

Of Special Interest

**Lessons From The Old Masters: John Neff**

Jul 3, 2019



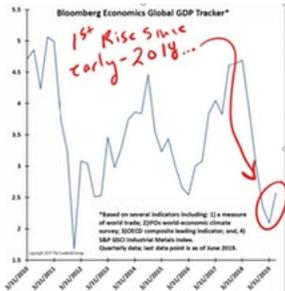
We believe the results of every investment operation depend, more than anything else, on the quality of the investment philosophy and process that drives the portfolio.

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JULY 08

Paulsen

**A Picture Is Worth 1,000 Words ... and it was a holiday week and I felt lazy.**



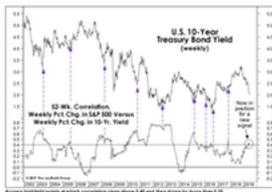
There is still plenty to worry about. The never-ending trade war enters yet another round of negotiations, geopolitical risk simmer, many economic reports (both in the U.S. and around the globe) remain weak, the size of negative-yield debt is becoming nearly as large as U.S. GDP, the U.S. stock market continues to exhibit a worrisome “triple-top” pattern, small cap stocks continue to trail, the yield curve is still inverted and, because of a “strong” jobs report on Friday, there is now doubt about whether the Fed will cut interest rates later this month.

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JULY 05

Stock Market

**Correlations Are Worthless, Except This One**



We’ve never understood investment quants’ desire to project correlations among assets. Such correlations are inherentl unstable.

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JULY 05

[Stock Market](#)  
**[Building The Wall?](#)**

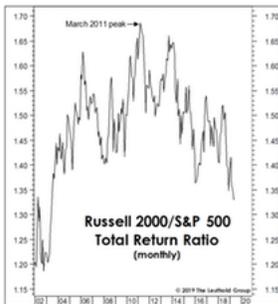


One of the more impressive feats that bullish pundits have pulled off is their successful portrayal of themselves as lonely and misunderstand contrarians even as the eleventh year of a cyclical bull market grinds on.

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JULY 05

[Stock Market](#)  
**[Big Is Still Beautiful](#)**



The 10-year-old bull grabs most of the headlines, but its younger sibling has begun to command more respect.

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JULY 04

[Macro Monitor](#)  
**[Slowdown Or Recession? Confidence Is Key](#)**



The pattern of sharp sell-offs followed by equally sharp rallies continued in June. Most risky assets recouped nearly all the losses suffered in May, and then some.





COTW

**The Market Is On Fire... Unless It's Ice**

Does A New High In NYSE Breadth  
During June Impact Second-Half  
Stock Market Returns?

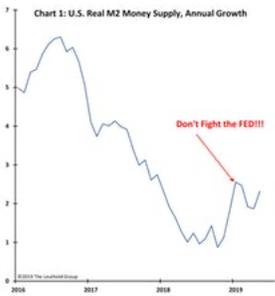
Years In Which S&P 500 Made A 12-Month Closing High On Any Day During June	Second Half Performance	
	S&P 500 High Confirmed By NYSE A/D Line	S&P 500 High Not Confirmed By NYSE A/D Line
1929		-22.3 %
1933	-7.4 %	
1935	31.3	
1943	-5.5	
1944	2.3	
1945	16.0	
1948		-9.2
1950	15.4	
1952		6.5
1954	23.2	
1955	10.8	
1964		3.8
1968		4.3
1975	-5.3	
1976		3.1
1983	-1.9	
1985	10.1	
1986		-3.5
1987		-18.7
1989	11.1	
1990		-7.8
1995	13.1	
1997	9.6	
1998		8.4
1999		7.0
2003	14.1	
2007	-2.3	
2014	5.0	
2017	10.3	
2019	?	
Average	8.3 %	-2.6 %

Yesterday's S&P 500 new all-time high triggered a few simple internal studies we've used to help shape second-half expectations for the stock market.

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Paulsen

**A Three-Gun Gooser**



This week the Federal Reserve delivered the requisite preamble signaling an inevitable cut in the Fed funds rate. Following that, the 10-year Treasury yield declined below 2%, financial markets now point to a 100% probability of a rate reduction, and the old adage 'Don't Fight the Fed' has been ringing in investors' ears.

[➔ READ MORE](#)

Major Trend

### MTI: Consumer Confidence Worrisome "Inversion"

PRESENT SITUATION		LATEST READING		Rate	
Index	Value	Line	Value	Change	
1300	1200	Consumer Confidence	104	101	-0.03
1300	1200	Consumer Sentiment	104	101	-0.03
1300	1200	Consumer Expectations	104	101	-0.03
1300	1200	Consumer Sentiment	104	101	-0.03
1300	1200	Consumer Expectations	104	101	-0.03
1300	1200	Consumer Sentiment	104	101	-0.03
1300	1200	Consumer Expectations	104	101	-0.03

A less-publicized, but still worrisome "inversion" occurring beyond the Treasury market is that of Consumer Confidence, in which the Conference Board's Present Situation Index has soared almost 70 points above the Expectations Index. This gap always becomes extreme in the late stages of an economic expansion, and today's reading surpasses those recorded at a business cycle peaks other than February 2001.

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JUNE 18

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### Watch What I Do... Not What I Say!



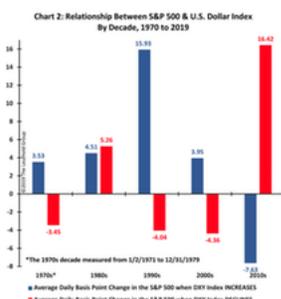
Surveys are conducted frequently on Wall Street as investors are always assessing whether there are too many bulls or too many bears. The problem with surveys is people do not always do what they say (perhaps as we found out leading up to the last presidential election).

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JUNE 17

Paulsen

### The Odd Couple?



A survey asking equity investors whether the stock market does best with a strong or weak U.S. dollar would likely yield a variety of contradicting opinions—and they would all be correct! Like many couples, the stock/dollar relationship is complicated. Sometimes they get along blissfully, other times they separate because they find they rarely agree and, ofte

they simply seem indifferent to each other. They are an odd couple!

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JUNE 14

[COTW](#)

## [Deflation And Deception](#)



We think the current economic cycle is more likely to end in a deflationary bust than with a bout of late-cycle “overheating” and analysts and investors should recognize that such a cycle ending could be especially difficult to detect.

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JUNE 13

[Inflation Watch](#)

## [May Inflation—Dude, Where’s My Rate Cut?](#)



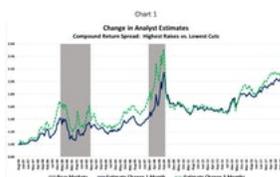
The latest batch of softer than expected inflation figures gives the Fed more cover for a rate cut. Consumer inflation expectations are now the lowest in two years. Housing price increases remain critical to overall inflation.

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JUNE 12

[Of Special Interest](#)

## [Can Smart Analysts Generate Smart Beta?](#)



One of the virtues of quantitative investing is that it relies on measurable data points that fit smoothly into mathematical models.

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JUNE 11

[Major Trend](#)  
**MTI: Economic Measures Continue To Lose Ground**

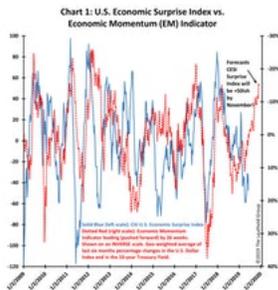
POTENTIAL		LATEST NET BEARINGS	Net
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200
1200	1200	1200	1200

We view market and economic risks as high, but the Momentum picture has been convincing enough to prevent us from adopting a maximally defensive posture.

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JUNE 10

[Paulsen](#)  
**Will Stimulus “Trump” Trade?**



U.S. economic growth has recently slowed and most attribute the weakening to trade wars now being fought on several fronts (China, Mexico, Europe?). Bond vigilantes have become so concerned about the potential for negative economic fallout that they have inverted the yield curve.

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JUNE 07

[Equity Strategies](#)  
**Homebuilding Stocks Take Flight**



Homebuilding rose to rank #1 among our universe in our latest monthly Group Selection (GS) Scores. The industry has staged an impressive turnaround, beginning in October 2018, with strong returns outpacing the S&P 500 by more than 2. YTD.

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JUNE 07

### Macro Monitor

## All That You Don't Hear About The Curve



While the 10Y-3M curve inversion does warrant extra attention, movements in other parts of the curve also need to be taken into consideration.

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JUNE 07

### Stock Market

## Time For Dividend Stocks, But Stick With Quality



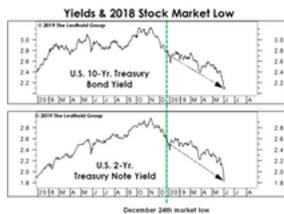
With multiple indicators flashing signs of an economic slowdown amid trade war uncertainty, investors are betting that a interest rate cut is on the horizon.

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JUNE 07

### Stock Market

## Take A Closer Look At "Goldilocks"

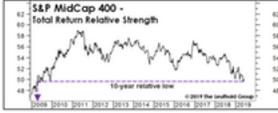


We've frequently written of the uncanny parallels between the rallies of 2018-19 and 1998-99, but hope that newer reader don't mistake this analysis as a forecast.

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JUNE 07

## Stock Market "Granddaddy" Tells A Lie



Based on the "granddaddy" of all technical indicators—the daily advance/decline line—we wouldn't normally be worried that the April 30th high in the S&P 500 could be the final high of the bull market.

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JUNE 07

## Stock Market Still Tracing Out A Top

Major market tops are drawn-out processes that can prove costly, and infuriating, to bulls and bears alike. Younger readers might be surprised to know that was true before Twitter.

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JUNE 04

## Major Trend MTI Back In Negative Territory

POTENTIAL		LATEST READING		Net		
STOCKS						
1200	1200	System Value	Gain 57	64	400	294
1200	1200	Equities-System Ratio/Share	Gain 9	142	260	41
1200	1200	Accruals*	Gain 70	247	231	-17
4000	4000	Equity Holdings	Gain 21	50	460	-70
1800	1800	Noncorporate Holdings Change/Share	Loss 107	417	171	247
				1100	1700	-120

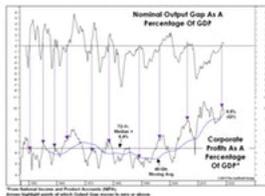
\* Last Available Dates: 1 and 2-quarter Dates: 2017 to 1st 1/2 of "Current" month

We don't like "news-driven" market moves, and it's pretty obvious that May's decline was due in large part to the ramp-up the trade war. That said, trends in the economy and earnings were already weakening prior to the latest escalation.

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MAY 31

## COTW An Economy This Healthy Is Hostile To Profits



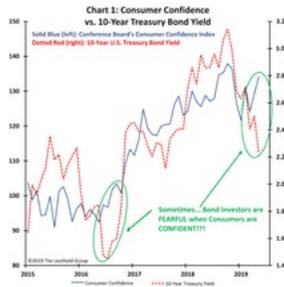
It's hard to grow profits when an economy's resources are already fully employed, a fact we highlighted when the U.S. Output Gap turned positive several quarters ago. Therefore, the first quarter drop in NIPA corporate profits, reported yesterday, shouldn't have come as a surprise.

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MAY 31

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## What Doesn't Kill You... May Make You Rich?



The bond market is now the primary fear for stock investors. Bond yields just keep declining, the yield curve has again inverted, and many wonder 'why is the bond market so spooked?' Could it be signaling a recession and therefore a bear market?

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MAY 29

[Major Trend](#)

## MTI: Economic/Momentum Continue To Lose Steam

POSSIBLE WEAKEN		LATELY NOT READY		Net		
		Value	Vol	Vol		
1200	1200	Services Yield	Value 22	94	307	413
1200	1200	Economic/Momentum Research/Service	Value 30	114	270	71
1200	1200	Apparel/Textile	Value 70	180	270	42
400	400	Health Products	Value 50	20	112	42
1000	1000	Manufacturing/Engineering	Value 117	160	132	42
				4274	1303	81

BASE VALUE: 100 (100% from Week 1)  
BASE VOL: 0.01 (1% from Week 1)

\*Lined Positive Points, T and Negative Points (0.01 to 1.00, in a "Normal" setting)

Aside from the decidedly bearish action in the Treasury yield curve, U.S. and global money supply growth rates remain sluggish; both the Fed balance sheet and the Adjusted Monetary Base are still in outright decline.

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MAY 28

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## Concepts On The Cranium

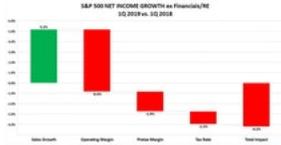


Just some unrelated thoughts this week. A few concepts for the cranium!

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MAY 23

## COTW First Quarter Earnings Waterfall



What a difference a year makes! In early 2018 we were celebrating 20% earnings growth, driven by a strong economy and the massive corporate tax cut. Sales were rising at a double-digit rate and the tax burden was shrinking dramatically, setting up one of the best earnings years in history.

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MAY 21

## Major Trend MTI: Economic Measures Remain Weak

POTENTIAL SUBJECT	LASTEST NET READING	YTD
1200 1200 Business Value	Level 6	90 127 437
1200 1200 Economic Business Rate/Sufficiency	Level 7	370 237 133
1200 1200 Annualized	Level 17	170 174 474
1800 1800 Supply Demand	Level 20	140 130 10
1800 1800 Monetary/Bank's Divergence	Level 12	400 36 364
BALANCE: -11 (-10 Last Week)		1020 1310 13
WEALTH: 100 (100 Last Week)		

Weakness in several coincident economic measures suggest that global-policy tightening over the last 18 months is having an impact. The current Fed policy stance doesn't lead us to believe much improvement is likely in the near term.

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MAY 20

## Paulsen Say Hi To Goldie?



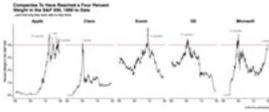
Despite the current trade war with China, the U.S. economy has taken on an air of 'Goldilocks' since the December stock market swoon. Real economic growth has slowed, and both inflation and interest rates have moderated. The pace of growth is no longer too hot—as it was last year—nor has it yet become too cold—as most feared earlier this year.

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MAY 17

### COTW

## Microsoft Reclaims The Iron Throne



Even our staid and august firm isn't above a little *Game of Thrones* clickbait.

After nineteen years in the wilderness, an old king has returned for his throne. The House of Microsoft is once again the most valuable company in the S&P 500 and, as of last month, is the sole occupier of the "4% Club" (i.e., weighting in the index).

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MAY 14

### Major Trend

## MTI: Momentum Pulls Back

POTENTIAL	WEEKLY	LAST WEEK	REASON	Net		
1200	1200	Substance Value	Gain 20	88	521	429
1200	1200	Financial Services Research/Status	Loss 20	100	200	100
1200	1200	Attitudinal	Gain 10	134	321	187
4000	4000	Weekly Momentum	Gain 10	24	120	100
1800	1800	Momentum Research/Strategy	Loss 10	100	100	100
				1117	1100	18

MTI INDEX: 100 (100% Year Week)  
1000 to 1.00 (100% Last Week)

\* Local Position, Power, and Strategy Factors (0.01 to 1.00, in a "Chamber" setting)

The Momentum work has been the largest week-to-week MTI swing factor for many months, and that was the case again last week. The Attitudinal category improved, reflecting increasing investor anxiety.

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MAY 13

### Inflation Watch

## April Inflation—A Sideshow To Trade Talk



The latest CPI numbers are slightly lower than market expectations. Oil prices need to be watched closely as further oil weakness would likely drag down inflation expectations too. Concerns about new tariffs causing higher inflation are misplaced.

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MAY 13

[Paulsen](#)

## [The Fed Hit The Pause Button But Investors Pressed 'Replay'](#)



After the December stock market swoon, amidst escalating recession fears, the Federal Reserve hit the pause button on interest rate hikes. Investors, though, had a déjà vu moment, sensing the 2018 experience as reminiscent of a few years earlier and, considering the aftermath of the prior occurrence turned out to be profitable, investors in 2019 opted to hit the replay button!

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MAY 10

[COTW](#)

## [Non-Energy Commodities Signal A Major Slowdown](#)



Late in the cycle, blue chip indexes like the DJIA and S&P 500 can fool investors by hiding subtler deterioration in the broad list of stocks. That's been underway in the last couple of months, but it's nothing in relation to the divergence that's open in the commodity market, where there's an almost 20% YTD performance gap between the headline S&P/GS Commodity Index and its non-Energy components (Chart 1).

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