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FEBRUARY 11, 2019 | 8:37 AM EST

Investment Strategy: "Who Do You Trust?"

Who Do You Trust? was an American television game show, originally hosted by comedian Johnny Carson, which aired from 1957 to 1963. The series was initially emceed by Carson and announced by Bill Nimmo. A year into the run, Nimmo was replaced by Ed McMahon. Carson and McMahon departed in 1962 when Carson was hired to take over from Jack Paar on NBC's *Tonight Show*. Three married couples competed on each show; the announcer would introduce couples one at a time, and Carson spent more time interviewing the contestants than quizzing them. In the quiz portion, Carson would tell the male contestant the category of the upcoming question; the contestant would then have to decide whether to answer the question himself or "trust" the female contestant.

We revisit this "Who do you trust" meme this morning because of what I have been saying the past few weeks. After identifying the selling climax low of December 24, when 48.5% of stocks made new lows, I recorded two 90% upside days (90% of volume and upticks came on the upside). The first one occurred on December 26 and the second on January 3. When such a sequence happens within a two-week period from a selling climax low, it is almost always suggestive that the lows are "in." That is why I have been adamant since January 4 that the December lows (SPX @ 2346) would not be retested like so many pundits were expecting. I have also opined that my work showed that the equity markets should trade higher into the mid-February "energy peak." However, recently I have stated that, due to the extreme near-term overbought condition of the stock market, I do not "trust" the rally. Indeed, who do you trust?

Last week's late decline came as the S&P 500 (SPX/2707.88) tagged its 200-day moving average (DMA), which now resides at 2742.63. Likewise, the Advance – Decline has peaked and has pulled back (chart 1, page 2). The rally by the SPX off of the December lows encompassed ~16.7% in one of the best "straight up" moves seen in a long time. So far, no damage has been done to the short-term uptrend from the Christmas Eve lows. That said, there were some noticeable divergences with the Industrials, Technology, Staples, and Utilities rallying while Financials, Energy, and Materials fell. That action caused our pal, Leon Tuey, to write:

"A short-term correction has commenced and will likely last 2 - 4 weeks which will prove to be rotational/time in nature and not of magnitude. The consolidation/correction will be global as all daily indicators are registering grossly overbought readings and short-term sentiment backdrop has deteriorated (a sharp rise in bullish sentiment). Moreover, even a few of the weekly indicators are registering overbought readings. After a brief correction, the market will rally to new highs, but the weekly oscillators will unlikely exceed their recent highs. . . . It's not the end of the world as the secular bull market which began on October 10, 2008, remains intact. As mentioned, the second leg of the bull market which commenced in February, 2016, is the longest and strongest as it is driven by improving economic conditions as a result of monetary easing. Since the first leg lasted nearly seven years, the current leg is still early and still has some ways to go in terms of time and distance. Hence, when the short-term overbought condition is rectified, re-deploy cash."

Plainly, I agree, believing the secular bull market has years left to run. Yet, a near-term pullback may just be in the cards given the overbought condition of the stock market and the aforementioned divergences. Surprisingly, however, my indicators continue to favor the upside despite the potential for the mid-February "energy peak." This action is a pretty rare occurrence and is a head scratcher. Accordingly, this week's market action will be an important "tell" about the short-term direction for stocks.

Speaking to valuations, the SPX now trades at a trailing P/E of 18x versus and average of 19.5x. We would note that, at the December lows, if the consensus earnings estimates are right, the SPX was trading at less than 14x forward earnings (chart 2, page 2). While the earning's growth rate has likely peaked, EPS are still relatively decent. Indeed, so far in the 4Q18 earnings releases, 65.6% of reporting companies have beaten the estimates and 59.6% have better revenue estimates. As for sectors beat rate, Technology, Industrials, Communication Services, and Healthcare were the best (chart 3, page 3). Also, sales growth remains impressive and is rising at the fastest year-over-year clip since the data began to be collected (chart 4, page 3).

During every earnings season, we try to list a few companies that have beaten their earnings and revenue estimates, raised forward earnings guidance, have positive ratings from our fundamental analysts, and screen well by my indicators. Such names from this earnings season for your consideration include: Mix Telematics (MIXT/$17.33/Strong Buy), Estee Lauder (EL/$154.71/Outperform), Harris (HRS/$160.16/Outperform), Mohawk (MHK/$135.78/Outperform), and New Relic (NEWR/$103.21/Outperform).

The call for this week: I spoke at a number of events last week, and I found that the individual investors are not just cautious, they are scared. The two most voiced concerns are that this is just a rally in a bear market and the stock market has rallied too far too fast. Coincidentally, the astute Lowry's Research Organization commented on those points over the weekend. To wit:

"According to the Lowry Analysis of the forces of Supply and Demand, the probabilities are extremely low that the advance from the Dec. 24th 2018 bottom is a rally in a bear market. In fact, since 1940, no bear market rally has shared the signs of strength exhibited by the advance over the past seven weeks. Rather, these signs of strength, as detailed in prior reports, have been exhibited only in the early phases of major market rallies, specifically rallies off the 1982 and 2009 bear market lows and in Jan. 1987 followed by a 39% gain in the S&P 500 to the Aug. 1987 high."

As for too far too fast, in our notes of some 55 years, that is just nonsense. This week is kiss and tell time as we enter the mid-February "energy peak" as the SPX stalled at its 200-DMA Maginot Line. Surprisingly, my indicators continue to favor the upside despite the "energy peak." This morning, the preopening S&P 500 futures are better by 9 points as China is upbeat on trade talk news. The combination of critical China-US trade negotiations and expiry week makes for an extremely combustible stock market. Of course, the question is: In which direction? Headlines, rumors, and whispers about the trade negotiations should impact trading. It could be a wild week!

Chart 1

Source: Bespoke Investment Group

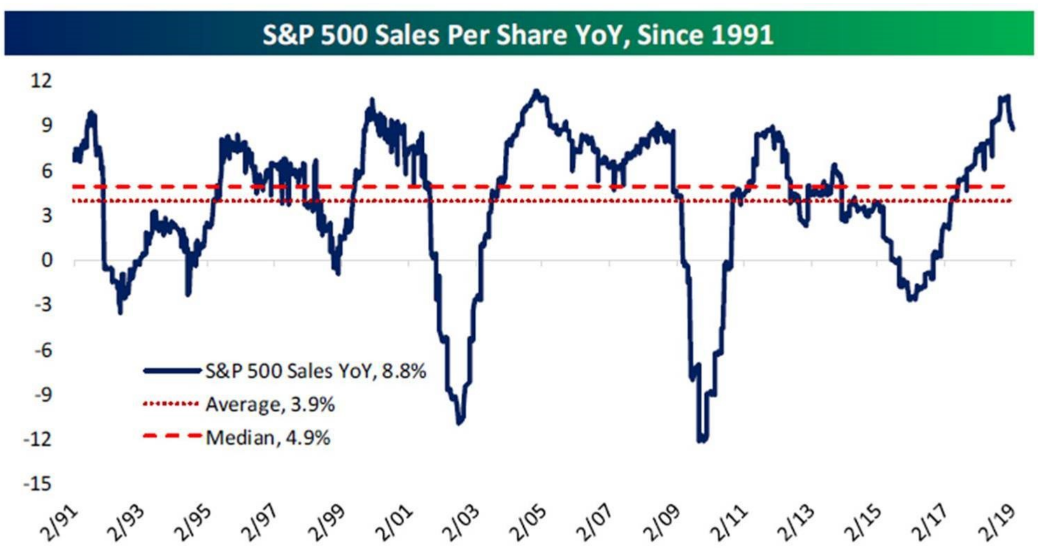
Chart 2

Source: Bespoke Investment Group

Chart 3

Source: Bespoke Investment Group

Chart 4



Source: Bespoke Investment Group

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	RJA	RJL	RJA	RJL
Strong Buy and Outperform (Buy)	57%	71%	23%	25%
Market Perform (Hold)	39%	26%	9%	3%
Underperform (Sell)	4%	3%	5%	0%

** Columns may not add to 100% due to rounding.*

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Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

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High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

Company Name	Disclosure
The Estee Lauder Companies Inc., Harris Corporation, Mohawk Industries, Inc., MiX Telematics Limited and New Relic, Inc.	Raymond James & Associates, Inc. makes a market in the shares of The Estee Lauder Companies Inc., Harris Corporation, Mohawk Industries, Inc., MiX Telematics Limited and New Relic, Inc..

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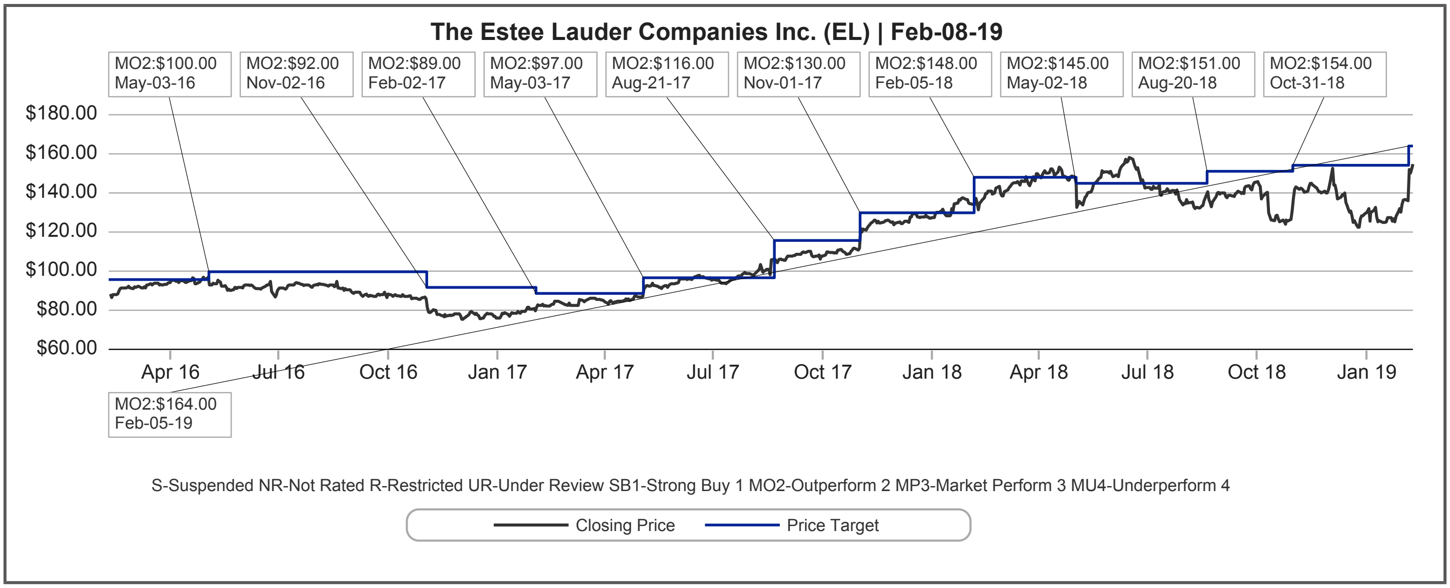
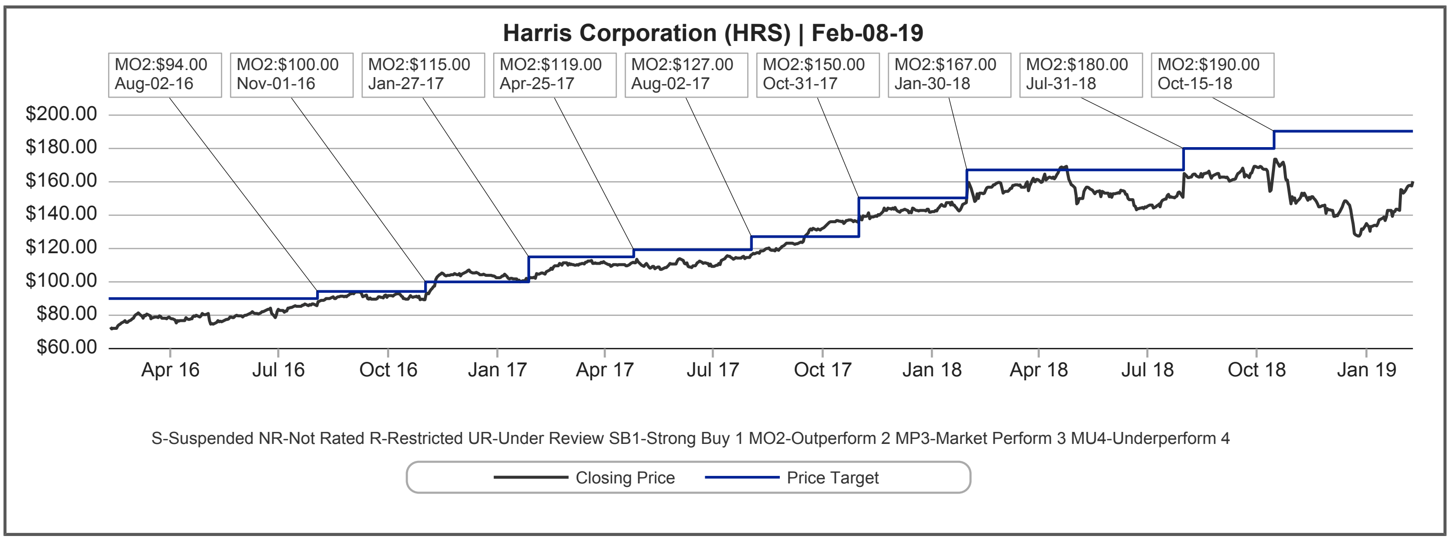
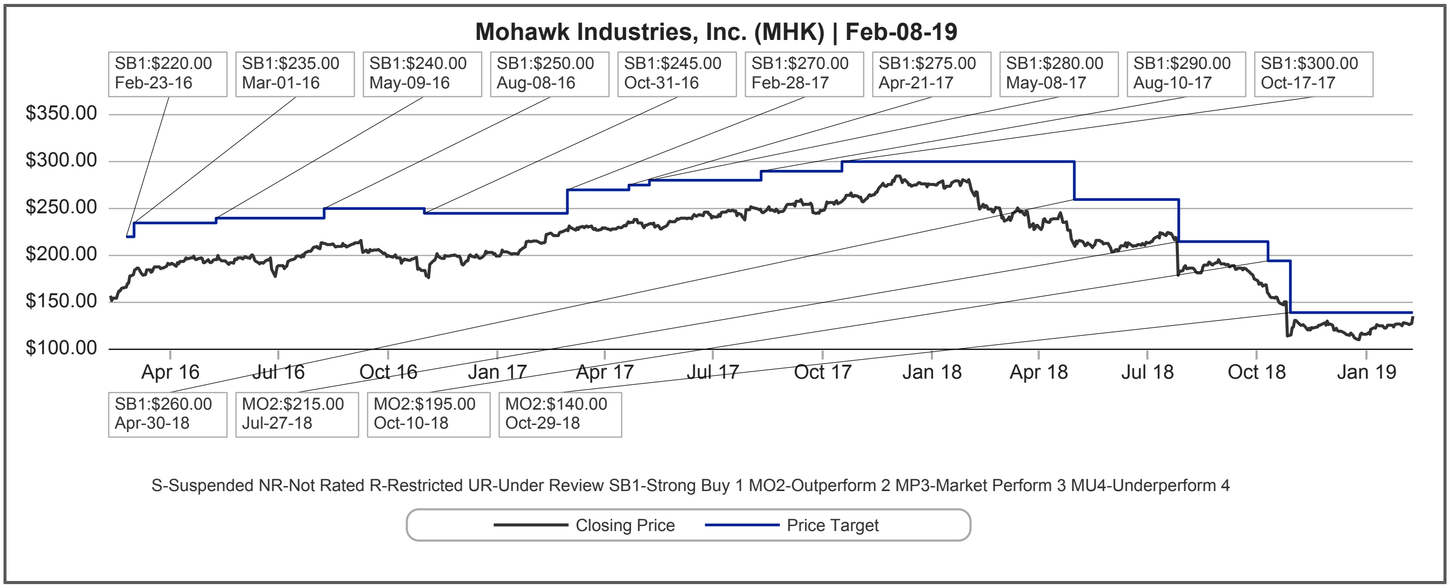
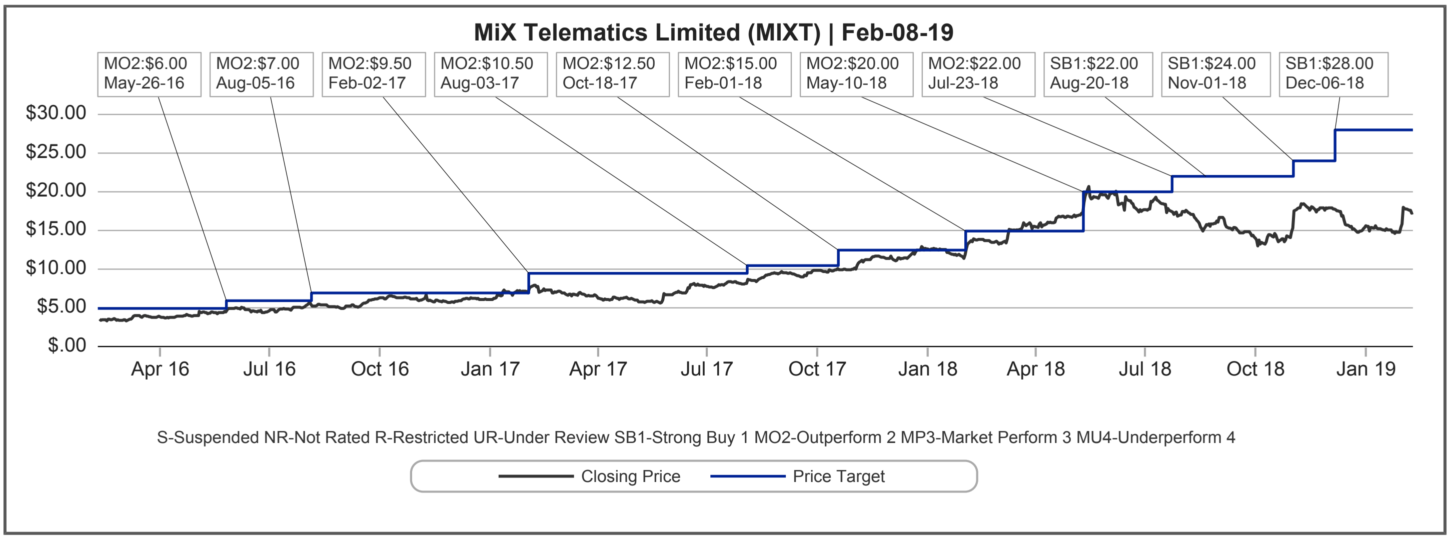
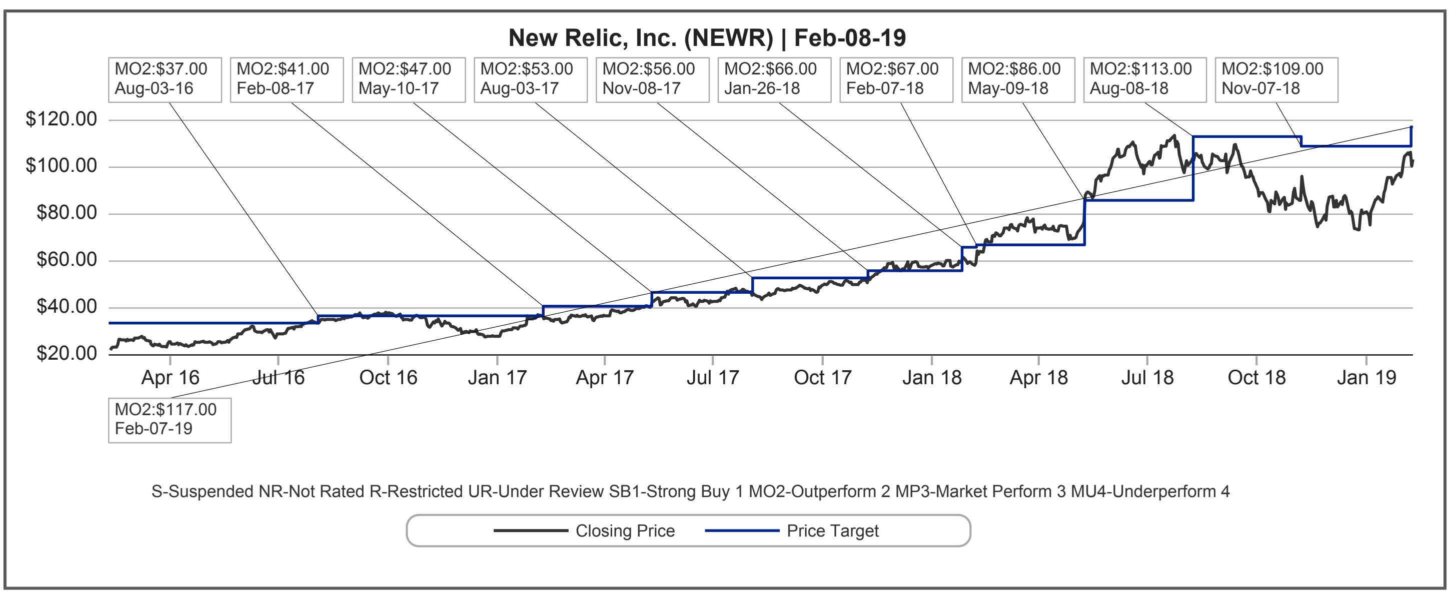
Target Prices: The information below indicates our target price and rating changes for the subject companies over the past three years.






Mohawk Industries, Inc. (MHK) | Feb-08-19
SB1:$220.00 Feb-23-16
SB1:$235.00 Mar-01-16
SB1:$240.00 May-09-16
SB1:$250.00 Aug-08-16
SB1:$245.00 Oct-31-16
SB1:$270.00 Feb-28-17
SB1:$275.00 Apr-21-17
SB1:$280.00 May-08-17
SB1:$290.00 Aug-10-17
SB1:$300.00 Oct-17-17
$350.00
$300.00
$250.00
$200.00
$150.00
$100.00
Apr 16 Jul 16 Oct 16 Jan 17 Apr 17 Jul 17 Oct 17 Jan 18 Apr 18 Jul 18 Oct 18 Jan 19
SB1:$260.00 Apr-30-18
MO2:$215.00 Jul-27-18
MO2:$195.00 Oct-10-18
MO2:$140.00 Oct-29-18
S-Suspended NR-Not Rated R-Restricted UR-Under Review SB1-Strong Buy 1 MO2-Outperform 2 MP3-Market Perform 3 MU4-Underperform 4
Closing Price
Price Target


MiX Telematics Limited (MIXT) | Feb-08-19
MO2:$6.00 May-26-16
MO2:$7.00 Aug-05-16
MO2:$9.50 Feb-02-17
MO2:$10.50 Aug-03-17
MO2:$12.50 Oct-18-17
MO2:$15.00 Feb-01-18
MO2:$20.00 May-10-18
MO2:$22.00 Jul-23-18
SB1:$22.00 Aug-20-18
SB1:$24.00 Nov-01-18
SB1:$28.00 Dec-06-18
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$.00
Apr 16 Jul 16 Oct 16 Jan 17 Apr 17 Jul 17 Oct 17 Jan 18 Apr 18 Jul 18 Oct 18 Jan 19
S-Suspended NR-Not Rated R-Restricted UR-Under Review SB1-Strong Buy 1 MO2-Outperform 2 MP3-Market Perform 3 MU4-Underperform 4
Closing Price
Price Target


New Relic, Inc. (NEWR) | Feb-08-19
MO2:$37.00 Aug-03-16
MO2:$41.00 Feb-08-17
MO2:$47.00 May-10-17
MO2:$53.00 Aug-03-17
MO2:$56.00 Nov-08-17
MO2:$66.00 Jan-26-18
MO2:$67.00 Feb-07-18
MO2:$86.00 May-09-18
MO2:$113.00 Aug-08-18
MO2:$109.00 Nov-07-18
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
Apr 16 Jul 16 Oct 16 Jan 17 Apr 17 Jul 17 Oct 17 Jan 18 Apr 18 Jul 18 Oct 18 Jan 19
MO2:$117.00 Feb-07-19
S-Suspended NR-Not Rated R-Restricted UR-Under Review SB1-Strong Buy 1 MO2-Outperform 2 MP3-Market Perform 3 MU4-Underperform 4
Closing Price
Price Target

Valuation Methodology

The Estee Lauder Companies Inc.:
EL valuation is based on our target P/E multiple.

Harris Corporation:
Our valuation analysis for Harris Corporation is primarily based on forward enterprise value/EBITDA and P/E multiples in the context of the company's historical trading range and current/historical peer group averages.

Mohawk Industries, Inc.:
For Mohawk, our methodology begins with an analysis that culminates with the development of forward projections of earnings, balance sheet, and cash flow statements. Using these projections, we calculate measures of current and projected intrinsic values. We also monitor and use additional valuation metrics including comparable and historical P/E, MEV/EBITDA, and price-to-sales ratios. These calculations and comparisons then form the basis for our judgments.

MiX Telematics Limited:
We believe enterprise value-to-sales (EV/sales) represents a reasonable valuation metric for many of our small cap application software and SaaS-oriented stocks given the immature nature of their financial models with significant upfront investments in sales and marketing, R&D and growth infrastructure occurring ahead of associated revenue monetization. With the emphasis in small-cap tech investing focused on maximizing growth and addressable market opportunities, other valuation metrics such as EV/EBITDA, EV/free cash flow (FCF), and price-to-earnings (P/E) will likely remain less relevant, in our opinion. EV/sales is a common valuation methodology in enterprise software, and when utilized in combination with relative top-line growth rate assumptions, provides a foundation for valuing SaaS stocks, in our opinion. Longer term, we believe significant operating leverage could materialize given the high margin nature of recurring revenue and inclusion of additional valuation metrics that take into account EBITDA, FCF, or earnings would become more relevant.

New Relic, Inc.:
Our valuation methodology for NEWR is based on an EV/revenue multiple relative to peers.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the business of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product/service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Company-Specific Risks

The Estee Lauder Companies Inc.:
Risks to Estee Lauder include: 1) Continued slowing growth within the global prestige beauty market, as well as disruptions in certain key emerging markets in Asia, Russia, and the Middle East; 2) foreign currency exchange rates, particularly a strengthening of the U.S. dollar (roughly 60% of its sales are outside the U.S.); 3) heightened competitive pressures; and 4) the ability to stabilize its skin care business within North American department stores.

Harris Corporation:
Concentrated Government Business
Harris is highly dependent on sales to U.S. government customers. Typically, the percentage of net revenue derived from salesto U.S. government customers, including the DoDand intelligence and civilian agencies, as well as foreign military sales through the U.S. government, whether directly or through prime contractors, is 60% to 70%.
High Exposure to Fixed-Price Contracts
Harris enters into fixed-price contracts that couldsubject the company to losses in the event of cost overruns or a significant increase in inflation.
High Exposure to International Markets
Harris derives a substantial portion of revenue from international operations and is subject to the risks of doing business internationally, including fluctuations in currency exchange rates.

Mohawk Industries, Inc.:

High Correlation with Housing Activity
Financial results from companies in this industry have a high correlation with new home construction and existing home sales. Cyclical or structural weakness in home activity would likely pressure industry financial results as a whole. In addition, consumers generally purchase big-ticket home-related goods when they believe home prices are likely to appreciate (justifying the additional investment). To the extent that home prices are weak, it could negatively affect the industry.

Reliance on Consumer Spending
Companies in this industry generally rely on consumer spending to drive sales. If consumer spending were to weaken as a result of general economic weakness, then it would be likely that industry financial results would be negatively affected.

Generally Discretionary Purchases
With some exceptions, companies in this industry are generally selling discretionary (or at least postponable) goods. This implies that the sector may not weather an economic downturn as well as consumer staples.

Concentrated Distribution Channels
Big box home retailers represent a large portion of industry sales (with the exact representation depending highly on the specific category). These retailers generally have significantly more bargaining power than the manufacturer suppliers in the industry. In some cases, this puts additional risk on the supplier.

Raw Material Input Costs
In general, home & building product manufacturers use a significant amount of raw materials in the production of goods. If raw material costs rise and are not able to be passed through in the form of higher pricing, then industry financial results would likely suffer.

Currency Risk
Companies in this industry generally have some percentage of exposure outside of the U.S. Should the U.S. dollar strengthen against foreign currencies, it could negatively impact sales and margin for those companies with exposure.

MiX Telematics Limited:
Managing a Global Business - The company generates close to ~44% of revenue from outside of Africa with Middle East, Australasia, Americas, and Europe all contributing materially to revenue as well as to costs and infrastructure investments. Managing a globally distributed business could prove difficult for a company that is still relatively small by enterprise software standards. Plus, wide-ranging economic conditions in the various geographic markets it plays in could result in a higher degree of volatility in business demand and the company's financial results.

Serving a Diverse Set of Customer End-Markets - While large commercial fleets (100 vehicles or more) account for close to 75% of the company's fleet subscriber base, the company has meaningful business with small and mid-sized commercial fleet operators as well as a diverse set of consumer-centric customers. Serving different customer end markets requires varying go-to-market models, product requirements and investment levels. In addition, the fleet and consumer businesses reflect distinctly different operating metrics related to average selling prices (ASP), churn, and customer lifetime value.

Potential for Adverse Forex Movement and Financial Model Impact - The functional reporting currency is the rand. Significant volatility in key currencies such as the U.S. dollar, Australian dollar, euro, and British pound could skew reported revenue results, growth rates, and earnings. While the company could institute some transactional hedging, as well as leverage natural operating hedging in the countries in which it operates, reported results could be volatile quarter to quarter despite the high degree of visibility associated with a subscription revenue model.

Investing More Aggressively for Growth - The company has maintained a balanced approach between investing for growth and showing operating leverage. However, if the company shifts toward investing for growth, then this could impact the balance and profit levels in the short to intermediate term. Increased growth investments may not drive top-line growth acceleration or time to benefit could be longer than expected.

Potential for Acquisitions - The company has made several acquisitions in the past. We believe one of the ways the company could execute on its growth strategy is through focused M&A that accelerates its traction in targeted geographies or adds additional capabilities to the company's product portfolio. Such M&A could materially reduce the company's cash balance, thus limiting future operating flexibility, diluting earnings and/or distracting management from executing in the core business.

Increased Competition - While competition is currently highly fragmented and consists of many regional players, acquisitions by larger capitalized companies attracted to the market's growth potential, greater interest in the space by larger telematics players or increased activity by truck and car manufacturers with OEM-based solutions could intensify competition, lead to greater price competition, and otherwise impact MiX's growth and profit potential.

New Relic, Inc.:
New Relic competes against large legacy APM incumbents such as Dynatrace, IBM, CA, and BMC. These companies have very large installed bases to sell into and could price APM aggressively. CA is investing in and modernizing its APM product in response to "next-gen" competition. New Relic also competes against other aggressive "next-gen" vendors, including AppDynamics, and "machine data" analytics vendor Splunk.

New Relic is entering the crowded analytics field with its Insights product, pitting it against pure-play analytics vendors such as Qlik Technologies and Tableau Software; log management companies such as Splunk and SumoLogic; as well as large BI vendors Oracle, IBM, and SAP. Salesforce.com also participates with its "analytics cloud."

New Relic has primarily been an SMB/departmental sales model. Moving to an enterprise/direct sales model carries execution risk around building an enterprise sales force and distribution channel.

While the company has turned profitable on a Non-GAAP basis, the company has yet to be profitable on a GAAP basis. We view risk to margins given top-line growth motivations to be a $1 billion run-rate business.

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Simple Moving Average (SMA) - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.

Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.

Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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