ARK Invest

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by Jeffrey Saut

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"Ark Invest" is a money management firm that manages money in ETFs, mutual funds, and separately managed accounts. Ark believes that innovation is the key to growth and alpha. Consequently, ARK focuses on disruptive innovation and offers strategies to investors who seek to capture long-term capital appreciation and alpha. Ark's CEO and chief investment officer is Catherine Wood, who is one of the best thematic investors I know. I met her years ago while attending one of her weekly strategy sessions where she and her team discuss all sorts of investment themes/ideas. I recalled something Catherine wrote a few months ago. To wit:

> This explanation of the flattening yield curve seemingly suggests that "This time is different," but this time is not different in the context of technologically enabled disruptive innovation. During the 50 years ended in 1929, the last time that three or more general purpose technology platforms were evolving simultaneously, the yield curve was inverted more than half of the time. The disruptive innovations of that time – the internal combustion engine, telephone, and electricity – stimulated rapid real growth at low rates of inflation. Through booms and busts in an era without the Federal Reserve and with minimal government intervention, U.S. real GDP growth averaged 3.7% and inflation 1.1%, while short rates averaged roughly 4.8% and long rates 3.8%. The yield curve inversions were steepest during periods of most rapid growth. So this time is not different, but investors do have to extend their time horizons to understand the impact of profound technological breakthroughs on economic indicators.

My friend, and portfolio manager for the HugganWhite Wealth Management firm, namely Craig White, emailed me last Friday with this quip:

> Hey Jeff, nice week, nice month and an even better Q1. Despite the unrelenting pessimistic verbiage, the backdrop remains pretty decent based on our work; no recession on the horizon, a yield inversion that is getting WAY too much attention (see our latest commentary), an earnings outlook that is too bearish in our opinion and sentiment that is far from greed or euphoria. As such, the underinvested continue to feel the heat as the grind higher resumes . . . look for a more detailed update over the weekend.

Nice week, nice month and an even better Q1 indeed. I began last week thinking the first part of the week should be soft with strength surfacing in the back half of the week. I modified that "call" mid-week because the indices were unable to hold on to their gains during a few of the trading sessions. Accordingly, I thought the equity markets would continue to stall into this week when end of quarter window dressing would be over. In retrospect, I guess that wasn't such a bad call because on Friday, March 22, 2019 the S&P 500's (SPX/2834.40) intraday high was at ~2846 and last Friday's close was at 2834.40. So, for someone who slept through the week it would appear that nothing really happened. Of course that was not the case.

Well, the first quarter of 2019 is in the rearview mirror. For 1Q19 the SPX gained 13.07%, which was the largest quarterly gain since the 3Q09 gain of some 14.98%. Impressively, the 1Q19 gains represented the largest gain since the secular bull market began! The rally started following one of the worst "selling climaxes" I have ever seen when on December 24, 2018 the D-J Industrial fell ~660 points. As the astute Lowry Research Organization writes:

> The next trading day (Dec. 26th) with the first 90% Up Day in over two years. The rally also registered a Buying Control No. 1 and a conventional short-term buy signal in an impressive display of surging Demand. A second 90% Up Day occurred Jan. 4th.

I wrote about those two 90% Upside Days meaning that 90% of the upside volume, versus total volume traded, came on the upside. Also accompanying those 90% upside days was the nine to one (9:1) advancing to declining breadth readings. Again as Lowry Research writes:

> This 1-day jump in Advancing Issues was followed by a more sustained expansion in breadth – a so-called ‘breadth thrust’ – and also by a powerful expansion in short-term Demand through a sharp rise in our Short Term Index. Previously, the combination of 9:1 positive breadth, a breadth thrust and Short Term Index momentum occurred only three times over our 94 year history: off the bear market bottoms in 1982 and 2009 and in early 1987. Each of these three prior occurrences was followed by a sustained rally and a new all-time high in the market.

So, where does this leave us now? Well, my work continues to suggest there is not much downside risk here with the grind higher likely to extend into June on an intermediate basis. Last week’s rally put some distance between the much watched 2800 level and last Friday’s close. Still, the SPX has not broken out to the upside. What has happened is that last week’s wobble created a double bottom in the charts. The first low came last Monday (March 25, 2019) at ~2785. The secondary low came on Wednesday, March 27, 2019) at 2787. From there the SPX rallied some 49 points into Friday’s intraday high. Despite the end of the quarter ebullience, my work continues to show there are doubts about the SPX to breakout above the March 21, 2019 intraday high of ~2860. That suggests the SPX may just consolidate in a sideways fashion. Accordingly, it will be interesting to see what happens this week now that quarter end’s window dressing is over.

The call for this week: It has been said that in this business vacation never comes! And, that has been true for most of my 48+ years in the business. I always seem to be thinking about the markets, what to write, what to say, and what to do. However, after three years of no vacation the body is tired and the mind is weary, so I am taking the next two weeks off and heading to Key West. Unfortunately, since I have lost my colleague Andrew Adams, there is nobody else that can write the daily Morning Tack; and for that, I am truly sorry because the markets are at a pretty key inflection point. So, stay nimble, do not let ANYTHING go too far against you, and never forget we are in a secular bull market that has years left to run. This morning, with quarter’s end in the rearview mirror, the preopening S&P 500 futures are sharply higher (+18 points) as White House economic advisor Larry Kudlow wants the Federal Reserve to "immediately" cut interest rates by 50 basis points; Kudlow also says U.S. and China have been making headway in trade talks; China will extend the three-month suspension of additional tariffs on U.S.-made vehicles and auto parts, which expired yesterday, according to the tariff committee of China’s State Council; and China’s March manufacturing PMI rose to 50.5 from 49.2, the biggest increase since 2012. Traders will play for the Monday and start of April upward bias. The S&P 500 Index’s Inside Day on Thursday was resolved to the upside. The index closed within 1 handle of a Golden Cross. S&P futures are +17.75 as we write on China’s PMI jump plus Monday and start of April upward bias. See you in two weeks . . .

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.