

Folks,

The rotation from worst to first has been stellar in the last two trading sessions. It seems that oil companies – and particularly the WORST of them – have gone parabolic and seen incredible returns (at least on a percentage basis) over the last week.

First things first – Don't bother looking at the fundamentals, of either oil prices, oil demand, OPEC+ deals, company revenues, expected growth, capex increases or decreases, cost increases or decreases.....none of that seems to matter. What we've got here is a classic "dash for trash", as the stock market outpaces any reasonable valuation in the midst of a deep recession and investors (and computers) are locking on to ANYTHING that might provide a decent return at these lofty levels.

I give you the silliest 'trash' from an oil guy to make this point – the iShares South Africa ETF:



South Africa has so far avoided most of the trouble of Covid-19 – not because there's something special about South Africa, but because the virus is just now reaching them. Still, the 'wisdom' is that when it does hit, South Africa will have incredible market success as the US has had with massive central bank injections. This has taken SA stocks back to pre-virus levels, despite the fact that South Africa hasn't seen a crisis - yet. Add that to the weakening US dollar lending 'value' to stocks priced in SA Rand and voila!

Here in the US, we've similarly seen some of the worst oil stocks fare the best in recent days. Some of the US oil stocks that have been rallying have been dirt cheap, mind you. I hold some which are still in my portfolio because I've never been able to sell anything cheap (and often watch it get cheaper). This includes stocks like OXY, RIG, MRO, ET and SWN.

But there are differences in all of these names that matter – some of them I think you should keep even after a rally like this, and some where I think you be best to take this 'free' money and run.

I can't sell Occidental for example, if only because their assets make them a supremely good takeover target down the line. One day, those Anadarko assets will be worth a LOT again. With RIG, if they manage to survive, it'll only get better – Deepwater has to get good again, it just won't likely do it before 2022. Even so, it's probably still the best 10-bagger possibility I see out there, if you've got the patience. Energy Transfer's pipelines are booked value, again, just not at the moment. For me, this is another tough sale despite the big rally (although I could see that one getting overvalued above \$12). The other two, Marathon and Southwestern, are not the same in my mind. I can't make a case for either of them and think they are just two more of the oil patch's "walking dead".

So, to me, not all the "trash" out there is worthy of "dashing" towards.

In a more macro sense, we might be getting near to an interim top in markets, despite the continued Federal backstopping of all assets. Oil buying from hedge funds has slowed for the first time in 7 weeks, the dollar index is showing technical signs of a kickback rally and we might start to see an increase again in Covid-19 cases from the massive protests that began 10 days ago.

All reasons to believe that the next few weeks are going to be critical in positioning portfolios through the rest of the election cycle. I don't believe this big rally in stocks is the end of volatility – not hardly.

For that reason, this will be the last free newsletter I will be sending and you'll all be seeing invoices appear sometime through this week. I believe that I need to get far more stock and sub-sector specific and deliver very specific ideas and prices soon – and that means instantly actionable ideas that a free offering doesn't allow me to do.

I certainly hope you've enjoyed these newsletters for the past two months and hope you'll consider joining me for the next 6 months with my very special offer of \$299. Just reply with payment to the coming invoice and you'll have access to the resuming webinars as well as my written portfolio recommendations.

If you were a subscriber when the virus hit, your subscription will resume and you'll be back 'on the clock'. Not only will your subscription of course enjoy the previous two months for free, but you'll be getting another month added to your subscription on top of that, just an added bonus for your continued loyalty. And yes, when it's time for your renewal, you'll also receive a special renewal price – in line with my special price for first time subscribers.

I hope you see you all next week and through the Summer and Fall. We live in interesting times.

Dan