Saut Strategy

Jeffrey Saut

Jeff@sautstrategy.com

"Don't tell me WHAT to buy, tell me WHEN to buy"

"Don't tell me WHAT to buy, tell me WHEN to buy" is an old stock market "saw" that has survived the test of time. The reason it's true is because a rising tide tends to lift all ships. So, in March of 2009 all you really need to know was "when" to buy not "what" to buy. Another old stock market axiom is nobody can consistently "time" the market; and, we agree. But, if you listen to the message of the market you can often determine if you want to be "playing" hard, or not "playing" so hard. For example, there was a Dow Theory "sell signal" on September 23, 1999. We wrote about it and told participants to raise cash and to not let any position to go very far against you. There was a Dow Theory "buy signal" in June 2003. We wrote about that as well. Here's the killer, we wrote about the Dow Theory "sell signal" of November 21, 2007 right before the ~55% bone-crushing decline into March 2009 where we turned bullish. That's actually not true for we turned bullish in October 2008. The reason was because on October 10, 2008 92.6% of stocks made new annual lows. We have never seen that and do not believe it has ever happened before. That is a 7 or 8 standard deviation event, which is not supposed to occur in your lifetime! Ladies and gentlemen, the majority of stocks bottomed in October of 2008, not in March of 2009 and we were bullish.

Another old market mantra is, "If you missed the 20 best stock market days your total returns fall dramatically, therefore you should stay in the market and take the bad with the good." I guess this is probably true if you live long enough. However, the ~48% stock market decline between January 1973 into the December 1974 bottom took the D-J Industrial (INDU/26719.13) until 1982 to get back to where it was in January 1973. So, here the truth. If you missed the best 1% stock market sessions your returns decline from 7% to ~4.9% per annum. Yet if you missed the worst 1% sessions, your stock market returns soar to ~19% per year. That proves that if you can manage the risk and learn when to play hard and when to not play so hard, and to raise some cash from time to time, your returns explode. Moreover, you will sleep better at night. Fast forward to recent history, our models identified the trading top around the beginning of October 2018. Likewise, they spotted the trading bottom in late-December 2018. The subsequent rally carried the S&P 500 (SPX/2950.46) higher into early-May where again our models "said" a negative downside polarity-flip was due and then we issued a trading flash on June 3, 2019 stating a bottom had been formed. For the record, we have also made some bad trading calls, but our redeeming feature is that when we are wrong, we say we are wrong, and say it quickly, for a *de minimis* loss of capital. So, what now?

Well, as stated on June 3rd, we said a bottom was formed with the SPX at ~2729 and that the SPX was going to trade to new all-time highs. Three sessions later, with the SPX at 2852, we wrote the stock market was probably going to stall into mid/late-June, but that new all-time highs were still coming. The stock market did indeed stall, but only for about 5 sessions followed by a breakout to new all-time highs. Indeed, "Don't tell me what to buy, tell me when to buy!"

Meanwhile, some Wall Street pundits suggest the SPX has already tagged their year end price target, stocks are expensive, and a recession is on the horizon. They obviously are NOT listening to the message of the market that is predicting no recession. Speaking to their other points, while earnings estimates for the S&P 500 have come down from roughly $173 to $168 for 2019, and $188 for 2020, stocks are not all that expensive on forward earnings. If those estimates are correct, it implies the SPX is trading at 17.5x this year's estimate, which granted is a tad on the expensive side, but only at 15.7x earnings for next year. However, our models tell us under the current interest rate environment the right price earnings multiple (PE) should be 19. Therefore, 19x this year's estimate yields a price target of 3192 for the SPX. If 2020's estimate is anywhere near the mark, the SPX's price target becomes 3572 (19 X $188 = 3572). To wit, the average PE multiple at the end of just about every bull market is 18.89x earnings (Chart 1). As a sidebar, the SPX's PE ratio at the end of the late-1990's bull market was over 30.

As for these same false pundits' argument that the Advance/Decline Line needs to expand and the New Highs over New Lows List needs to do the same (chart 2). Hereto they are again NOT listening to the message of the markets. Last week saw a lot of new highs and the Advance/Decline Line hit another record high. As our pal, market wizard, Leon Tuey writes:

"Last night, except for the SML, all Advance-Decline Lines closed at record highs. Today, the S&P, XLP, IYR, $UTIL, & VTI are at record highs. Yet, pundits keep talking about the S&P. Also, note bullish set-ups of $NYA, $WLSH, $VLE, & XLI."

Turning to commodities, like stocks we have been bullish on most commodities since late 2008/early-2009 (chart 3). Most recently, gold has broken out to the upside in the charts (chart 4). As the uber smart Jason Goepfert (SentimenTrader) writes:

"Gold's near-record streak. Gold broke out to a multi-year high for the first time in more than 2,000 days, which was nearly its longest streak in 40 years. The end of other super-long streaks without a new high all saw the metal trade lower over the next couple of months. The dollar tended to be weak, as did gold miners, but stocks were strong."

Again, as Leon Tuey writes:

"Tonight, the August future for Gold is up over $34.00 trading over $1380. If tonight's strength is maintained, Gold will have completed a 6-year base further confirming that the bull market has resumed (see my June 13 report, "Gold Bullion"). Accordingly, the accumulation of Gold and precious metals and related issues is advised. The speculatively inclined may wish to accumulate JNUG and HSU.TO, but be sure to use mental stops below their recent lows."

As for stocks, there were a few names last week that caught our attention and should be put on your watch lists for potential purchase. They include: AGCO Corporation (AGO/$74.74), Flowserve (FLS/$50.46), Hasbro (HAS/$107.27), and ITT (ITT/$64.56).

The call for this week: Last week the SPX not only made a new closing high but popped above its May 2019 intraday high. The rally since our trading bottom call of 6-3-2019 has left ALL of the finger to wallet indicators we monitor short-term very over bought. This could spark some short-term profit taking but should not disturbed the markets uptrend unless the SPX's 6-12-19 intraday low of 2874 is violated. Again, as Jason Goepfert writes:

"So much for the FOMC fakeout. It's not often we see a good response to the FOMC and then follow-through the next day, but here we are. Buyers retreated a bit during the day, but I couldn't find anything that was particularly compelling to suggest this is likely a false breakout. The active studies have been almost universally bullish lately, and except for maybe the very short-term, most of what I see is the same, so I'm not seeing much to suggest it's a good idea to reduce (or add) exposure."

This morning the preopening futures are flat on no real over night news.

Chart 1

S&P 500 Bull Markets Since 1942*

Bull/Bear	Start	End	Days	% Change	Start P/E	End P/E	P/E Chg
Bull	4/28/42	5/29/46	1,492	157.70%	7.42	22.32	14.90
Bull	5/19/47	6/15/48	393	23.89%	10.08	9.21	-0.87
Bull	6/13/49	8/2/56	2,607	267.08%	5.75	13.93	8.18
Bull	10/22/57	12/12/61	1,560	86.35%	12.27	21.30	9.03
Bull	6/26/62	2/9/66	1,324	79.78%	14.53	17.88	3.35
Bull	10/7/66	11/29/68	784	48.05%	12.97	18.11	5.14
Bull	5/26/70	1/11/73	961	73.53%	13.25	19.45	6.20
Bull	10/3/74	11/28/80	2,248	125.63%	7.15	9.38	2.23
Bull	8/12/82	8/25/87	1,850	228.81%	6.92	22.42	15.50
Bull	12/4/87	3/24/00	4,494	582.15%	14.73	31.09	16.36
Bull	9/21/01	1/4/02	105	21.40%	27.57	27.45	-0.12
Bull	7/23/02	10/9/07	1,904	99.94%	29.06	17.30	-11.76
Bull	11/20/08	1/6/09	47	24.20%	10.99	15.28	4.29
Bull	3/9/09	6/20/19	3,755	336.66%	11.10	19.32	8.22
		Average	**1,680**	**153.94%**	**13.13**	**18.89**	**5.76**
		Median	**1,526**	**93.15%**	**11.68**	**18.72**	**7.03**

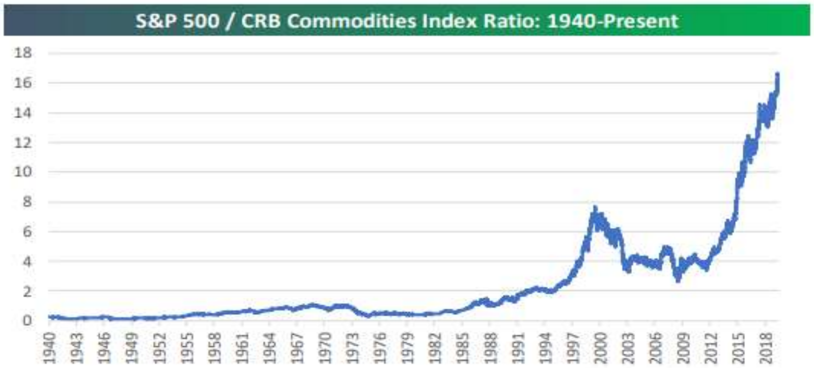
*A Bull Market is a rally of 20% (closing prices) that was preceded by a decline of 20%.

Source: Bespoke Investment Group

Chart 2

Source: Bespoke Investment Group

Chart 3



Source: Bespoke Investment Group

Chart 4

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.