January 30, 2019

9:11 AM EST

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Inside this issue

The "Easy" Trade in Apple

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On January 3 Tim Cook shocked the investment by pre-announcing earnings problems and slowing iPhone sales. Fundamental analysis is above my pay grade so I am not going to go any further. It was shocking because I couldn't find any other pre-announcement since 2002. There may have been one, but it wasn't easily found.

The stock had already collapsed from $233 to $147 before the warning. That magnitude, 37%, is not what you normally see even during a 20% decline in the overall stock market. The market knew something was very wrong at Apple. Before the stock opened that day, CNBC's Jim Cramer declared that investors should absolutely not buy the stock as it was heading to $120 where they should buy it. I found this advice so odd since Cramer has been such an ardent long-term bull on Apple.

It turns out that Apple gapped down and only traded $2 lower from where it opened. In other words, there wasn't much selling after the open. Moreover, volume didn't even match the level we saw on December 21. Odd indeed. I didn't buy Apple on that day or around that news for full disclosure.
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Heading into Apple's earnings report, I tweeted that unless Tim Cook was incredibly incompetent or just plain stupid, there was no way Apple would disappoint for the second time in a month. Rather, Cook should have given himself a buffer to make sure more bad news wasn't coming. For the aggressive trader, it was one of those "easy" buys if there ever is one. If the stock has poor action on Wednesday, it's quickly sold.

Last night, Apple reported earnings which were basically in line with what was expected, but they did not guide future earnings or revenue lower. In after hours trading, the stock is sharply higher. It will be interesting to see the spin from Wall Street and the media as the vast majority turned negative in Q4 on the stock.

As many of you know, I have gone to a quasi online calendar so you can book an appointment when you want to and not just when we're in the office or respond to your email. For now, I do not include evening meetings nor early morning ones, but I will try and accommodate as best I can.

If you would like to schedule a meeting, Skype, FaceTime or call, please click on the link below and give it a try. My calendar is now open through February.

https://schedulewithpaul.as.me/

Don't forget about our blog, **www.investfortomorrowblog.com** for shorter-term analysis.

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http://www.investfortomorrow.com/BlogAlerts.asp

Markets Not Waiting on Fed Statement Today

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Powell Turns 180 Degrees and Loses Credibility

Fed statement day is here once again. Yippee! Chair Jay Powell did something I don't think I have seen in 30 years in the business. He did an almost 180 degree turn in just three weeks after raising rates and forging full steam ahead with more asset sales on December 19. When the markets, both stock and credit, accelerated to the downside, Powell eventually walked back his very hawkish stance to try and appease investors. That must be the third mandate of the Fed after maximum employment and price stability. Financial market appeasement.

Anyway, stocks have rallied sharply since Christmas and bonds have followed suit. It's going to be fascinating to listen to the press conference today and watch Powell struggle through the questions without upsetting the markets, unless, of course, the Fed is done hiking rates and they are actually pulling back on asset sales. Don't bet on it!

Model for the Day

As with every Fed statement day, 90% of the time stocks stay in a plus or minus .50% range until 2pm before the fireworks take place. With pre-market action indicating a much higher open, the opportunity is there for a momentum trade to the upside from the open until 2pm or even 4pm although I have to admit that given recent activity, I am a bit gun shy about pushing the envelope intra-day. I want to give proper attribution for this Fed trend and I am pretty sure data miner extraordinaire, Rob Hanna and his supercomputers at Quantifiable Edges, shared it with me.

No Rate Hike

The FOMC is absolutely not raising interest today and I would be shocked if they raised them at the next meeting in March. Global economic growth has slowed substantially and I expect Q4 and Q1 GDP here in the U.S. to be weaker than the previous three quarters.

Let's not forget that the Fed has never, ever, ever once correctly predicted recession in the U.S. or really anywhere for that matter. You could say that they are perfect in their incompetence. You could also argue that secretly they really do see problems coming down the road, but could never telegraph that publicly for fear of upsetting the markets. This is the argument I fall on the floor laughing my head off.

The Fed is always late. Had they started the rate hike cycle earlier or the asset sales, they could have avoided conducting them concurrently. I have said this from day one and never wavered; what the Fed is trying to do is like landing a 747 on I-95. It's technically possible, but so beyond likely to be successful. In fact, as I have stated many times, it has and is creating a fertile landscape to grow recession.
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Recession Coming in Late 2019 to Late 2020

The economic data in the U.S. may be decelerating, but it is certainly not close to recession as many people are now forecasting based on the stock market's action. Germany may be in recession with other European countries to follow, but it seems like the U.S. will be last on the list.

Housing remains very challenging with higher mortgage rates, millennial behavior changes and the capping of state and local taxes at $10,000 from the 2017 tax cuts. Credit card and auto delinquencies remain elevated in the face of the good economy. The tariffs have certainly put a damper on trade, but they are a huge question mark as we approach the March 1 deadline with China to get a deal done. At the end of the day, I am sticking by my call for a mild recession beginning sometime between Q3 2019 and Q3 2020 although I am realizing that it may be later than sooner.

Janet Yellen & Jay Powell Are to Blame

Let's get back to Jay Powell and the Fed. Longtime readers know that I was a very big fan of Ben Bernanke while I called Alan Greenspan the single worst Fed chair ever, or at least on par with Arthur Burns from the 1970s. I call it like I see it. For several years, I have been a very vocal critic of Yellen and Powell for trying to land a 747 on a postage stamp by raising interest rates AND selling fixed income assets, now to the tune of $600 billion a year. In the history of the world, no central bank has ever had the temerity to believe it could accomplish this without consequences.

Cue our Fed with Yellen and Powell.

This group is and has been either arrogant or ignorant or both. Look, the Fed is behind 90% of the recessions. They begin a rate hike cycle and push and push until the landscape is so fertile for recession that all it takes is a little spark. They did it leading up to the financial crisis. They did it during the Dotcom burst. They did it in 1990 with the S&L Crisis and Iraqi invasion of Kuwait.

This time, the pomposity has been taken to new heights by adding the program of what's been labeled Quantitative Tightening. The Fed is now selling the securities in the open market that they purchased during Quantitative Easing. These sales are effectively interest rate hikes by themselves. The markets and economy cannot withstand the Fed conducting both.

Now we have Greenspan and Yellen both forecasting gloom and doom. "Run for cover." "Crisis on the horizon." What a joke! Yellen remarked on her way out of Dodge that she didn't think we would have another financially related crisis in our lifetime. Now, all of a sudden, she sees a series of crisis.

Is this all in the name of selling books? Goosing demand for their 6 figure speeches? Or, do they really believe this, but just outright lied to the public when they were in charge? No matter how you slice it, Janet Yellen and Alan Greenspan are embarrassments.

Upcoming Appearances

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Yahoo Finance's On The Move - February 4th from 11:00 am to 1:00 pm

You can view most of the past segments by clicking below.

Media Appearances

(http://www.investfortomorrow.com/InMedia.asp)

Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- W. Edwards Deming

"The only easy day was yesterday."

- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."
-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."
-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."
- Robert Rhea

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."
- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

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