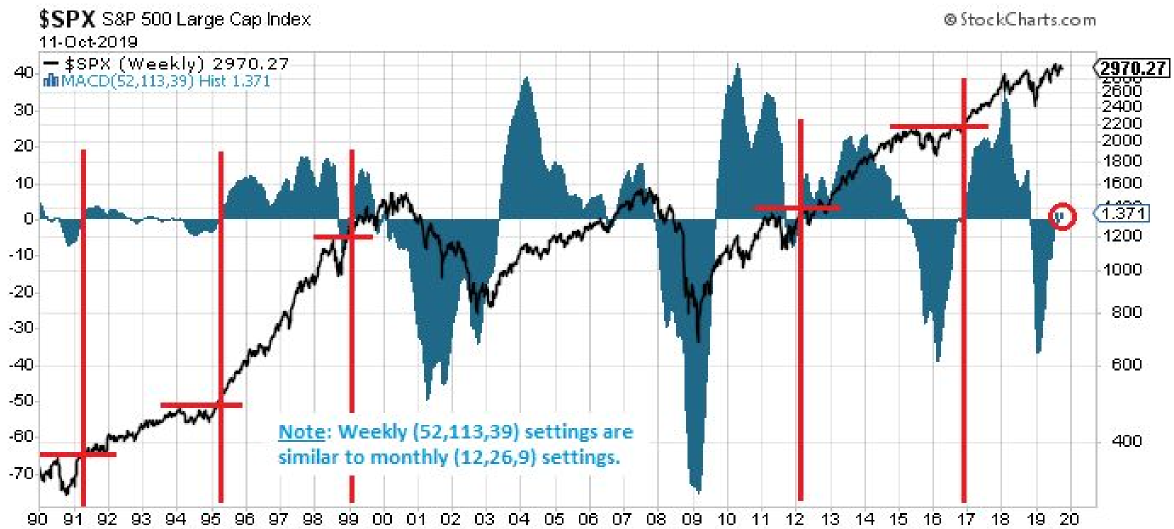
Hey gang,

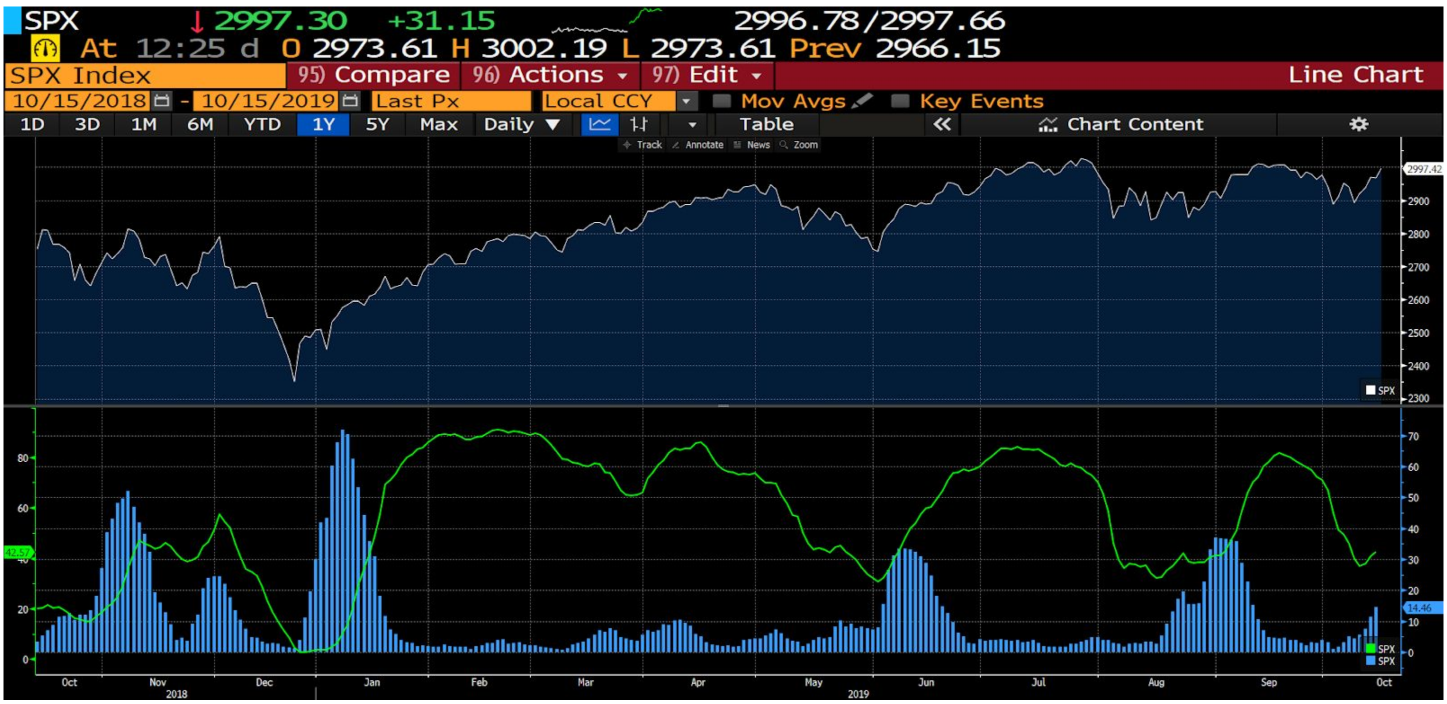
I wanted to drop a quick note on some market observations and give a portfolio update.

Mark Ungerwitter (@mark_ungewitter) posted this great chart to the twitters the other day. It shows the monthly MACD histogram (a measure of the underlying momentum structure) along with the SPX. The vertical red lines mark points when the monthly MACD flipped positive following long periods of weak momentum.

This is important because, as Mark notes in the tweet, more often than not “momentum precedes price”.




Turning to a shorter-term look at underlying momentum, we can see in this chart that a positive impulse is forming. The green line measures the % of SPX stocks with a positive MACD and the blue bars measure the % of stocks that have triggered a MACD buy signal in the last 10-days. When these indicators rise, it shows that momentum is increasing across the board.



We’re very close to getting a NASI buy signal.


Q3 earnings season kicked off this morning. The market’s response to the morning reports has been mostly positive. JP Morgan (JPM), one of our “Generals” solidly beat guidance.

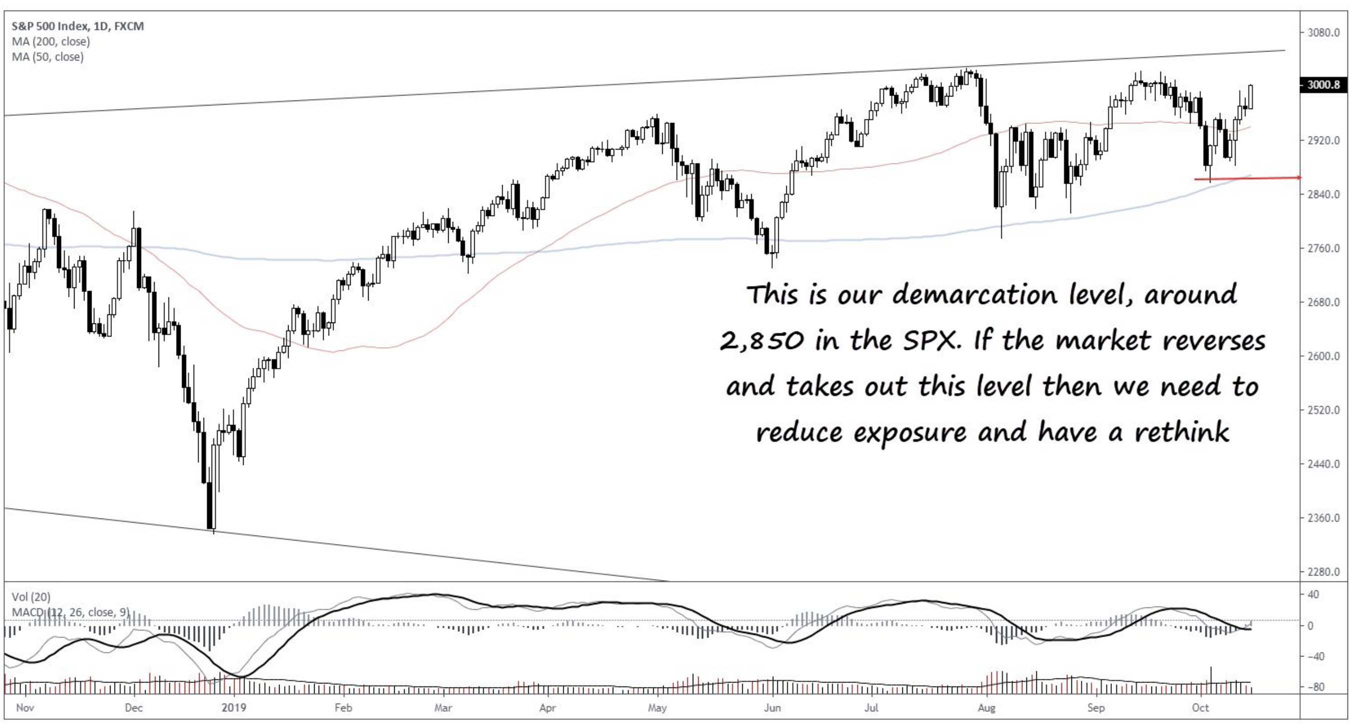

14) Earnings & Estimates | EE »

| Current Period (Q3 2019) | EPS | Sales |
|---|---|---|
| Actual | 2.680 | 30,100.000 |
| Estimate | 2.456 | 28,465.412 |
| % Surprise | 9.121 | 5.742 |
| Guidance | | |
| % Yr Over Yr Growth | 13.505 | 8.188 |
| **Next Period (Q4 2019)** | **EPS** | **Sales** |
| Estimate | 2.281 | 27,537.467 |
| Guidance | | |
| **Prior Period (Q2 2019)** | **EPS** | **Sales** |
| Actual | 2.590 | 29,566.000 |

It should complete its 21-month inverse H&S pattern today with a close above the neckline. The rest of the financial sector (XLF) looks like it’ll soon complete a similar pattern.


Our other Leaders/Generals are turning up as well. Semis (SMH) are making new highs, AMZN is moving back up, NVDA has broken out, small caps and micros (IWC) are jumping etc…Furthermore, this positive action is being seen in other markets (DAX, EEM, Nikkei etc). The most powerful moves occur when there's broad participation globally.  The tape is looking good which means we want to increase our risk exposure here.

It's odds on that we're headed for a breakout higher over the coming weeks. The 2,850 level in the SPX is our demarcation level where if price were to hit then we'd want to have a rethink as well as significantly derisk our book.




Speaking of book. We made significant changes to our positioning today. We took profits on and flattened a number of our holdings, while also adding to a few existing positions. I still like a number of the names we cut, such as Graftech (EAF) and our energy plays (WTI and EC) but I want to refocus things as these charts look like they may need some more time to base.

First, we made changes to our Core. We upped our positioning in large caps to 100% of NAV since we think the current backdrop is very positive for risk assets.

We decided to switch to futures for the entire Core versus using ETFs (we're using S&P e-minis for large caps). This is less cash-intensive and gives us more room to establish naked stock positions in Big Bets without getting charged interest on our margin balances. Our bond positioning is the same at 50% of NAV but we flattened out gold completely and will keep it at 0% until the technicals begin to look constructive again.

We doubled up our position in Disney (DIS), bringing it to 20% of NAV. The stock is down roughly 10% from where we took half profits a few months ago and now looks like a good time to reload. The chart below is a weekly and shows that DIS has formed a nice coiling wedge and is now at its lower BB and 200-day moving average.

This gives us a good go/no go level to put on more size and move up our risk point to the $123 level. If DIS drops below $123 then we get out with a 100bps loss (1R). If it jumps higher then we get to ride the trend with decent size on. Disney has both earnings and the launch of its SVOD service Disney+ coming up next month — not to mention an all-star roster of BIG movie releases for the holiday season — all of which are potential catalysts that could serve for the next leg up.

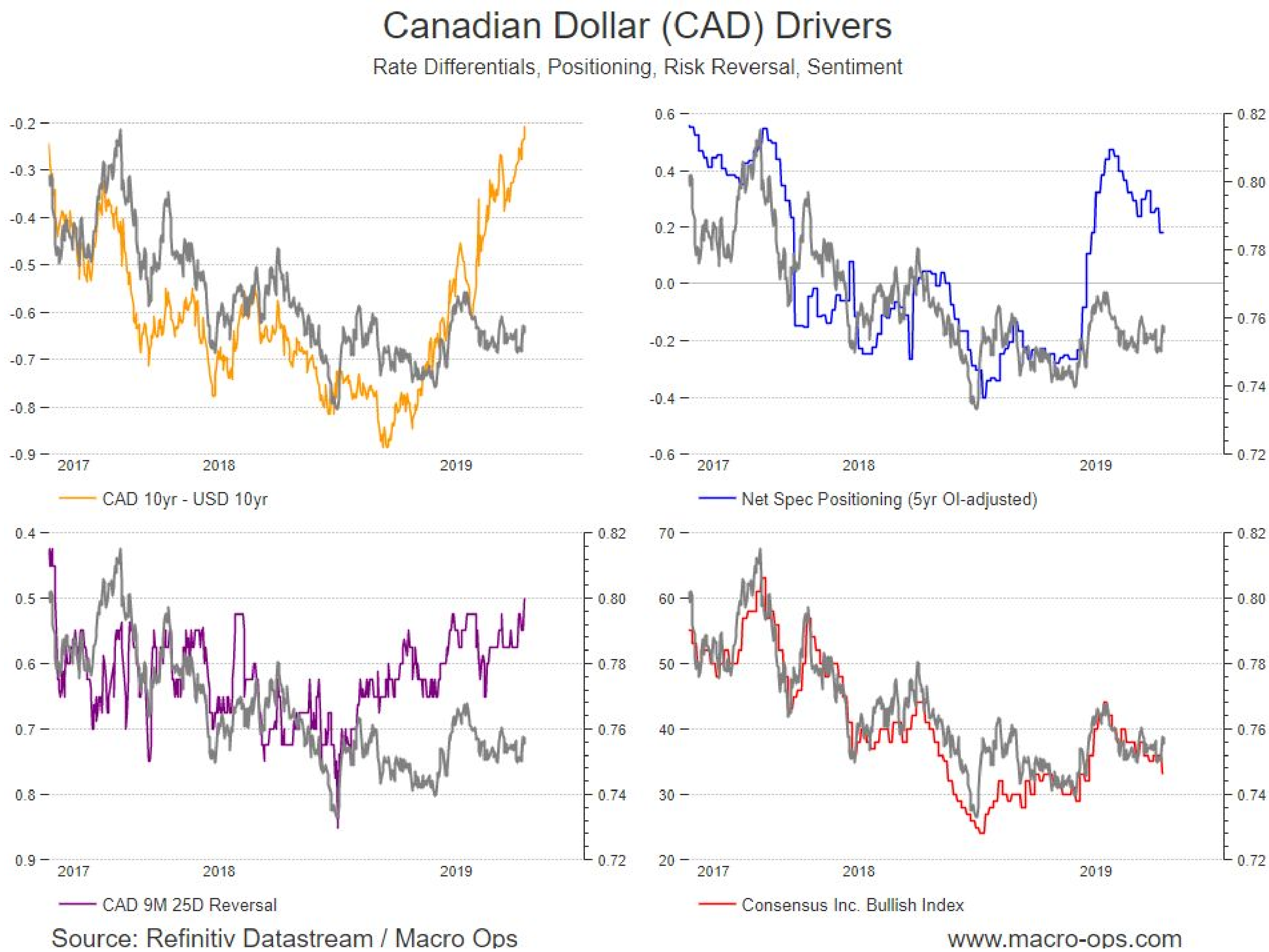

Finally, Scorpio Tankers (STNG) is up nearly 40% since we first bought in June. After adding to the position twice since, it now makes up roughly 20% of our NAV.

The stock is above its weekly Bollinger Band and bumping up against its 200-week moving average (chart below is a daily). We shouldn't be surprised if we see a bit of a rest/consolidation period here - will hopefully set up a good point to buy/add for those of you not yet in the stock.

I'll be putting out a follow-up note on the shipping industry later this week. There's a ton of exciting developments going on in this space and these trends are still very much in their early stages.


The last position that we've kept on is our long Canadian dollar trade (CAD Dec Futures). It continues to coil nicely along its 200-day moving average.


The trend in rate differentials and risk reversals favor a move higher. While the bullish positioning and sentiment has been getting worked off through its current basing process.




We completely flattened our book when we switched over to the new portfolio which is why the starting values (cost basis) for the Big Bet holdings are at today's prices and not showing any open profits since we booked them already. We wanted to start fresh and think hard about which holdings we wanted to put back on.

Our total net long equity exposure is 140% since we just raised core from 25%-100% long. I feel comfortable with this level of risk considering the technical, sentiment, and macro backdrop at the moment. We'll reduce if the data changes or add when we find other compelling big bet opportunities.

| *The Four Pillars Portfolio* | | YTD | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 9.46% | | | | | | |
| **The Core** | | Fixed Allocation | Market-Timing | | Net Position | | | |
| **Large Cap Equities (/ES_Z or VOO)** | | 25% | 75% | | 100% | | | |
| **Short-term Bills (/ZT_Z or VGSH)** | | 25% | 0% | | 25% | | | |
| **Long-term Bonds (/ZB_Z or TLT)** | | 25% | 0% | | 25% | | | |
| **Gold (/GC_Z or GLD)** | | 25% | -25% | | 0% | | | |

| Big Bets | Thematic | Cost Basis | Position Size (bps at risk) | Notional % | Risk Point | Last Price | Open P&L |
|---|---|---|---|---|---|---|---|
| Disney (DIS) | Value | $129.37 | 100bps | 20% | $122.00 | $130.00 | $0.00 |
| Scorpio Tankers (STNG) | Turn in Shipping Cycle | $35.35 | Above B/E | 21% | $26.50 | $35.35 | $0.00 |
| CADUSD (6C Dec' Futures) | FX relative value | 0.7565 | 100bps | 45% | 0.7467 | 0.7579 | $0.00 |

There are two stocks in particular on my short-list for longs. One of these is Bluelinx (BXC). BXC is the building supplies/materials stock that's trading for low multiples to cash flow and is a disguised deep value play due to a large number of grossly undervalued real estate holdings that aren't properly reflected on its balance sheet and which management is aggressively monetizing.

We first established a small position in this one back in August but the stock took off before we could get larger size on — the stock is up around 35% since. It's been coiling in a nice wedge over the last two months. We're going to look to open a new position (we flattened this one along with the others) on a clear break higher from this wedge. Housing-related stocks are showing strength right now, no doubt benefitting from the big drop in mortgage rates over the past 12-months.

The other one is Carbo Ceramics (CRR). Brandon did a great job covering this one in September's VV. It quickly went on a tear, nearly doubling, since his report was put out. After hittings its 200-day moving average, it's pulled back in a nice controlled retrace and is now bouncing off of its 50dma. This is a high-beta speculative play but may be worth a punt here if it can hold a breakout.


That's all I've got for now. I'll be back later this week. Actually, one last thing. I uploaded the latest BofAML Global Fund Manager Survey to the Slack. Here's a [link to the report](link to the report) and a snapshot of the summary is below.

## Tweeting the October Global FMS

#bottomline: Oct FMS shows investor sentiment bearish despite credit & equity rally; if trade war and BREXIT fears unrealized in Q4 then macro can beat expectations validating our contrarian bullish view.

#up-in-cash: FMS cash levels up to 5.0% from 4.7%, leaving BofAML Bull & Bear Indicator at an "extreme bear" level of 1.3.

#bearishmacro: FMS global growth expectations fall to -37%, i.e. low vs -60 to 80 range of past 25 years; record 9/10 say its "late-cycle", record say "fiscal policy too restrictive".

#greenshoots: 1-year high in FMS respondents saying companies should use cash to "increase capex"; and rising expectations for EPS, yield curve steepening and value outperforming growth; investor sentiment showing a few "green shoots".

#tailrisks: 40% say trade war biggest tail risk vs 13% for monetary policy impotence and bond market bubble; 75% say "ending trade war" is most bullish catalyst for stocks in next 6 months, followed by German fiscal stimulus.

#crowdedtrades: FMS most crowded trade is "long US treasuries" (41%), then "long US tech/growth stocks" (24%); FMS says European govt bonds most overvalued asset class.

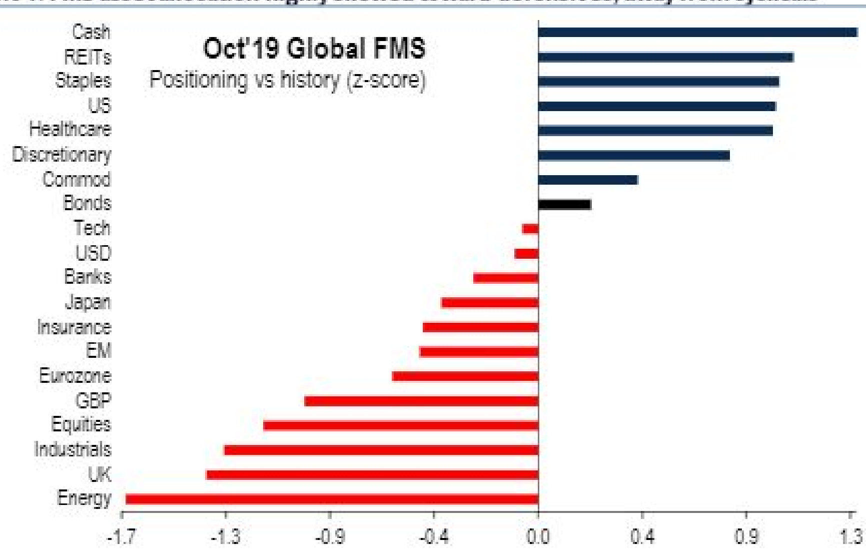
#longs&shorts: FMS investors (Chart 1) are long cash, REITs, staples, US, pharma (deflation plays), and short energy, UK, industrials, equities, sterling (inflation plays).

#extremes: FMS investors most overweight consumer staples since May'13, most UW materials since Feb'16, highlighting huge skew toward deflation not inflation plays.

#2020s: which equity market outperforms in next decade...FMS investors say EM 30%, US 22%, China 17%, EU 15%, Japan 6%, UK 3%; clear EM over EAFE preference.

#contrariantrades: Q4 rise in rates or growth is unanticipated...long stocks-short cash, long UK energy-short US REITs, short pharma-long industrials.

**Exhibit 1: FMS asset allocation highly skewed toward defensives, away from cyclicals**




Yeah… Fund managers are still <u>really</u> bearish.

Have a great night.

Your Macro Operator,

Alex