



## My Baby Wrote Me a Letter

December 17, 2018

by Jeffrey Saut  
of Raymond James

"Give me a ticket for an aeroplane  
I ain't got time to take no fast train  
Oh, the lonely days are gone  
I'm coming home  
Oh, my baby she wrote me a letter"

. . . The Box Tops: The Letter

So, we obviously entertain hundreds of emails daily. Even more so since Andrew Adams has left. Unfortunately, we cannot respond to all of them, however, we do a pretty good job. Recently, our email box has been filled up with questions like this one from one particularly bright Raymond James financial advisor, namely, Michael McCormick of the venerable Chicago-based money management firm of McCormick Retirement Group, who wrote, and we responded:

"I've been very interested in your comments regarding the fact that we are in the midst of a secular bull market. I'm fortunate enough to have been an advisor during all of the previous ones from 1982-2000 and believe strongly that they occur following extended flat markets and generally last for a considerable amount of time. I'm curious what gives you so much conviction that we are in a secular bull. How do you differentiate between a bull market move in a flat market like 2003-2007 and what we are in currently?"

(Response) 2003 to 2007 was not a flat market, the S&P 500 went from 789 to 1576 for roughly a 100% gain.

"In the last secular bull there were 3 bear markets: 8/25/87-12/04/87, 7/16/90-10/11/90, and 7/17/98-8/31/98. Their average length was a little over 2.6 months and the average decline was 24.6%. None were decimating except 87, as I remember all too well."

(Response) Those were not bear markets unless you define a bear market as a 20%+ decline. I do not use that metric to define a bear market. A bear market was seen in the 1973 – 1974 swoon, the 1980 – 1982 affair, the 2000 – 2003 decline, and 2007 – 2009 period where an S&P 500 index fund lost some 56% of its value.

"1949-1968 was basically the same."

(Response) 1949 to 1966 was a secular bull market where the DJIA gained over 500%.

"Knowing that this market won't be the same as the other two I'd guess it will be similar. My clients are long-term retirement income driven investors. I know that the only way for them to stay ahead of a constantly rising cost of living is to own a significant amount of equities. It seems to me that it would be foolish on my part to try to 'time' the market by raising cash. We know if you do that you have to be right twice."

(Response) I do raise cash from time to time even though I think this secular bull market has years left in it. I raised cash at the end of January 2018 and recommitted some of the cash at the "undercut low" by the S&P 500 (SPX/2599.95) on February 9, 2018. I raised cash again with the traders' "sell signal" of October 2, 2018. Hereto, I have put some of that cash back to work.

"So finally here is my question; I'd like to gain a better understanding of how one identifies a secular bull, understanding that I'm not trying to predict anything. I'd like to know or know how to research the similarities between the current market and the two secular bulls mentioned above."

(Response) We use Dow Theory, which is not always right, and is subject to interpretation, but it is right a lot more than it is wrong. It registered a "sell signal" in September 1999, the bottom in 2003, the top in November 2007, and the bottom in March 2009. There have been two false Dow Theory "sell signals" in Flash Crash I in May 2010 and Flash Crash II in

August 2015, but we ignored them because we thought them to be aberrations; and, they were.

"I know you're very busy and I hope my question makes sense but if you would share your thoughts it would be greatly appreciated."

While we continue to think the secular bull market is alive and well, over the past two and a half months the SPX sure has not acted like it. In fact, for the historically strongest seasonal time of the year (October, November, and December) the SPX has surrendered roughly 12% from our October 2 "sell signal" into the recent intraday low of ~2583. That action has elicited a few bear market "calls" from some prominent pundits on the Street of Dreams. Take last Friday's Dow Dive of some 497 points. The media tried to spin that it was all about slowing economic metrics from China and Europe, as well as the problems with Theresa May's Brexit plan; however, the real reason was the "sealed" grand jury hearing by Mueller. As ZeroHedge writes:

"In short – something apparently big happened today in a DC court, which may or may not involve the special counsel's investigation, and nobody knows anything about the case outside of public records showing that the sealed grand jury case was filed in August, made two trips to the DC circuit, lost one appeal – and a second appeal was heard by a three-judge panel on Friday."

Our D.C. contacts agree with Mueller in that they think he really does have some damaging evidence on the president, which should be revealed in the weeks ahead. Then there is the looming potential governmental shutdown that is worrisome for the markets. As our D.C.-based policy analyst, Ed Mills writes:

"The threat of a government shutdown at the end of December has created volatility, which we view as largely a negotiating tactic that should not elicit a market reaction if it becomes reality. The debate comes down to the level of funding for President Trump's central campaign promise of constructing a border wall and is serving as a public test of his negotiating style. Lack of a deal that leads to a shutdown would be a "shutdown" in name only as much of the government's funding is already agreed upon. Trump's handling of this debate may be seen as an indicator of how high stakes negotiations with China are playing out, potentially adding to the sensitivity seen in the market."

Meanwhile, as often stated in these missives, individual investors are not just cautious, they are downright scared. This was reflected in last week's AAll figures, which showed that Bulls fell by 17 points week-over-week to 20.9 and Bears leaped 18.4 points to 48.9 for the highest bear-reading since April 2013. From those April 2013 lows the SPX would rally ~39% into its May 2015 highs. Moreover, the spread between Bulls and Bears is the widest since February 2016, which is where the second leg of the secular bull market began. Recall, the second leg is always the longest and strongest and eventually leads to the third leg. To size that, the third leg of the 1982 – 2000 secular bull market began in late 1994 and lasted into the spring of 2000.

As for the here and now, the chart pattern the SPX has recently traced out what appears to be a triple bottom. Such patterns can be resolved in two ways. One, a triple-bottom reversal is a bullish reversal pattern whereby three equal lows are followed by an upside breakout above a previous resistance level (Chart 1). The quid pro quo in a triple-bottom breakdown is when a column of "0" breaks below the equal lows of the two prior "0" columns in the Point & Figure charts (Chart 2). The current triple bottom has been formed by three thrusts into the 2580 – 2600 zone by the SPX. Stay tune on this formation.

Speaking of our models, the long-term model flipped positive in October 2008 and has never turned negative since then. Obviously, the intermediate and short-term proprietary models flip more often than that. Amazingly, both of those models, after being negative on October 2, 2018, now remain geared to the upside despite last week's wilt. As well, our internal energy model has a lot of energy stored up, so if we get a bullish triple-bottom upside reversal there is enough internal energy for a decent rally.

The call for this week: How oversold is the stock market? According to the astute Lowry Research folks:

"Clearly, the greatest weakness among market segments continues to be in the Small Cap Segment. As of December 13th, nearly 73% of our Operating Companies Only (OCO) small cap stocks were down 20% or more from their 52-week highs. This contrasts with about 47% of mid-caps and 32% of large caps down 20% or more."

Or how about this:

This is the quadruple witch expiration combined with the FOMC meeting. And, what's wrong with the Volatility Index (VIX/21.65), which has stayed in a relatively narrow range despite the wide swings in the equity markets? Even the ECB's announcement about curtailing QE did not create much of a stir. Chinese trade talk has been toned down and the media is

all about the leitmotif concerning the congressional investigations of President Trump. Worth noting is that the third year of the presidential cycle has been positive for the D-J Industrials in all but one instance over the past eight decades. And don't look now, but we are hearing that a Brexit 2 referendum may be announced as soon as today! On Friday we were asked by numerous clients to publish key support levels for the S&P 500 index. They are: 2595 (May low), 2583, 2573 (April low) 2554, 2532.69 (VIX panic), 2520, 2500. This morning the preopening futures are flat (+2.00) as we write at 4:19 a.m.

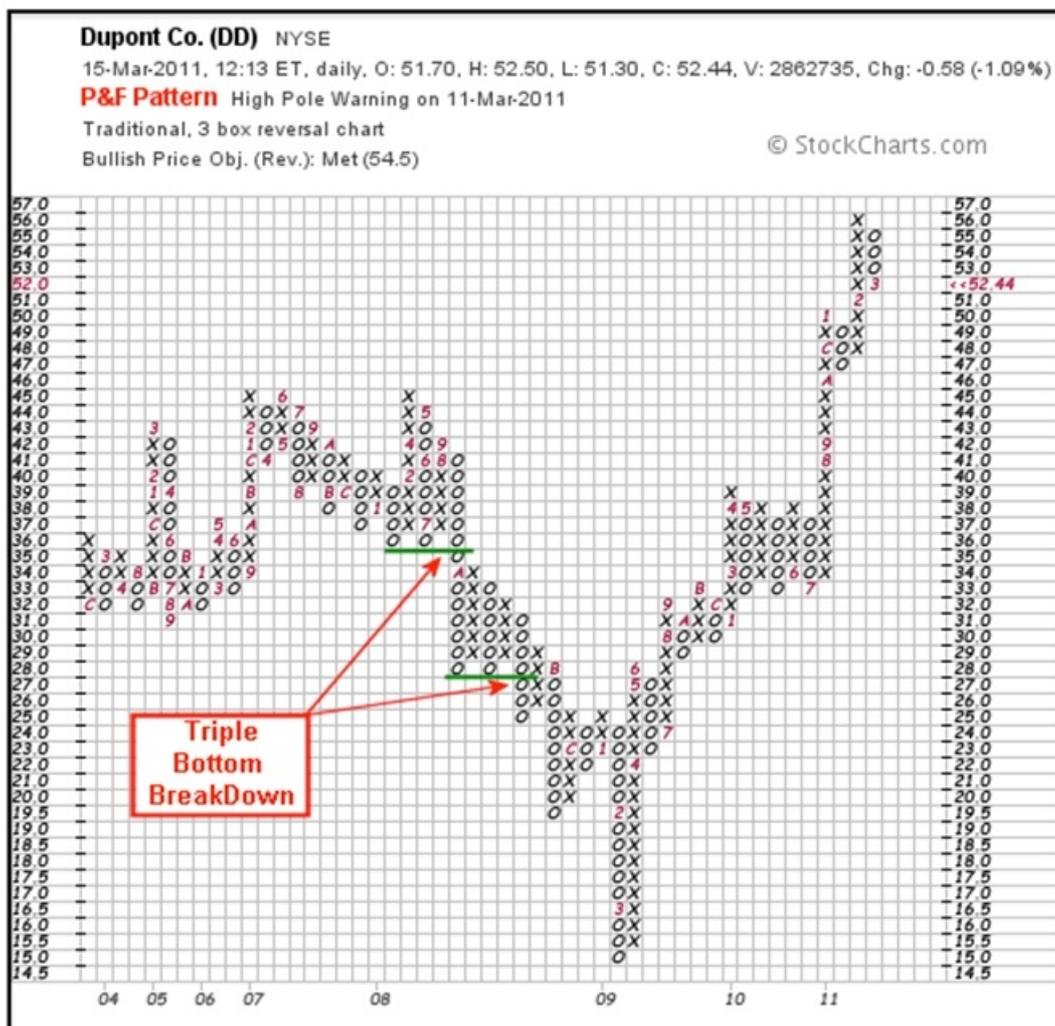
Chart 1



[Click here to enlarge](#)

Source: Finviz

Chart 2



[Click here to enlarge](#)

Source: StockCharts.com

Additional information is available on request. *This document may not be reprinted without permission*

**Raymond James & Associates may make a market in stocks mentioned in this report and may have managed/co-managed a public/follow-on offering of these shares or otherwise provided investment banking services to companies mentioned in this report in the past three years.**

RJ&A or its officers, employees, or affiliates may 1) currently own shares, options, rights or warrants and/or 2) execute transactions in the securities mentioned in this report that may or may not be consistent with this report's conclusions.

The opinions offered by Mr. Saut should be considered a part of your overall decision-making process. For more information about this report – to discuss how this outlook may affect your personal situation and/or to learn how this insight may be incorporated into your investment strategy – please contact your Raymond James Financial Advisor.

All expressions of opinion reflect the judgment of the Equity Research Department of Raymond James & Associates at this time and are subject to change. Information has been obtained from sources considered reliable, but we do not guarantee that the material presented is accurate or that it provides a complete description of the securities, markets or developments mentioned. Other Raymond James departments may have information that is not available to the Equity Research Department about companies mentioned. We may, from time to time, have a position in the securities mentioned and may execute transactions that may not be consistent with this presentation's conclusions. We may perform investment banking or other services for, or solicit investment banking business from, any company mentioned. Investments mentioned are subject to availability and market conditions. All yields represent past performance and may not be indicative of future results. Raymond James & Associates, Raymond James Financial Services and Raymond James Ltd. are wholly-owned subsidiaries of Raymond James Financial.

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.

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

© Raymond James