IPMG
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THE BIG PICTURE UPDATE from MARTIN TRUAX, August 2018

Dear Investor,

AS HIGHER SECOND QUARTER EARNINGS CONTINUE TO ROLL IN, we also see some threatening storm clouds gathering off in the distance. Trump's tax breaks have increased corporate earnings substantially. However, his tariffs may just take some of those new found profits back off the bottom line tables. We wait as the "Artist of the Deal" plays out his negotiations.

CERTAIN VOTER BLOCKS IN THE COUNTRY would like to see those tax reductions reversed, with Obama Care remandated. A significant number of congressmen and "congressmen want to be's" would like the chance to impeach the President after the November elections. Socialists are gaining momentum. Much of it could weigh in on the market highs of late.

BRIEFLY RECAPPED BELOW, are some high lited sentences from our files over the last few months.

JEFFREY SAUT, CHIEF MARKET STRATEGIST**,** RAMOND JAMES

7/30/18: "We think long term the market will trend higher. So far 69.7% of companies reporting have beaten earnings revenue estimates."

7/24/18: "Each time the market has gone into consolidation since the bottom of March '09, bear boos have called for a market top and to be followed by a bear market. Most recent was 2/2016 low from Royal Bank of Scotland. The bank told investors to sell everything except high quality bonds. Since that low the S&P has rallied 56%."

7/23/18: "Most *upstream* MLP producers blew up, causing *midstreams* to also sell off "for guilt by association". Unlike upstreams, midstreams don't have much sensitivity to the price of crude. They're more "transportation companies" with storage facilities & pipelines. Dividends were reduced to get the leverage ratios down. AMZ (MLP Index) declined 63% into the 2/2016 low and was only back to a decline of 50% off the Sept 2014 highs. The selloff left MLP's in aggregate trading at some of the most inexpensive valuation metrics in a long time. Meanwhile, the aggregate EBITDA midstreams we cover have grown by 70% while aggregate industry leverage has declined 6.2x in 2015 to our 2018 estimate of 4.6x."

7/21/18: "Using March 2009 as a starting point implies that this bull should last until 2023 (14 years). 1982-2000 was the longest secular bull we have experienced. If by chance this one equates to that one, it suggests a target date of 2027 (18 years). The longer the price base (1965-1982 or 2000-2013), the greater the subsequent bull market. To this point, the Value Line Geometric Index definitively broke out above a 19 year base in September 2017. It has also been said that an investor will experience three secular bull markets in their lifetime. For the first one, you will not have much money to do much with it. Therefore, you better take full advantage of the second bull market in your lifetime. For us, this is the second secular bull market of our lifetime."

7/19/18: "Since 2015, we've been in a secular bull market that is earnings driven, not interest rate driven. Second quarter results should show it's the 26^{th} consecutive quarter where EPS (earnings per share) exceeded end of quarter estimates. A global trade war could lead to more volatility and a new threat to the market's attempt to reach new highs. The earnings outlook is $158 for the S&P500 for 2018,

$174 in 2019, and $200 in 2020. Leon Huey writes, "If you're waiting for clarity, you've already missed the boat. Those same people will complain that the market is too high or overvalued."

6/26/18: " Ralph Acompora says the Dow Theory sell signal registered weeks ago but was ignored because of false sell signals in the past, i.e. May 2010 and August 2015."

BERT DOHMAN, (Wellington Letter) *7/6/18,* states that the most shorted stocks have soared 20% since May of '18 vs 2.5% for the NYSE composite. The rally since May has been a big short squeeze. Stocks with no earnings gained the most. Artificial intelligence will be the next big thing. High frequency trading (HFT) accounts for about 70% of volume. That plus algorithmic trading by computers and you have 80% of the market trading done by machines. 44.2% of crypto currency startups survive about 120 days from their ICO, meaning 58% or so of investors lose 100% of their money in 4 months. Defense stocks have had a nice rally due to big weapons orders from NATO nations."

ALEX GREEN (THE OXFORD COMMUNIQUE), *7/11/18*, discusses "10 baggers", stocks with the potential to rise 10 fold. It references the Fidelity Magellan fund which earned a compounded annual return of 29.2%. Peter Lynch coined the term "ten bagger" in his book, "One Up On Wall Street". To that point, every dollar invested in a basket of large cap stocks from 1926 to 2016 with dividends reinvested in a basket of small caps would have grown to over $25,100 for the same period. But the same amount of large caps would have grown to only $5,200.

JIM RICKARDS, (Strategic Intelligence) *April, 2018,* points out that "the 10/18/1987 day of the 508 point mkt drop is the equivalent of a 5600 point drop today. The 1987 portfolio insurance required institutional investors to sell index futures in the face of a market decline. The more the decline, the more futures had to be sold. Machine trading embraced by many wealth managers removes the human intuition for the investment process. Markets now confront a brew of passivity, product proliferation, automation and half trigger behavioral responses – a whole new risk experience not faced before. Passive investing and algorithmic trading foster unstable markets."

ALL OF THIS IS TO SAY, our **FPM** (Flexible Portfolio Method) of tactically hedging accounts to lessen the downside, while allowing for upside potential, when our models are bullish, could suddenly become more important in the weeks and months ahead. With all the well-respected and differing opinions you just read about, it is the market that provides the ultimate message, which is " follow the money ". Hedging has been needed less frequently over the last 20 plus months since the surprise 2016 presidential election results. Now we're seeing certain global signs of potential headwinds as well as some unique opportunities that could very well be created from some of these headwinds and headlines. We watch diligently and daily for signs of market and sector deterioration that could present both risk and opportunity for a flexible and disciplined approach. Our unique process takes both equally important parts of the equation into consideration and attempts to increase our odds of a more successful outcome. We will follow this disciplined approach to managing risk, while also attempting to position assets for longer term appreciation potential, as we have for decades.

WE STRESS THE IMPORTANCE OF CYBER PROTECTION. Rest assured that Raymond James is taking this threat most seriously and actively with a defensive mission. It may be the only firm that has a written promise to its clients, should they become hack victims from no fault of their own. That PROMISE is included below. Also described is the firm's unique FDIC insurance on cash balances up to $2.5mm per account.

TOTALLY COMBINED: THE FPM DEFENSE, THE CYBER PROMISE, THE CASH FDIC INSURANC are all part of our efforts to help weather any potential surprises. Consumer confidence is at an all time high. "Things can't get much better than this", we hope is not true. Our favorite analysts think differently. We know them all well. They bring years of experience to our team. We listen, & continue to apply the motto, "be prepared" for whatever may unfold.

Best,

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