Frank Curzio's WALL STREET UNPLUGGED

Announcer: Wall Street Unplugged looks beyond the regular headlines heard on mainstream financial media to bring you unscripted interviews and breaking commentary, direct from Wall Street, right to you on Main Street.

Frank Curzio: How's it going out there? It's August 15th and I'm Frank Curzio. This is the Wall Street Unplugged podcast, where I down the headlines and tell you what's really moving these markets.

Have to tell you, running a business is a great thing. Gives you a sense of pride, leadership, responsibility. So it's not just about you. It's about your employees, serving your customers. You get to run things the way you want, which always makes sure I get feedback from my directors before ever making big decisions.

Meet so many business owners, right? They highlight the positives. Things are great. It's awesome starting your own company because in the end it is your company, right? Its success or failure depends on you, well, mostly you.

What they don't tell you, is it gets crazy at times. You're not just running your own shop. But I know a lot of you are business owners out there that email me all the time. But imagine being the CEO of a major company, like Jamie Dimon, Jeff Bezos, Elon Musk, Mary Bauer from GM. You could go on and on and on.

If you look at these people, their whole lives are consumed with fixing problems and putting out fires. And can you imagine what their day looks like in terms of meetings, the amount of calls they have every day, attending to your biggest shareholders, your biggest clients. And you look at their emails. They probably have like 500 a day at least. I'm a small shop. I probably get close to 100 emails every day.

But even on the personal side, you have close friends that you're not

going to talk to as much because you're busy. You can't really do the leisure activities that you love, like maybe it's golf twice a week after work or once on the weekend, pickup basketball some nights. You're just too busy. There's so much that needs to be done.

And what about your family? It's tough to make family functions now, like graduations for your nieces and nephews, your birthday parties. So you're traveling a lot for business. And then comes your close family, where sometimes you're working 15 hour days to get things done. Again, a lot of fires being put out, you're launching new things. Yeah, you're taking quality time away from them.

As a business owner, you realize that the most important quality, the most important thing in the world to you is time. Every minute is accounted for. And you have to learn to prioritize, because every single minute you waste, at least for me, is a minute I could be hanging out with my daughters, answering important emails, hanging out with my mom, who's 75 now, take her out to lunch, and do any special video updates for subscribers.

So when people waste my time, especially at this age, because I'm getting older, I get really, really angry, like really angry. I'm more angry than I've ever been. And it's simple things, too, like going through a drive-through at McDonald's, when I want to get a coffee in the morning, come into the office. And it's 20 minutes to go through drive-throughs now.

And you could basically go to Walmart, get K-Cups, and brew the stuff yourself. It's going to take that long. But why 20 minutes at some of these places? Most of it … Everything's pre-cooked. That's why they have drive-thrus. At McDonald's, in particular, it's pretty simple. No one's asking for eggs over easy with well-done bacon and fresh potatoes on the side. It's an egg patty on an English

muffin, that's cooked already, with the hash brown they dumped into a deep fryer 30 minutes ago, probably at a hundred at a time, and a coffee that basically makes itself, because everything's automated these days.

I don't get it. Not only does it take 20 minutes to go through a drive-through, but every time you go, there's different employees at these places, and particularly McDonald's. The franchise owners, what are they paying these people? Working at McDonald's, remember they used to have all stats on how it used to be such a privilege. They used to have tons of CEOs at our industry [inaudible 00:04:35] worked at McDonald's when they were teenagers. Now you're lucky if these employees, they stay there for two weeks.

You waste a lot of time on little things like this. Or going to my daughter's pre-school meeting. Now we got a new principal this year, a lot of changes with the school, lots of new teachers. So all the parents and teachers, we had a big get-together in the church. I think it was a Thursday night around 6:00 PM. And the new principal starts talking about these new changes. And I really like the new principal, by the way. He's a no-nonsense guy from Pennsylvania, northeast.

And the mothers are like, "Hey, my son likes this teacher. Can we put him in this class?" He's like, "Hell, no. Absolutely not." Amazing how our school systems are now, because this isn't how our schools used to be, where if a mom talked to the principal and said, "Well, could they be with this class, or could they be in that class?" The principal would be like, "Okay. I'll see what I could do." And it's just like favoritism here and there. But imagine the can of worms that opens up. It's crazy.

And when I went to school, if my mom went up to the nuns that I had as teachers, when I was in grammar school, if she asked them for any, give me any kind of

special treatment, forget it. They would've beat me even more. And, yes, they hit us back then with rulers. It hurt. You didn't mess around with the teachers. Parents didn't go talk to them. Parents didn't want to talk to them because they were afraid of them. Today it's crazy. Parents are so involved now. It's insane.

Anyway, a new principal starts introducing the new teachers one by one, goes through each of their resumes. And then he keeps going, though. He's talking about one teacher, he got his MBA from whatever place, teaching 10 plus years. That's cool. It's important to know. But then he's like, "In his spare time, he likes to walk dogs on the beach." I'm like, "What? What are you talking about?"

On my spare time, I don't want to hear what other people I don't know do on their spare time. I'm not being mean there, but come on. It's 6:00, 7:00, 8:00. It starts getting later and later. He starts doing this for every new teacher. And there was a ton of new teachers. And I think our school has more employees than Coca-Cola. He just kept going and going and going with these teachers. I'm looking at him. I'm like, "How many new teachers do we have?" There's not that many kids. I live in a small town. There's not many kids that go to the school.

And the funny thing is, afterwards, we have to go to the classrooms to meet these teachers anyway, so we could ask them, "Hey, what's your background? What's going on? How's everything?" Again, you're there for two, three hours, and all I'm thinking is, "Man, does this guy know it's earning season right now?" I mean, come on. I want to in and analyze some companies, listen to some conference calls. These guys, they report after the bell. They have their conference calls at 5:00 PM. Try to look what's going on here. I thought this thing was going to be a half an hour, 40 minutes. You're there for two, three hours. It's crazy.

And yesterday, I walk into a Bank of America, my wonderful bank. I don't think anyone's happy with their bank. But there's a guy in there that if you literally want to waste years of your life, he's the guy that you want to go see. And all I needed was to put someone who was with me on the bank accounts, so they could deal with billing, customer service.

And it should've been a five to ten minute process, tops. Right? You just have to get a signature. Show your ID. We're there for 30 to 45 minutes. And I'm like, "How come? Can we get this done? We have to go." And he's like, "We have to over, make sure there's no changes with any of the key employees or structure of the company." And I'm like, "Bud, I'm the CEO. There's no changes." He's like, "Well, we have to make sure." I'm like, "I'm sure. I'm the CEO of the effing company. I'm sure that there's no changes. All we need is a signature."

It's like going back and forth with this guy. It's like, "Why do I want this? So I don't have to call in and be on the phone with your customer service department that's located in India, that's going to make me go through an automated sequence that takes 10 minutes before I get someone on the phone." I know all you guys have dealt with this whenever there's a problem with our bank account.

You've got a lot of security features on there and stuff like that. And, yeah, I'd rather somebody else, who I trust, is on the account that can do that. This way I could serve my customers better and use my time more wisely and better.

But this guy, if he was in a race with a dog with no legs, he'd lose by a mile. It's incredible. And that's how slow he is. Even when he prints the forms, the printer, he has to get up and walk to the printer. I've never seen someone walk so slow in my life. It's five minutes to go there. And then he'll actually talked to someone, then walked back.

And this is after I told him, "Hey, you know what? We're in a hurry."

And the best part is he has a big badge that he wears. It says, "I'm an employee of Bank of America for 18 years." 18 years. Think about all those poor customers that walked into that bank over the past 18 years and got that guy. How much time was wasted?

It sounds like he's being a nice guy. I don't want to be mean, and I feel bad rushing him all the time. But, hey, you just want to get someone that's really good at doing their job.

Even when it comes to [inaudible 00:09:50] Research … I got an email last week. This is when it's cool when you're the boss, because if you work for another company, you have to be polite no matter what. And I'm polite 99.9% of the times, 99.9%. I am. You guys know you've emailed me and I've answered you. If you're at someplace else, you're working for someone else, and someone curses at you for no reason at all, even if they're wrong, you have to be nice or you could risk your job.

And again, I'm polite. I'm a pretty nice guy, right? Free podcasts, I try to help investors, again, most of the time. But when a subscriber asks me, and sends an email, says, "Hey, Frank, I'm just wondering, in [inaudible 00:10:25] Research Advisory, did you sell this position yet?" And I write back to him, and I'm like, "Are you a subscriber?" And he's like, "Yes." And I'm like, "Is the position still in the portfolio?" And he's like, "Yes." I'm like, "Then I didn't sell the position."

Is that really the question? Is that the question that I'm answering? Because, for me, I want to help investors as much as I can. That may sound bad. And before you criticize, before you kill me on this, I want you to think about it this way, because by answering this question

and going back and forth, may have cost you from me answering your question, or answering an email where you may be asking about a stock that I haven't updated in my portfolio for a couple of months because there hasn't really been much news on it. That's sometimes possible because we cover a lot of stocks on our newsletters. Both are doing very well, by the way.

Are maybe you're sending me an idea to improve my website or improve that user experience for all subscribers, like very important emails. That opportunity cost. That's big. So I'm not saying, "Get 99% of the time." I don't want you to think, "Well, you're a subscriber, you should get you ..."

You'd know. If you emailed me, I've emailed. So many people are like, "Wow, I can't believe he answered personally." I like having that personal touch. As we get busy, it's going to be more and more different. And we're getting bigger and bigger, it's not as easy to answer all those emails. But I do like having that personal touch.

But make sure that added value behind that is very, very important, because as you get older, man, you realize how important time is. And plus, as you get older, you get more grumpy. So, you definitely don't have that patience for all the b.s., the same patience you had when you were younger.

Anyway, sorry for venting here, since the past two weeks have been like this, crazy. Just the little things. I'm like, "Really. People can't do this. Waste of time." So I like having this podcast where I could vent.

Anyway, speaking of grumpy, I'm about to interview the most grumpy person in the world right now. And his name is Rich Suttmeier. He's been on this podcast for a while, someone I've interviewed plenty of times. Been analyzing markets for over 40 years. And over this time, he's been

bullish probably for less than 48 hours.

But Rich is a great guy, great analyst, CEO and founder of Global Market Consultant, also a freelance writer on Investopedia, forbes.com, [inaudible 00:12:41]. He has worked everywhere. Love having him on because he gives me a different perspective on the markets and on things.

And I love to be challenged like that, because it make me dig even further when it comes to my research. And I've always said to you guys, whether you're bullish or bearish on a stock, you always want to talk to the person who has a different opinion than you, because it's making you dig further. It's going to make you do more homework, more research.

And not only that, if you happen to be wrong in your thesis and that person is right, you could always go back to them. It almost becomes a friend, like, "Wow, you were right. I didn't see this." And you learn off of that process. Again, investing is a learning process. You can't figure it out and be great.

It's like golf. If you shoot minus five, you guys find out why you didn't shoot minus seven. You got to find out why you didn't shoot 10, 12, 14. You have to keep getting better and better and better at it. And the way you do that is by making those mistakes.

But you learn a lot by talking to people who have a different opinion. You're like, "Wow, I see this so clearly. This stock's going to go up. Why did this guy hate it for?" And you start seeing his point. You start digging into what he seeing.

And that's why I like having Rich on. And Rich is a great analyst. And we're going to talk about earning season, which is very, very positive, fastest earning growth since 2010. He's going to do what he always does, breaks it down sector by sector, telling you which sectors he likes,

which ones he doesn't.

And he's also going to share his favorite ideas with you, which are usually shorts, as he believes a housing collapse and an overall market collapse is imminent. It's a really great interview coming up. Be prepared, though, because Rich is going to throw out a percentage that he believes the market's going to fall over the next six to nine months. I'm just saying. It's going to be a pretty shocking number.

Then in my educational segment, I'm going to break down earning season, I mean, really break down earning season, which means we're going to look under the hood. And when we do, I'm not kidding here, guys, you may not think Rich's prediction is all that crazy.

So, guys, don't miss this segment. I don't say that often. This isn't a lead. This isn't a segue. "You got to read it. It's important. Listen to the whole pod ..." No. The segment's original. Nobody's talking about this. It's a great analysis. If you listen carefully, it's likely going to save you a lot of money.

And before I break down earnings, let's get to my interview, my good buddy, Rich Suttmeier.

Rich Suttmeier, it's been a while, but thanks so much for coming back on the podcast.

Rich Suttmeier: Yeah, thanks, Frank. It's been a while for you, too, man.

Frank Curzio: I always love your honesty because before this interview I actually said that, "Hey, I might be five, ten minutes late." And I actually called you on time. And you said, "You know what? I'm surprised because when you call me, when you say five to ten minutes, it's usually fifteen minutes."

So a guy that knows me for a very long time. And we have

a long history together, working at thestreet.com, and, yeah. So Rich, you have a lot of fans. A lot of people love when I have you on the podcast. And because we can go anywhere with this interview, and you love talking about the marks, in general, and economics and things like that, and then relate them has, you can make money or benefit or lose money from stocks.

But I want to talk about some of the current events because people are curious. I'm getting emails on what's going on with emerging markets. It is hurting our markets right now, not too bad, but the past few days, we've seen a market downturn. A lot of this is in relation to Turkey, and people compare it to, well, Greece and the Eurocrisis and things like that. How important is Turkey to our situation? Is this something we should be monitoring or is it something like Italy, that came out, that was like a week? It was like, "Wow, we're in so much trouble," and the next thing you know, it hasn't really been mentioned since then.

Rich Suttmeier: Well, I'm viewing it a little bit differently than most people because I wrote a story about the nation's, or the worldwide debt being $247 trillion. I wrote that the morning before the Turkey turmoil began. And so I had to go back and revise the story to include what I thought about the Turkey turmoil. And my conclusion is it's not so much a currency issue, it is the debt issue because there's $247 trillion worth of debt around the world, which makes our $21 trillion, $22 trillion looks like chump change in terms of our national debt.

Sure, it's peanuts in Turkey, but when you think of that these debts are in dollar denominated and not lira dominated, it becomes a problem when your currency drops 50 percent or whatever it drops. And now you have to come up with twice the amount of lira to pay off a dollar worth of debt.

And my concern, also, is that the seven largest banks in the United States, which includes the four too big to fail U.S. Bancorp and I forget who the other two are, but U.S. Bancorp is the fifth largest bank. They all have tentacles around the world, and that includes … And this is a statistic that people don't understand. On the first quarter federal reserve quarterly banking profile, the notional amount of derivatives just on the books of our nation, that's what you focus primarily on those top seven, was $206 trillion at the end of the first quarter. That's up 18.7% from the first quarter.

So you know there's a lot of tentacles out there. And this morning we just found out that household borrowing, here in the United States, has reached $13.3 trillion. So it's a debt bubble, and a debt bubble that's seeping air, starting in Turkey.

So it's got a little seepage. And it would not take much for this to roll out in saying, "Whoops! The Turkey turmoil was the Black Swan."

Frank Curzio: Now let me ask you this, Rich, because we've been talking about debt being a problem for the last 10 years. And we watched stocks go up. And in the face of this we've seen our economy grow in the face of this. We've seen the housing market grow tremendously in the face of this. And, again, a lot of this was a lot of Kool-Aid, where we had super low interest rates. We had a fed, which people forget, in 2010, 2009, they were actually giving you money to buy a house and buy a car, and backstopping all the debt, making basically everything risk-free. All right? So we've seen massive growth.

But we've heard about this problem for such a long time. And the fact that it's on the table and everybody knows we have a debt problem, is it Turkey that's going to be the catalyst? Because so many people say that because of our debt markets, the market's going to collapse. Some

people go so far to say, "The ATM's aren't going to work, and there's going to be riots in the street." They've been calling this since 1965, by the way, and still calling it today.

But is a lot of this factored in? What is everybody missing here? Because we seeded that numbers. We know they're growing, but yet it doesn't seem to be having the impact that it should have. Are you accounting for the $13 trillion you mentioned? We still have $6 trillion in equity in the U.S. In homes that's untapped, based on home prices rising.

So when we look at a full … Is it we're not looking at the full picture? I just want to get a clear picture of why is this a risk when we've heard about this risk for seven years. And it hasn't really done anything in terms of stocks or, really, the bond market.

Rich Suttmeier: Well, I think it's been below the surface of some decent recent economic data but, however, the housing data has not been all that strong in the last couple of months. New home sales are down. Housing starts are down. Existing home sales are down. The latest reading for August on the National Association of Home Builders Housing Market Index, it's still well above 50 but it declined to 67

Rich Suttmeier: Still well above 50, but it declined 67 in August, but more important, the buyer traffic dropped from 52, just above 50 to now one notch below 50 at 49. So they may be still building homes, but they're not selling them. And people are not looking as much as they were a month ago, two months ago. One of the reasons is that affordability; it's never been this expensive overall to buy a home. This is the most unaffordable a home has ever been in the United States of America.

When you look at the average price in the 20-city composite, for example, the average home is now 2.6%

above the peak of July 2006. Now, if it's up 58.1% from the [trough 00:22:07] which was in March of 2012, name one household that has increased their earnings by 58.1% since March 2012. Very few. That's the problem. The average home owner cannot afford a home and that banks are squeezing Main Street every time the Fed raises the funds rate 25 basis points, the cost of their credit guard goes up 25. The cost of anything tied to the prime rate goes up. On Main Street, USA people are getting squeezed by the banks every time the prime rate goes up 25 basis points, every credit card rate goes up 25 basis points. Every loan tied to the prime rate goes up 25 basis points. But a CD rate, you get penalized if you try to liquidate it to buy a higher yielding instrument, so your CD rate doesn't go up 25%, nor does your money market rate go up 25%. So, Main Street savers are getting screwed.

Not only that, away from the increase from the Federal Reserve, since banks are starting to see credit card debts, auto loan debts, and some mortgage debts becoming in arrears they are raising rates in addition to the federal funds rate. If I looked at Chase credit cards they bumped them in April up 100 to 500 basis points on the basic rate. In another words, if you had a 10.99 rate, it could be as high as 15.99 now. Every time there's a crisis, it always falls on the back of Main Street, USA on top of that $13.3 trillion in debt which includes mortgages, credit cards, auto loans, student loans, etc.

It's a squeeze going on in Main Street right now and the biggest surprise to me is why gold is not rallying. It's not a surprise to see oil having trouble. I've been kind of negative on oil. Now if you remember the last time we chatted, we talked about strength in the, so called, FANG stocks.

Frank Curzio: Hmm-mm-hmm (affirmative)

Rich Suttmeier: If you pin me down, where would you put your money?

Frank Curzio: Yep, yep.

Rich Suttmeier: And I said, well you gotta go with FANG, but now some of them have loose teeth, if you know what I mean. I mean, you have Facebook, more than 17% off its high, you've got Netflix at bear market territory more than 20% off its high. If you look at Tesla, my God, that's not even an investment vehicle anymore. It's a pure speculation that it's going to be bought out at $420 or higher and I wrote about that right away, saying I have a number 279 for the stock, or 379, pardon me. And if it trades above that, you liquidate it and you say thank you very much and you go on to another investment. Don't look at the stock anymore. The only reason to buy it, if you believe in speculation, not a trader, not an investor, but you're betting that Elon Musk will pull a rabbit out of a hat.

Frank Curzio: Now, it's interesting because I want to get to the FANG stocks and everything. There are some, you're right, it wasn't just stocks that are declining right? They declined on really weaker than expected earnings. I mean, Facebook and Netflix really reported terrible earnings. You know, we saw Apple, Google, these companies actually reported much better earnings. The same with Amazon. So it's interesting to see if there's going to be separation in that because, as we know we talked about I think last time, this was a while ago. This has been the driver of the markets over the past two years, these FANG stocks.

It's tremendous in how many ETFs these guys are in, but I want to get back to debt for just a minute because you are someone that analyzes the Fed balance sheets better than anyone I know and probably anyone in the entire industry. You're the Fed, you have to see what's going on here, right? Because you're still saying, you just said that if interest rate, if we see the CPI go above 2% that's the mark we want to see and going to keep rates low, now they're raising rates, we're seeing inflation, but yet, like you said, when you're raising rates, a lot of this debt in

denominating dollars, we're seeing Turkey, could this be a contagion where it doesn't just take down Turkey, but now it starts taking down a lot of Europe, a lot of Asia. Are they going to continue, do they see this, are they monitoring this? Do they even care? Because this could be, they could inflate the problem by a thousand if they continue to raise rates. If they don't, how do you look at the market then, if they stop raising rates or they maybe decide to reverse cost and lower them?

Rich Suttmeier: Well, I look at the Nikkei 225, Shanghai Composite, the Nifty Fifty in India and the DAX Index as a basis for what's going on in the Global markets. The Nifty Fifty has been leading. It set a new high. It's been setting new highs almost daily recently. That's in India. So that's kind of immune to it. If you look at China, it's in three bear markets, the Shanghai Composite. Since the 2018 high, it's down more than 20%. Obviously, since it's 2015 high, you remember, Black Money Monday in China and the flash crash opened and the 2016 or was it 2015. And then, it's also below its all-time high, which was set in 2007. And then, the Nikkei, gosh, that's been mostly 50% below the 50% retracement of its long-term decline since 1989. So, there's problems around the globe in equity markets, but not right now in India, for example, obviously, the DAX also is, as of this morning is in correction territory. It is effecting other markets.

Obviously, the more business being done in with trade tariffs and trade war being done with these trading partners, that puts another uncertainty on top of the Turkey turmoil, as I call it. For me, that's a problem, so I believe that it's going to be difficult to stop. They declined this time by the Federal Reserve printing money. What really upsets me about Jerome Powell, the Fed Chairman, he is ignoring and in the Fed statement, not telling anybody what's going on with the balance sheet. There's not a single thing written in the two paragraph or shortened version of the Fed statement after the meeting.

And he avoids any questions about the balance sheet, pretty much. Now if they continue to go along that path of shrinking the balance sheet, it started in the fourth quarter of 2017 at ten billion per month, then each quarter it has gone up ten billion per quarter, so we're now in a quarter where it's 40 billion a month and starting in October, it will be 50 billion a month and be 50 billion a month estimated through 2020. This market cannot stand that drain. And, it's going to be very difficult for Jerome Powell to, all of the sudden, turn on a dime from saying the economy is strong to say, oops, we have to bail it out.

That's the problem. That's a big dilemma.

Frank Curzio: Rich, real quick, explain what that means to individual investors, when the Fed is shrinking the balance sheet.

Rich Suttmeier: It means, it's taking money away from the banks who they want to lend to people on Main Street. If there's less funds in the banking system, the banks don't want to lend you money and will be stingy in lending you money. That's why they're raising credit card rates even beyond where the Fed is. That means they won't give you a home equity line of credit. Every quarter, since 2009 home equity credit lines have decreased. Every home equity line of credit, they don't want to give you that because they fear that it will be the first thing you won't pay off if there's a problem on the individual's home balance sheet. So, every quarter since 2007, the bottom of the crisis, if you will, the home equity lines of credits have decreased even though home prices are back up at record highs.

That's a tough one to explain why that's happening. Because they don't want to lend to you. Even Quicken Loans, with their new program, if you wanted to call them, I want to refinance and I wanted to take out more money, oh, do you have any other lines of credit against the property? Yes, I do. Well, we have to include that. So, they want you to pay off the other line of credit and then

all of the sudden, the loan is going from three and three quarters to five and a quarter. And people say, no thank you.

So this idea of what they're doing online, get a loan approval in seconds is a joke.

Frank Curzio: You sound more optimistic this time than past times I had you on, so I'm just curious. You always talk about [inaudible 00:32:43] by Netflix and FANG Stocks and you've had a lot of great winners, right. Saying that some of these things are going to work, but ...

Rich Suttmeier: Trading and not investing. Your audience is more long-term investing. Right now, if I'm a long-term investor, if I'm approaching retirement, you've got to get in to investment contracts that will perform with the market, but not as strong as the market, but not lose money on the downside. It's not necessarily called an annuity, it's called wealth protection programs. If you're in retirement, or approaching retirement you cannot afford to go through another 2007-2008, but you will not have time to recoup that and you'll be working at minimum wage jobs until you're in your nineties. And you don't want that. You want to protect what you have right now if you're approaching retirement. That's my mean theme for investors these days.

Frank Curzio: Are you expecting the market to come down? I know you like throw percentages out there from time to time, but what could we see that's going to make it to the point where, not only that, but what is the catalyst and what is the time frame, what are you seeing with the markets and what time frame do you think this pull back could happen?

Rich Suttmeier: Well, right now, the weekly charts are not showing it's going to pull back much until one of them starts to crack. The first one that's looking like it's going to crack first is the Russell 2000 and you've got to realize that it's

only the Nasdaq, which set an all-time high in July, July 27th and the Russell, July 10th. If you look at the DOW and the S&P 500 and Transports, for that matter, they peaked in January. So everybody talking bullish, look at this, we're up another this, we're up another that. We're not even back to where we were at the January highs for three out of five of the averages that I look at. So, it's not a blue market anymore. It's not a bear market anymore because we haven't declined 20% yet from the highs. We did get into correction territory right across all of them at the February lows. Some of them went lower than that before rallying, but it's not a bull market anymore. That's what you've got to realize, it's just not, and there's just too many uncertainties that will prevent it from being a bull market. Can new highs occur? Yeah, but not by 20%, for crying out loud, which makes it a trade, not an investment.

Frank Curzio: So, when the market does come down, and you see it or you see it in your technicals because I know you look at a lot of different technical indicators and you see sectors break down. Is this something that you're predicting, well we could see a 20% mark correction and then what we've seen is even when the market pulls back five to ten percent over the past, we can go back pretty much seven or eight years it seems like a buying opportunity, but is there a ten or fifteen percent is that going to be a bigger red flag for you or is that going to be a buying opportunity for you?

Rich Suttmeier: In the last cycle, homebuilders' stocks peaked in the middle of 2005. Then it was the community regional banks at the end of 2006. Then it was the bigger banks at the beginning of 2007. It didn't really go out to all the averages until the middle of 2008 where the Transports were the last ones to peak. Then everything went haywire to the downside. And you remember, subprime is contained, will not expand to the real economy. Paulson said that. Bernanke said that. Sheila Bair said that. They

didn't get it right. And they're not getting it right now, in my opinion because so far, in this cycle, we've already had housing stocks, the homebuilders stocks peak. Most of them are in bear market territory. The banks peaked around March of this year, most of them, with the exception being perhaps JP Morgan and Bank of America. But, they're still not showing, to me that they're tradable but not investible. I call homebuilder stock, you can rent them, but don't own them.

You see it going. Even semiconductors are lagging. And that's the modern day engine because so many [inaudible 00:37:27]. If the semiconductors start to lag and they are, I mean that's a problem as well. You [inaudible 00:37:37] seven and a half percent below their high right now, they're probably, with the decline in the market today, they're probably worse than that.

Frank Curzio: Let's [inaudible 00:37:49] because I always love getting your ideas. Whether it's on a short side or long side, any individual names. Any individual sectors, things that you're looking at, like you said, a lot of them, based on the weekly charts, we could test new highs in certain areas, but you also brought up a couple sectors that like semiconductors. People don't understand that that is the engine, right. These are the guys that make the parts for IOT. It's been rolling over tremendously, yet you still see the big companies, the hardware, the Apples, and stuff like that do well. It's interesting. So, are there any stocks, individual names that you like or don't like that you can share?

Rich Suttmeier: No. I know yields are rising, but right now, there's a flight to safety and to treasury bonds. TLT is the symbol for the Treasury Bond ETF and then XLU is for the utility stocks and people are happy to see a 3.30% dividend yield. So, it's more safety in here. Junk bonds, if you own any of the junk bonds you should get rid of those. Remember, so many of the large corporations, what do they do? They

borrowed money and for share buy backs. How did they borrow money? Through the debt market. Well, guess what, when those mature, they have to replace that debt. They're going to replace that debt at a higher [inaudible 00:39:21] and that's going to hurt their balance sheet because they're going to have a bigger debt burden just when they have a tariff issue, a trade war issue, and perhaps even a rolling over sector that they're in.

Frank Curzio: Okay. So, last question here. A year from now, where do you see the markets trading? Higher, lower? There's a lot of things it seems like coming to a head. You're seeing merging markets, you're seeing tariffs.

Rich Suttmeier: I would say that you, in simple terms, the S&P 500 will be more than 20% below it's all time high and right now, it's just one and a half percent below it. It's going to be at least that, maybe more. I mean, you go down a lot just to get back to the highs of 2007. That's the problem.

Frank Curzio: You know, Rich, I always love talking to you because you're so positive. In reality ...

Rich Suttmeier: I give you ideas that work.

Frank Curzio: Of course you do. Of course you do. And I love talking to you because even before this and I want all to listen to this when I publish his ad later today. I always love to talk to the person who has a different opinion than you, right. Because it makes you dig further, research further so that's why I like having you on especially if I'm bullish with different sectors but you always do the homework, you always come prepared, you always have the numbers. I know you have a big audience with me. There's a lot of people that like you so I really appreciate you coming on and, again, we have a long history together. You've helped me in my career for many years and I really appreciate it. It's always an open invitation for you to come on, bud.

If anyone wants to contact you, find out more information

about you, how could they do that?

Rich Suttmeier: Thanks, Frank. Anybody that wants to contact me, the best way to do it is using email. Rsuttmeier@gmail.com.

Thanks a lot, Frank.

Frank Curzio: Alright. Sounds great, buddy. Take care.

Rich Suttmeier: Right. Bye, bye.

Frank Curzio: Alright, guys. Great stuff from Rich. Look, I get a lot of positive emails. I'm like, wow [inaudible 00:41:26] it's a long time, the markets have gone higher, but I want you to pay attention. One is, I say this all the time, I like having him on because he has a different opinion than me and I like to hear people with different opinions than me. But, you can see the numbers, the facts, the Fed data. The research that he does and he is trader, so he knows the technical levels on what's breaking out, what's not, what sector's peaked. The amount of numbers and research the guy does, I mean, he does the homework. His data interprets that the market is going to go down. When I do my calculations, I, especially over the past few years, determined that when it came to equities …

Frank Curzio: Two years, determined that when it comes to equities, they're going to go a lot higher, but it's important to just hear other people's opinions, and I think that's what people appreciate instead of saying, "Wow. This guy is [inaudible 00:42:10]. Why do you still have him on?" Where he might be saying just something within that that may trigger something that is a major factor in one of the stocks you own, maybe you're a home builder or something like that. So, either way, I like having him on. I usually get much more positive feedback than negative, but this podcast is about you, not about me, so let me know what you thought at frank@curzioresearch.com. That's frank@curzioresearch.com. Now let's move on.

I going to tell you guys, I want you to listen to this educational segment because it's on earning season. Earning season is just about over, very important because you're not going to hear what I am going to tell- you're not going to hear it anywhere, what I am telling you. When you really look under the hood all you're going to hear is how great earnings were, but there are cracks that are showing, and it's important to monitor now. If you're a subscriber to any of my products, and especially Curzio Venture Opportunities like the stocks, and stuff like that it's Curzio Venture Opportunities, or Curzio Research Advisory, you notice that we're doing a lot of rebalancing. Taking money out, selling some of our big winners right now taking some profits, not taking everything off the table, and a lot has to do with this segment. So, let's get right into it when it comes to earning season. It's one of my favorite parts of being an analyst.

Now let's talk about the highlights. So we talking about Q2 2018 over 90% of the company S&P-500, have already reported. When you look at the data, 79% of these companies reported positive earnings per share surprise. That means they beat earnings estimates. What does that mean? If you take that percentage, okay I'm always going to put things in perspective. I'm not going to just say, "Hey this company generates this much debt." And you don't even know what the mark cap of the company. We've got to put things in perspective. 79 of the companies beat earnings estimates. That's the highest percentage of companies ever. Since FactSet has been tracking this data. This going out 2008. That's a massive number.

Okay, by the way guys I say this all the time, FactSet has and amazing, it's like a 12, 15 page report. It's for free. Go to Google, put FactSet earnings. It's going to come up with a PDF, and they update it, probably every couple of weeks, and I can't believe it's a free source. But you can see everything from sector breakdowns, who's reporting,

what sectors they did, what sectors didn't. I mean it's unbelievable. So I get a lot of the data from here, and also from listening to the conference calls.

Now, you're looking at 90% plus companies S&P reported, right? 72% beat revenue. So they beat on the top line, that's called, and also the bottom line. So the five year average when it comes to sales, and the percentage of companies that beat, which is 72% of the companies that were reported so far, which is 90% of the entire S&P-500. The five year average is just 58%, so at 72%, that's an incredible number.

Now, earnings for percentage wise grew astronomically. 24.6% right now. Number is pretty much going to hold. So say we're on 25% earnings through, that's year over year. It's the highest rate since Q3 in 2010. Think about back then, we talked about [risk 00:45:26] just now. The Fed was giving away free money to buy houses and cars. They were giving away money for that. They essentially backstopped all bank debt, backstopped everything, took 100% of risk off the table for companies. I'm telling you again, it's two loans companies just take every student loan, we've got your back, don't worry about it. Okay, great. That's pretty cool. Imagine that, you can take out as much debt as you want, and just take as much business as you want, and the bank is like, "Don't worry, we've got your back. You don't have to worry about losses." Highest growth rate since then. Pretty impressive.

Sales grew by 10%, year over year. 10%, highest growth rate since Q3 2011. What does that mean? It's not just the tax cuts, guys. It's not just cost cutting, it's not buy backs, what we hear all the time. Which definitely helped earnings, definitely helped them. But we're seeing growth at a top line. We're seeing sales grow tremendously, so people are spending more money, they're buying more stuff. It's a very impressive rate. If we look at the evaluation, the forward 12 month P/E. The forward P/E for

S&P-500 right now is 16.6. To put that in perspective, the average forward P/E ratio over the past five years is 16.2. So the next time you hear an Alice on TV saying that, "The market is super expensive, it's never been this expensive." You can say, "Well, it's actually been this expensive for the past five years." And stocks have gone up, what? Maybe doubled over that time frame.

You see, well how does that make sense? Stocks are up, shouldn't it be more expensive? No, not if your earnings are going higher. So, earnings are moving higher alongside the price of these stocks. I mean some stocks are actually cheaper today, even though they are up 100, 150% over the past five years, because their earnings are growing much, much faster. I know, sometimes you say, "It doesn't make sense. The stock was at 5, and now it's at 10, and I don't want to buy it at 10." But at 10 dollars is actually cheaper than it was at 5 because the earnings are that much stronger. It's a much bigger company, based on earnings.

So you're looking at this and saying, "Holy cow, that's a lot of positives here." One we're not cheap. Based on the past five years, we're not cheap. Stocks are like trading in line. You find a lot of really good bargains out there, you see banks trading at 12, 13, 14 times. Material companies trading low. Technology is trading above the average. You can get a lot of discounts out there, you're seeing growth on both the bottom line, which is taxes, yes, cost cutting, yeah, we're seeing buy backs, but we're also seeing sales growth. Strong sales growth.

So a lot of positives, but we have to look under the hood a little bit, and this is where it comes to doing deep dive, deep research, which you're not going to hear out there a lot. Because when you do that, and you do look under the hood, you're going to see a lot of troubling signs. For example, earnings guidance from these companies that reported, so we are talking about earnings guides for Q3, next quarter. 55 companies issued negative earnings per

share guidance. We only had 19 of those, 19 companies out of [Halls pre-500 00:48:35] issue positive guidance.

So we look at those numbers, that's much higher than the five year average. A lot of more companies are warning next quarter, and what do we know about earnings, guys? It's all about the future. A company, their earnings estimates are set for this quarter at a dollar. They can report 25 cents, and sales could miss by a mile. But if they say next quarter those sales are going to be three dollars, compared to a $1.50 at [inaudible 00:49:01] estimates, that stock is going to go through the roof, because that's the future. We always look ahead when it comes to earnings. Looking ahead, more companies are warning. We're hearing more about commodity inflation. I mean, listening to these conference calls, everybody is talking about it.

Another interesting trend. What are we seeing with the dollar? Dollars are moving higher. There's lot of geopolitical risk out there, when it comes to earnings. Former tariffs, and I'm not going to call it a trade war, because it's not, it's not even close, but were basically in a pissing match with our two biggest global consumers. That's Europe and China. So you would think earnings on the global front would be weak, right? It's common sense. We have the dollar is going higher, we're fighting with these countries, we're seeing tariffs being raised here and there, right? It makes sense. It was just the opposite this quarter, by a mile. And FactSet did a great job of this, because they separated... Please stay with me, it's important. They separated S&P-500 companies into two groups, one that receives more than 50% of sales outside the US, which means more of an international focus, and those that receive more than 50% of sales inside the US, more of the US focus company.

Now remember, the average growth rate for the S&P-500, this quarter, was 25%. Again, looking under the hood, the ones that had more exposure internationally, their

earnings growth rate was close to 30%, compared to 22% of those who had more of a US focused. To me, that's very, not only interesting, it just makes me nervous.

Because, also, when it comes to sales, which grew 10% on average, which I just told you, the ones with international exposure, grew close to 14% on the top line. The ones with more exposure to the US grew 8.5%. Why is there such a discrepancy here? I don't know, maybe it's due to sectors where we saw technology, energy, and materials, I mean they really led the way this quarter, and if you look at those sectors, they seriously just have more global exposure, meaning the biggest companies within those sectors have a much bigger international presence within those sectors, right? Compared to what? Healthcare and Telecom giants, which usually have more exposure domestically.

But when I look at the bigger picture here, if the dollar continues to move higher, which it has, and remember earnings are being reported from three and a half months ago, right? They stopped like two weeks ago, then they get their books in order, and then their report. So they could do really, really good the first two and a half months, then really tail off the last few, so the last four or five weeks could've been really bad. Now lots could be reflected next quarter. Maybe that's why some of these companies are warning, because towards the end of Q2 they're seeing a decline in business. Especially companies with a large international focus, because the dollar continues to move higher, and we see further risk on the international front.

Remember I've argued there is no trade war because Europe and China, they'd be nuts not to make trade fair because their economies would collapse. So we had Europe who'd definitely blanked, but we have China, which is interesting. We have leads in China, well they're like... I mean we're not asking them to do something against their will, we're asking them to make trade fair, and

we have the leaders going, "Well, no we don't care." I didn't anticipate that they'd crash their total economy before they really decided to be honest. That was hard to anticipate. Didn't really hurt our market, just like I said, "Don't worry about it, it has nothing to do with us."

And, yes you can point out a Whirlpool, or a Harley Davidson, but most of our companies are still treading pretty close to the highs, because we have tax reform which easily covered the small tariffs that China is placing, that it's raising on us. But China, if you look at the FXI, which is their large cap ETF, I think it's the largest 25 companies, it's down more than 20% since February, since all those tariff nonsense. And they're getting a lot of backlash there saying, "Listen, why don't we just do what's right. This way our economy could come back." Because they're going to get crushed. Well, if this continues, what's going to happen? If we see a weaker economy in China, it's going to result in what? Fewer sales of US goods, which is going to hurt companies with international exposure, which I just told you accounted for the bulk of this earnings growth this season.

This isn't like a conspiracy theorist, this is on the table. A lot of people aren't talking about this. Nobody is really talking about how, "The Russel 2000 is doing great, because it's more US. The dollar is going higher..." It's amazing when you look at earnings, that the biggest contributor to earnings were the companies with the international exposure, and that's going to change dramatically with the higher dollar, and with China, and again we're in a pissing match with them right now.

So we can see earnings come down dramatically for a lot of companies next quarter, and I don't know if that's factored into the markets.

You might not see it next quarter, in terms of earnings, but you're probably going to see a lot of companies come

on and say, "Here, we met estimates." And again, it's all about the future, and they're going to report Q3, and they might warn for Q4 and the rest of the year. Because expectations are sky high. Look at the expectations for Facebook going into the quarter. Look at the expectations for Netflix. Maybe we're just raising their target by a hundred. They're not even doing the math behind it. "Our targets gone from 300 to 425." For Netflix, and in 41 to 43 hours, had bi-ratings on Facebook going into the quarter when the stock went from 170 over the past few months to two and change, and then you had three of the top firms, Golden, Deutsche Bank, J.P. Morgan all basically tell their clients, just before the quarter, that is going to be great. "Our [challenge checks 00:54:44] are awesome." Almost to buy the stock into the quarter, and it crashed.

We've seen that with a lot of companies. Expectations are sky high, this is not priced in. The rising dollar, international sales slowing, this is not priced in to next quarter's earnings. It's a [inaudible 00:55:00] you have to pay attention to. That's why I'm taking some profit to some of our names.

Could it happen? I don't know, maybe it happens, maybe it doesn't, but you have to monitor it, and see what's going on next quarter. You'll know probably in two months, a lot of companies will warn before they report, and say, "Well, we're not going to meet earnings estimates." And get crushed, and then report earnings, but it's something to monitor because if the dollar continues to go higher, you're not going to see earnings seasons this strong. You're going to have to see these numbers come down tremendously.

So that makes me nervous. So what am I doing with this sector? I'm interpreting the numbers, not just looking at earnings where I could say, "24%, 25% earnings growth, the highest since 2010. Strong sales growth." We have a market that's pretty cheap at 16.6 times earnings, which

is the average over the past five years. I'm not looking at that, because that's the past. I'm looking at the future, and earnings are about the future, it's how the markets trade.

And any dent in the earnings thesis is going to push the markets down, and likely, significantly, probably more than 10%. We some cracks on this already, at least I'm going to stay with consumer cyclicals, which usually perform well during strong economic conditions. Look at the autos, look at housing, interesting we're seeing a bump in retail. Retail stocks are starting to come back a little bit, after they've been really depressed. A lot of cyclicals starting to under preform the market, so how do we play this? What are we doing? Again, I'm taking small profits, nothing big, you don't have to do anything right now, but watch out for those negative pre-announcements.

In a bit those companies are going to announce when they'll report [loan 00:56:46] expected earnings next quarter, and they usually announce this a month before earning season. We start seeing that trend happen. That's something to watch out for. Keep an eye on the dollar, because this trend is still earnings, that comes with [fruition 00:56:59].

You're going to want to sell a lot of the high beta stocks. Growth names like Amazon, which were up close to 100% on, took profits on. Even more the FANG stocks. You may want to rotate into some valued names. Banks, with interest rates rising, maybe insurance companies, boring companies like Crown, and Cal-Maine Foods, again, just throwing names out there. I haven't done a ton of research on these, but more companies with US exposure, especially if the dollar continues to move higher, because that's going to continue to hurt emerging markets.

Rich bring this up, right? Barring a US dollar is a lot

of these guys. They have huge debt loans. There's no coincidence Turkey, Argentina, Indonesia, Brazil, these are the economies that are getting smoked now, not just Turkey.

I'm not sounding the alarm here, some say the recent activity emerging markets resembles the Asian financial crisis of the 1990's, I heard that, and it'll site certain things, like huge debt loans in emerging markets, rising interest rates, rising trade deficits, but we're not there yet. Doesn't mean were going to have a similar outcome. Because considering Turkey, which is terrible, its debt-to-GDP ratio is only half of Greece at the beginning of the European debt crisis. That was 2011, 2012. They're not going to tell you that, right? Because they just want people on TV to scare the hell out of you, that's their job, this way they entertain you, and you watch it. And when I look at European banks as a whole, I look at credit default swaps, basically I bet on the 30 largest, strongest banks in Europe, that they're going to break down somehow, like insurance contracts.

You're not really seeing, when I look at this, and again there is a market for this, it's not showing me that there's any contagion threat from Turkey that's been crashing. What's contagion? Well when something happens to one country it means it's going to spread out to a bunch of countries, and a bunch of markets, and the whole entire market could come down, like we saw the credit crisis. We're not seeing that when we look at credit default swaps, for everything else. For Europeans, the biggest banks, and stuff like that. We're seeing it pretty much isolated to Turkey right now.

When I see that, that's a red flag for me, but I'm not, because those banks would invest in great CDS not to get too technical. CDS, credit default swaps. They trade significantly below levels we saw during the European crisis, again, 2011, 2012, and I don't want to get too

technical on you, but when I look at future earning I'm getting nervous. We're in an eight year bull market, use your common sense. You know me, you've been listening to this podcast for a long time, I'm not a [inaudible 00:59:36]. I look at the data. I'm a data driven guy. The data is always pointing me to much stronger growth, that's why we've been in stock for a very long time, and done pretty well.

But right now, there are cracks in the foundation, you should be a little cautious until we see more data going forward over the next few months, and that's why I'm starting to take some profits, in a few of our winners, which we have a lot of winners in our portfolios, and just cutting back a little, not a ton. Again, until I see more data, I'm doing [us an 01:00:07] effort. Why? So my subscribers can build up liquidity, because bear markets are great, for those who are prepared, remember that. Having cash in the sidelines, and watching the market come down is pretty cool. You've got money to put to work to buy your favorite names at 10, 20, 30% discounts. That's what the great investors do, that's what I'm trying to do for you, the individual investors.

A lot to digest there, listen to that segment as many times as you can, but just know that what I'm seeing in the data is making me a little nervous going into next earning season. I think we are going to see a lot of more companies issue warnings with expectations still very, very high.

So if you have any questions, or comments about this segment, give me a shout at frank@curzioreasearch.com, that's frank@curzioresearch.com. And guys that's it for me, hope you enjoyed the podcast. Thanks so much for listening. I'll see you guys in seven days, take care.

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