

Jeffrey D. Saut, Chief Investment Strategist, (727) 567-2644, [Jeffrey.Saut@RaymondJames.com](mailto:Jeffrey.Saut@RaymondJames.com)

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## Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	24415.84	-251.94	-1.02%	-1.23
Dow Jones Transports	10750.33	-168.39	-1.54%	1.30
Dow Jones Utilities	695.21	0.54	0.08%	-3.89
S&P 500	2705.27	-18.74	-0.69%	1.18
S&P 400 Midcap	1946.43	-21.53	-1.09%	2.41
S&P 600 Smallcap	1007.54	-10.92	-1.07%	7.61
NASDAQ	7442.12	-20.34	-0.27%	7.80
Russell 2000 (Smallcaps)	1633.61	-14.38	-0.87%	6.39
BKX (Banking)	105.94	-0.65	-0.61%	-0.72
BTK (Biotech)	4748.49	-1.13	-0.02%	12.46
XOI (Oil Index)	1528.83	-11.44	-0.74%	14.47
SOXX (Semiconductor)	1379.00	-10.92	-0.79%	10.05
XAU (Gold/Silver)	83.32	-0.53	-0.63%	-2.30

## "The Mitch Miller Market"

According to Wikipedia:

The bouncing ball is a device used in motion picture films and videos to visually indicate the rhythm, helping audiences to sing along with the live or prerecorded music. As the song's lyrics are displayed on the screen, an animated ball bounces across the top of the word, landing on each syllable when it is to be sung.

The phrase "follow the bouncing ball" was lionized by Mitch Miller in the hit TV show "Sing along with Mitch Miller." Similarly, the recent stock market action has been like following the bouncing ball as participants pile into stocks on one day and pile out the next day. That has certainly been the case this week as it's been up one session and down the next. The on again off again action caused one particularly bright financial advisor to email this yesterday:

The "noise" continues! North Korea, Iran, China, Russia, collusion, who is colluding, mid-term elections, higher gas prices, rising interest rates, low unemployment, increasing wages, rising inflation (though currently manageable and still relatively low), continued European worries, a yo-yoing market and now the potential of or least threatened trade wars. Is it possible that all this "noise" could create "enough" uncertainty in the market to change your mind and the market's directional heading??? It certainly appears to be muting the market's efforts to move forward.

Our response was, "Well the markets can do anything, but our models are still pointing towards higher stock prices." As stated wrong-footedly in yesterday's missive, "The stock market's internal energy comes back to favorable levels today," which was regrettably greeted with a ~250-point Dow Dive and a concurrent S&P 500 swoon that was arrested at the 2700 level. We have been pretty adamant that the S&P 500 has major support in the 2670 – 2685 zone that indeed contained this week's decline. However, yesterday's fade was a non-event for me because a number of the stocks I own were actually up for the day.

(Continued on page 2)

"Follow the bouncing ball."

... Mitch Miller, musician, singer, conductor, record producer, record company executive (1911 – 2010)

Index	Cur Future	Change
Dow Jones	24,549	132.00
S&P 500	2,717	11.50
NASDAQ	7,000	23.75

  

Volume	1 Day Volume	Volume	Issues
NYSE	1,370,085,680	0.34	0.58
NASDAQ	2,446,356,372	0.47	0.64

  

Foreign Markets	Intraday	Net	% Chg
U.K. FTSE 100	7,678	0.00	0.00%
Germany DAX (TR)	12,720	115.43	0.92%
Brazil Bovespa In	76,754	0.00	0.00%
Japan Japan Nikkei 225	22,202	0.00	0.00%
Hong Kong Hang Seng Index	30,493	24.35	0.08%

  

S&P Sectors	Close	% Chg	1 mo %
S&P 500 / Consumer Discretic	840.76	-0.47%	1.99
S&P 500 / Consumer Staples -I	508.01	-1.61%	-1.53
S&P 500 / Health Care -SEC	951.45	-1.04%	0.22
S&P 500 / Information Techno	1223.45	0.02%	7.37
S&P 500 / Telecommunicator	144.87	-1.31%	-2.28
S&P 500 / Energy -SEC	558.35	-0.83%	3.04
S&P 500 / Financials -SEC	450.24	-0.90%	-0.90
S&P 500 / Industrials -SEC	623.49	-1.45%	3.01
S&P 500 / Materials -SEC	363.22	-0.87%	2.07
S&P 500 / Utilities -SEC	256.98	0.11%	-1.13
S&P 500 / Real Estate -SEC	194.35	-0.35%	2.26

  

Key Commodity Prices	Last	Net
Crude Oil WTI (NYM \$/bbl) Con	66.660	-0.40
Natural Gas (NYM \$/mmbtu) C	2.951	0.00
eMini Gasoline (NYM \$/gal) Cc	2.161	0.00
Gold (NYM \$)	1302.600	-3.10
Silver (NYM \$/ozt) Continuous	16.435	-0.04
United States Dollar Index	93.924	-0.06
eMini Copper (NYM \$/lbs) Con	3.070	0.00
Cotton #2 (IFUS \$/lbs) Continu	0.941	0.01

  

Market Valuation	2017E	2018E	2019E
Consensus S&P 500 EPS	\$125	\$157	\$174
P/E	21.6	17.2	15.5
Earnings Yield		5.8%	6.4%
Equity Risk Premium (10 yr)		3.0%	3.6%

  

Treasury Yields	90D	10 Yr	30 Yr
	1.92	2.83	2.99

Source: FactSet Data as of: 6/1/2018



S&P 500 (Source: Stockcharts.com)

Please read domestic and foreign disclosure/risk information beginning on page 4.

Yet, the highlight of the day was meeting with a couple of portfolio managers, namely Alger Management's PM, Amy Zhang, and JP Morgan's PM Rick Singh. Amy manages the Alger Small Cap Focus Fund (Class A and Class C shares are offered through Raymond James). She looks to investing in small caps relative to their revenue stream rather than their market capitalizations. She is benchmark agnostic and cares about financial quality. Amy's typical stock has an ROIC of 13.1% versus the Russell's +0.4%, net margins of 10.5%, and an ROE of 16.2%. If you want to be impressed, check out her performance.

Rick and I have met before at JP Morgan headquarters. We started off by chatting about how to manage risk in equity portfolios. To that point, Rick is the PM for The JP Morgan Equity Long/Short Fund. Rick's strategy is all about damping down volatility while attempting to provide market-like returns. We cannot really talk about performance in these missives for compliance reasons, so we would encourage you to analyze his performance numbers that were achieved with roughly half of the stock market's beta (beta). This morning the "bouncing ball" continues with the preopening S&P 500 futures better by 12 points as we write at 5:19 a.m. Upward seasonal bias ends today. Yet, global markets should adjust for the vote in Spain and the U.S. May Employment Report. Even if we knew the NFP data ahead of its official release, we couldn't guess how the market will react. Still, we favor the upside.

**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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**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.

**Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
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<b>Market Perform (Hold)</b>	39%	25%	35%	10%	13%	0%
<b>Underperform (Sell)</b>	5%	4%	14%	7%	11%	0%

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

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**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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