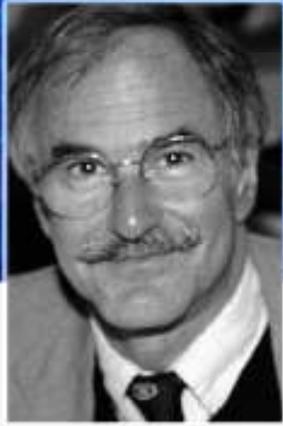


# The PAD System Report



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## AS JANUARY GOES...

So goes the rest of the year, says an old Wall Street adage. The so-called “January Indicator” may not have much forecasting power, but it could well show us how the rest of this year will play out: strong rallies, sudden selloffs, and no net gain.

The rallies will be driven in part by FOMO<sup>1</sup> investors who are very late to the party, but who are conditioned to “buy the dips.” This strategy works until it doesn’t. Stocks are not cheap by our favorite measures of valuation, and slow but steady economic growth, with no further cuts in taxes, will not deliver rapid growth in corporate profits. Nor will trade deals. NAFTA 2.0<sup>2</sup> is better than trade war with two of our biggest trading partners, but it will not lead to a surge in economic activity. Nor will the face-saving “phase 1” deal with the Chinese, which will only postpone the unresolved trade frictions between the world’s two largest economies. Many tariffs will remain in place, and China will have a legitimate excuse to postpone a lot of its US agricultural purchases, as it battles the newest coronavirus.

This virus knocked US stocks down at the end of the month, even though it is not clear how much this particular outbreak will harm the US. But it shows how vulnerable US stocks are to

any bad news. The damage to China is of course far worse. Their economic growth rate will slow dramatically. Many experts argue that their quarantines of millions of Chinese citizens were too late to stop the spread of the virus.<sup>3</sup> As of this writing, no one knows how widespread this pandemic will be, but it won’t be the last.

If the virus were to lead to a further slowdown in US growth, the bulls are sure that the Fed will ride to the rescue with cuts in short-term rates. But it will take months before the Fed (or anyone else) will have even an inkling what the economic impact will be. And by then we will be close to the presidential election.

And this election shows every sign of being a close one. We will not know how far we have descended into tribalism, how deeply the social fabric has been torn, how thin the veneer of civilization is, until November 3<sup>rd</sup>, at the earliest.

**RECOMMENDATION:** Hold cash reserves of at least 65%. Be patient. Wait for a major selloff, which we think is likely this year. (2/3/2020 10:12 AM PT)

**PORTFOLIO STRATEGY:** The weighted average of our year-ahead performance ranks is

<sup>1</sup> Fear Of Missing Out.

<sup>2</sup> Also known as the unpronounceable USMCA.

<sup>3</sup> We recommend David Quammen’s “Spillover” (2012) for a readable (and prescient) discussion of pandemics.

1.70 (outstanding, the best ever) and our weighted-average safety is 1.99, far better than the Value Line median of 3.0. Our portfolio MAP, at 14%, is the worst ever. This is worrisome, since it shows that Wall Street loves the stocks we love. Our only consolation is that 65% cash should still protect us from a decline

in the market. We are still looking hard to find new PAD stocks which have more appreciation potential. We will have full reports on portfolio stocks next month.

**WWW.PADSYSTEMREPORT.COM:** subscribers can renew online, and check the status of their subscription. Subscribers also have access to back issues, the current issue in PDF format, and the PAD Portfolio Excel spreadsheet, which summarizes short-term rankings, 3-5 year appreciation potentials for all PAD portfolio stocks, and measures of the Portfolio-weighted overall ranking for year-ahead performance, safety, and MAP.

**Note:** New subscribers baffled by the details of the PAD System should purchase a copy of Daniel Seiver's *Outsmarting Wall Street* (3<sup>rd</sup> edition, Probus/McGraw Hill, 1994). This book contains a full discussion of the PAD System and all of its rules. Although out of print, it is regularly available on Amazon.com. The **Google ebook version is now available for \$9.95 on our website.** A number of public libraries still have copies of the physical book.