.

Sooooo, last Monday we wrote, "Our models are all geared to the upside and there is plenty of 'internal energy' available for a continuation of this rally. We will admit there may be a whiff of potential downside this week, but it should not be severe." Our short-term trading model actually targeted last Tuesday and Wednesday as potential vulnerable sessions, but they were indeed not severe at +31.27 and -27.88, respectively. The spread between Buying Power and Selling Pressure is expanding and that is bullish. A trader's "buy signal" was triggered last week. The new highs over new lows, as well as the advance-decline lines are at new all-time highs (chart 1). High yield spreads have narrowed (read: bullish). In fact, the only negatives we see are in the relative strength indicators, valuations, and that a lot of the stock market's "internal energy" has now been used up in this nearly straight-up move from the October 3rd low of ~2856 into last week's close of ~3221 basis the SPX and we have been bullish.

As for sectors, we were intrigued with Peter Lynch's comments in *Barron's* over the weekend. To wit:

I'm looking at industries that are doing badly; that for some reason will get better. Shipping. If you want to buy a ship, it's a two – or three – year wait. People haven't ordered ships for a long time, because by the time one comes in, prices may be down again.

Peter also mentions the energy complex, as well as solar and windmills. Energy particularly resonates with us now that crude oil prices are back above $60 per barrel. Some names for your consideration include: EOG, PXD, XOM, and NEE. We also continue to think international stock exposure is warranted.

The call for this week: Over the weekend we received this quip from Leon Tuey:

Clearly, the bull market is not confined to the U.S., it is global. As shown in the charts above, the market has upside objectives that have not been met. While a correction is near, if it were to do so now, the pullback will be shallow as there is good underlying support near the "breakout" level. Hence, as mentioned before, a more meaningful correction will not likely take place until the upside objectives are met. The surge in the Advance-Decline Lines, the expanding New Highs and contracting New Lows, and the emergence of the laggards attest to the power of this great bull market. More importantly, investors should keep their focus on the primary trend and not be distracted by the short-term direction as a powerful secular bull market is in progress and may well go on for decades. Hence, stay invested and utilize short-term weakness as a buying opportunity.

This morning traders will play for the usual Monday and Santa rallies. The Santa Claus Rally window is open; it closes on January 3 (last 5 sessions of December through first two sessions of January). The Fed has forced a mammoth amount of liquidity into the system; and it is scheduled to add almost $500B at yearend.

Sentiment is euphoric; so, barring horrid news, declines will be limited. There is no reason to overthink the stock market right now. The Fed is flooding the system with 'severe-crisis' amounts of liquidity and will have added about $700B for yearend. The first real opportunity for a meaningful peak won't appear until after the Santa Rally window closes on January 3. Unless the Fed starts pulling liquidity, a top won't appear that early unless there is a blow off top between now and then. ESHs are +2.25 at 8:40 ET.

Obviously, we agree with Leon. So, be optimistic in this joyous time of the year. Merry Christmas . . .

Chart 1

Source: Bespoke Investment Group

Investing/trading involves substantial risk. The author and Saut Strategy do not guarantee or otherwise promise as to any results that may be obtained from using this report. Past performance should not be considered indicative of future performance. No reader should make any investment decision without first consulting his or her own personal financial advisor and conducting his or her own research and due diligence, including carefully reviewing any prospectus and other public filings of the issuer. These commentaries, analyses, opinions, and recommendations represent the personal and subjective views of the author, and are subject to change at any time without notice. The information provided in this report is obtained from sources which the author believes to be reliable.