

Perspective: Hot Economy, Wild Negotiations, Merlyn.AI Preview

Jul 04, 2018

Dear Scott,

The Market's Split Personality

Following January's high and subsequent sharp pullback, the market has simultaneously moved sideways (Dow Jones-30 Industrials) and strongly moved higher (tech-heavy Nasdaq), as illustrated by the difference between the charts to the right. The explanation for this bifurcation is two-fold: (1) Difficult tariff negotiations with our major trading partners now include a set of punitive tariffs levied by the US (attempting to achieve a more reciprocal set of tariffs), to which the response has been a flurry of retaliatory tariffs. The products most affected have been the classic industrial and agricultural products represented by the Dow. (2) The unexpected improvement in North Korean denuclearization negotiations this spring produced a peace dividend in the form of lower expected future profits for the military-industrial complex (at least in the short term). Conversely, technology companies likely have benefitted from the effort (and hope) that the Chinese practice of manufacturing technology theft will soon be reined in.

Climbing the "Wall of Worry"

While there are many worrisome domestic and international problems, the economy is quite strong, but we are not in a bubble, [according to Warren Buffet](#) and many others. Some have argued that this economic expansion is getting a bit long in the tooth and thus a recession must be around the corner. Investors, however, care more about what's in front of them than what's behind them. And the economy does keep looking stronger. The most recent CBO (Congressional Budget Office) [Economic Projection for Q4 2018](#) provides numerous reasons for such optimism, including:

- Real GDP Growth (Q4/Q4): 3.3%
- Unemployment Rate (Q4/Q4): 3.5%
- Inflation (Price Index, Q4/Q4): 1.8%

This is echoed in the recently released Institute of Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI), which rose to 60.2 in June from 58.7 in the previous month, beating market expectations of 58.5. This is a tremendous indication considering that a value of 53 is average and a value of 50 implies neutral/no growth (chart-right).

StormGuard-Armor Concurs

Although StormGuard-Armor dipped near its bear market threshold in recent months, it is now back on the rise. Particularly noteworthy about its rebound is the corresponding uptick of its [Market Momentum component](#), which has been driven higher by the improved up-volume trading behavior of large institutions and

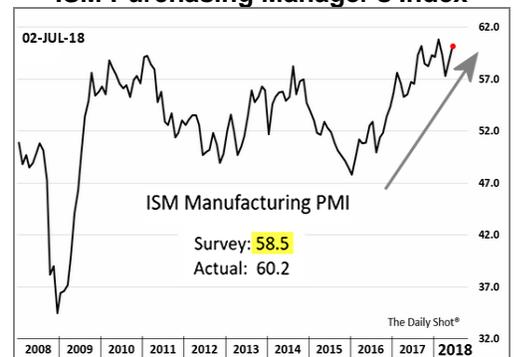
DJ-30 Industrials - 6 Months.



Tech-Heavy Nasdaq - 6 Months.



ISM Purchasing Manager's Index



[Click to expand image.](#)

fund managers: They are no longer gathering at the door, getting ready to run. Instead, they are starting to buy again with conviction. Everything continues to point higher from here, despite the size of bumps on the road.

What about Tuesday's Selloff?

Although the market opened fairly strong on Tuesday, as its half-day trading schedule drew to a close the market sold off precipitously for no apparent reason. However, it's not uncommon for some investors to take a bit money off the table prior to an important holiday. The theory is that only bad economic surprises can occur over a holiday (such a terrorist attack) since the government and most businesses are closed. Assuming there is no news, the effect will reverse itself when markets re-open.

Merlyn.AI Preview:

Prudent Investing Just got Simpler and Safer

Meetup: [Streamed Live Tues. Aug. 7th 7:00PM PST](#)

Artificial Intelligence simplifies complex tasks, allowing investors to spend more time chasing kids, careers, and retirement destinations. Merlyn.AI automatically does the following: (1) evaluates hundreds of ETFs monthly for trend leadership and risk suitability characteristics, (2) constructs and evolves populations of strategies from qualified candidates, (3) shifts to profitable bear market strategies when markets are no longer safe, and (4) boils everything down to a simple Buy and Sell.

This Meetup will be a technology preview of what is soon coming to SectorSurfer, AlphaDroid, and then launched as a handful of AI ETFs. We'll lift the hood on the Merlyn.AI engine to demonstrate how populations of strategies dynamically evolve and jointly make a set of final monthly selections.

Future Speaking Engagements.

- Houston, TX: AAI Chapter - 8:30 AM Sat October 13, 2018
- Austin, TX: AAI Chapter - Monday October 15, 2018
- San Antonio, TX: AAI Chapter - Tuesday October 16, 2018
- [San Antonio, TX: Riskalyze Fearless Investing Summit](#), Marriott Rivercenter - October 17-19, 2018
- [Las Vegas, NV: AAI National Convention](#), Paris Hotel - October 26 - 28, 2018

Surf Well and Prosper,



Scott Juds
President & Chief SectorSurfer
SumGrowth Strategies, LLC
www.SumGrowth.com



StormGuard-Armor



[Click to view all StormGuard charts.](#)

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