

Jack Adamo's Insiders Plus

Your source for Insider insights and exceptional analysis

June 4, 2016

Dear Friend & Client,

Thanks for joining me.

Mr. Market giveth and Mr. Market taketh away.

We're going to do some more buying this week, but before I get to the recommendations, I'm going to bore you with some of my usual observations.

After last week's big gains, propelled by stronger than expected economic stats in several areas, stocks stopped short this week after a *huge* unexpected decline in the rate of net job gains in the Non-farm Payrolls Report. The damage wasn't much, the Dow shed only 31 points after being down over a hundred on the initial news. The market decided the Fed won't raise rates and that will fix everything. For the week, the major indices shed only 0.1% and the Russell 2000 (small caps) was actually up 1.2%. However, in my opinion, the big news wasn't in the headlines of the NFP report, it was in the details, and I don't believe their implications have been priced in yet.

Back here at home our Main Portfolio fell rose 3%, mostly on bounces in **Newmont Mining Corp.** (NYSE: NEM) and **Avon Products** (NYSE: AVP). Our High Income Portfolio rose 1.1% helped by pops in **Alliance Resource Partners, L.P.** (NASDAQ: ARLP) and **Bunge Cumulative Convertible Perpetual Preference Shares** (BGEPPF).

Jobs

It was pretty much "opposite week" in a number of areas. Most notably, after four consecutive weeks of a rising dollar, the greenback plunged Friday, taking back about half of the recent gains. But, getting back to the payrolls report, it should be noted that ADP's private sector jobs report, which came out two days before the government's report, was pretty good (at least by today's standards) with U.S. nonfarm private sector employment rising by 173,000.

In the past, I put more credence in the ADP report because the government report uses so many questionable estimates of its own making, and since ADP is the largest payroll processor in the country, I assumed it just counted the net new employees for which it computes pay. But as I discovered a few years ago, ADP uses estimates too. I guess with all the acquisitions it has made, it has not integrated the legacy systems enough to calculate figures across all its locations. We see much the same case at most large banks. So, I can't say which sets of payroll figures have more value, but I will say that the details in the Non-farm Payroll Report are absolutely awful. Consider the following.

The strike of Verizon workers negatively impacted the NFP report by 35K. Correcting for that aberration still leaves only 73K net new jobs, which is about 100K lower than the recent average. We can try to comfort ourselves with the fact that these numbers sometimes undergo significant revisions, but the revisions for the last two months have *subtracted* 59K jobs from the original numbers and the numbers have been progressively lower.

Okay, how about this for a Tums number. *The number of involuntary part-time workers increased by 468,000 in May.*

And this, *664,000 people left the workforce.* That of course makes the unemployment rate look better than it is, since many of these people want to work, but gave up.

On top of all that indigestion, here's a nasty little secret I learned this week. In the years leading up to the crash of 2008, new business creation was estimated to be between 75,000 and 200,000 per year, according to the **Census Bureau**. Who knows how accurate that is, but that's the

assumption the **Bureau of Labor Statistics** used in its calculation of the Birth/Death component in the NFP report. Since the crash, *The BLS uses 75K per month in its calculations, however, the Census Bureau shows only about 33K new firms formed per year in the last five years.*

How much that tarts up the NFP report each month I can't say. Maybe it's only a few thousand per month, but whatever it is, that component is likely to be exaggerated by more than double.

Okay, enough about jobs for today. Let's move on to something that's been moving the market more consistently in the last couple of months, the rebound in oil.

Oil

Last week I said "I may be in for a surprise on the oil outlook, however, I'm not yet ready to concede the point." I gave some reasons why I remain skeptical. However, given the importance of this input in the economy and markets right now, I decided to dig as deeply as I could to satisfy myself I was not depriving us of a great opportunity to catch some great bargain buys. What I found only strengthened my view.

First I'll just hit the usual numbers I've been showing recently. US crude inventories fell less than ¼ of 1% sequentially last week, but remain 12.2% above the same week last year. That's slightly higher than it has been for the last two weeks and up noticeably from the 10% year-over-year surplus we saw in the weeks prior to that. Obviously there's no positive trend there.

Next I checked the new production figures that came out a few days ago. (They are issued monthly.) March production was down 5.4% from last year, but is *45% higher than the prior 10-year average*. Hmmm. Inventories 12% higher than last year and production still 45% higher than the 10-year average. What might that do to prices over the next few months?

Still, that may not take in the full picture. What about demand? Maybe that has gone up enough to absorb the additional supply.

Here's what the U.S. Energy Information Administration says about the trend in usage of products made from oil.

USAGE	Gasoline	Res' Fuel Oil	Jet Fuel	Total
2006	59,860	10,186	42,770	112,816
2007	57,279	11,496	40,394	109,168
2008	55,495	7,826	39,401	102,721
2009	51,298	8,438	37,816	97,553
2010	45,482	7,713	36,173	89,369
2011	41,608	7,505	34,548	83,661
2012	29,497	6,032	32,133	67,661
2013	28,216	5,812	31,665	65,694
2014	19,417	5,372	27,793	52,582
2015	24,788	3,505	31,337	59,630
10-Year Avg.	41,294	7,389	35,403	84,085
2016	25,014	4,053	30,915	59,982
Mar. vs 10 yr avg	-39.4%	-45.1%	-12.7%	-28.7%
Mar. vs last year	0.9%	15.7%	-1.3%	0.6%

*Residual fuel oil is the remainder of the crude oil after gasoline and distillate fuel oils have been extracted through distillation. It fuels thermal power stations or robust engines.

Reading left to right you see the major components of petroleum demand. Reading top to bottom you see it for the last 10 years. As you can see in the last two lines of the table, average yearly usage is up 0.6% from last year, but down 28.7% from the 10-year average.

There are a number of smaller components that are not accounted for in the table. In aggregate, they make up 30% of the total. Trying to put them in would make things too complicated to view easily, so I took the three largest of those I left out and calculated them separately. Here's the bottom line on those.

Kerosene demand has fallen by half in the last 10 years.

Ultra low sulfur diesel fuel stayed about even.

Propane usage is up 2.5x in 10 years. But is only 6.7% of total usage, and some of it comes from natural gas, not oil. So, it is clear that demand for petroleum in the U.S. has dropped dramatically in the last ten years, while supply remains well above average for the same period.

However, there was one last thing to investigate. Imports of petroleum have decreased by 14% in the last ten years. Does that offset the increase in U.S. production? No, the decrease in foreign oil only accounts for 2.73 million bbls/mo in supply; that's only 11% of the 24.1 million barrels of supply we're producing above the 10-year average.

This does not prove oil will fall again from here. A large component of the price of oil is driven by speculation in the commodities market. That's how oil fell from \$145 to in \$45 in a few months in 2008. Demand could not possibly have dried up that quickly. Traders went from deeply long to deeply short, drastically distorting prices before an equilibrium was eventually reached. So the case may be now.

I'm not smart enough to tell if the near doubling of the price of WTI in the last few months represents a temporary washout of the short positions or whether we are closer to "natural" demand-based pricing. However, as the above stats show, we still have a lot more oil than demand can fill any time soon. So, I advise you to continue to lay low for now, especially given the stock market's overall tenor.

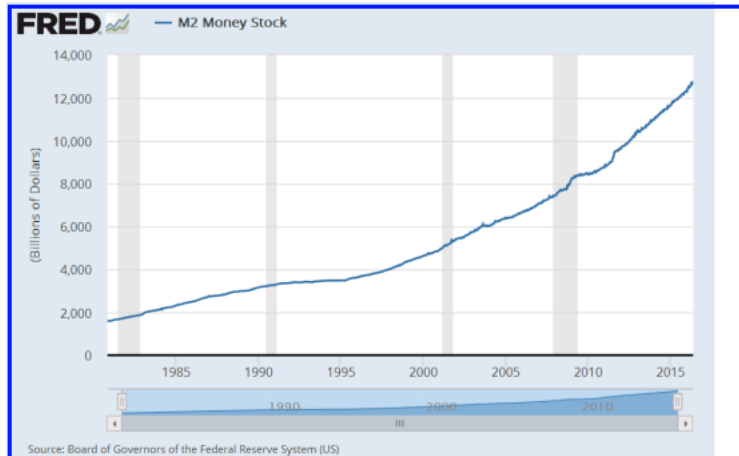
Gold

We've added one gold position recently and have done well with it. Newmont is up almost 27% in the six weeks we've had it. If gold has bottomed, we didn't catch it, but we have a very nice gain nonetheless. Given the possibility of deflation, gold may retrace the recent gains, but I firmly believe in the Austrian School of Economics, which demonstrates that all Central Bank actions to try to juice the economy by increasing the money supply eventually end in high inflation. There's a lot of history to support that assertion.

And then there's Jim Rogers. I haven't heard anything from him in months that I can rely on as being current. As I've pointed out in the past, lots of publications trot out old statements of his and sell it as new, just to get readers. Nonetheless, whether or not he thinks we've bottomed, he still thinks gold will hit more than \$2,000 an ounce. He's actually among the more conservative gold fans with his assumption.

My bottom line is that there's a lot more upside potential than downside risk here. If we go straight into recession, we may see gold slide more, as it did in the last crash, but then it took off into the stratosphere as the Fed and Central Banks all over the world debased their currencies in any way possible. With interest rates so low, it may seem that there's little more they can do, but don't forget quantitative easing. We may see a new iteration of that Freddy Krueger of currency come slashing its way up Elm Street or Constitution Ave., as the case may be. And if that's not enough of a nightmare for you, think of the negative interest rates now being employed by several major Central Banks.

So, I'd rather be early than late here. Recall last week's chart on money supply. If that money goes out of stocks, it has to go somewhere. Gold may not pay interest, but at least you're not charged for holding it. At least not yet. But I think Wall Street is too powerful to allow that to happen without them having a chance to make huge profits in it first. They've already gotten rich shorting it, I believe the only way now is up.



ADDING TO PRECIOUS METALS

It is too late in the day to go into detail on these recommendations. I'll do that next week. For now, I just want you to add these positions to the **Main Portfolio**.

Take a 2% position in **Goldcorp Inc.** (NYSE: GG). Buy Goldcorp up to \$19.50.

Take a 2% position in Hecla Mining (NYSE: HL). Buy Hecla Mining up to \$4.65.

Take a 2% position in Detour Gold (OTC: DRGDF) Buy Detour Gold up to \$24.50.

Buy Detour Gold only with a limit order, never a market order. The shares are thinly traded.

PORTFOLIO UPDATES

General Mills, Inc. (NYSE: GIS) has been hit with two product recalls in the last two weeks. One was for flour that might be contaminated, the other was for sunflower seeds with a similar problem. This is on top of the Goldman-Sachs recent sell recommendation. Still, the stock is acting very strongly. This stubborn strength reminds me of a few years ago when, despite fires in its batteries on the new Dreamliners, Boeing stock keep marching upwards. With General Mills having slimmed down in the last two years, I think there's a good chance it's in for a nice move, although the overall economy could be a headwind. I'll keep an eye on it. We may add to our position soon. We have a 65% gain in the stock, 11% this year. For now, Hold General Mills.

You can view all of our holdings with their current advice by going to:

http://www.jackadamo.com/main.asp?fn=portfolio_view.asp

The password is: **TinaFey**

New subscribers please note:

Occasionally an e-mail notification will not reach all subscribers. This is usually due to your internet provider changing its SPAM filters after which it interprets our notification as SPAM. Please make sure you have us "white-listed" if you have a feature in your email client, and/or put our email address jack@jackadamo.com in your address book. That may solve the problem. Also note that you should keep an old notification message from us in a hold folder. You can click on the link in it at any time, even months later, and *it will always bring you to the most current newsletter.*

Be aware that you can look up all the original write-ups on any stock in our portfolios by clicking on the symbol on the portfolio page. The original write-up is usually the first mention in any newsletter (although sometimes a stock has been re-recommended later); so, you'd want to pull up the letters oldest first. To see *recent* comments, click on the link that reverses that and brings up newest write-ups first.

Please see the important legal notice at the end of this letter.

There was an awful lot more I wanted to talk about this week, but the exigencies created by the outlier job report superceded them. I'll try to get them in next week. For now, my chief recommendation is to fill the new gold positions. Preferreds in their buy ranges are also fair game.

I look forward to talking with you again soon.

Jack

Questions? Write to Jack at: jack@jackadamo.com

Important Legal Notice

This publication contains Jack Adamo's opinions. No recommendation or statement made in this publication, regardless of how strongly or positively rendered, should be construed as anything except Jack Adamo's personal opinion.

Jack Adamo makes economically feasible efforts to verify facts and calculations set forth in this publication, but errors can and will occur from time to time. The publisher cannot guarantee that any misstatement of fact, or any miscalculation will be discovered or corrected prior to or after publication.

Jack Adamo passed the New York State CPA exam, but is not a practicing CPA. Please get tax advice from a qualified personal tax advisor. Jack Adamo is not a Registered Investment Advisor, nor is he required to be. He cannot judge the suitability of any investment for an individual reader without knowing their circumstances, financial goals, risk tolerance, etc. All investments mentioned in this publication entail some degree of risk. All information is provided on a "use at your own risk" basis. Past results are not necessarily indicative of future performance.