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Investment Strategy: "I Should Have"

" . . . A man has rigged up a turkey trap with a trail of corn leading into a big box with a hinged door. The man holds a long piece of twine connected to the door that he can use to pull the door shut once enough turkeys have wandered into the box. However, once he shuts the door, he can't open it again without going back into the box, which would scare away any turkeys lurking on the outside. One day he had a dozen turkeys in his box. Then one walked out, leaving eleven. 'I should have pulled the string when there were twelve inside,' he thought, 'but maybe if I wait, he will walk back in.' While he was waiting for his twelfth turkey to return, two more turkeys walked out. 'I should have been satisfied with the eleven,' he thought. 'If just one of them walks back, I will pull the string.' While he was waiting, three more turkeys walked out. Eventually, he was left empty-handed. His problem was that he couldn't give up the idea that some of the original turkeys would return . . . "

. . . *Why You Win or Lose*, by Fred C. Kelly

I have used the aforementioned Fred Kelly quote off and on for nearly five decades, but I dredged it up again this morning since over the past five months I have received numerous voice mails/emails with the statement, "I should have!" To wit, "I should have raised cash on the October 2 trader's "sell signal." "I should have" bought the massive three session "selling climax" lows that ended on Christmas Eve in one of the most oversold readings I have seen in years. Since then the stock market rally has been legendary. The Dow Wow has lifted the senior index some 19% + from its intraday low into last Friday's intraday high. Of course the obligatory question following "I should have" is "what should I do now?"

Well to that point, many pundits continue to suggest that we will get a retest of the Christmas lows of 2346 basis the S&P 500 (SPX/2775.60). However, there are many instances where a major low was never retested. The December 1974, October 1975, March 1978, November 1979 lows were never retested and I could name many more. More recently, the March 2009 lows were NEVER retested. Yet the negative nabobs keep insisting the December 2018 lows will get retested. Someone sent us this over the weekend:

"Several weeks ago we did some research to find out what a typical rally looks like after a big waterfall-like decline takes place. The takeaway was that the rallies after those waterfall declines have lasted anywhere from 1 to 74 days and have retraced 20-90+% of the initial decline. That's quite a wide range in both duration and magnitude of the move, but a universal similarity was that in 19 of 19 post-war instances of a 15% uninterrupted decline (excluding the current one), the stock market ended up testing the waterfall low in some fashion. That is a pretty compelling statistic that flies in the face of what we are currently witnessing."

The writer goes on to document that statement, but in my opinion uses the wrong dates to make his point. For example, he uses the September 1974 low of 584.56 on the D-J Industrials, but the actual low came in December 1974 at 577.60 and was never retested. Nonetheless, I remain pretty convinced that barring some kind of terrible "black swan" news, the December 2018 lows will not be retested.

As for last week's stock market, the SPX's straight-up move left that index higher by 2.5% for the week and in the process eclipsed its 200-day moving average at 2744.88. Not to be outdone the Industrials (INDU/25883.25) rallied 3.1% and likewise closed decisively above their 200-DMA of 25035.68. Those 200-DMAs should now act as a support level. Interestingly, the Volatility Index (VIX/14.91) also tagged its 200-DMA of 16.51 last week, but failed to better it. However, it is worth watching the VIX for if it closes above the 200-DMA the performance by the SPX has been decent (Chart 1). Meanwhile, the S&P 500's Advance-Decline Line continues to trade toward new highs (Chart 2), but the rally off the December lows has left most industries/indexes very overbought on a near-term basis (Chart 3). Given the stock strength one would think the economic backdrop would be pretty good, but that is just not the case. Take last week, the economic reports were either bad or terrible (industrial production, December retail sales, etc.). This caused the Citi Economic Surprise Index to record its biggest one day drop since January 2016. However, I am not paying much attention to the recent economic statistics because of the government shutdown.

To me, the recent stock market action looks like an upside "blow off" trading top. According to Investopedia:

"A blow-off top is a chart pattern that indicates a steep and rapid increase in a security's price and trading volume followed by a steep and rapid drop in price and volume. The rapid changes indicated by a blow-off top, also called a blow-off move or exhaustion move, can be the result of actual news or pure speculation."

The call for this week: Even though this feels like a "blow off trading top" I still do not think the December lows will be retested. The invaluable Lowry Research Organization agrees as they wrote over the weekend (as paraphrased):

Lowry identified nine instances since 1940 when their Short Term Index expanded this well from an oversold condition as it has since the December 2018 low. Seven occurred when the S&P 500 was below its 200-DMA and were roughly coincident with a new trend buy signal. The S&P 500 on average rallied some 35% over the next 12 months and 55% over the next two years.

This morning the preopening futures are flat as U.S. China trade talks make little progress. Yet, President Trump apparently decided that he had to spin the negative trade negotiation reports that appeared during Asian trading into something positive. DJT said the U.S. and China talks are going well; the parties are 'a lot closer' to making a trade deal and he might extend the March 1 deadline and hinted at an extension of the talks. Despite Friday's Fling, there was a very negative NYSE breadth divergence which appeared during the final two hours of trading. It feels like a blow off trading top to me.

Chart 1

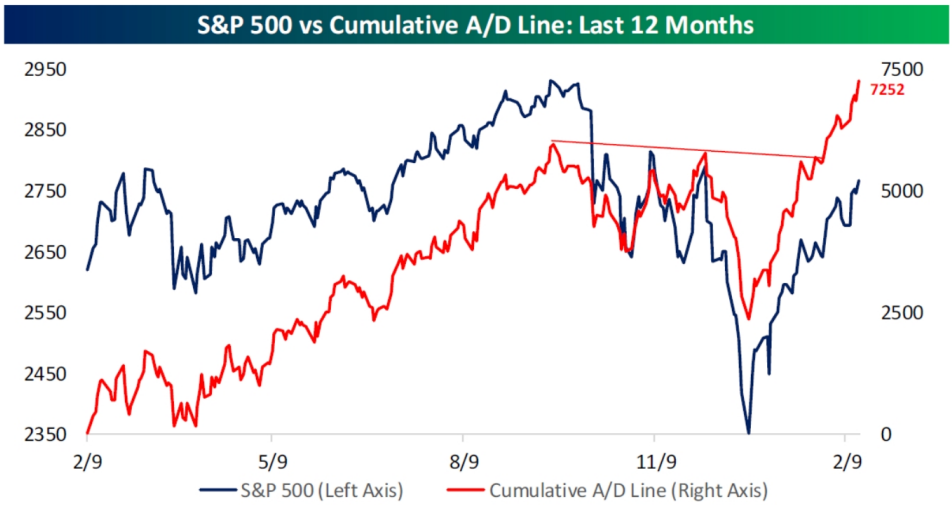
S&P 500 Performance After Extended Periods of VIX Being Above 200-DMA*

Date	Treading Days Above 200-DMA	S&P 500 Performance (%) One Month	Three Months	Six Months	One Year
6/26/96	102	-4.29	3.23	13.76	33.01
4/15/97	95	11.55	22.66	27.96	48.31
11/18/98	78	3.81	8.11	16.50	24.51
11/14/02	105	-1.64	-7.67	3.87	16.15
12/20/07	170	-9.24	-8.95	-9.74	-39.19
3/17/09	131	11.76	17.04	36.93	49.88
12/12/11	99	4.77	10.89	7.09	15.53
5/8/18	79	4.01	6.95	5.05	
1/31/19	79				
Average		**2.59**	**6.53**	**12.68**	**21.17**
Median		**3.91**	**7.53**	**10.43**	**24.51**
% Positive		**62.5**	**75.0**	**87.5**	**85.7**

** Above 200-DMA for 75+ Trading Days*

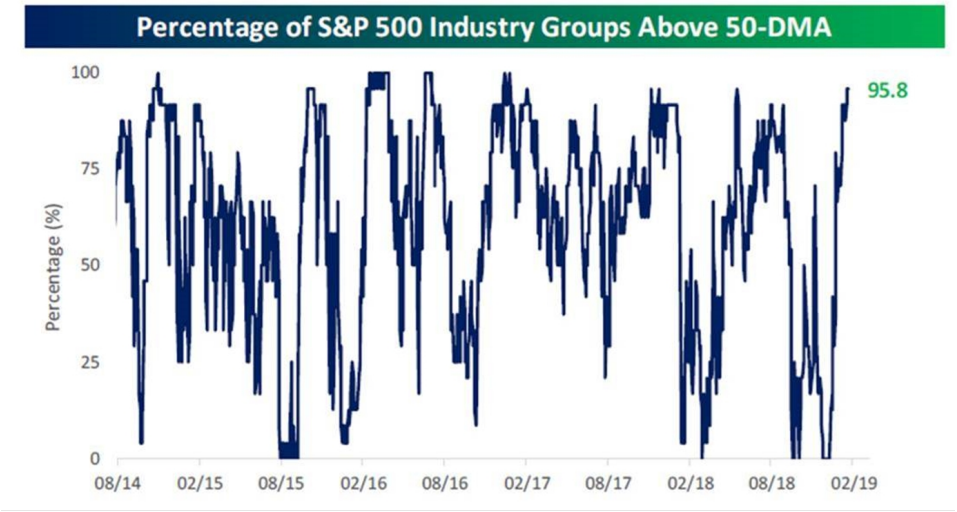
Source: Bespoke Investment Group

Chart 2



Source: Bespoke Investment Group

Chart 3



Source: Bespoke Investment Group

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	Coverage Universe Rating Distribution*		Investment Banking Relationships	
	RJA	RJL	RJA	RJL
Strong Buy and Outperform (Buy)	57%	70%	23%	26%
Market Perform (Hold)	39%	27%	9%	3%
Underperform (Sell)	4%	3%	5%	0%

** Columns may not add to 100% due to rounding.*

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

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High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

Company Name	Disclosure
The Estee Lauder Companies Inc., Harris Corporation, Mohawk Industries, Inc., MiX Telematics Limited and New Relic, Inc.	Raymond James & Associates, Inc. makes a market in the shares of The Estee Lauder Companies Inc., Harris Corporation, Mohawk Industries, Inc., MiX Telematics Limited and New Relic, Inc..

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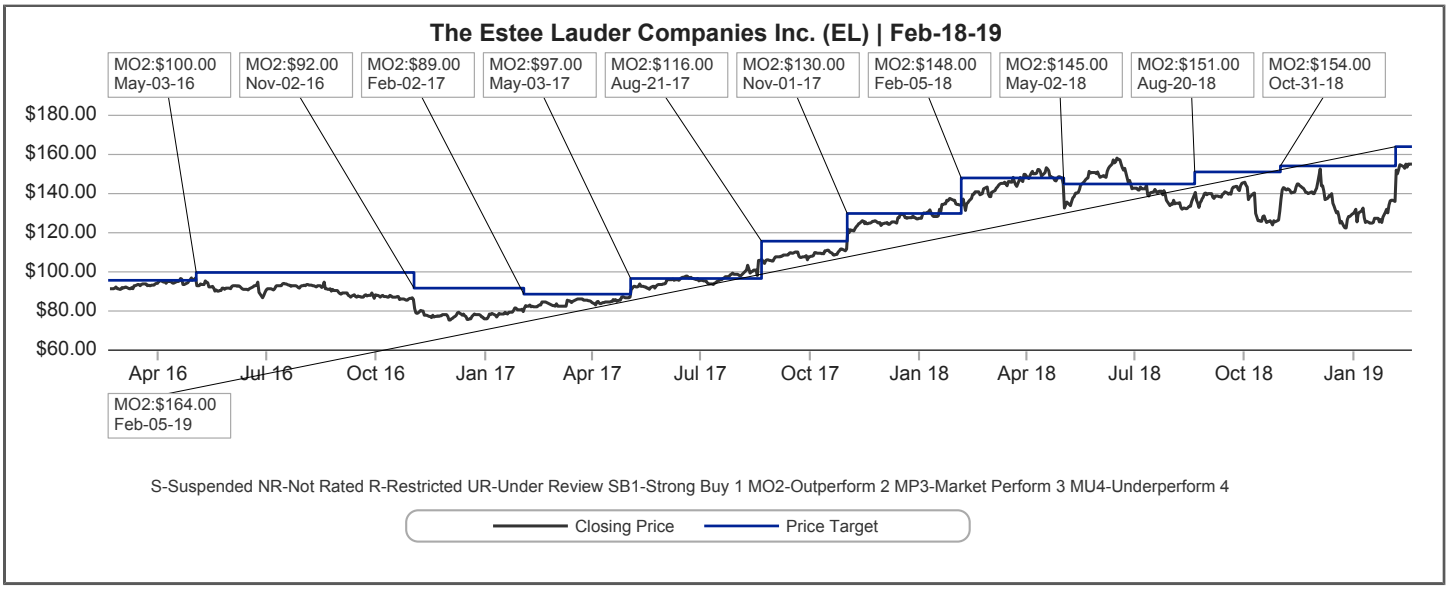
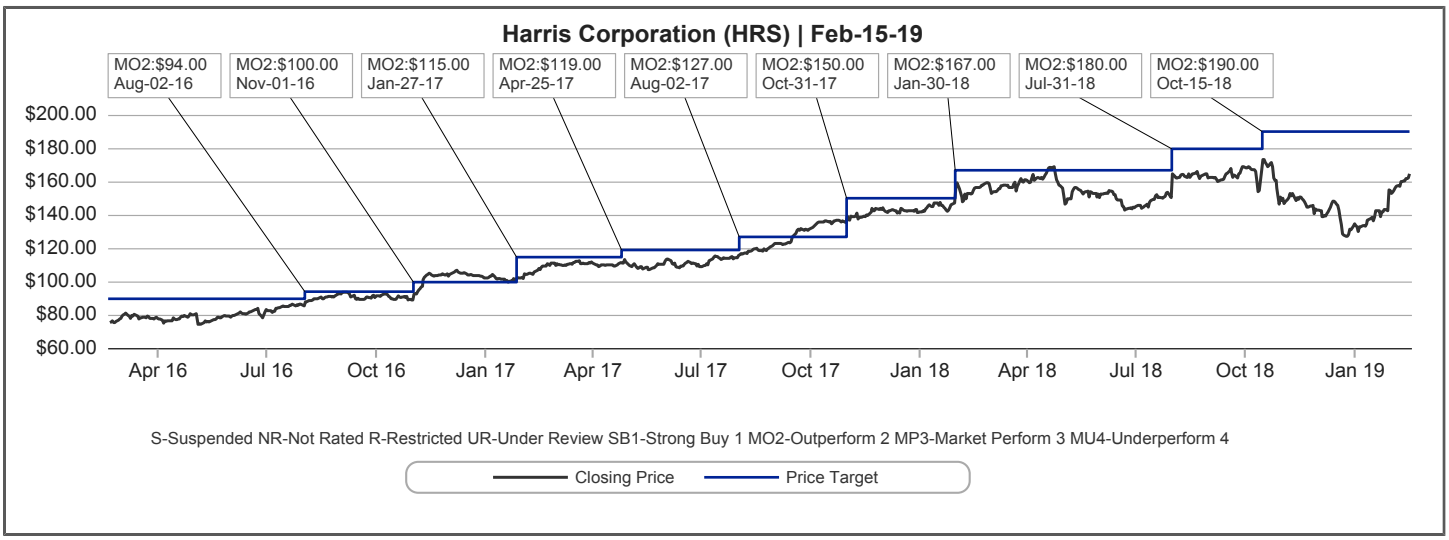
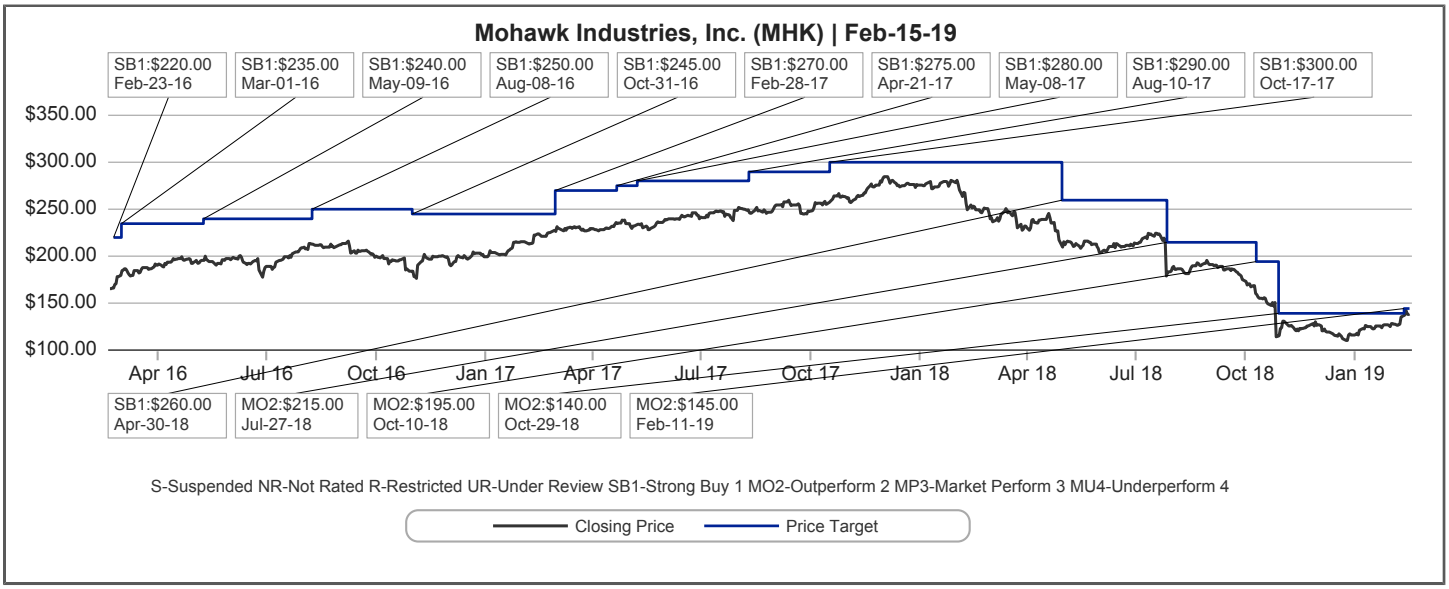
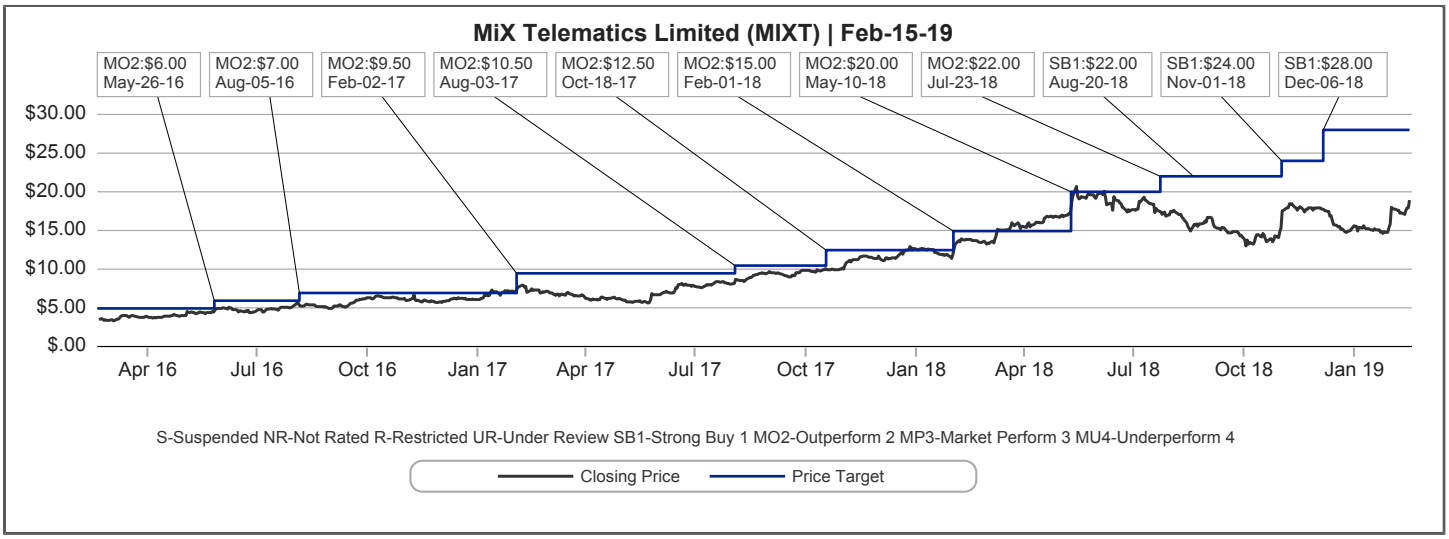
Target Prices: The information below indicates our target price and rating changes for the subject companies over the past three years.






Mohawk Industries, Inc. (MHK) | Feb-15-19
SB1:$220.00 Feb-23-16
SB1:$235.00 Mar-01-16
SB1:$240.00 May-09-16
SB1:$250.00 Aug-08-16
SB1:$245.00 Oct-31-16
SB1:$270.00 Feb-28-17
SB1:$275.00 Apr-21-17
SB1:$280.00 May-08-17
SB1:$290.00 Aug-10-17
SB1:$300.00 Oct-17-17
$350.00
$300.00
$250.00
$200.00
$150.00
$100.00
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
Oct 17
Jan 18
Apr 18
Jul 18
Oct 18
Jan 19
SB1:$260.00 Apr-30-18
MO2:$215.00 Jul-27-18
MO2:$195.00 Oct-10-18
MO2:$140.00 Oct-29-18
MO2:$145.00 Feb-11-19
S-Suspended NR-Not Rated R-Restricted UR-Under Review SB1-Strong Buy 1 MO2-Outperform 2 MP3-Market Perform 3 MU4-Underperform 4
Closing Price
Price Target


MiX Telematics Limited (MIXT) | Feb-15-19
MO2:$6.00 May-26-16
MO2:$7.00 Aug-05-16
MO2:$9.50 Feb-02-17
MO2:$10.50 Aug-03-17
MO2:$12.50 Oct-18-17
MO2:$15.00 Feb-01-18
MO2:$20.00 May-10-18
MO2:$22.00 Jul-23-18
SB1:$22.00 Aug-20-18
SB1:$24.00 Nov-01-18
SB1:$28.00 Dec-06-18
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$.00
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
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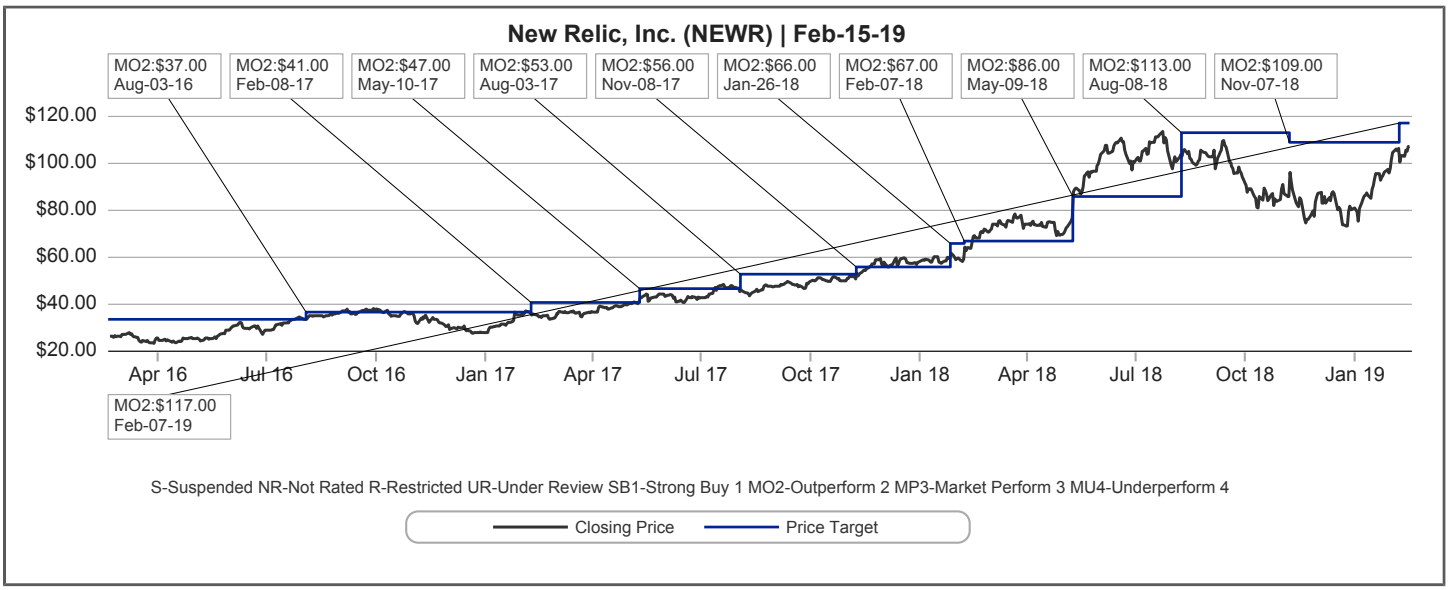
Apr 18
Jul 18
Oct 18
Jan 19
S-Suspended NR-Not Rated R-Restricted UR-Under Review SB1-Strong Buy 1 MO2-Outperform 2 MP3-Market Perform 3 MU4-Underperform 4
Closing Price
Price Target


New Relic, Inc. (NEWR) | Feb-15-19
MO2:$37.00 Aug-03-16
MO2:$41.00 Feb-08-17
MO2:$47.00 May-10-17
MO2:$53.00 Aug-03-17
MO2:$56.00 Nov-08-17
MO2:$66.00 Jan-26-18
MO2:$67.00 Feb-07-18
MO2:$86.00 May-09-18
MO2:$113.00 Aug-08-18
MO2:$109.00 Nov-07-18
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
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Apr 18
Jul 18
Oct 18
Jan 19
MO2:$117.00 Feb-07-19
S-Suspended NR-Not Rated R-Restricted UR-Under Review SB1-Strong Buy 1 MO2-Outperform 2 MP3-Market Perform 3 MU4-Underperform 4
Closing Price
Price Target

Valuation Methodology

The Estee Lauder Companies Inc.:
EL valuation is based on our target P/E multiple.

Harris Corporation:
Our valuation analysis for Harris Corporation is primarily based on forward enterprise value/EBITDA and P/E multiples in the context of the company's historical trading range and current/historical peer group averages.

Mohawk Industries, Inc.:
For Mohawk, our methodology begins with an analysis that culminates with the development of forward projections of earnings, balance sheet, and cash flow statements. Using these projections, we calculate measures of current and projected intrinsic values. We also monitor and use additional valuation metrics including comparable and historical P/E, MEV/EBITDA, and price-to-sales ratios. These calculations and comparisons then form the basis for our judgments.

MiX Telematics Limited:
We believe enterprise value-to-sales (EV/sales) represents a reasonable valuation metric for many of our small cap application software and SaaS-oriented stocks given the immature nature of their financial models with significant upfront investments in sales and marketing, R&D and growth infrastructure occurring ahead of associated revenue monetization. With the emphasis in small-cap tech investing focused on maximizing growth and addressable market opportunities, other valuation metrics such as EV/EBITDA, EV/free cash flow (FCF), and price-to-earnings (P/E) will likely remain less relevant, in our opinion. EV/sales is a common valuation methodology in enterprise software, and when utilized in combination with relative top-line growth rate assumptions, provides a foundation for valuing SaaS stocks, in our opinion. Longer term, we believe significant operating leverage could materialize given the high margin nature of recurring revenue and inclusion of additional valuation metrics that take into account EBITDA, FCF, or earnings would become more relevant.

New Relic, Inc.:
Our valuation methodology for NEWR is based on an EV/revenue multiple relative to peers.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the business of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Company-Specific Risks

The Estee Lauder Companies Inc.:
Risks to Estee Lauder include: 1) Continued slowing growth within the global prestige beauty market, as well as disruptions in certain key emerging markets in Asia, Russia, and the Middle East; 2) foreign currency exchange rates, particularly a strengthening of the U.S. dollar (roughly 60% of its sales are outside the U.S.); 3) heightened competitive pressures; and 4) the ability to stabilize its skin care business within North American department stores.

Harris Corporation:
Concentrated Government Business
Harris is highly dependent on sales to U.S. government customers. Typically, the percentage of net revenue derived from salesto U.S. government customers, including the DoDand intelligence and civilian agencies, as well as foreign military sales through the U.S. government, whether directly or through prime contractors, is 60% to 70%.
High Exposure to Fixed-Price Contracts
Harris enters into fixed-price contracts that couldsubject the company to losses in the event of cost overruns or a significant increase in inflation.
High Exposure to International Markets
Harris derives a substantial portion of revenue from international operations and is subject to the risks of doing business internationally, including fluctuations in currency exchange rates.

Mohawk Industries, Inc.:

High Correlation with Housing Activity
Financial results from companies in this industry have a high correlation with new home construction and existing home sales. Cyclical or structural weakness in home activity would likely pressure industry financial results as a whole. In addition, consumers generally purchase big-ticket home-related goods when they believe home prices are likely to appreciate (justifying the additional investment). To the extent that home prices are weak, it could negatively affect the industry.
Reliance on Consumer Spending
Companies in this industry generally rely on consumer spending to drive sales. If consumer spending were to weaken as a result of general economic weakness, then it would be likely that industry financial results would be negatively affected.
Generally Discretionary Purchases
With some exceptions, companies in this industry are generally selling discretionary (or at least postponable) goods. This implies that the sector may not weather an economic downturn as well as consumer staples.
Concentrated Distribution Channels
Big box home retailers represent a large portion of industry sales (with the exact representation depending highly on the specific category). These retailers generally have significantly more bargaining power than the manufacturer suppliers in the industry. In some cases, this puts additional risk on the supplier.
Raw Material Input Costs
In general, home & building product manufacturers use a significant amount of raw materials in the production of goods. If raw material costs rise and are not able to be passed through in the form of higher pricing, then industry financial results would likely suffer.
Currency Risk
Companies in this industry generally have some percentage of exposure outside of the U.S. Should the U.S. dollar strengthen against foreign currencies, it could negatively impact sales and margin for those companies with exposure.

MiX Telematics Limited:
Managing a Global Business - The company generates close to ~44% of revenue from outside of Africa with Middle East, Australasia, Americas, and Europe all contributing materially to revenue as well as to costs and infrastructure investments. Managing a globally distributed business could prove difficult for a company that is still relatively small by enterprise software standards. Plus, wide-ranging economic conditions in the various geographic markets it plays in could result in a higher degree of volatility in business demand and the company's financial results.
Serving a Diverse Set of Customer End-Markets - While large commercial fleets (100 vehicles or more) account for close to 75% of the company's fleet subscriber base, the company has meaningful business with small and mid-sized commercial fleet operators as well as a diverse set of consumer-centric customers. Serving different customer end markets requires varying go-to-market models, product requirements and investment levels. In addition, the fleet and consumer businesses reflect distinctly different operating metrics related to average selling prices (ASP), churn, and customer lifetime value.
Potential for Adverse Forex Movement and Financial Model Impact - The functional reporting currency is the rand. Significant volatility in key currencies such as the U.S. dollar, Australian dollar, euro, and British pound could skew reported revenue results, growth rates, and earnings. While the company could institute some transactional hedging, as well as leverage natural operating hedging in the countries in which it operates, reported results could be volatile quarter to quarter despite the high degree of visibility associated with a subscription revenue model.
Investing More Aggressively for Growth - The company has maintained a balanced approach between investing for growth and showing operating leverage. However, if the company shifts toward investing for growth, then this could impact the balance and profit levels in the short to intermediate term. Increased growth investments may not drive top-line growth acceleration or time to benefit could be longer than expected.
Potential for Acquisitions - The company has made several acquisitions in the past. We believe one of the ways the company could execute on its growth strategy is through focused M&A that accelerates its traction in targeted geographies or adds additional capabilities to the company's product portfolio. Such M&A could materially reduce the company's cash balance, thus limiting future operating flexibility, diluting earnings and/or distracting management from executing in the core business.
Increased Competition - While competition is currently highly fragmented and consists of many regional players, acquisitions by larger capitalized companies attracted to the market's growth potential, greater interest in the space by larger telematics players or increased activity by truck and car manufacturers with OEM-based solutions could intensify competition, lead to greater price competition, and otherwise impact MiX's growth and profit potential.

New Relic, Inc.:
New Relic competes against large legacy APM incumbents such as Dynatrace, IBM, CA, and BMC. These companies have very large installed bases to sell into and could price APM aggressively. CA is investing in and modernizing its APM product in response to "next-gen" competition. New Relic also competes against other aggressive "next-gen" vendors, including AppDynamics, and "machine data" analytics vendor Splunk.
New Relic is entering the crowded analytics field with its Insights product, pitting it against pure-play analytics vendors such as Qlik Technologies and Tableau Software; log management companies such as Splunk and SumoLogic; as well as large BI vendors Oracle, IBM, and SAP. Salesforce.com also participates with its "analytics cloud."
New Relic has primarily been an SMB/departmental sales model. Moving to an enterprise/direct sales model carries execution risk around building an enterprise sales force and distribution channel.

While the company has turned profitable on a Non-GAAP basis, the company has yet to be profitable on a GAAP basis. We view risk to margins given top-line growth motivations to be a $1 billion run-rate business.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at raymondjames.bluematrix.com/sellside/Disclosures.action**. Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see RaymondJames.com for office locations) or by calling 727-567-1000, toll free 800-237-5643.**

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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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.

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