August 30, 2018

THE LONG TERM BULL MARKET IN STOCKS CONTINUES!

Clients who have read my regular commentary that is attached to each of your quarterly performance reports know that I continue to stress that we have a fantastic investment environment! I **have talked at length that we have entered into a new, long term secular bull market for U.S. stocks** (thus my multi-year desire to focus on owning U.S. stocks) **that has many years to run yet**. This is a bull market that continues to defy and frustrate the "bears" who are now pulling out their "fur" in anger and tears (again) as the stubborn and earnest bull has just taken out the previous January 2018 high mark (around 2870) on the S&P 500 Index. We've gone through a correction period from February to June in particular as stocks consolidated and 'rested' before launching the next up leg. That next 'up leg' is now underway, with a target of 3000 quite likely for the S&P 500 in 2018 (we're at 2900 zone now) and possibly a higher target in the 3200 zone (or 10% higher than current level).

LOOKING BACK: We officially (in my view) confirmed this new, secular long-term bull market for stocks when the S&P 500 broke above the 1565 level back in 2013---that level was the top in March 2000 and October 2007. Every correction since then has proven to be a big buying opportunity, including the summer 2015 to early 2016 correction and consolidation. **This powerful bull market HAS MANY YEARS TO RUN YET**!

Please take a read here of the latest commentary (attached) from Jeffrey Saut, our chief investment strategist, as he once again states his long-term bull market theme. Jeff includes a chart here in this attached commentary of the S&P 500 showing you the major breakout the last few days above 2900 on the world's top stock index and why it matters! In such past episodes (break outs from major consolidations) have then seen the U.S. stock market rise another 30%+! Certainly the frustrated bearish camp of doomsayers aren't expecting that (they never are of course, since the world is always on the brink of the 'end of days' when you're a 'perma-bear').

As I mentioned in my last commentary, we will (eventually) see a U.S. economic recession/downturn and a pause in this long-term bull market uptrend for stocks. But even then it will only prove to be a pause (like 1990-91) before the likely third and final major up leg to the bull's secular rein unfolds.

I am, as an investor and steward of your capital, very excited about the next decade. I started in this business in 1997 and only got to experience the last few years (1998-2000) or tail end of the last major, secular, long term bull market from 1982 to 2000. This is a great time to be an investor in quality, U.S. growth companies like Microsoft, Salesforce, Raytheon, United Healthcare and others…

Please call or email anytime.

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Morning Tack

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Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	**26124.57**	**60.55**	**0.23%**	**5.69**
Dow Jones Transports	**11395.94**	**5.36**	**0.05%**	**7.38**
Dow Jones Utilities	**729.97**	**4.26**	**0.59%**	**0.91**
S&P 500	**2914.04**	**16.52**	**0.57%**	**8.99**
S&P 400 Midcap	**2050.23**	**6.29**	**0.31%**	**7.87**
S&P 600 Smallcap	**1094.34**	**1.70**	**0.16%**	**16.88**
NASDAQ	**8109.69**	**79.65**	**0.99%**	**17.47**
Russell 2000 (Smallcaps)	**1734.75**	**6.33**	**0.37%**	**12.98**
BKX (Banking)	**111.02**	**-0.27**	**-0.24%**	**4.04**
BTK (Biotech)	**5336.79**	**68.23**	**1.30%**	**26.40**
XOI (Oil Index)	**1527.51**	**12.85**	**0.85%**	**14.37**
SOXX (Semiconductor)	**1406.38**	**3.43**	**0.24%**	**12.24**
XAU (Gold/Silver)	**67.60**	**0.15**	**0.23%**	**-20.72**

"Jeff, I know you have connections in Washington and wanted your take on how the mid-term elections are shaping up and how they will affect the market, if at all. I have a couple of clients that are concerned that the market will be hurt if the Republicans lose their majority in the House."

. . . A concerned Raymond James financial advisor

"The Most Hated Economic Recovery Ever!"

So a concerned Raymond James financial advisor (FA) emailed us yesterday with the question:

> Jeff, I know you have connections in Washington and wanted your take on how the mid-term elections are shaping up and how they will affect the market, if at all. I have a couple of clients that are concerned that the market will be hurt if the Republicans lose their majority in the House.

Our answer read, "All the experts I know tell me the House will fall, but those same folks told me Trump would never be President!" Alas, under this president, the polls seem to be worthless. Time will certainly tell, but Andrew and I do not think much will change even if the House falls to the Democrats. Remember the famous President Obama quote, "I have a pen and a phone." The same can be said about DJT! Meanwhile, as expected since the February 9 undercut low, the stock market continues to trade to new all-time highs. So yesterday, on Fox Business, our friend Neil Cavuto played a video excerpt from David Stockman about all the issues facing our Republic. We were asked, "What do you think?" Our response was (as paraphrased), "Well, David Stockman is much smarter than we are, but he has been 'smartly wrong' for a very long time." Indeed, the last time we spoke personally with him was at Minyanville's Christmas Festivus party in 2009. He was bearish then, and he is bearish now, believing the economy is going to go into a tailspin. Shortly thereafter, a portfolio manager sent us this quip from Bloomberg:

> For years you used to hear people call the rally in stocks "the most hated bull market of all time." It caused ire for various reasons: some people were under-invested, others just thought that we hadn't solved the underlying issues that caused the crisis, and maybe a few were just upset because they didn't like President Obama or the Fed. You don't hear that phrase too much anymore, but I wonder if soon we'll be able to talk about "the most hated economic expansion of all time." Once again, you have a lot of people who, for whatever reason, are predisposed to thinking that a downturn is coming. (Continued on page 2)

Index		**Cur Future**		**Change**
Dow Jones		26,085		-62.00
S&P 500		2,911		-3.70
NASDAQ		7,657		-11.00
Volume			**ADV/DEC**	
	1 Day Volume		**Volume**	**Issues**
NYSE	**647,570,758**		**1.58**	**1.47**
NASDAQ	**1,876,689,938**		**1.91**	**1.55**
Foreign Markets		**Intraday**	**Net**	**% Chg**
U.K.	FTSE 100	7,563	0.00	0.00%
Germany	Germany DAX (TR	12,501	-60.80	-0.48%
Brazil	Brazil Bovespa In	78,389	0.00	0.00%
Japan	Japan Nikkei 225	22,848	0.00	0.00%
Hong Kong	Hang Seng Index	28,164	-252.39	-0.89%
S&P Sectors		**Close**	**% Chg**	**1 mo %**
S&P 500 / Consumer Discretic		931.43	**1.12%**	**4.97**
S&P 500 / Consumer Staples -!		553.01	**0.08%**	**1.15**
S&P 500 / Health Care -SEC		1072.53	**0.66%**	**5.64**
S&P 500 / Information Techno		1329.47	**1.01%**	**5.52**
S&P 500 / Telecommunicatior		155.24	**-0.76%**	**4.98**
S&P 500 / Energy -SEC		553.39	**0.63%**	**-1.74**
S&P 500 / Financials -SEC		473.44	**-0.02%**	**1.61**
S&P 500 / Industrials -SEC		650.52	**0.07%**	**2.16**
S&P 500 / Materials -SEC		377.29	**0.73%**	**1.59**
S&P 500 / Utilities -SEC		270.56	**0.59%**	**1.94**
S&P 500 / Real Estate - SEC		208.76	**-0.10%**	**4.53**
Key Commodity Prices		**Last**	**Net**	
Crude Oil WTI (NYM $/bbl) Con		69.940	0.48	
Natural Gas (NYM $/mmbtu) C		2.885	0.02	
eMini Gasoline (NYM $/gal) Cc		2.106	0.00	
Gold (NYM $		1211.000	-0.90	
Silver (NYM $/ozt) Continuous		14.595	-0.11	
United States Dollar Index		94.613	0.01	
eMini Copper (NYM $/lbs) Con		2.710	0.00	
Cotton #2 (IFUS $/lbs) Continu		0.829	0.00	
Market Valuation		**2017E**	**2018E**	**2019E**
Consensus S&P 500 EPS		$125	$158	$177
P/E		23.3	18.4	16.5
Earnings Yield			5.4%	6.1%
Equity Risk Premium (10 yr)			2.5%	3.2%
Treasury Yields		**90D**	**10 Yr**	**30 Yr**
		2.13	**2.88**	**3.02**

Source: FactSet Data as of: 8/30/2018

S&P 500 (Source: Stockcharts.com)

> Some think the tariffs will cause a recession. Others worry that U.S. capacity is near maxed out and that the timing of the tax cuts was irresponsible. Some just don't like President Trump. Others may just be thinking that the economic expansion is getting long in the tooth. But in the meantime, there's a lot of good news out there. Corporate profits on a pre-tax basis are growing at their fastest pace in seven years. Consumer confidence is absolutely soaring by multiple measures. And arguably, U.S. households are just getting warmed up. Remember, household savings were recently revised up and are substantially higher than the pre-crisis period, meaning those same exuberant consumers may have untapped spending power. Toss in a loosening of consumer credit standards into the mix, and it's not hard to imagine this expansion having more legs.

Our comment, "Well said!" And to all disbelievers, we are reminded of the famous Groucho Marx lament, "Who are you going to believe, me or your own eyes?!" Verily, just look at the chart on page 1, and then consider what happened in previous instances when the S&P 500 (SPX/2914.04) broke out above previous upside consolidation patterns. Bear in mind when the SPX broke out of the 14-month upside consolidation in 2016, it tacked on ~35%. That was reminiscent of the upside consolidation between 1994 and 1995 when, after said upside breakout, the SPX gained some 40%! You can see these events in the excellent report released yesterday by our colleague Andrew Adams. To be sure, "Who are you going to believe, me or your own eyes?!

Ladies and gentlemen, this is a secular bull market, and the cuties that called for a crash, and/or a range bound stock market, are missing the fact that secular bull markets last for 14+ years (1949-1966 or 1982-2000). Have we raised some cash from time to time when we thought a pullback was coming? You bet! Have we rebalanced and re-allocated capital from time to time? You bet! However, it has ALWAYS been within the construct of a secular bull market. In past missives, we have discussed where it began: in October 2008 when most stocks bottomed, March 2009 when the averages hit their nominal lows, or in April 2013 when the averages finally exceeded their previous all-time highs. You pick it! But, wherever you're starting point, there should be years left in this bull market.

We think the recent upside break-out above 2900 is sustainable, and we anticipated it! Whether it spikes higher here is doubtful, but a grinding higher scenario is likely in the cards. The short-term energy mix has been used up, suggesting the 2930-2935 level may stall the equity markets. So the S&P 500 looks poised to stand near its all-time highs with a more negative energy mix arriving next week, but nothing should carry the SPX back towards 2850. In Tuesday's Morning Tack, we suggested the SPX should "stall" for a while, and this morning, that's exactly what's happening as worries about China have surfaced again.

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.

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