Saut Strategy
Jeffrey Saut
Jeff@sautstrategy.com

"New York, New York" 6-3-19

"I'll make a brand new start of it
In old New York
If I can make it there, I'll make it anywhere
It's up to you, New York, New York"

. . . Frank Sinatra, The theme song from the Martin Scorses film *New York, New York* (1977), composed by John Kander.

Well, I have certainly made a new start of it after a wonderful 20+ year stint at the venereal firm of Raymond James. As previously stated, I am writing a stock market strategy letter under the domain of jeff@sautstratgey.com. My colleague Andrew Adams has brought back *Charts of the Week* in our Wednesday report, while another colleague, Harry Katica, is writing Friday's report on sectors and individual stocks ideas. I have also associated in a professional partnership relationship with the billion+ dollar money management firm of Naples, Florida-based Capital Wealth Planning (CWP) as a strategist and a portfolio manager. Last week CWP's founder and CEO, namely Kevin Simpson, accompanied me to my various haunts in New York City to meet some folks and do media "hits." I will not bore you with the events of the entire week, but I will share with you what a typical day looked like. Take last Wednesday. The day began with a hit on CNBC at 8:45 a.m. at the NASDAQ website with an interview conducted by my friend Becky Quick. From there Kevin and I walked to Barry Ritholtz's money management shop to talk about the markets and do a 20 minutes video with Barry and Josh Brown. I have known these guys for years and consider them to be some of the savviest folks on Wall Street.

Next was lunch with one of my favorite portfolio managers, Mary Lisanti, president of Lisanti Capital Growth and captain of Lisanti Small Cap Growth Fund (ASCGX/$20.64), a fund I have owned for a long time and have been very pleased with its performance. The lunch took place at Capital Grill on 42nd, a spot I tend to use for midtown lunches. A conversation with Mary is always insightful since she is a small cap genius. For the record, Mary was an institutional all-star technology analyst at EF Hutton, which is where I first heard of her (gosh I am old!). We discussed the various markets where she noted the Russel 2000, her benchmark, is comprised of the wrong stocks, while the Russell Value Index is WAY over-weighted in financials. Nevertheless, Mary is outperforming her benchmark by some 500 basis points (YTD), which the reason I love her investment style. While many topics were discussed between Mary, Kevin and myself, her insight about innovation really struck me. To wit, Mary noted that one of the reasons that Europe trailed in the move to the Industrial Revolution in the late 1700's was the fact that Europe was an agrarian economy that did not have much "innovation," which is necessary to morph into the "new world!" Fast forward to today, many of other countries' economies fail to possess that "innovation" that is necessary to move into the 21st century. Clearly, the United States currently does.

From there, we rode the number 4 express subway to Wall Street to see one of my best friends, and the best midstream Master Limited Partnership (MLP) portfolio manager (PM) in this country, Eric Kaufman, of VE Capital fame. Eric is the PM that told me 8 years ago to NOT own any upstream MLPs, like bankrupt Linn Energy, advice that was worth its weight in gold! Currently, he and Mary Lisanti, both like Enterprise Partners (EPD/$27.89), which yields ~6.3% on a tax favored basis. I own a lot of the midstream MLPs because they are out of favor, are the cheapest they have been in two decades, everyone hates them because they did not heed our advice to sell the upstream MLPs before the declined and the midstream got sold just because they were MLPs. Of interest, is that the two international PMs I met with a few times last week in NYC are buying the midstream MLPs.

From Eric's trading desk, in the old JP Morgan Bank building, across from the NYSE, Kevin and I went to Bobby Van's, right next to Eric's place, to imbibe at Friend of Fermentation (FoF), where another best friend, Arthur

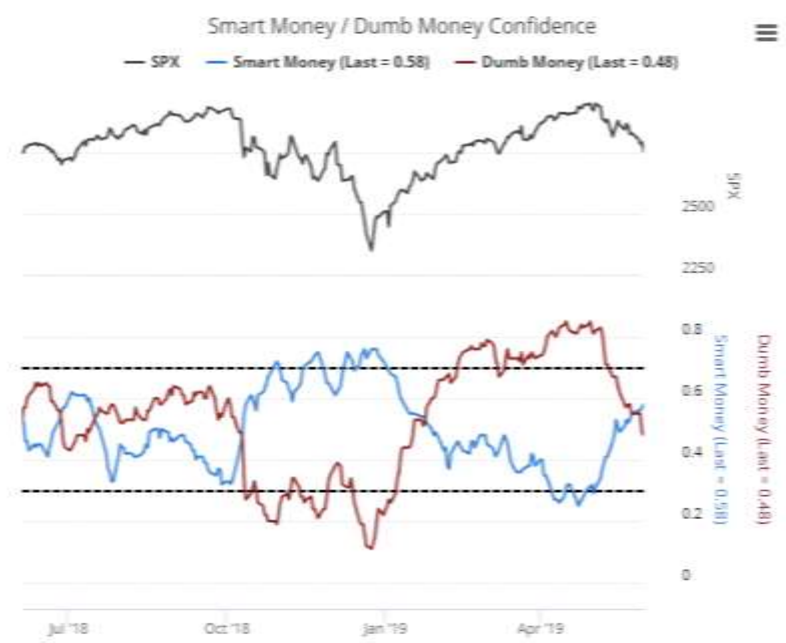
Cashin holds "court" every night at 4:15 p.m. while we marinate olives. Kevin sat next Arthur to get to know him, while I commiserated with Eric. There were a bunch of other FoF members there, but my writing space is limited.

Turning to the equity markets, our models "looked" for an "energy peak" in early May with a subsequent downside "polarity flip." Regrettably, our models do not tell us how severe the decline will be. Obviously, this one is more than we expected believing the 2800 level would hold on the S&P 500 (SPX/2752.06). That said, we wrote that the max downside our models currently show is 2750. However, those reading these missives for the past 49 years know that I am pretty connected in Washington, DC. Therefore, I was totally SURPRISED by the Mexican tariffs. Evidentially, ALL the folks in the administration were as well. Plainly, the stock market was surprised given Friday's Fade, which took-out the S&P 500's 200-day moving average.

The call for this week: The D-J Industrials (INDU/24815.04) are down six weeks in a row, which is a rare event. According to Bespoke Investment Group, "Since 1900, there have only been seven 7-week losing streaks and just one 8-week losing streak." This week would be week seven. The Total Put/Call Ratio was extremely high last week meaning there were a lot of folks making downside "bets" using "put options" as their proxy. Late last week Jason Goepfert's (SentimenTrader fame) Smart Money/Dumb Money Indicator saw smart money cross above dumb money (read: Bullish) as can be seen in the attendant chart. And don't look now, but there have been large outflows of money in the mutual fund complex (read: bullish). Our "internal energy" models are now fully recharged and our secondary support level of 2740 – 2750 has held, at least so far. Our work continues to suggest a sideways stock market into mid-June. As our pal Leon Tuey writes:

"Head-and-shoulders!", "Inverted Yield Curve!", "War with Iran!", "Tough talk between the U.S. and China", and other scary headlines fill the air. As always, the Doom Merchants and the professional gumflappers are working overtime. Little do they realize that the correction was nothing more than a normal reaction from a grossly overbought condition. Thus far, the correction is less than two months, yet, so much "noise" in such a short period of time. However, sentiment backdrop is ideal as fear prevails. Technically, many indicators are approaching oversold territory and additional weakness, therefore, will produce a grossly oversold condition and will cause the market to reverse to the upside. Accordingly, refrain from joining the crowd. On further weakness, re-deploy cash.

Chart 1



Source: SentimenTrader