Markets Finish Near Record Hghs

With the Fed still taking an accommodating stance, decent corporate earnings and a better-than-expected 1st quarter GDP number of 3.2% signaling that a recession is not likely, the major indices powered higher.

For the month of April, the DJIA gained 2.8% and is up 14.0% for the year. The NASDAQ was up 5.5% and is up 22.0% YTD, while the S&P 500 gained 3.4% and is up 17.5% YTD.

Fidelity Select Medical Technology and Devices (FSMEX) is now closed to new investors. Considering this the first time Fidelity closed one of its Select Funds, there is an uncertainty for the Fund. On April 17th EIS recommended transferring assets of FSMEX evenly among the remaining Williams Diversified Sector Strategy funds: Fidelity Select Energy Services (FSESX), Fidelity Select Retailing (FSRPX) and Fidelity Select Utilities (FSUTX). Although it struggled late in the month FSESX is now the top pick for the Williams Sector Strength Strategy. For the month FSMEX was down 9.2% and FSESX was down 18.0%.

Although the 10-Year Treasury Note increased to 2.5%, FSUTX Fidelity Select Utilities (FSUTX) gained 1.7% during April and is up 11.6% year to date. Utilities perform well in a falling interest rate environment and historically perform best over the summer months. In addition, this sector has low volatility and holds up well in weaker markets. FSUTX remains recommended.

Fidelity Select Retailing (FSRPX) rallied 6.6% during April and is up 22.3%YTD. The fund has an overweight position in Amazon, which rallied 6% during April. With GDP growth coming in at 3.2% and near record unemployment, are all positives for FSRPX. The Fund’s second and third largest holdings are Home Depot (HD) and Lowes (LOW). The spring season, followed by the fall are the best times of year for these stocks. They should help create
additional gains for this fund. FSRPX remains recommended.

The stocks in the Widely Held Stock Theory have done very well YTD but mostly struggled during April. The One and Only gained 4.3% and is up 37.9% YTD, the Terrific Two lost 6.1% and is up 16.5% YTD, and the Fantastic Four lost 4.1% and is up 15.6% YTD.

As Market volatility remains extremely high, EIS recommends not using trailing stop orders through the second quarter. (See Widely-held Stock tab).

Market volatility increased during April and the Days of the Month Effect (DOME) strategy had excellent returns. For month of April BLPIX/BRPIX gained 2.9% and is up 15.3% YTD, ULPIX/UPIX gained 5.7% and is up 30.3% YTD.

This strategy works best in a highly volatile market and not necessarily in a straight-up market. Volatility is likely to increase over the summer months, which should add further gains to this sector.

The DOME strategy can only be performed with a ProFunds account (www.ProFunds.com) - $15,000 minimum account balance.

The recommended Dividend paying stocks all announced dividend payments for the quarter. Two stocks increased their dividends while with the other three stocks the dividends remained unchanged.

Remember these stocks are owned for the dividends they pay and not their share price gains.

Sunoco LP (SUN) announced that the Board of Directors of its general partner declared a quarterly distribution for the first quarter of 2019 of $0.8255 per common unit, which corresponds to $3.3020 per common unit on an annualized basis. The distribution will be paid on May 15, 2019 to common unitholders of record on May 7, 2019. This distribution was unchanged and SUN currently yields 10.6%.

Energy Transfer (ET) declares $0.305/share quarterly dividend, unchanged from the previous quarter. ET currently yields 8.0% payable May 20 for shareholders of record May 7th.

Enterprise Products Partners (EPD) declared a
$0.4375/share quarterly dividend, a 0.6% increase from the prior dividend of $0.435 (the 53rd consecutive quarterly dividend increase) and the current yield is 6.1%. Payable May 13 for shareholders of record April 30.

AT&T declared a quarterly dividend of $0.51 a share on the company’s common shares for a yield of 6.6%. The dividend is payable on May 1, 2019.

Southern Co. (SO) declared a $0.62/share quarterly dividend, a 3.3% increase from the dividend of $0.60 paid last quarter. The current yield for SO is 4.72%.

EIS Investing for Income Portfolio remains unchanged. If only the dividends are withdrawn from this portfolio, it will last indefinitely with the likelihood of the dividends increasing over time.

The stocks for the long run portfolio are a “buy and hold strategy.” Market volatility is not an indicator for selling these positions. Trailing stop orders are not to be used in this strategy, and any dividends are to be reinvested in the stocks. By holding these stocks in a brokerage account and reinvesting the dividends, no taxes are paid on any capital gains until the stocks are sold, and the dividends are taxed at a favorable low rate.

Stocks that have been held for longer than 12 months in an individual or standard brokerage account can be sold tax-free (no capital gains tax) if the shareholders have an annual taxable income (including the gain from the sale of the stock) below $77,200 for married couples filing jointly, or $38,600 for single filers. Stocks for the long run is another portfolio for tax free gains for retirees.

In addition, any beneficiary who inherits these stocks will receive them with a cost basis at the market price at the time of the previous owner’s death.

In a systemic market decline, these stocks will also decline like we have seen in December 2018 or the 4th Quarter of 2008. However, in the long run, the stocks listed above have been historically the best stocks in their represented sectors. This is a great way to potentially have tax free gains or leave your beneficiary tax free gains outside of a Roth IRA. This strategy only holds true in a non-retirement individual
account. To see the return of these stocks, go to the Stocks for the Long Run website tab.

So, what’s next for the market? Stocks have surged through April in their best start to a year in 32 years. However, markets don’t have a good track record of following up on a rally of that size.

There are four other years since World War II that the S&P was up at least 15% to kick off the year. Three of those years are virtually flat during the next six months of the year.

The other was 1987 when we lost about 13%, which included a 22% one-day decline on October 19th black Monday.

That doesn’t mean that stocks will end with a negative return over the next six months. On average, stocks end higher during this stretch, albeit with a smaller gain than other periods.

We are now entering the weaker seasonality period of the year. May to Halloween are the weakest six months on average since 1950 with the S&P 500 up about 1.5%. Although that is still positive, in comparison, the stretch from November to April typically has an average 7% return.

In addition, market corrections are less likely to occur when the quarterly GDP is up at an annualized rate of 3.2%, during record low unemployment and with 76% of companies beating earnings estimates.

Getting too defensive too early during this six period could cost you some upside gains. During the last six years, the month of May has seen a positive market. In addition, the signing of a trade agreement between the US and China could happen in the next 30 days.

A not much talked about market anomaly is the period from June 28th – July 7th which is historically the 2nd best trading week of the year, which occurs exactly six months after the best trading week of the year, the Santa Claus Rally December 26th through January 2nd. This seven-day period is particularly strong especially for the technology sector. After this anomaly ends the market historically struggles through the rest of the summer and fall.

If the economic data continues to be strong and a 10% correction occurs this would create another buying opportunity.
Last quarter we increased holdings in REIT funds, and they were flat for the month. However, if we see any slowdown, Treasury Notes usually head south which is a positive for this fund. This fund can rally in weak markets so it provides some downside protection. Holdings in REITS will remain unchanged.

Fidelity Select Utilities will also provide some protection as it has posted a nearly 10% gain on average six months after the yield curve went upside down. In addition, the summer months are historically the best time of the year for Utility stocks.

On the flip side technology could be the biggest loser, bleeding more than 13% on average in the six months past a yield curve inversion. Investors in these sectors should be looking to take profits. An opportunity may present itself to short the market by investing in inverse funds.

If the economy does slowdown it is not a positive for Fidelity Select Retailing (FSRPX). This fund is among the best performing sectors over the last 2 months.

Finally, we have the oil sector. FSESX soared early in the year as the sector was severely oversold late in 2018. The fund struggled in the later part April as earnings reports showed that oil drillers will decrease their exploration. This is a headwind for the sector. With that said, we are now entering the unofficial driving season--Memorial Day through July 4th--and oil stocks usually rally during this period, so FSESX will remain recommended at least until this period ends.

**Portfolio changes? There won’t be any this month, but there will multiple changes in the coming months. Check out all portfolios and stay tuned.**

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