

# Strategist's Handbook

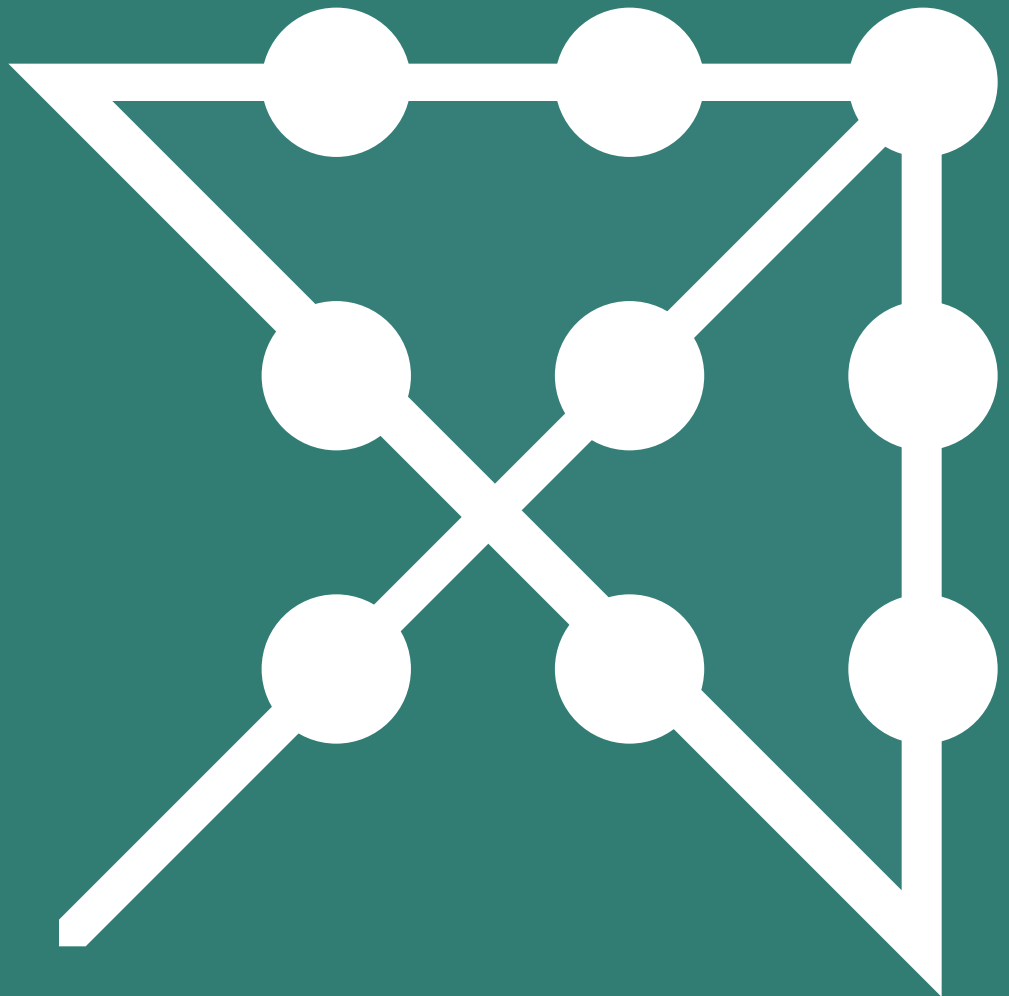
Yardeni Research, Inc.

*September 4, 2017*

**Dr. Edward Yardeni**

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Please visit our sites at  
[www.yardeni.com](http://www.yardeni.com)  
[blog.yardeni.com](http://blog.yardeni.com)

*thinking outside the box*



## Introduction to Services & Personnel

### Our Firm

Yardeni Research, Inc. is a sell-side consulting firm providing a wide range of global investment strategy and asset allocation analysis and recommendations. Our work is firmly grounded in our in-depth research on the global economy. Many of our clients rely on us to be their primary outsource for financial and economic research. They use our insights in developing their own global investment and business strategies. Our clients include institutional portfolio managers, industry and credit analysts, managers of financial institutions, CEOs and CFOs, corporate business strategists, corporate treasurers, and government policymakers. They work for some of the world's leading asset management companies, mutual funds, trust companies, insurance companies, hedge funds, banks, and industrial corporations.

### Our Services

We provide an all-in-one package of consulting services. In other words, our “premium” service is the only one we offer. We strive to provide a unique, customized, personalized, and valuable consulting service to our accounts. In effect, Yardeni Research is a knowledge-based “concierge” service designed for a limited and exclusive clientele.

As our client, you can expect the following:

1. **Dr. Ed's Morning Briefing.** Our daily analysis of the latest economic and investment issues delivered by email promptly at the start of the business day, with a weekly compilation each Friday morning. The commentary provides objective, fact-based analysis of unfolding economic, political, and investment-related developments and draws conclusions about their short- and long-term ramifications for investment and business strategies. The focus is on actionable insights that decision-makers can put to use daily and for long-term planning purposes as well. Also delivered daily (except Sundays) by email is Dr. Ed's *What I Am Reading*.
2. **Dialogue with Dr. Ed.** Our daily morning commentary is designed to stimulate a constant dialogue with you. We welcome questions and comments by email or phone. Dr. Ed is frequently “on the road,” meeting with accounts in major cities on a regular basis. His visits—as well as conference calls—are included in our service. The views of institutional investors and business leaders who participate in the ongoing dialogue are often discussed in the *Morning Briefing*, informing and enhancing the analysis.
3. **Exclusive Online Information Library.** Our website provides you with access to a rich library of research reports. You can also find on our website a vast bank of user-friendly information tools, such as chart books on key economic and financial indicators featuring useful data comparisons and proprietary data indexes.
4. **Personalized Tools and Resources.** The website includes MyPage. At your request, we maintain customized charts and presentation materials on your passcode-protected page. We can also send the latest updates of this information, along with our numerous publications that you select, to your email address on a regular basis.
5. **Top-Notch Outsource for Research.** You can rely on us for the most thorough analysis of the economic and financial issues that matter most to you. Our consulting service provides you with direct access to Dr. Ed and our staff on a 24/7 basis. Please contact us to discuss your individual professional needs.

## Our Team

Our firm was founded in January 2007 by Dr. Edward Yardeni, the President and Chief Investment Strategist of Yardeni Research. Here are brief career summaries of our team:

**Ed Yardeni, President and Chief Investment Strategist.** In his daily *Morning Briefing* emails, Dr. Ed explores trends in the economy and financial markets that are vital to a broad spectrum of investment decision-makers. He was on Wall Street for 25 years as the Chief Economist of EF Hutton, Prudential Securities, and CJ Lawrence. He was also the Chief Investment Strategist of Deutsche Bank Securities. Regarded as one of the leading independent investment strategists in the business, Dr. Yardeni appears frequently on CNBC and is widely quoted in the financial press. He worked at the Federal Reserve in Washington, DC and in New York City, as well as the US Treasury. He holds a BA from Cornell and a PhD from Yale, where he studied under Nobel Laureate James Tobin.

**Debbie Johnson, Chief Economist.** Debbie's insights on the latest US and global economic statistics are widely respected and followed closely by our accounts. She thoroughly analyzes them in numerous daily *Economic Alerts*, which are summarized in our *Morning Briefing* and posted in full on our website. She has been working with Dr. Ed for 30 years, starting at EF Hutton in 1979. Together, they have created several original indicators for tracking the economy and financial markets.

**Joe Abbott, Chief Quantitative Strategist.** Joe writes our *Strategy Alerts*, which are also summarized in our *Morning Briefing* and posted in full on our website. He provides an in-depth and user-friendly approach to key variables that drive stock markets around the world. He was a top analyst of corporate earnings for Thomson Financial before he was hired by Dr. Ed at Deutsche Bank Securities in 2000. Together, they developed a widely followed quantitative system for tracking and analyzing consensus analysts' earnings estimates for the S&P 500 and its 10 sectors and 100+ industries.

**Melissa Tagg, Director of Investment Research.** Melissa joined the team in early 2015, and provides support to all aspects of our business, especially special research projects. She comes to YRI from a successful decade-long career in corporate finance with a mid-sized New York-based media company. Melissa started out on Wall Street as a Capital Markets Intelligence Analyst with Thomson Financial. She then honed her knowledge with "Big 4" experience at Ernst & Young while pursuing her Master's degree. After graduating with highest honors, Melissa earned her CPA certificate.

**Jackie Doherty, Senior Contributing Editor.** Jackie writes about the S&P 500's sectors and industries, highlighting business trends and analyzing financial data on YRI's website. She joined YRI in 2015 after working for *Barron's* as a senior editor and has followed the stock and bond markets for more than 20 years.

**Amalia Quintana, Senior Economist.** Mali develops and maintains our numerous handbooks and chart books. She also works directly with our accounts, serving their individual data and chart needs. She started working with Dr. Ed at EF Hutton in 1980.

**Sandra Cohan, Senior Editor.** Sandy has been editing Dr. Ed's *Morning Briefing* and maintaining areas of YRI's website since 2009. She previously worked in the Equity Research editorial departments of Wall Street firms including Prudential Securities, CS First Boston, and Goldman Sachs.

**Valerie deLaRue, Director of Institutional Sales.** Valerie is in charge of both Marketing and Sales. She started her career on Wall Street in Institutional Sales covering accounts in Switzerland, first for CJ Lawrence and then for Bear Stearns. She has been with Yardeni Research since 2007.

**Mary Fanslau, Manager of Client Services.** Since the inception of Yardeni Research, Mary has been administering our Client Services. She has been Dr. Ed's Executive Assistant since the late 1980s, adding the role of Webmaster during the mid-1990s.

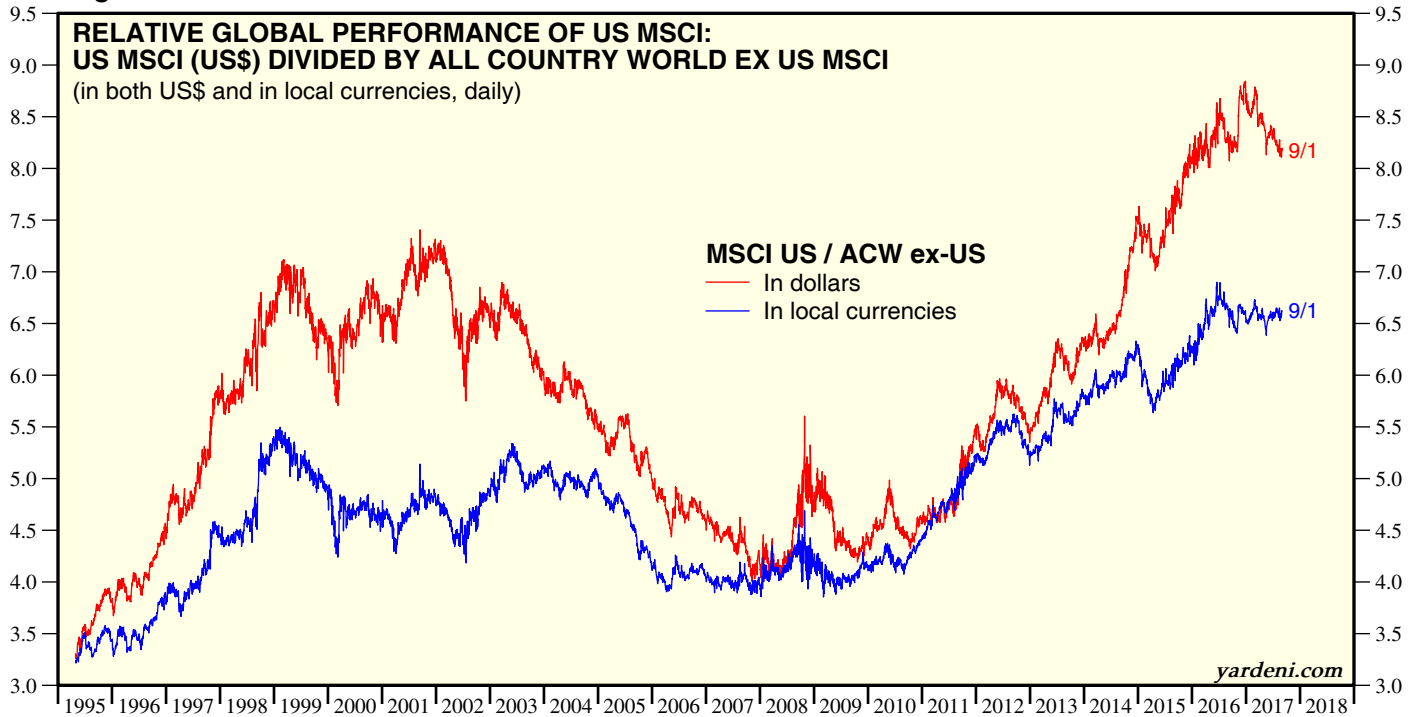
### Contact Information:

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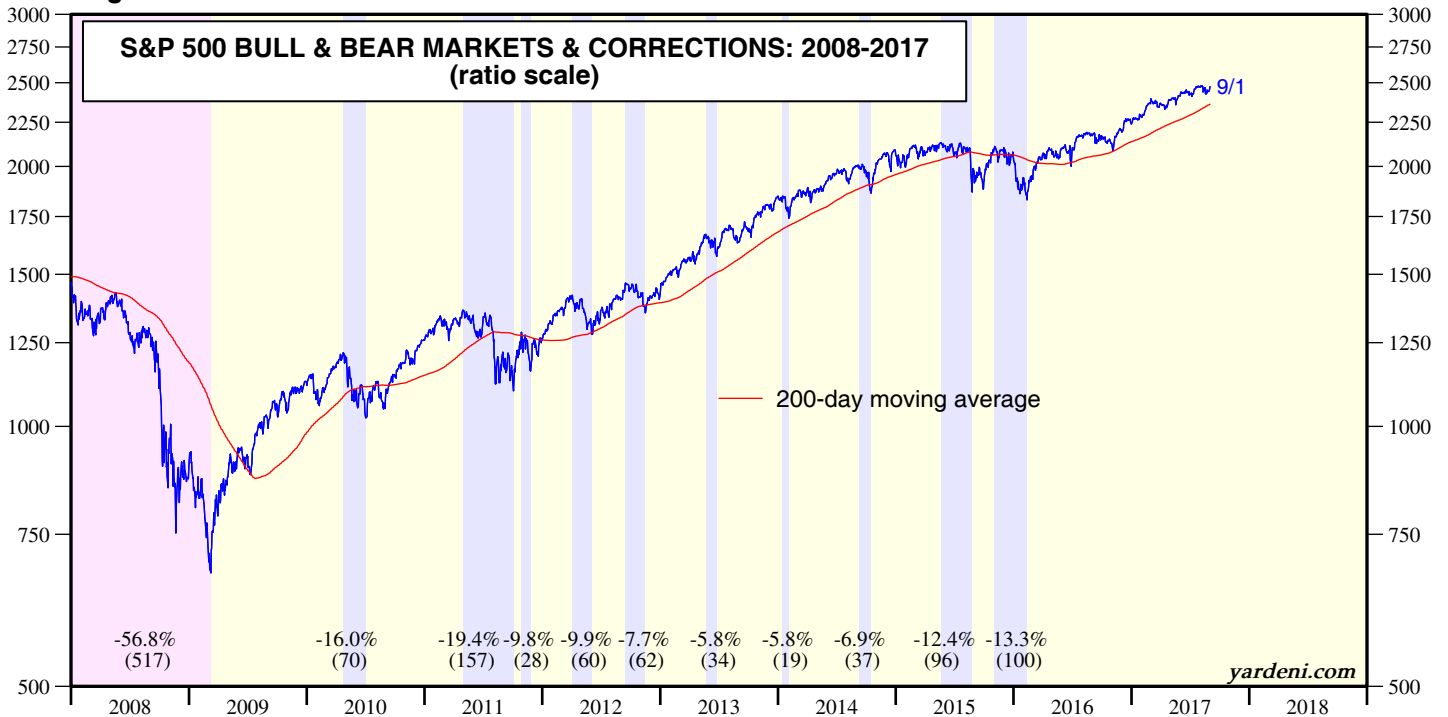
# Stock Prices

Figure 1.



Source: Morgan Stanley Capital International.

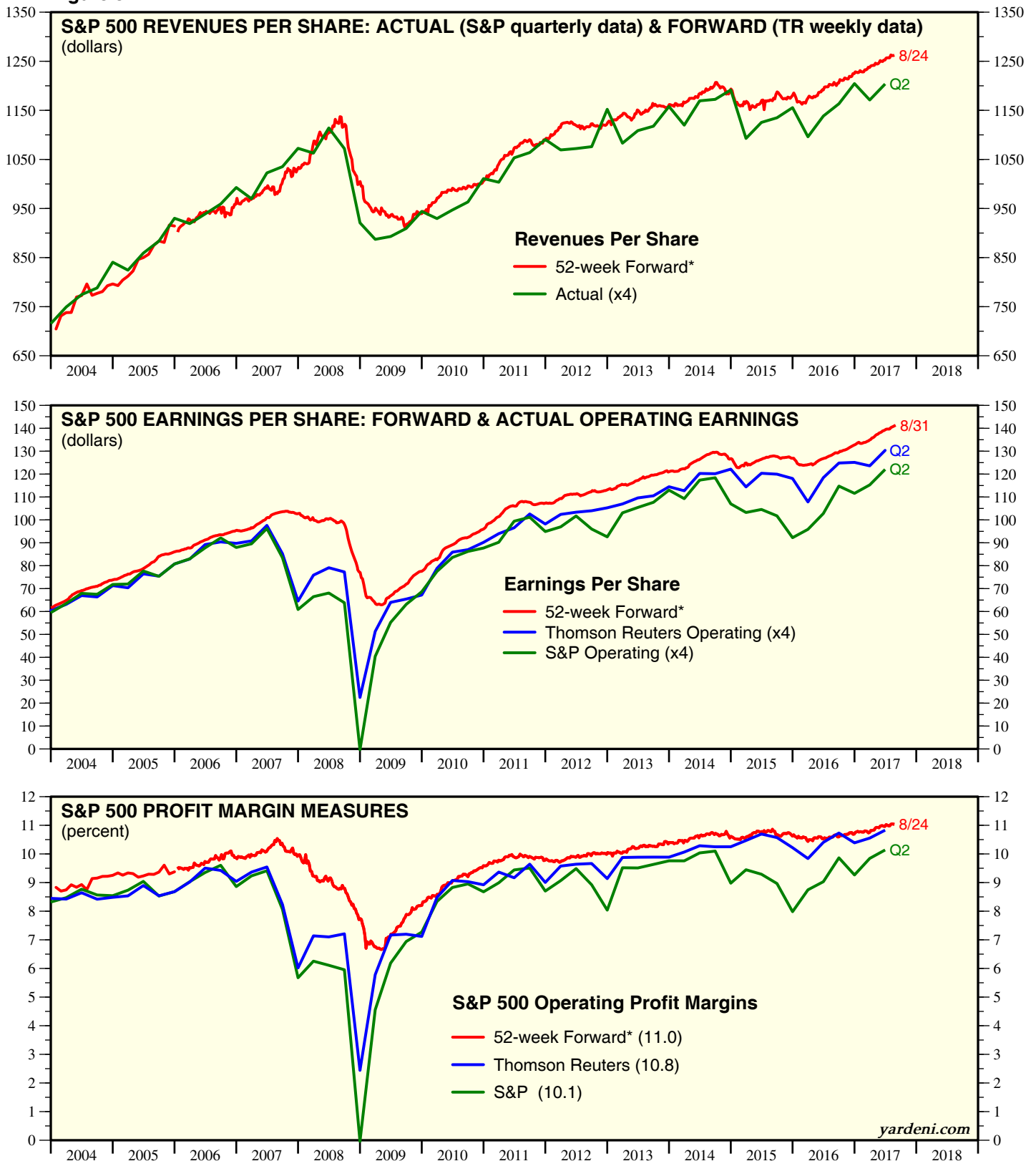
Figure 2.



Note: Corrections are declines of 10% or more, while minor ones are 5%-10% (all in blue shades). Bear markets are declines of 20% or more (in red shades). Number of calendar days in parentheses.  
Source: Standard & Poor's.

# S&P 500 Earnings, Revenues, Margins

Figure 3.

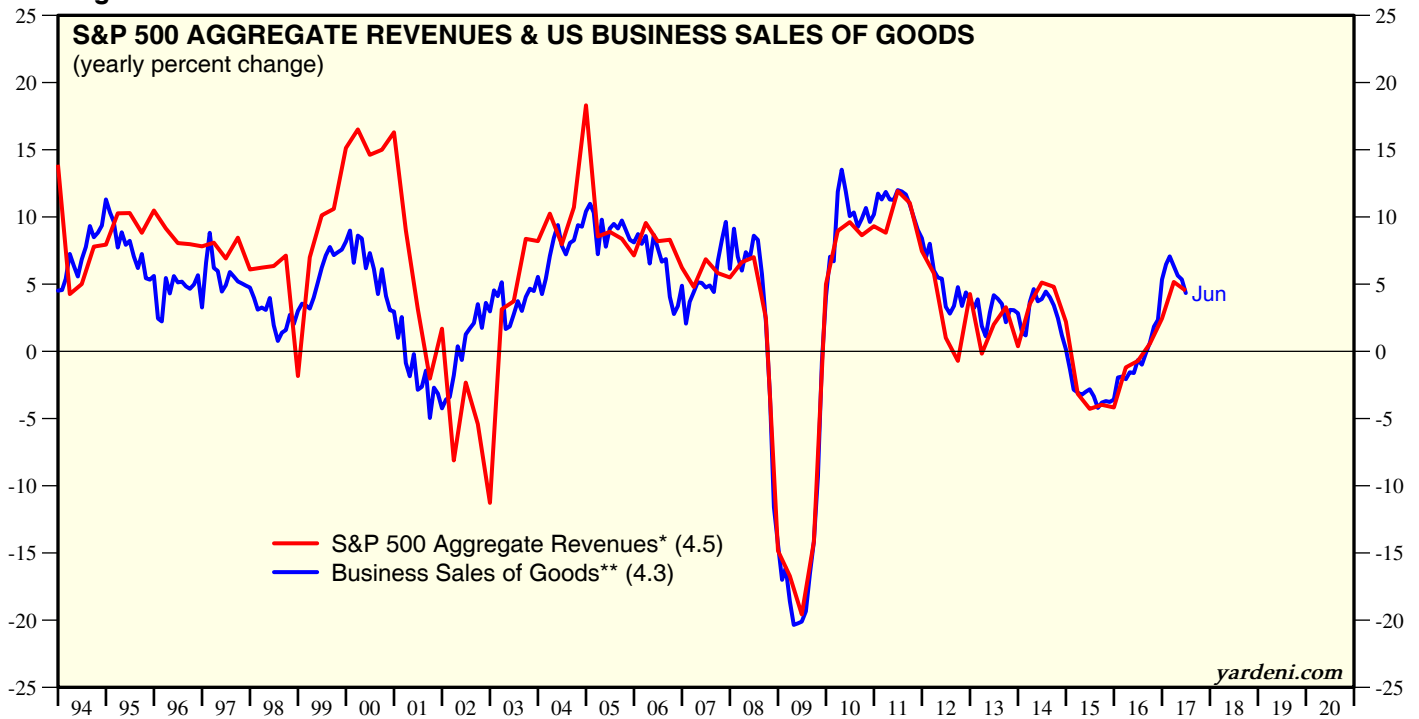


\* Time-weighted average of consensus operating earnings estimates for current and next years.

Source: Standard & Poor's (for actual revenues) and Thomson Reuters I/B/E/S (for forward revenues), and Bureau of the Census.

# S&P 500 Revenues & Margins

Figure 4.

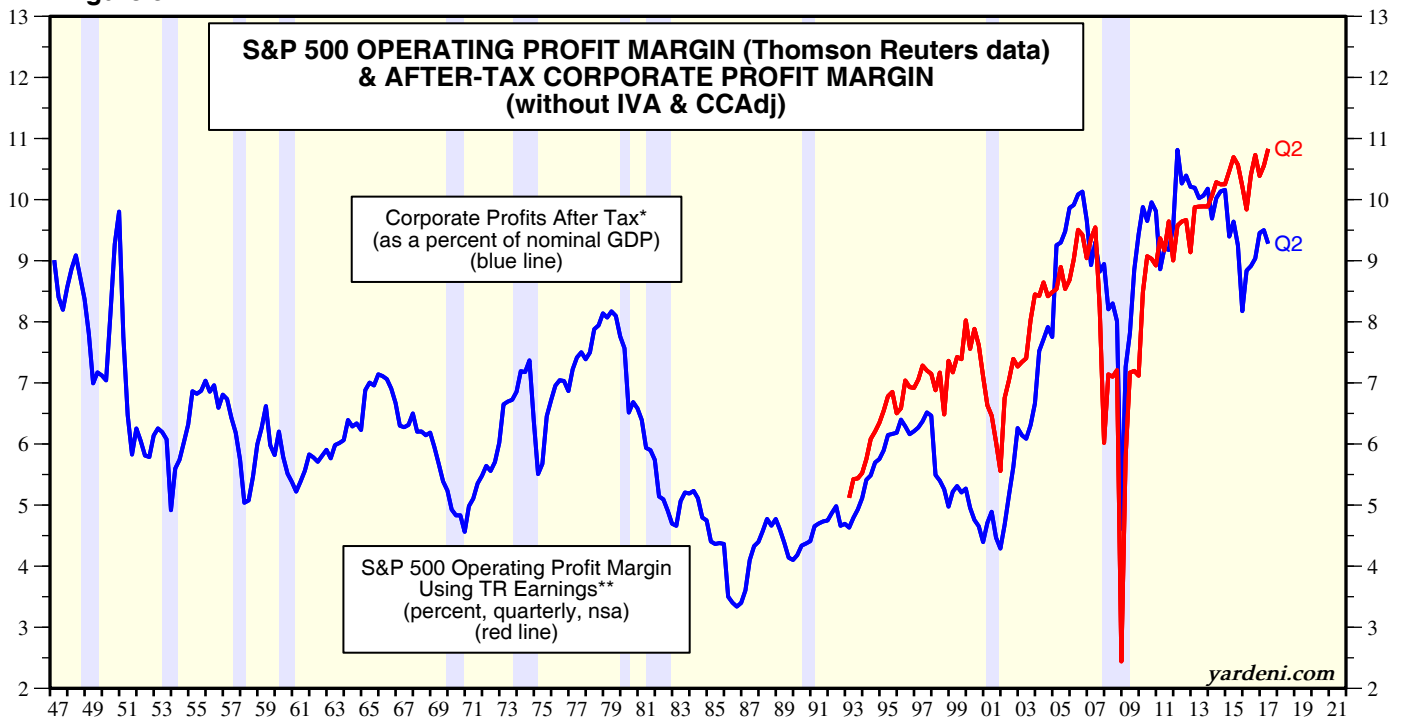


\* Revenues are derived by multiplying S&P 500 revenues per share by the S&P 500 divisor for each quarter.

\*\* Manufacturing and trade sales.

Source: Census Bureau and Standard & Poor's.

Figure 5.



\* After-tax profits as reported to IRS excluding Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

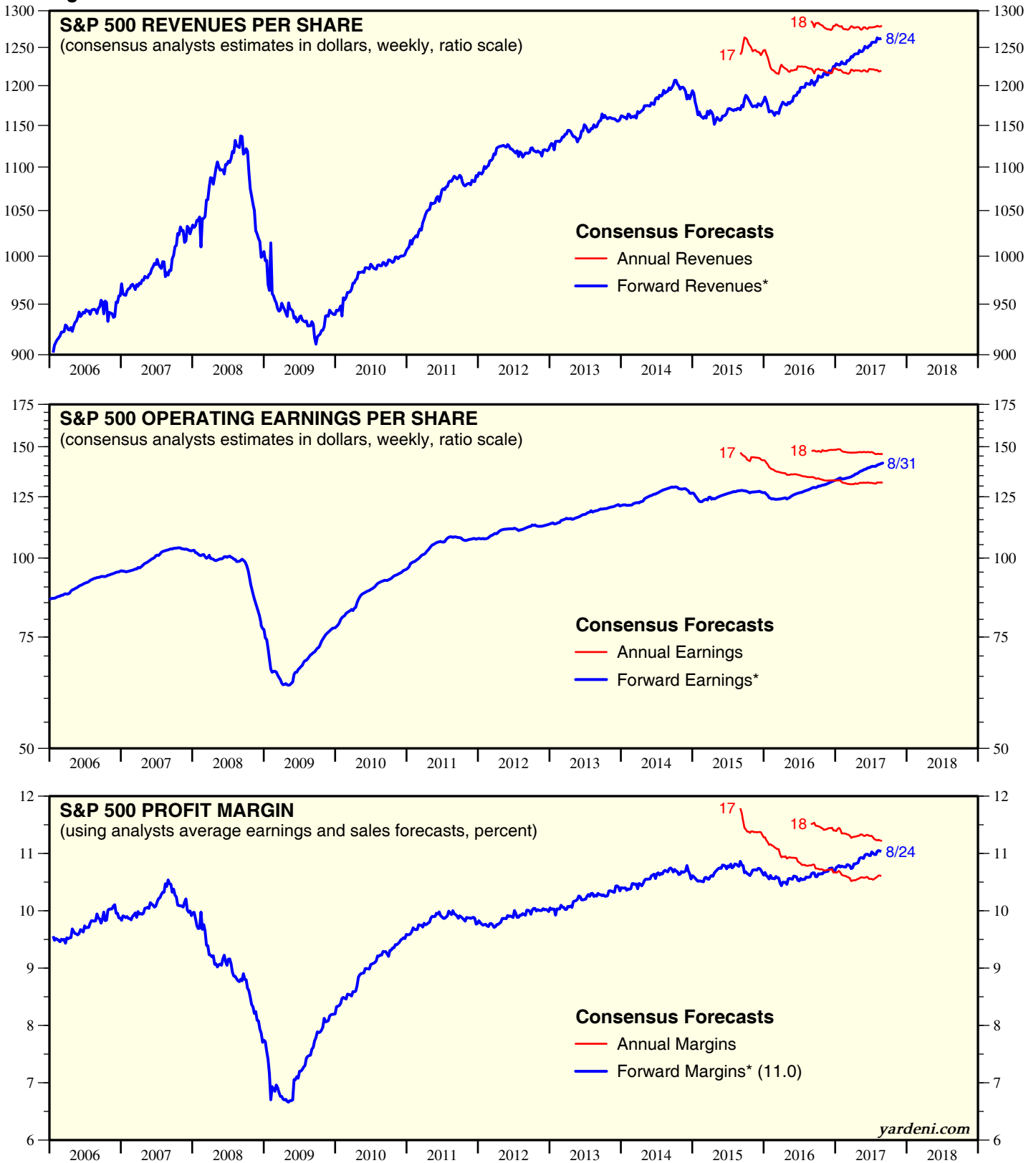
\*\* Operating Profit Margin derived using revenues from S&P and earnings from Thomson Reuters I/B/E/S.

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: Standard & Poor's, Thomson Reuters I/B/E/S and Bureau of Economic Analysis.

# Forward Revenues, Earnings, & Margins

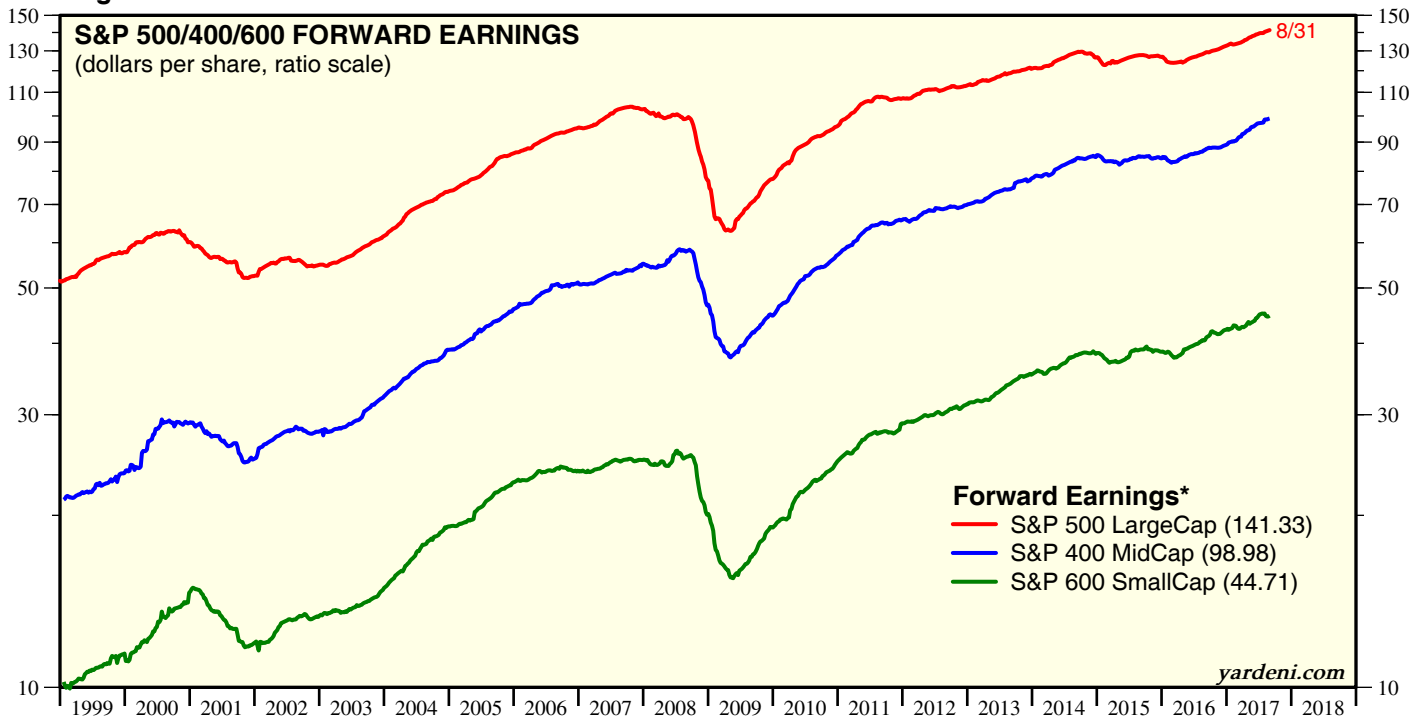
Figure 6.



\* Time-weighted average of the consensus estimates for current and next year.  
Source: Thomson Reuters I/B/E/S and Standard & Poor's.

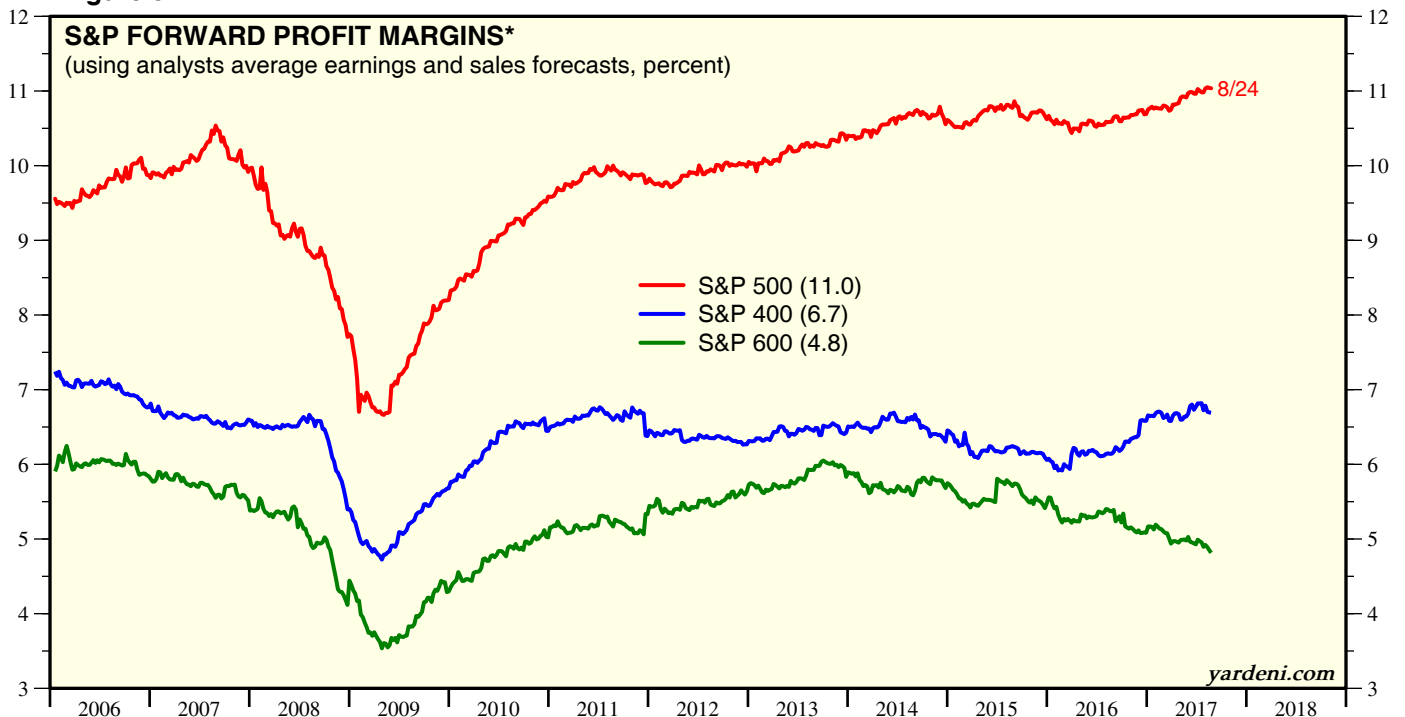
# S&P 500/400/600 Forward Earnings & Margins

Figure 7.



\* Time-weighted average of consensus estimates for current year and next year.  
Source: Thomson Reuters I/B/E/S.

Figure 8.

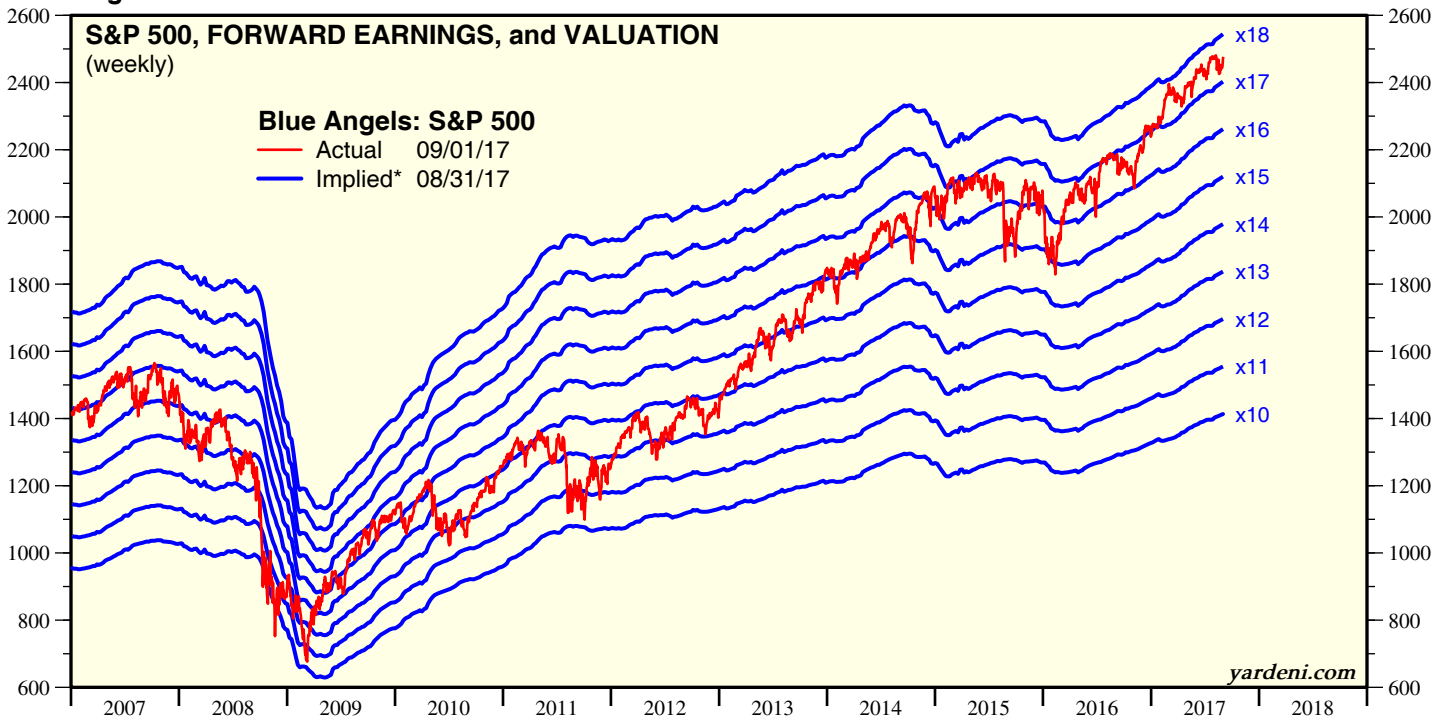


\* Time-weighted average of the consensus estimates for current and next year.  
Source: Thomson Reuters I/B/E/S and Standard & Poor's.



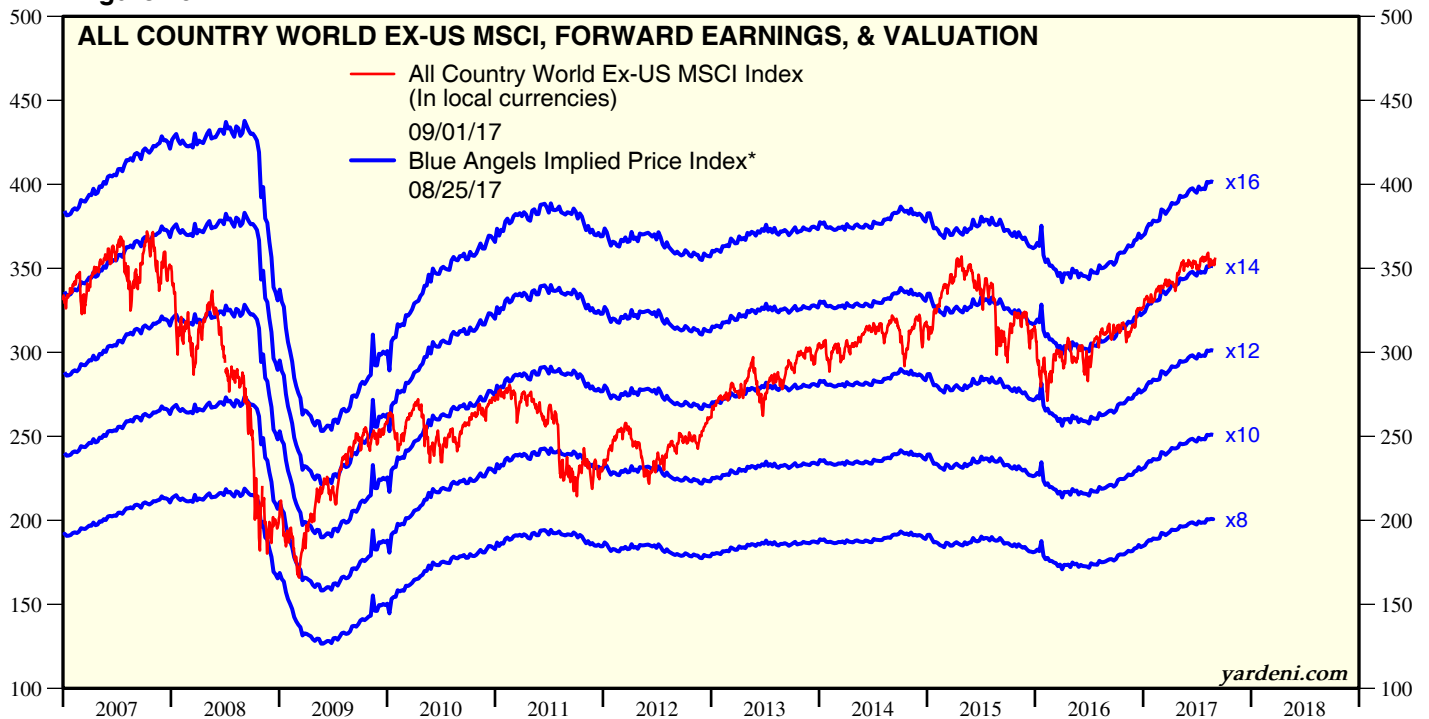
# Blue Angels

Figure 9.



\* Implied price index calculated using forward earnings times forward P/Es. Weekly data start January 2007.  
 Source: Standard & Poor's and Thomson Reuters I/B/E/S.

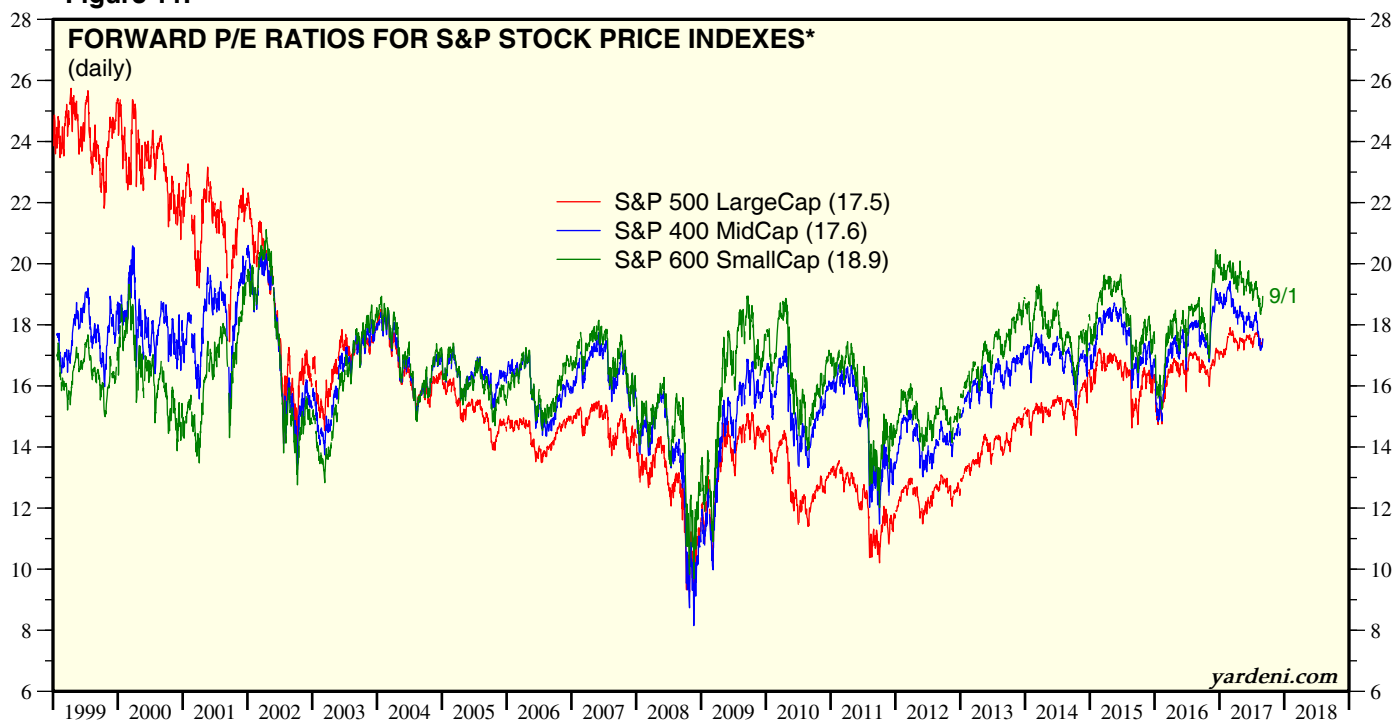
Figure 10.



\* Implied price index calculated using forward earnings times forward P/Es. Monthly through December 2005, weekly thereafter.  
 Source: Morgan Stanley Capital International and Thomson Reuters I/B/E/S.

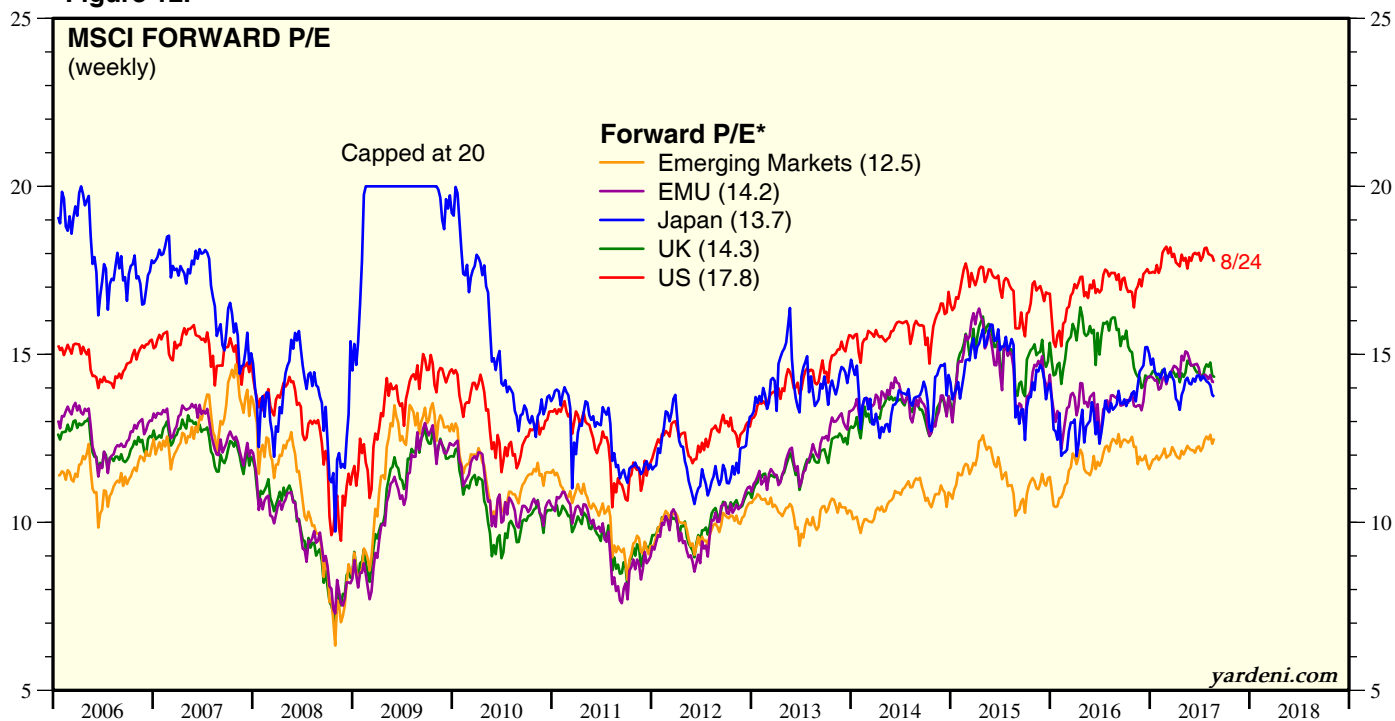
# Valuation

Figure 11.



\* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.  
Source: Thomson Reuters I/B/E/S and Standard & Poor's.

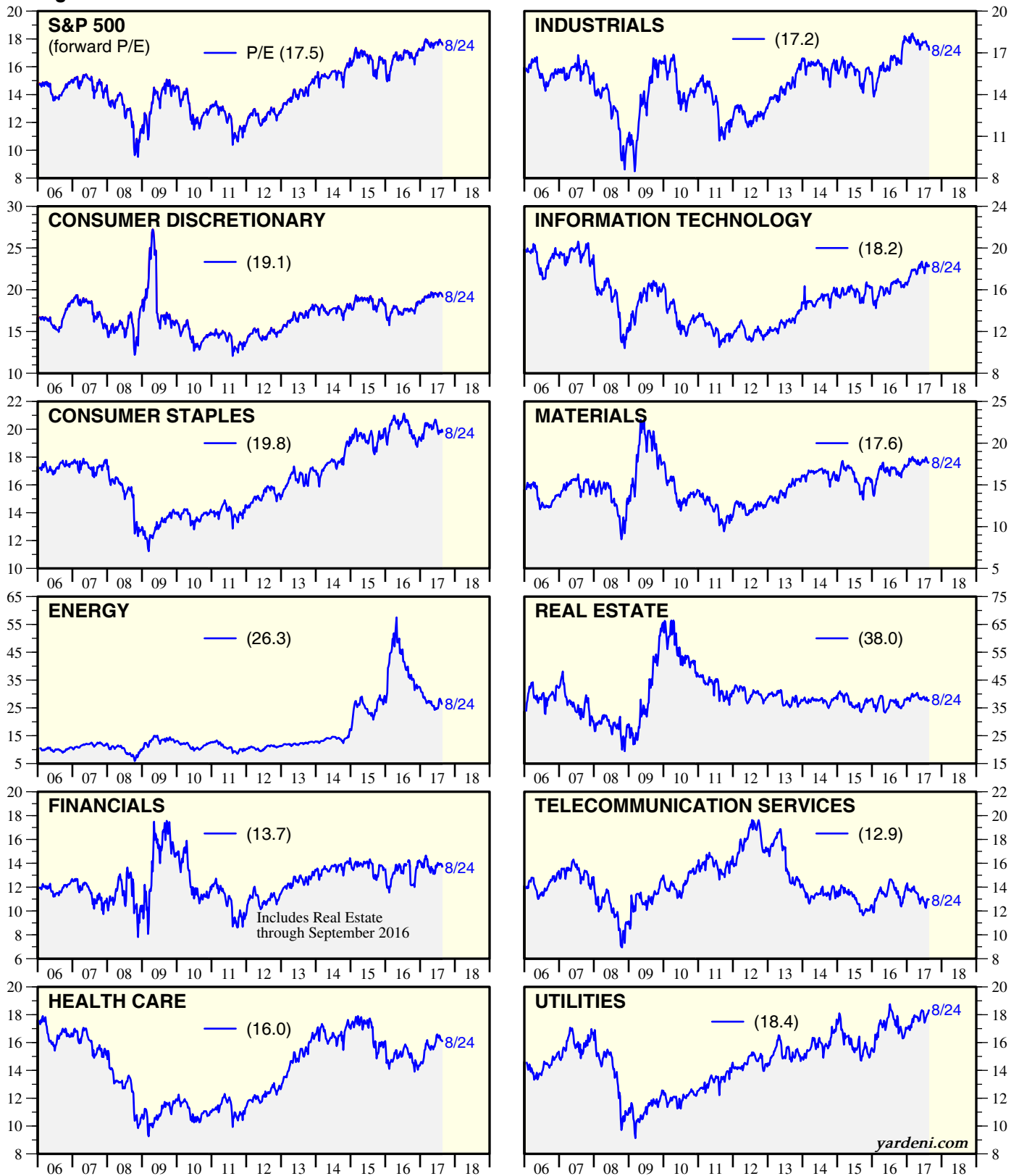
Figure 12.



\* Price divided by 12-month forward consensus expected operating earnings per share.  
Source: Thomson Reuters I/B/E/S.

# S&P 500 Sectors Forward P/E's

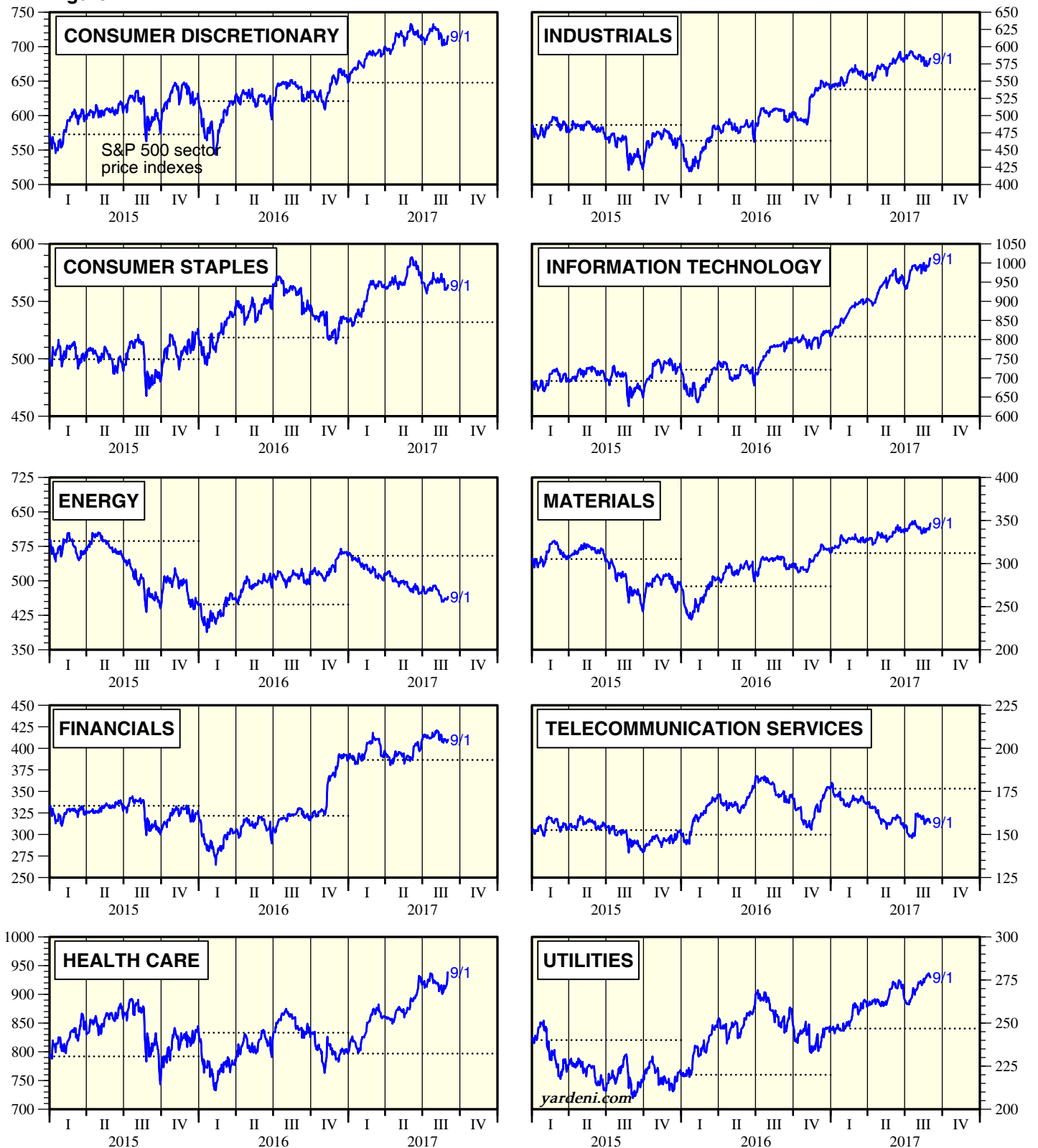
Figure 13.



Source: Thomson Reuters I/B/E/S and Standard & Poor's.

# S&P 500 Sectors Price Indexes

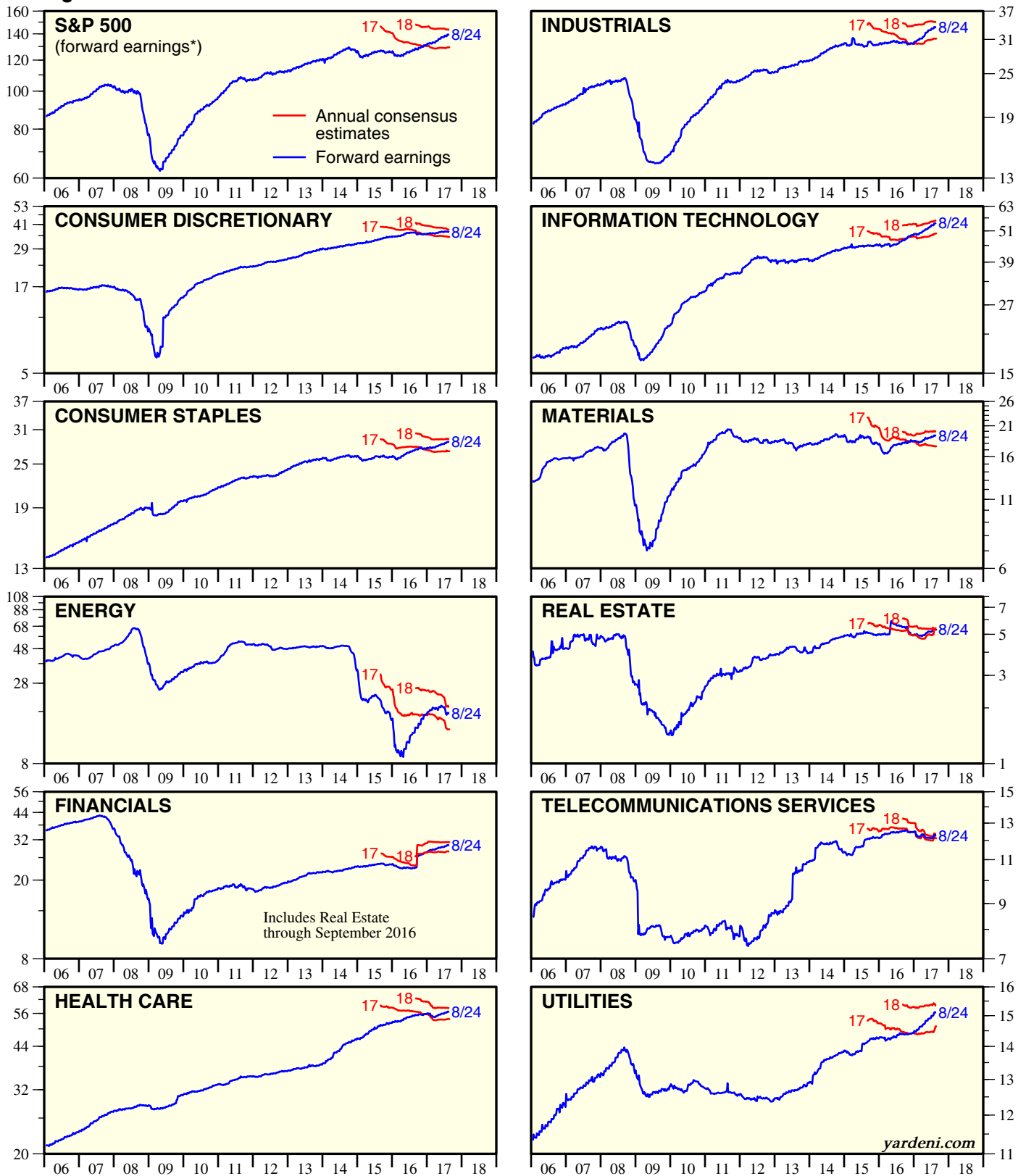
Figure 14.



Source: Standard & Poor's and Haver Analytics.

# S&P 500 Sectors Forward Earnings

Figure 15.

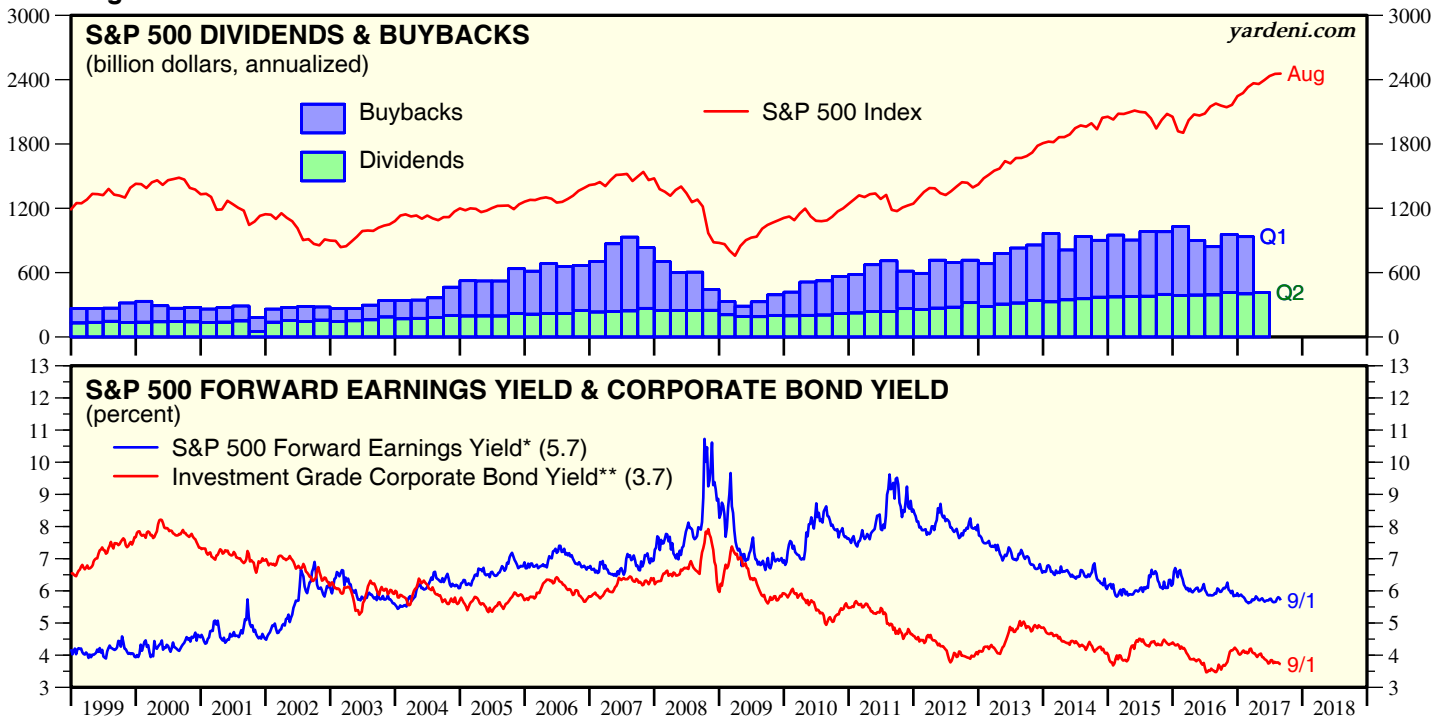


\* Time-weighted average (in blue) of consensus operating earnings estimates for current and next year (in red).

Source: Thomson Reuters I/B/E/S.

# Equity Flows

Figure 16.

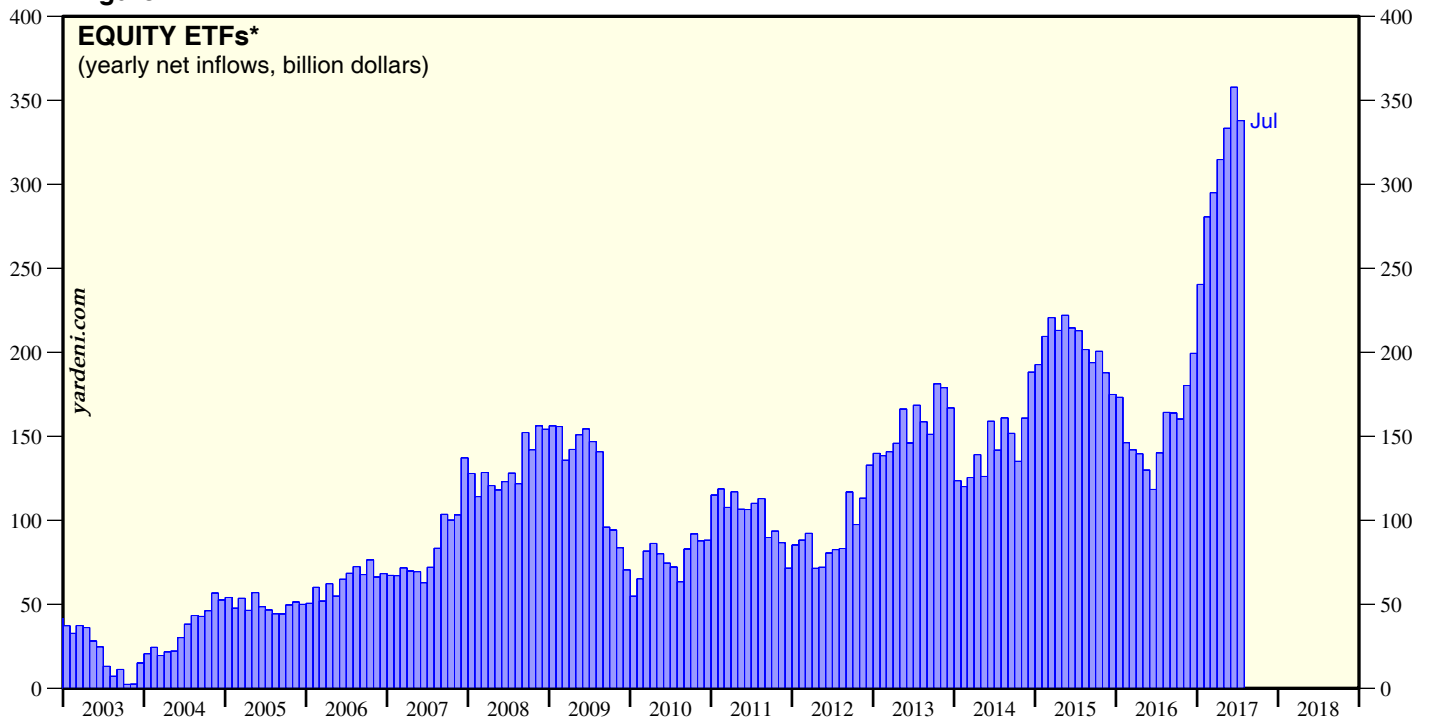


\* Forward earnings (time-weighted average of consensus operating earnings estimates for current and next year) divided by S&P 500 index.

\*\* BoA Merrill Lynch data for AA-AAA yields.

Source: Thomson Reuters I/B/E/S, Federal Reserve Board, and Standard & Poor's.

Figure 17.

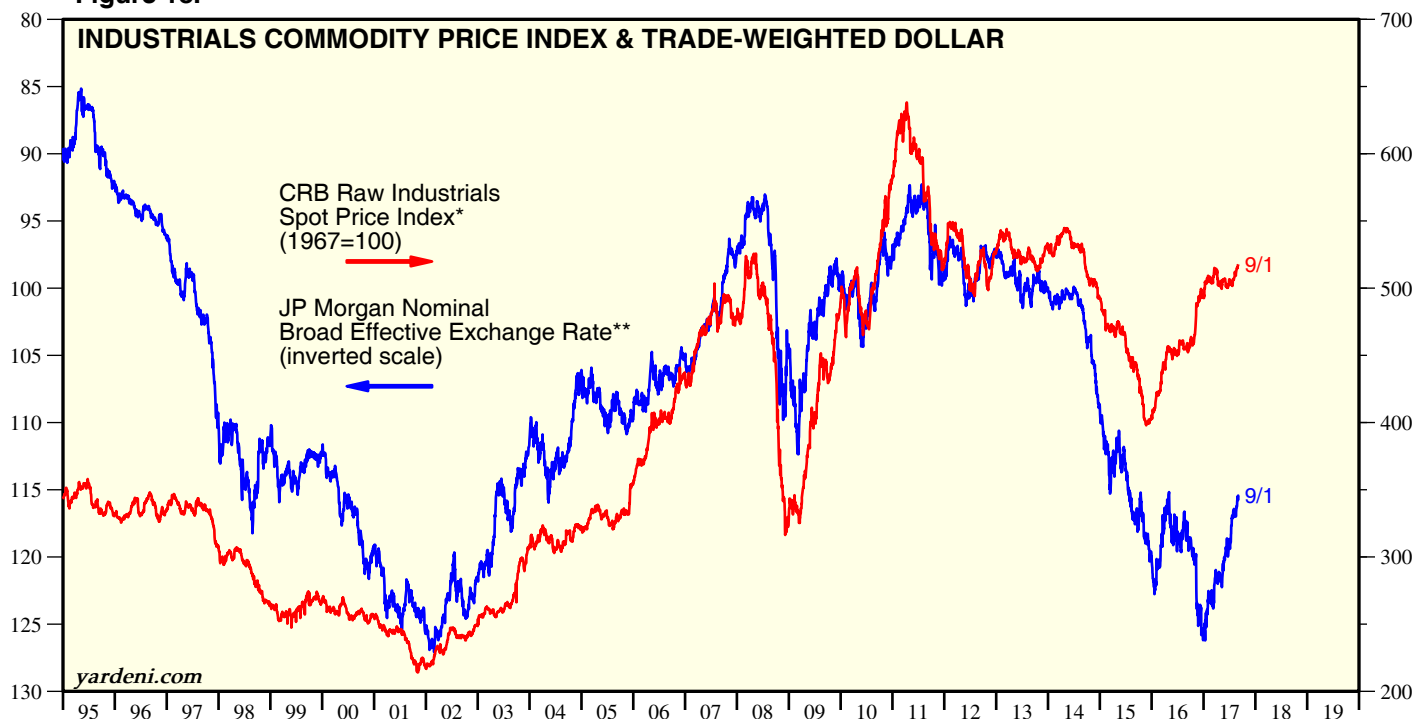


\* Net share issuance by equity ETFs.

Source: Investment Company Institute.

# Dollar & Commodities

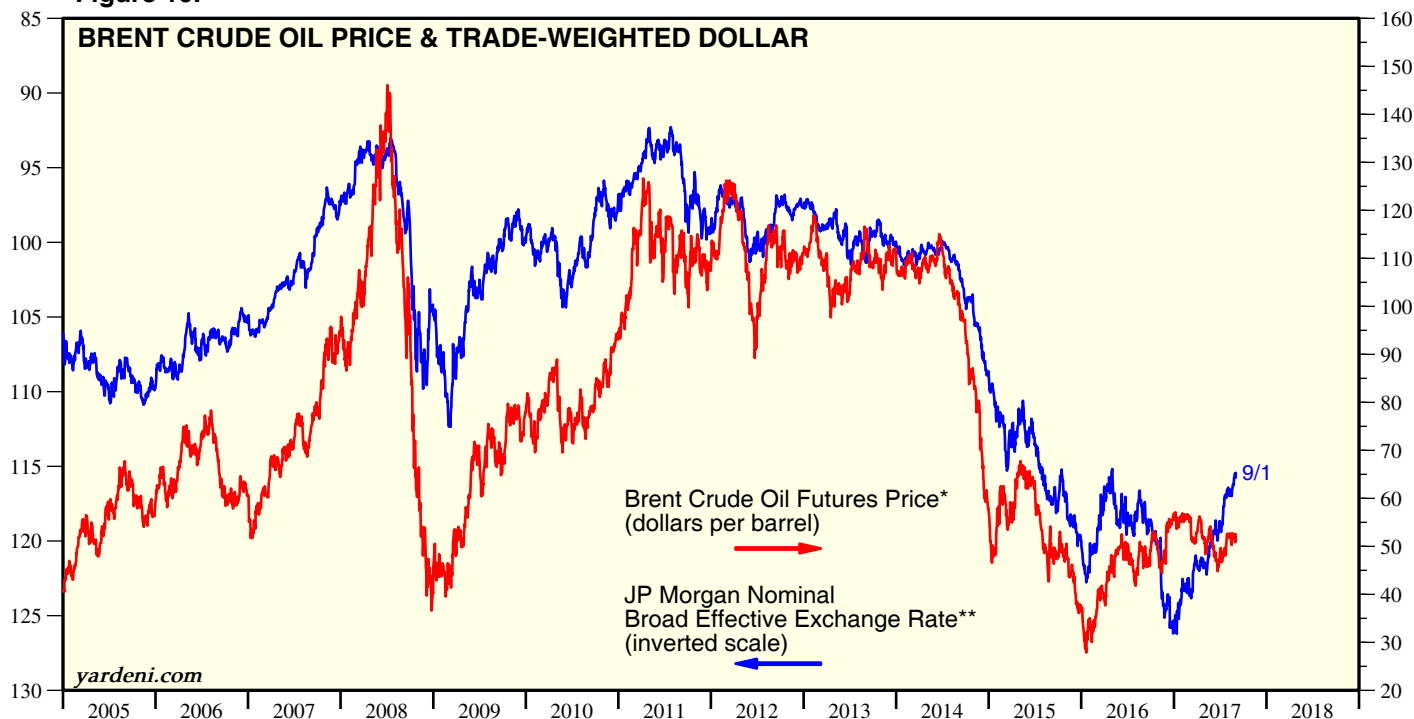
Figure 18.



\* Includes copper scrap, lead scrap, steel scrap, tin, zinc, burlap, cotton, print cloth, wool tops, hides, rosin, rubber, and tallow.

\*\* Argentina, Australia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, France, Germany, Hong Kong, Hungary, Japan, India, Indonesia, Israel, Italy, Korea, Kuwait, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Pakistan, Panama, Peru, Philippines, Poland, Romania, Russia Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, Ukraine, Uruguay, Venezuela, Vietnam, and United States. Source: Commodity Research Bureau and JP Morgan.

Figure 19.

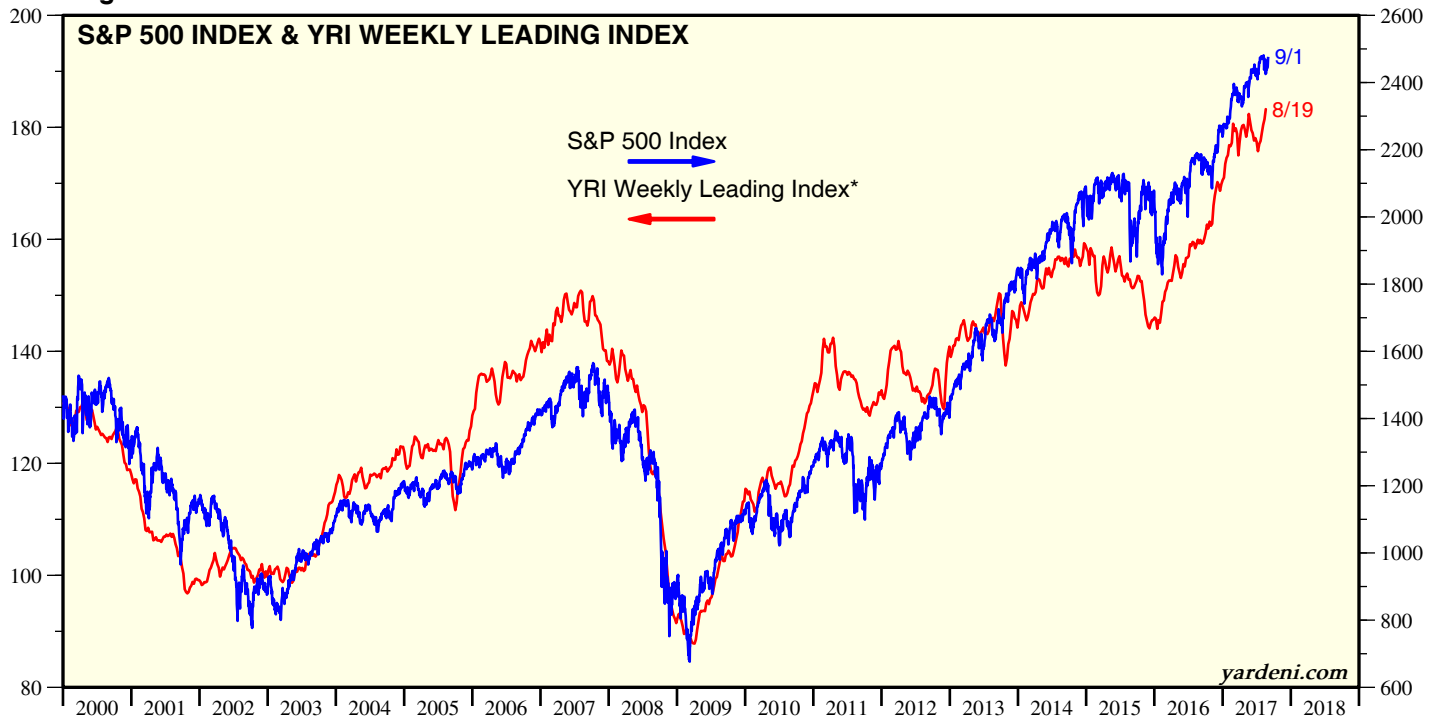


\* Nearby futures price.

\*\* Argentina, Australia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, France, Germany, Hong Kong, Hungary, Japan, India, Indonesia, Israel, Italy, Korea, Kuwait, Malaysia, Mexico, Morocco, New Zealand, Nigeria, Norway, Pakistan, Panama, Peru, Philippines, Poland, Romania, Russia Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, Ukraine, Uruguay, Venezuela, Vietnam, and United States. Source: JP Morgan and Haver Analytics.

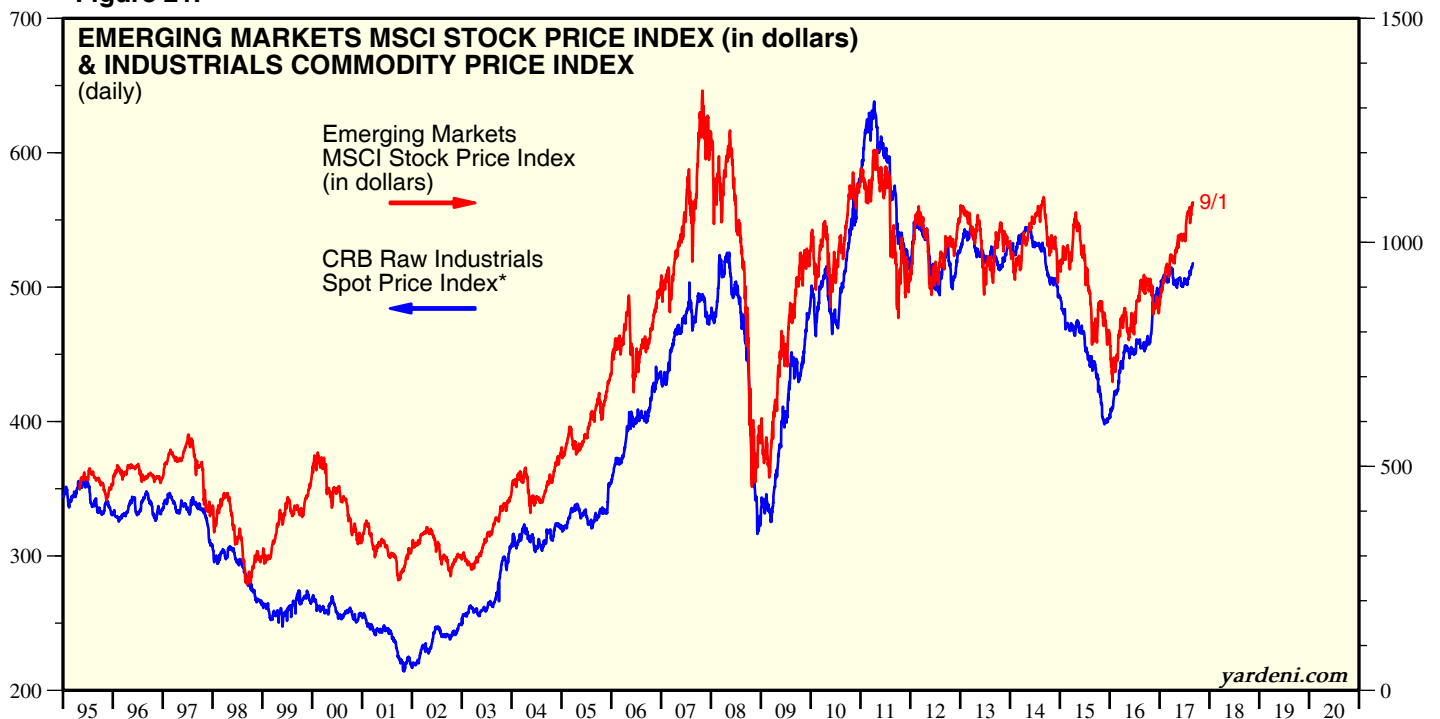
# Stocks & Commodities

Figure 20.



\* Average of Consumer Comfort Index (which is a four-week average) and the four-week average of Boom-Bust Barometer, which is CRB raw industrials spot price index (weekly average) divided by weekly initial unemployment claims.  
Source: Bloomberg, Commodity Research Bureau, Bureau of Labor Statistics, and Standard & Poor's.

Figure 21.

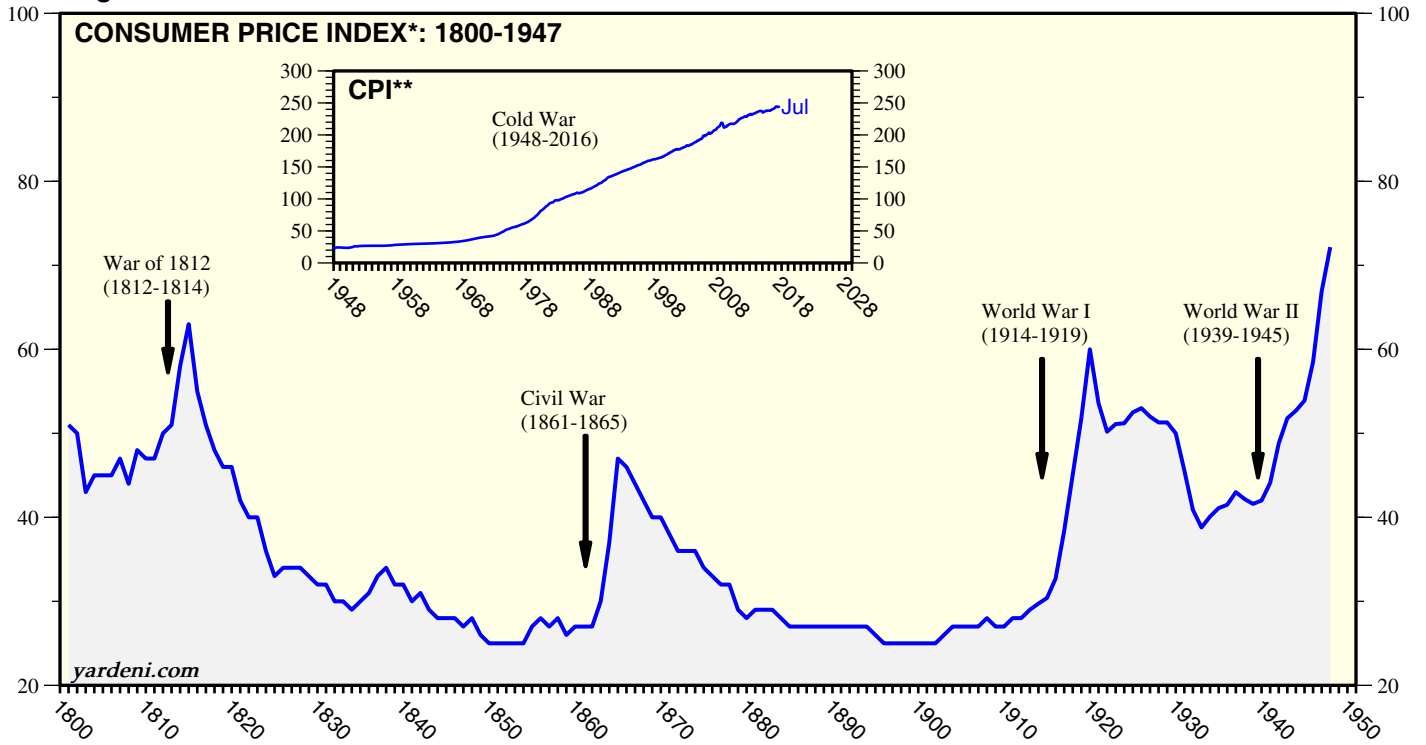


\* Includes copper scrap, lead scrap, steel scrap, tin, zinc, burlap, cotton, print cloth, wool tops, hides, rosin, rubber, and tallow.  
Source: Morgan Stanley Capital International and Commodity Research Bureau.



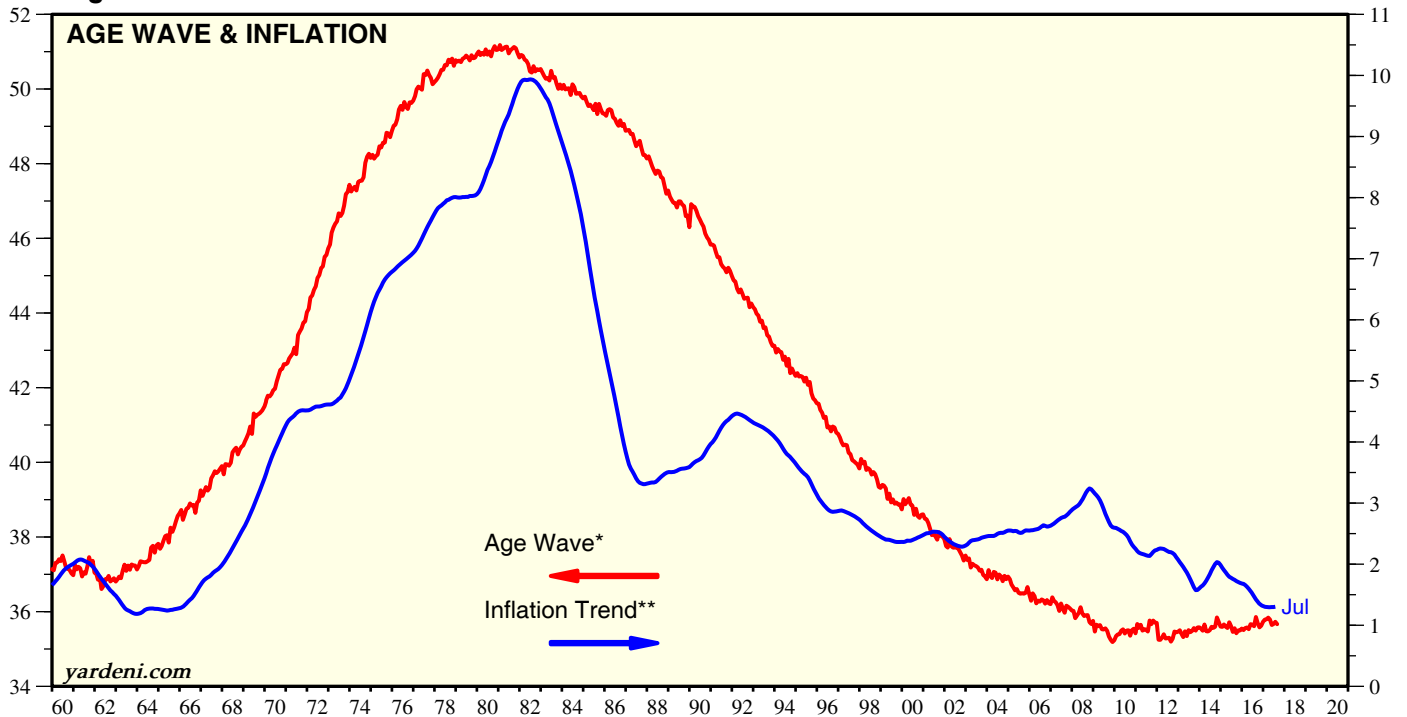
# Big Picture

Figure 22.



\* Base index from 1800 to 1947 is 1967 = 100.  
\*\* 1982-84=100.  
Source: Census Bureau, Historical Statistics of the United States

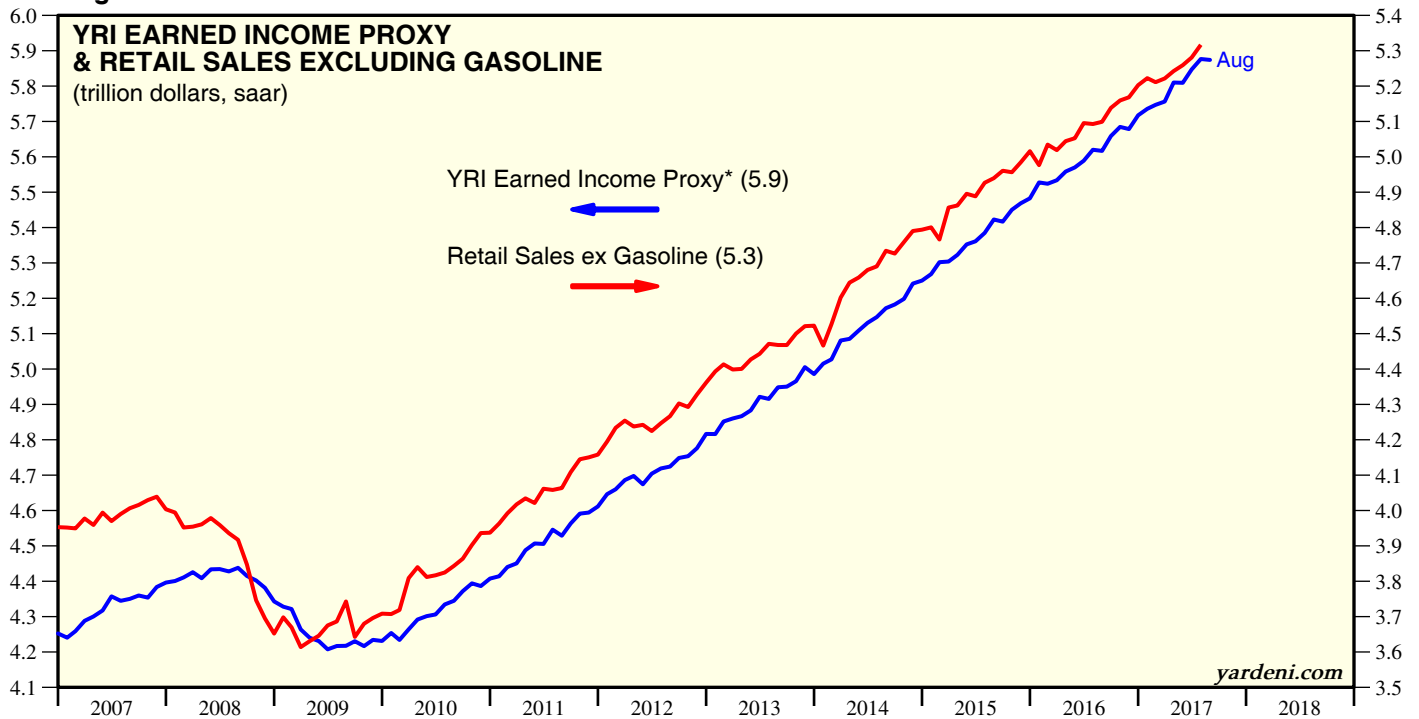
Figure 23.



\* Percent of labor force 16-34 years old.  
\*\* Five-year moving average of yearly percent change in CPI.  
Source: Bureau of Labor Statistics.

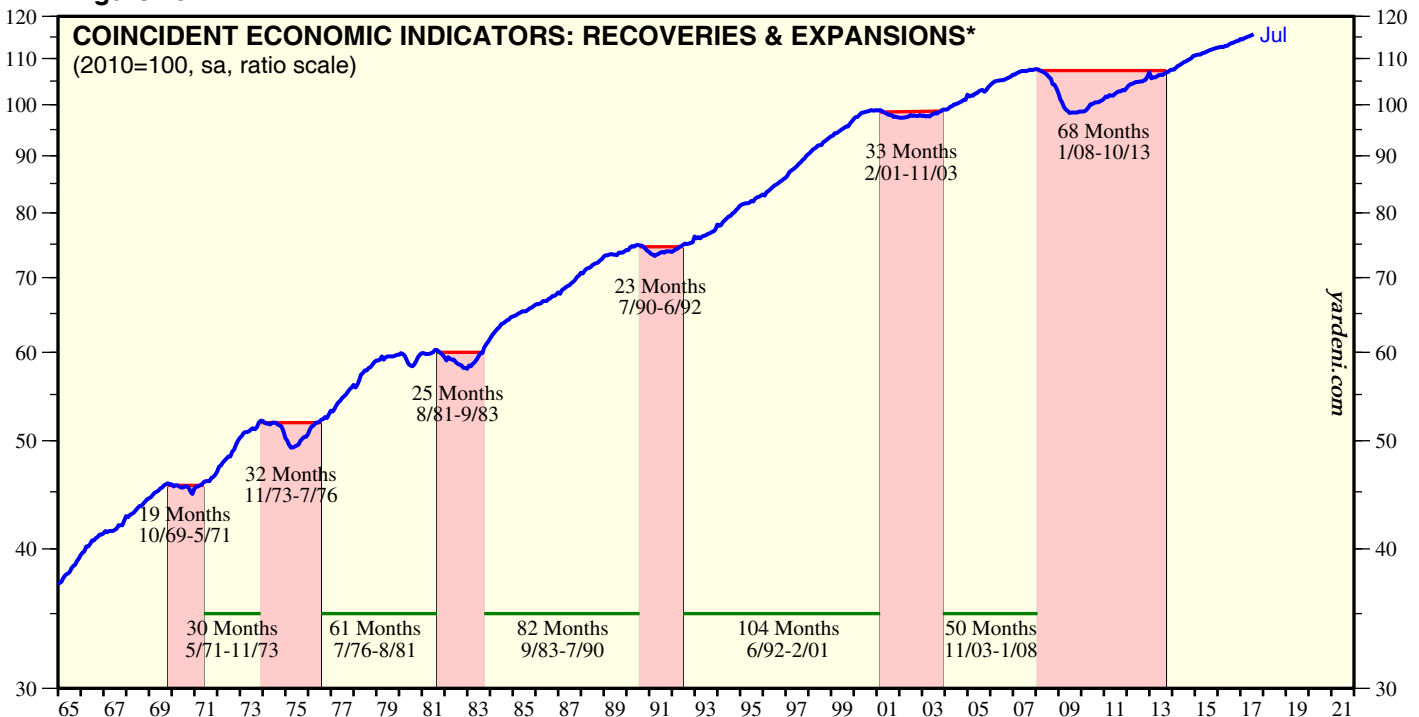
# US Economic Indicators

Figure 24.



\* Aggregate weekly hours times average hourly earnings of total private industries times 52.  
Source: Bureau of Labor Statistics and Bureau of the Census.

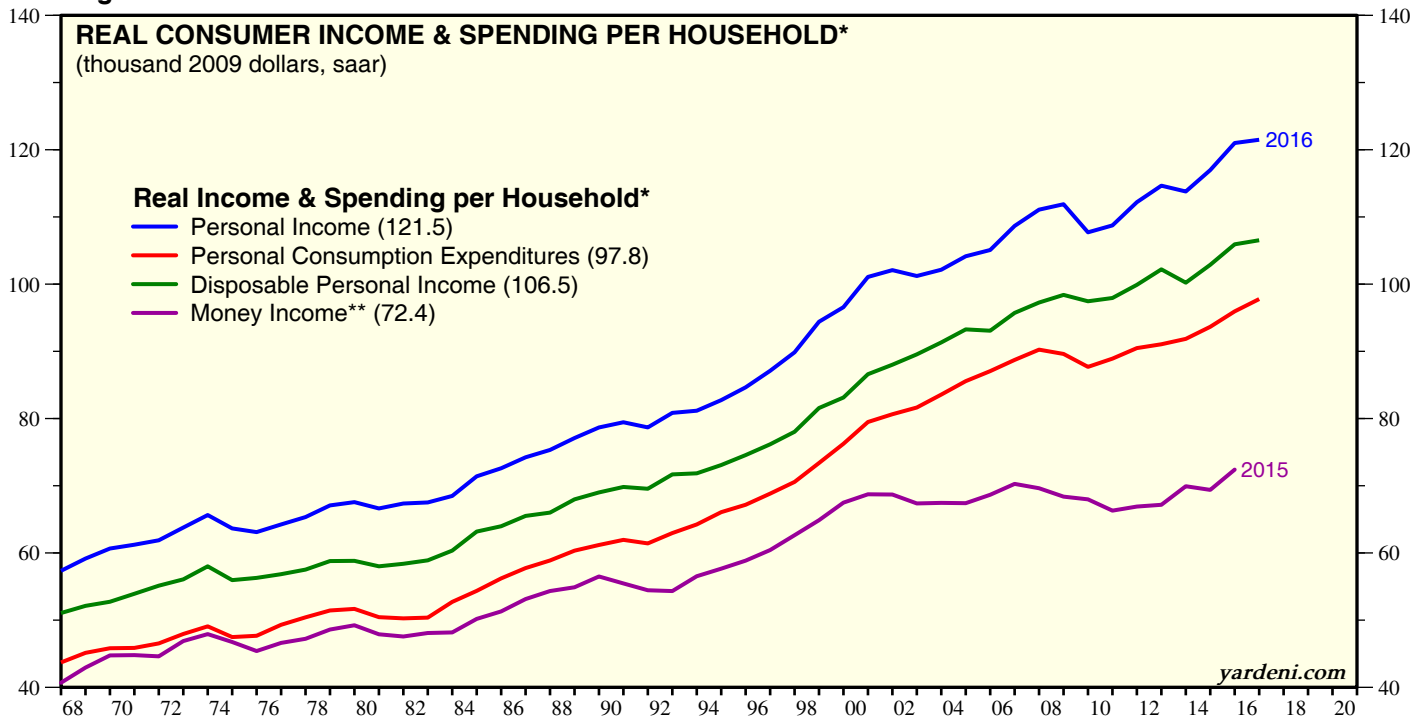
Figure 25.



\* Red horizontal lines span cyclical peaks through subsequent cyclical recoveries. Green horizontal lines are expansion periods following recoveries.  
Source: Conference Board, Haver Analytics, and YRI calculations.

# US Economic Indicators

Figure 26.

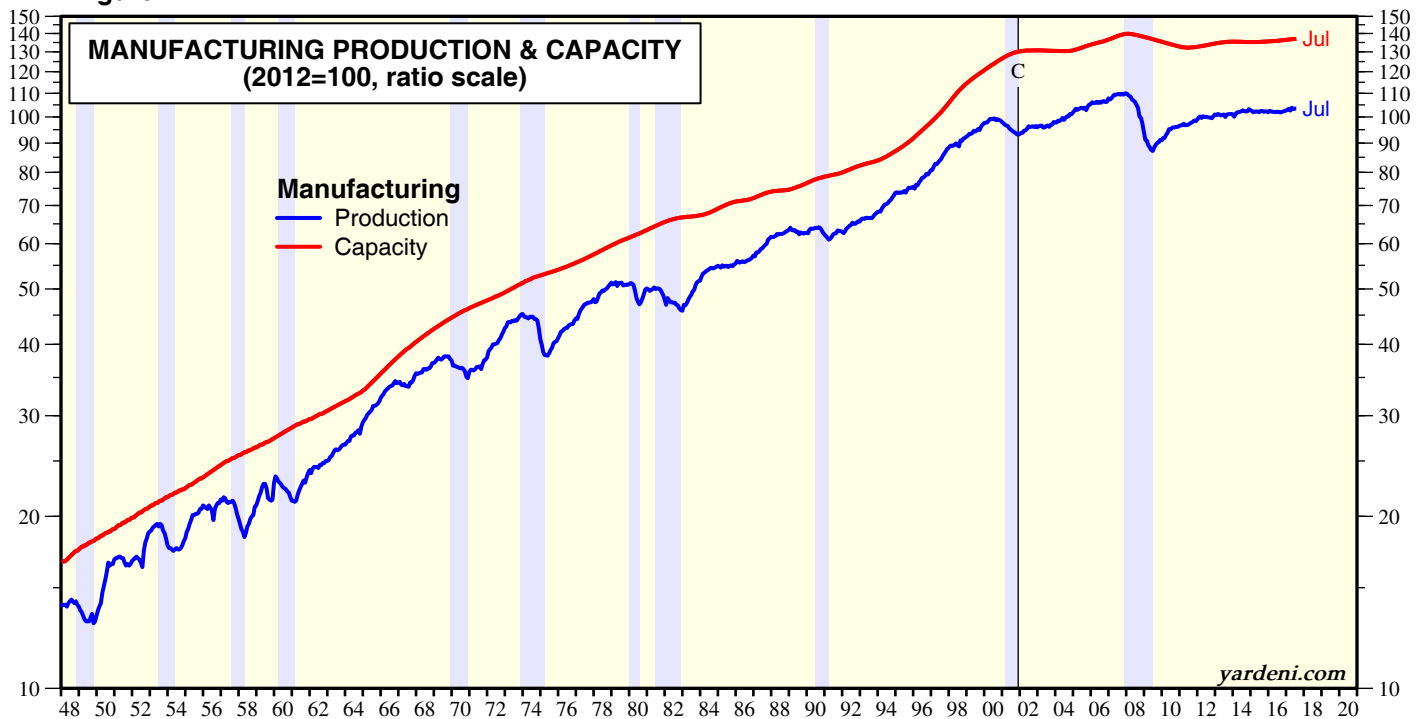


\* All series deflated using Personal Consumption Expenditures Deflator.

\*\* Mean household income.

Source: Bureau of Economic Analysis, Bureau of the Census and Current Population Reports.

Figure 27.

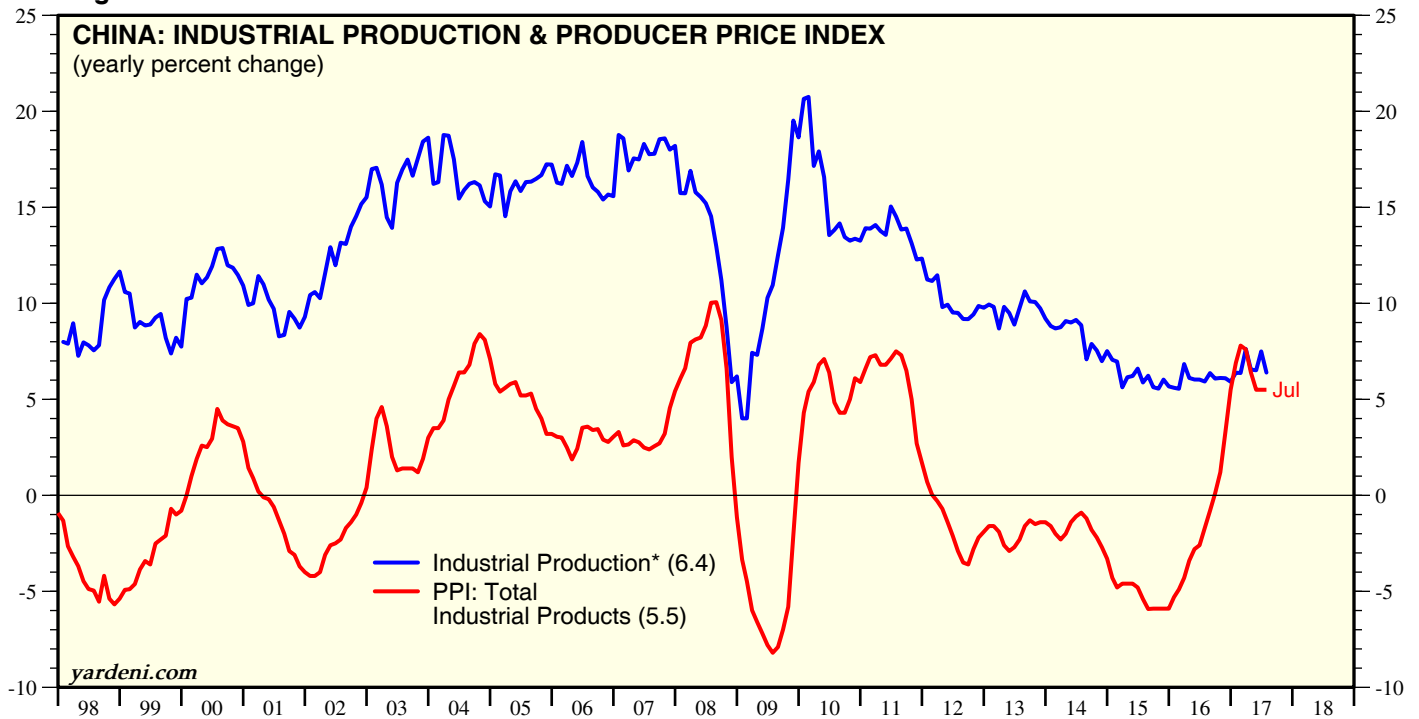


Note: C = China joined WTO on December 11, 2001. Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: Federal Reserve Board.

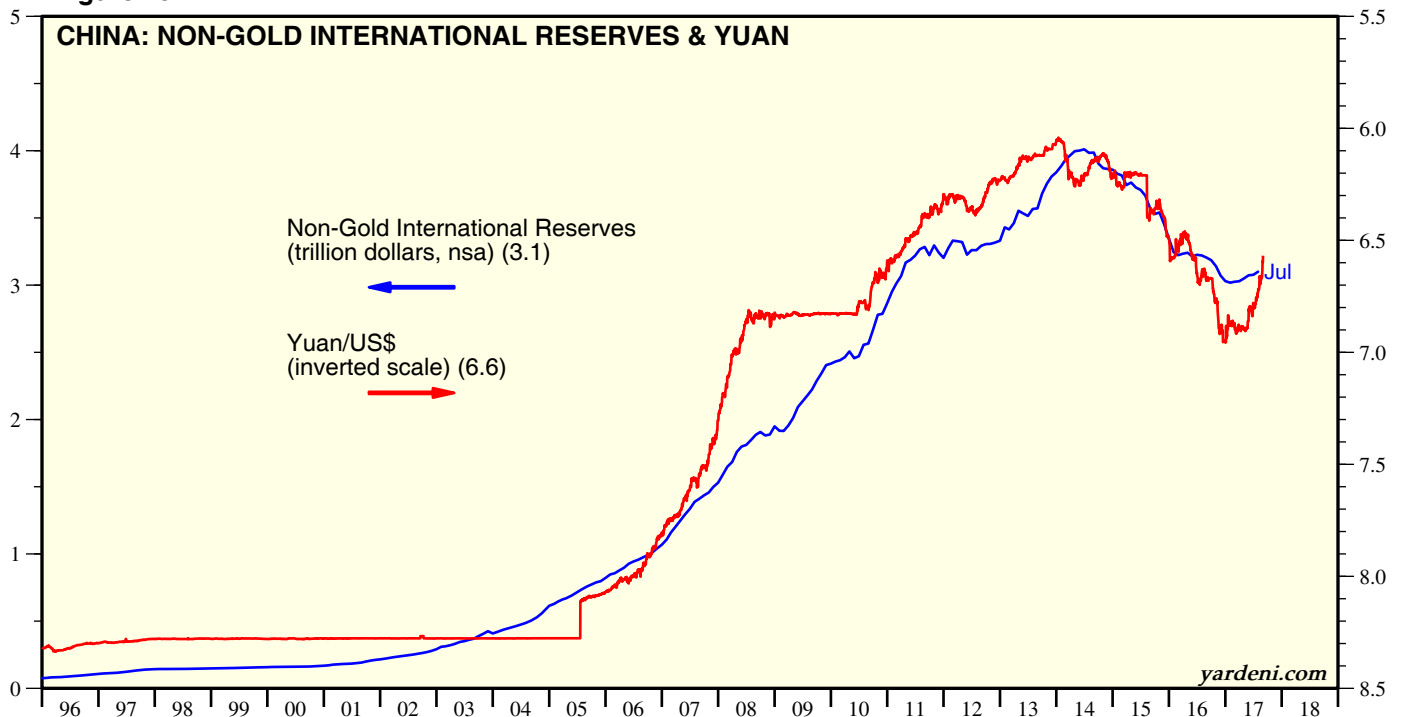
# China

Figure 28.



\* Value added basis.  
 Source: IMF International Financial Statistics and China National Bureau of Statistics.

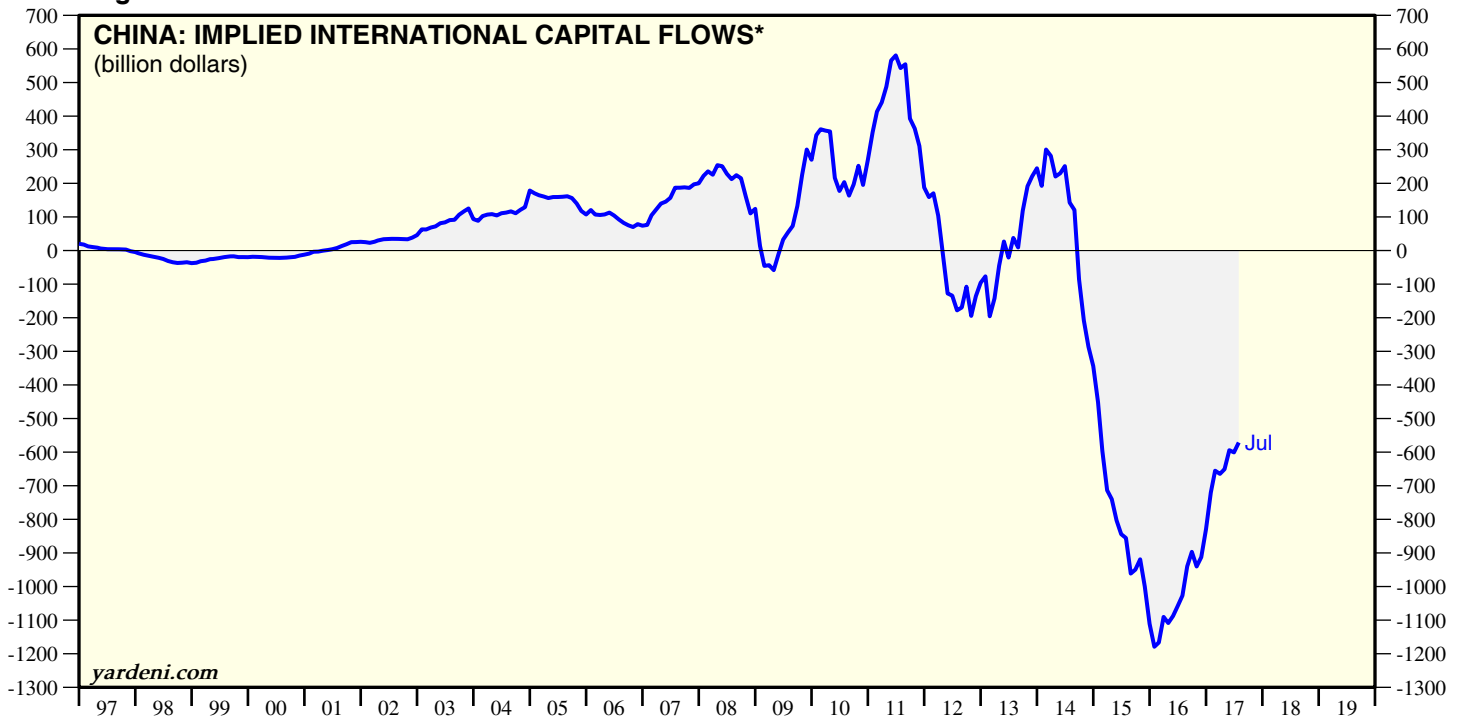
Figure 29.



Source: International Monetary Fund and Haver Analytics.

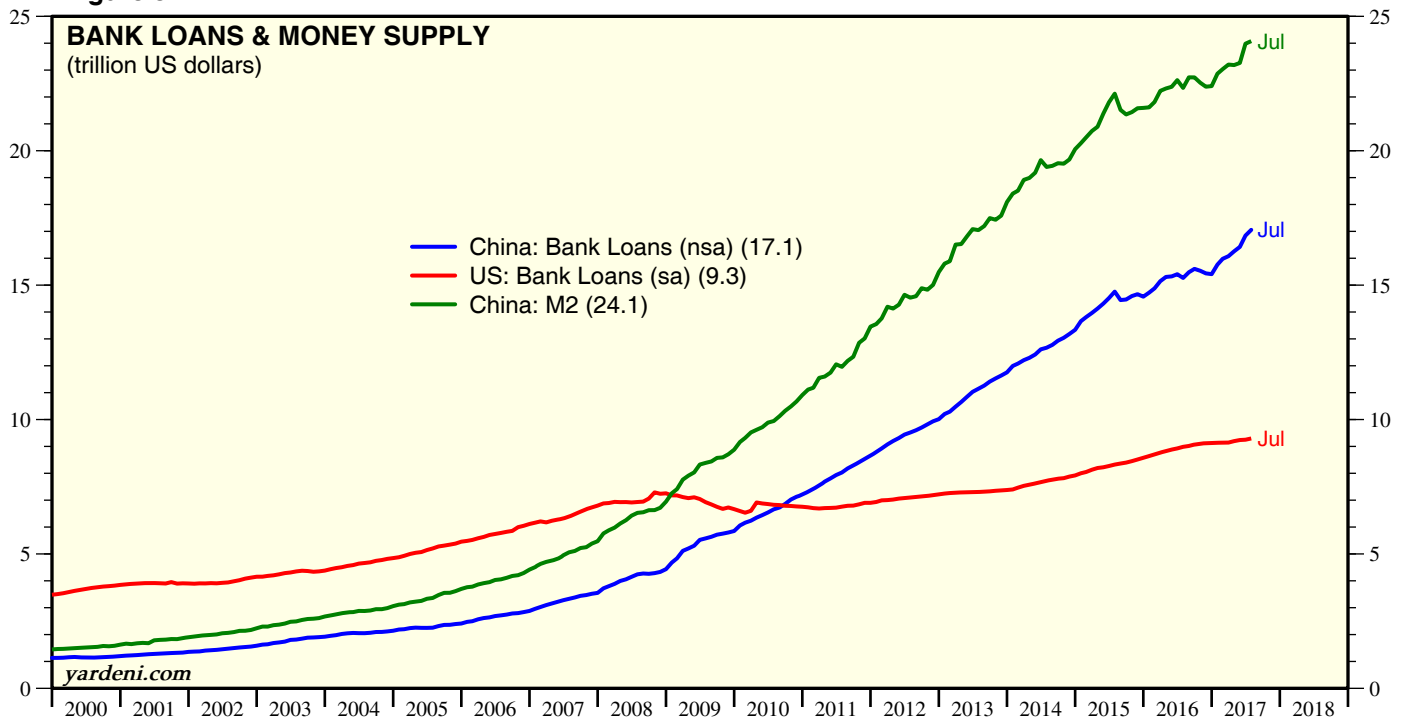
# China

Figure 30.



\* 12-month change in non-gold international reserves minus 12-month sum of the merchandise trade surplus (deficit).  
Source: China Customs and Haver Analytics.

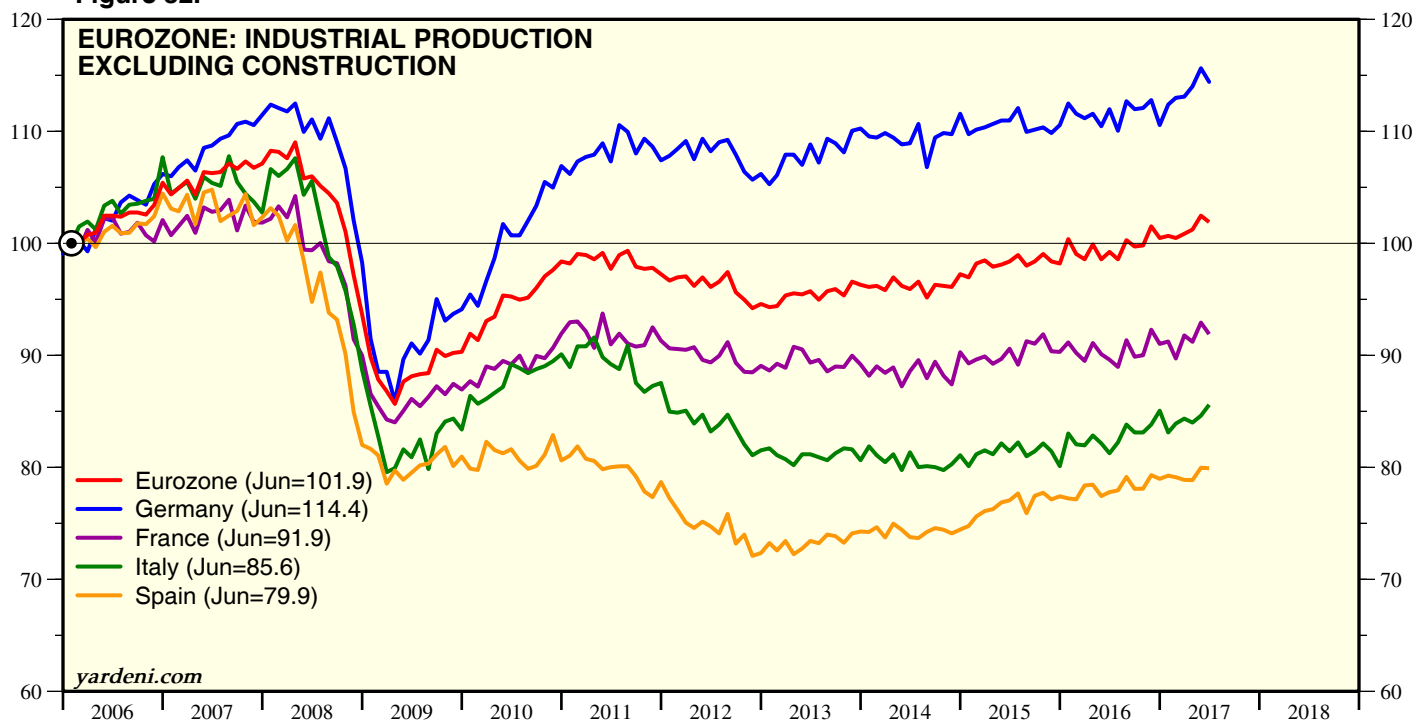
Figure 31.



Source: Federal Reserve Board and People's Bank of China.

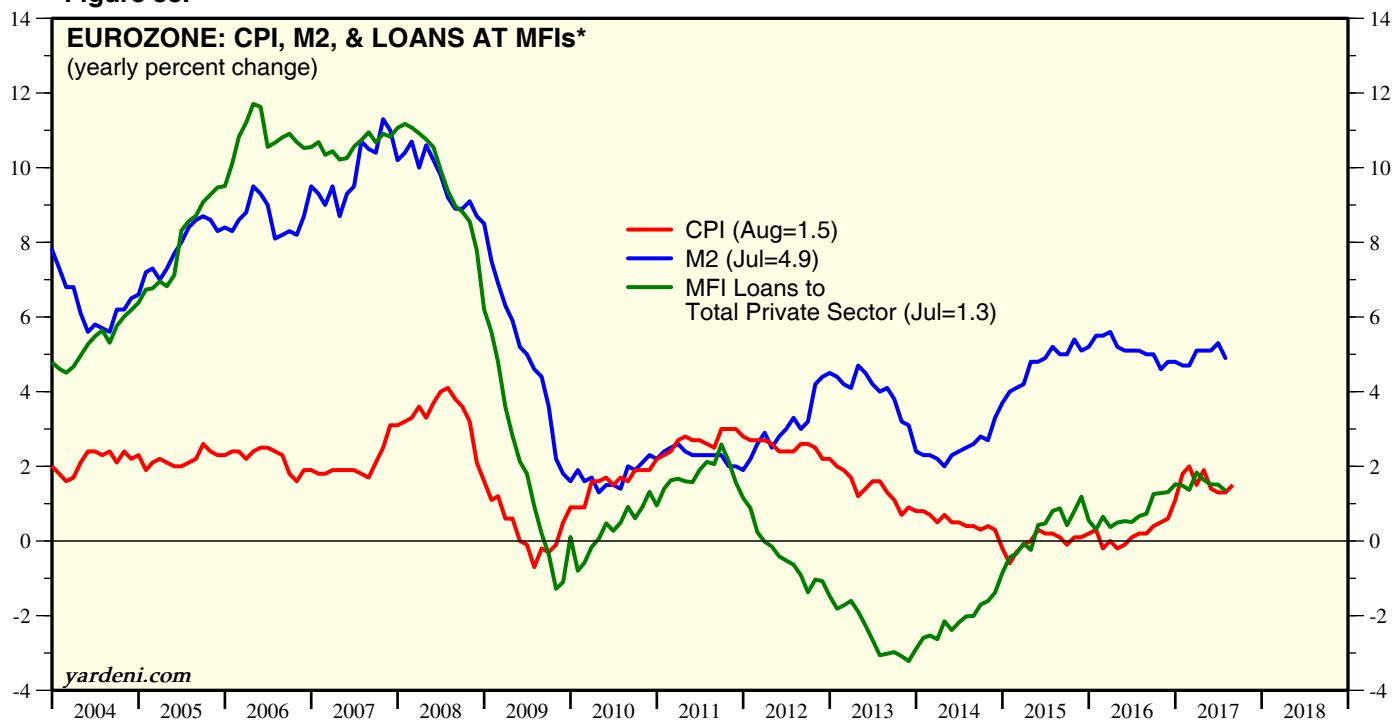
# Eurozone

Figure 32.



Source: Haver Analytics.

Figure 33.



\* Monetary Financial Institutions (MFIs) exclude Euro System of Central Banks (ESCB) and Money Market Funds (MMFs).  
Source: Statistical Office of the European Communities.



## Movie Reviews

**Atomic Blonde (+)** features Charlize Theron playing a spy working for M16 British intelligence just as the Berlin Wall is coming down. The movie is intentionally campy with lots of pop hits from the late 1980s. Charlize leaves a long trail of dead bad guys as the one-woman death squad mercilessly pursues her mission impossible. This could be the beginning of a new spy thriller series. After all, James Bond must be ready for the nursing home of retired spies by now. The movie starts slow, but the pace of mayhem speeds up along the way.

**Detroit (+ +)** is a very intense movie about intense racial tensions that flared up in major riots in Detroit, and elsewhere around the country, during the mid-1960s. It starts out in a documentary fashion chronicling the turmoil that engulfed Detroit and turns into a docudrama about one harrowing incident one night when a couple of cops entrapped several law-abiding African-American citizens and behaved more like murderous vigilantes than officers of the law. A great deal of progress has been made in race relations since then, though clearly not enough.

**Dunkirk (+ + +)** is one of the best-made war movies I've seen because it depicts the brutal intensity of war with no time for frivolous banter. It certainly shows how, for Britain, World War II was from the start about fighting first for survival, then for victory on the beaches, on the seas, and in the air, just as Winston Churchill proclaimed on May 13, 1940. There are plenty of British heroes, particularly the owners of small boats and ferries who participated in evacuating more than 330,000 mostly British and French soldiers in about 11 days from the beaches of Dunkirk before Hitler's forces could annihilate them.

**My Cousin Rachel (+)** is based on a novel by the late English author Dame Daphne du Maurier. She wrote romances that rarely had conventional happy endings. At least Romeo and Juliet had a few good moments together before they met their tragic end. For the romantic couples in Daphne's novels, there are fewer happy moments before it all ends badly. Her novels have been described as "moody." She spent much of her life in Cornwall, where most of her works are set. This movie, starring Rachel Weisz as the moody "Rachel" of the title, is also set in Cornwall, and has an unsettling beginning, middle, and ending too. It reminds me of our relationship with politicians these days: We want to love them, but they always let us down. Let's hope they don't kill us.

**The Beguiled (- - -)** is a dark movie directed by Sofia Coppola and starring Colin Farrell and Nicole Kidman. Most of it was filmed at night by candle light, so bring a flash light. It is a remake of a 1971 movie featuring Clint Eastwood and Geraldine Page, and set in an all-girl boarding school in the rural South during the American Civil War. The movie is very slow moving, and all too predictable. There is a subliminal message for stock investors: Beware of a wounded bull that seems to be recovering, only to turn on you.

**The Big Sick (+)** is a funny movie about a young Pakistani-American stand-up comedian, who is also an Uber driver. He falls in love with an American girl from the South. She loves him too, but his parents insist on arranging his marriage to a Pakistani girl. Will love conquer all? It often does in the movies. In the real world, we are reminded by the violence in Charlottesville that hate remains a very destructive force in our society.

**Tulip Fever (- - -)** is a very disappointing film. It has an all-star cast of very fine actors. The fundamental flaw is with the convoluted story, which is set in Amsterdam during the tulip bubble, which burst in 1637. During such manias, people tend to lose their minds. In this film, they've lost their minds while pursuing love, lust, and revenge. My wife and I left before it ended, and before the crash in the tulip market's bubble. I hope I do as well exiting markets before the next bubble that forms suddenly bursts.

**Wind River (+ +)** is a murder mystery set in an Indian reservation in Wyoming. It's well written. It is also well paced, taking the time to develop the lead character, who is well played by Jeremy Renner. It was filmed during the winter, and clearly demonstrates why Fed officials schedule their annual meeting in Jackson Hole, Wyoming late in August.

**Wonder Woman (+ +)** is one of the better action hero flicks. That's partly because it isn't all carnage all the time. There is actually some dialogue. Most of it is hokey, but some of it is mildly amusing. In any event, it was good to see Wonder Woman coming around to realize that utopian visions of peace on Earth can't be achieved simply by killing the God of War. However, she does conclude that love conquers all, which may work in bilateral relationships but is less reliable otherwise.