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Investment Strategy: "Random Gleanings on a Nothing Week"

I titled Friday's *Morning Tack* "Nothing From Nothing," which was a 1974 hit song by Billy Preston. As scribed last Friday:

> We entered this week with my short-term indicators suggesting the stock market was not going to do much this week since on a trading basis the stock market was out of internal energy. So far, that's been a pretty good short-term trading call since the S&P 500 closed last Friday (4-12-19) at 2907.41 and yesterday closed at 2900.45.

On last Thursday's closing bell that "nothing call" looked even better with the S&P 500 ending the session at 2905.03, a mere ~2-points below the April 12 closing price of 2907.41. I went on to write:

> That "nothing from nothing" view, however, according to my indicators, should change mid-week next week [that would be this week], or the following week, when the stock market's internal energy is rebuilt and my expectation is the S&P 500 trades out to new all-time highs in the weeks ahead.

I still feel that way. Of course, such short-term "calls" are just that, "trading calls," and have nothing to do with my long-term strategy that we are in a secular bull market that has years left to run.

So, last week I was on a number of TV shows, as well as radio shows, and was asked not only about the short and long-term direction of the equity markets, but a few of the anchors asked me the ubiquitous question regarding an impending recession and aren't we in a late-cycle environment. For quite some time I have espoused that the economic downturn was so severe, and the subsequent rebound so muted, that what has happened is we have elongated the mid-cycle and have not yet transitioned into late-cycle. If we are in late-cycle, why are the late-cycle stocks acting so poorly? If we are in late-cycle, why are the industrial metals acting so well? If we are in late-cycle, why are the economically sensitive D-J Transports (INDU/10988.22) breaking out to the upside in the charts? In fact, we are very close to getting a "buy signal" from Dow Theory.

As for the question about the slowing Chinese economy, and if that is going to pull the U.S. economy into a recession, I seriously doubt it. Recent Chinese economic reports have been better than expected. As stated, industrial metals have caught a "bid." And the Chinese 10-year yields have risen over the past few weeks from 3.00% to 3.40%, a sign its bond market is anticipating a stronger economy.

Speaking to the questions about the weakness in the healthcare complex, clearly it is driven by the D.C. chatter about universal "Medicare/ Medicaid for all" from the Democratic candidates for president. As Tom Essaye's invaluable "Sevens Report" wrote last Thursday:

> I'm not quite ready to buy the sector today, but the aging of the US population is a statistical fact we know will occur, and it will be very positive for the healthcare industry for years to come. So, at these values, and amidst a selloff that's driven by a perceived political threat, I am going to dive in and see where there's value in this sector. More on that next week.

On this same healthcare topic, our D.C.-based political analyst, Ed Mills, writes:

> **"Medicare for All" pressures stocks.** While there weren't any meaningfully new developments to come out of Washington this week, the markets remained heavily focused on the possibility of Medicare for All becoming law. We believe the genesis of this shift in sentiment was a Fox News hosted/ televised town hall event with Presidential candidate Bernie Sanders. The crowd's enthusiasm for Medicare for All was evident and it led to healthcare payors and providers experiencing a substantial market downturn (managed care index was down ~13% on the week). We believe there is less than a 1% chance of this becoming law in the next 3 years.

The indiscriminate sell off of the healthcare sector is interesting to me since I tend to be a contrary investor, which is the reason I have been buying the energy sector with emphasis on the midstream MLPs. As our Chief Investment Officer (CIO), Larry Adam writes:

> Watch energy company earnings over the next few weeks such as Halliburton (Mon) and Exxon Mobil and Chevron (Fri) for their capex guidance. Capital discipline, despite the recent rally in oil prices, is a positive for oil in 2020 and beyond, since a more disciplined approach to capital allocation will ultimately boost stability for what has historically been a textbook "boom and bust" industry. Our year-end target remains $70/barrel.

In the healthcare space one area that has great upside over the next five years is gene sequencing. According to Wikipedia:

> Knowledge of **DNA sequences** has become indispensable for basic biological research, and in numerous applied fields such as medical diagnosis, biotechnology, forensic biology, virology, and biological systematics. The rapid speed of sequencing attained with modern DNA sequencing technology has been instrumental in the sequencing of complete DNA sequences, or genomes, of numerous types and species of life, including the human genome and other complete DNA sequences of many animal, plant, and microbial species.

This gene sequencing theme has a super bright future for unlocking the secrets to cure/prevent many of the worst diseases known to man.

One final random gleaning. Last week I met with Jeremy Schwartz, Director of Research for WisdomTree. During our meeting he told me about an interesting Exchange Traded Fund (ETF) that is "earnings weighted" rather than market cap weighted. Since I believe the equity markets transitioned from an interest rate to an earnings driven secular bull in 2015, I found this ETF intriguing. The ETF in question is:

> The WisdomTree U.S. Large Cap Index (EPS/$32.91) is a fundamentally weighted index that measures the performance of earnings-generating companies within the large-capitalization segment of the U.S. Stock Market. The index is earnings-weighted in December of each year to reflect the proportionate share of the aggregate earnings each component company has generated. Companies with greater earnings generally have larger weights in the index.

The call for this week: The "Nothing From Nothing" stock call should end mid-week this week.

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