Jeffrey D. Saut, Chief Investment Strategist, (727) 567-2644, Jeffrey.Saut@RaymondJames.com **October 22, 2018**

Investment Strategy

"Maybe I'm Amazed"

My friend and mentor Ray DeVoe use to say that going over old reports can be an exercise in humility, as you cringe while reading some errant forecast of another time. "How could I have been so stupid?" is the unsaid reaction. On the other hand it can be an ego trip, as you proudly go over some forecasts that were right on target. Then the unsaid comment is, "Why didn't I capitalize on this more?" or, "Why didn't I continually pound that theme, it was so obvious." But then you realize that it wasn't that obvious at the time, and that generally, conventional wisdom was running in the opposite direction. The reports that were off-base will not be covered in this missive, yet they seemed to be reasonable projections at the time. However, one set of reports that were correct will be mentioned only because they were so much against the conventional wisdom of the time.

So, we officially joined Raymond James in 1999. At the time stocks were soaring. Then on September 23, 1999 there was a Dow Theory "sell signal." We wrote about it and got hammered by financial advisors as to why we had turned negative. Our response was that it was not Jeff Saut, or even Raymond James, but Dow Theory suggesting the best had been seen and discounted. By the way, we looked like an idiot as the stock market headed higher into the spring of 2000. However, the stock market peaked in March 2000 and declined by some 50% into November 2002 where stocks began their bottoming process. Said process was complete by the spring of 2003, which was when a Dow Theory "buy signal" was registered. From there the S&P 500 would gain more than 100% and we were bullish.

That Bull Run lasted into the fall of 2007 and everyone was bullish with the D-J Industrials making new all-time highs. Yet on November 21, 2007 there was another Dow Theory "sell signal" and we wrote about it again and listened to the "cat calls" from all the bullish participants. This time there was no "forereach" (no more upside like between September 1999 and March 2000) as stocks began to slide and by March 2009 the S&P 500 had surrendered roughly 56% of its value. Yet, most stocks actually bottomed on October 10, 2008 when 92.6% of stocks made new annual lows. At the time we were writing that the bottoming process had begun and on March 2, 2009 we were on Bloomberg TV saying, "The bottoming process that began in October of last year is complete and we are all in!"

More recently, after all three of our proprietary models for all of 2017 were wildly bullish in mid-January 2018, our intermediate- and short-term proprietary models flashed sell signals and we recommended raising some cash on a trading basis. The subsequent decline saw the S&P 500 (SPX/2767.78) lose about 12% of its value into the February 9, 2018 undercut low, which we told participants to buy. From there the SPX would rally 16% into early October, when our short-term models flashed another sell signal on October 2. 2018, and we advised participants to sell trading positions. While our long-term prop model flipped bullish in October 2008, and has never turned bearish since, our short- and intermediate-term models are currently conflicted. Indeed, the intermediate-term model remains constructively configured, but our short-term model is still on a sell signal. Quite frankly, our instincts told us the equity markets bottomed on a trading basis on October 11, 2018 at ~2710, but last Thursday surprised us as the SPX lost a large 62 points from Wednesday's intraday high into Thursday's intraday low. This has left the SPX vulnerable to further downside.

We see it as one of two potential possibilities. First, prices could consolidate in a pretty narrow range into the mid-November energy peak often mentioned in these reports. Given the current level of energy, that is a distinct probability. However, there is still a lot of negative energy out there and if prices stay around the recent lows of 2710 – 2730 (basis the SPX), then we could experience another spell of panic selling that would take the SPX to new reaction lows. If this is a selling stampede, they typically last 17 – 25 sessions and we are 12 sessions into this one. Sometime such stampedes last 25 – 30 sessions, but it is really rare to see one go more than 30 sessions. Quite frankly, we feel much better about equites after the mid-November energy peak.

On a more positive note, it is worth mentioning that at the low of 2710, which we though would be the bottom, a rare bullish signal was registered. The two-session two-step decline that occurred last Wednesday and Thursday lopped some 5.3% off of the SPX for one of the largest two-session declines in the last 50 years. Moreover, the SPX has lost 7.8% from its all-time high into its recent ~2710 intraday low. In the process the Relative Strength Index (RSI) fell to a VERY rare reading of 17.6. A reading of below 30 is considered to be an extremely oversold level. However, over the last 30 years the RSI has only traded below 20 six times and every one of those times stocks have been a "buy." Accordingly, while we are conflicted on a short-term trading basis this is not the best place to be selling stocks. But again, we feel much better about stocks after the mid-November energy peak.

What remains amazing to us is that many Wall Street pundits, who NEVER saw the January - February or the October 2 to now declines coming, have rushed to publish a plethora of reports telling us what to do now! Maybe I'm Amazed (Amazed) at these false prophets who talk out of both sides of their mouths so that whatever the various markets do they can say, "See I told you that was going to happen." As often stated in these letters, we make calls. Most of the time they turn out fairly well, but when you take a stand, you are going to be wrong and wrong more often than you would expect. As the brilliant Peter Bernstein wrote:

> After 28 years at this post and 22 years before this in money management, I can sum up whatever wisdom I have accumulated this way: the trick is not to be the hottest stock-picker, the winning forecaster, or the developer of the neatest model; such victories are transient. The trick is to survive. Performing that trick requires a strong stomach for being wrong, because we are all going to be wrong more often than we expect. The future is not ours to know. But, it helps to know that being wrong is inevitable and normal, not some terrible tragedy, not some awful failing in reasoning, not even bad luck in most instances. Being wrong comes with the franchise of an activity whose outcome depends on an unknown future. Maybe the real trick is persuading clients of that inexorable truth.

The call for this week: We were certain about the January peak and subsequent decline into the February 9 undercut low that we were sure was the bottom. We were also certain about the short-term sell signal of October 2, 2018 and clearly thought the oversold low of ~2710 on October 11, 2018 was the low, but now we are not so certain. As stated:

"Quite frankly, our instincts told us the equity markets bottomed on a trading basis on October 11, 2018 at ~2710, but last Thursday surprised us as the SPX lost a large 62 points from Wednesday's intraday high into Thursday's intraday low of ~2755. This has left the SPX vulnerable to further downside."

We continue to like the action in the Healthcare sector. This morning the pre-opening futures are relatively flat (+4) as the Saudis say the Khashoggi killing was a huge mistake and the prince was not aware of it. For whatever reason, Friday was an inside day in the charts, which is rare on an option expiration, so traders will be sensitive to the SPX's intraday high (2797.77) and low (2760.27) from Friday.

Important Investor Disclosures

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities that are responsible for the creation and distribution of research in their respective areas: in Canada, Raymond James Ltd. (RJL), Suite 2100, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; in Europe, Raymond James Euro Equities SAS (also trading as Raymond James International), 40, rue La Boetie, 75008, Paris, France, +33 1 45 64 0500, and Raymond James Financial International Ltd., Broadwalk House, 5 Appold Street, London, England EC2A 2AG, +44 203 798 5600.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. **Investors should consider this report as only a single factor in making their investment decision.**

For clients in the United States: Any foreign securities discussed in this report are generally not eligible for sale in the U.S. unless they are listed on a U.S. exchange. This report is being provided to you for informational purposes only and does not represent a solicitation for the purchase or sale of a security in any state where such a solicitation would be illegal. Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details and to determine if a particular security is eligible for purchase in your state.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

Raymond James ("RJ") research reports are disseminated and available to RJ's retail and institutional clients simultaneously via electronic publication to RJ's internal proprietary websites (RJ Investor Access & RJ Capital Markets). Not all research reports are directly distributed to clients or third-party aggregators. Certain research reports may only be disseminated on RJ's internal proprietary websites; however such research reports will not contain estimates or changes to earnings forecasts, target price, valuation, or investment or suitability rating. Individual Research Analysts may also opt to circulate published research to one or more clients electronically. This electronic communication distribution is discretionary and is done only after the research has been publically disseminated via RJ's internal proprietary websites. The level and types of communications provided by Research Analysts to clients may vary depending on various factors including, but not limited to, the client's individual preference as to the frequency and manner of receiving communications from Research Analysts. For research reports, models, or other data available on a particular security, please contact your RJ Sales Representative or visit RJ Investor Access or RJ Capital Markets.

Links to third-party websites are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any website's users and/or members.

Additional information is available on request.

Simple Moving Average (SMA) - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.
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.

International securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Small-cap stocks generally involve greater risks. Dividends are not guaranteed and will fluctuate. Past performance may not be indicative of future results.

Investors should consider the investment objectives, risks, and charges and expenses of mutual funds and exchange-traded funds carefully before investing. The prospectus contains this and other information about mutual funds and exchange –traded funds. The prospectus is available from your financial advisor and should be read carefully before investing.

Not approved for rollover solicitations.

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This report is for the use of professional investment advisers and managers and is not intended for use by clients.

For purposes of the Financial Conduct Authority requirements, this research report is classified as independent with respect to conflict of interest management. RJFI, and Raymond James Investment Services, Ltd. are authorised and regulated by the Financial Conduct Authority in the United Kingdom.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monétaire et Financier" and Règlement Général de l'Autorité des Marchés Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers.

For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This report is not prepared subject to Canadian disclosure requirements, unless a Canadian analyst has contributed to the content of the report. In the case where there is Canadian analyst contribution, the report meets all applicable IIROC disclosure requirements.

Proprietary Rights Notice: By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement. No copyright claimed in incorporated U.S. government works.