



postcards from the florida republic

An independent and profitable state of mind.

Thursday, August 31, 2023

The Stocks I'm Watching as Florida's "Season" Begins

Dear Fellow Expat:

In the shadows of the Florida night, a disturbing presence, unnoticed by most, slithered down U.S. Route 41 - the Tamiami Trail.

This was no ordinary vehicle; it was a monstrous, steel Goliath. This unholy contraption chewed up asphalt arteries with an insatiable hunger, eager to bring terror to an unsuspecting beach town.

The Blood Moon-lit sky watched impassively as the monster arrived, its malevolent "eyes" casting an eerie glare.

It rumbled and groaned, emitting guttural sounds that echoed through the empty grocery parking lot.

A symphony of doom.

Upon its colossal back, this monster carried a legion of SUVs, sports cars, and Cadillacs. These posh cars huddled together like a crop of possessed souls... tainted, cursed, infused with the darkest intentions.

In my peripheral vision, their metal skeletons appeared to warp and twist, forming grotesque faces. They cackled - vile laughter. Their headlights, like wicked eyes, followed me as I carried a gallon of 2% milk across the Publix parking lot.

Bonita Springs, my small town, still lay in blissful ignorance over the Labor Day weekend, its humble streets and friendly locals ignoring the impending invasion.



Garrett Baldwin
Financial Adventurer

Index Momentum

S&P 500
Nasdaq
Russell

GREEN
GREEN
GREEN



But that **gigantic car carrier trailer**, a harbinger of chaos, had arrived. Its humming engine whispered the pending surge of seasonal vacationers and snowbirds, a sound that would chill the spines of those who dared to listen.

Soon, the town's peaceful streets will be overrun by a relentless traffic surge, a never-ending cacophony of honking horns, screeching brakes, and enraged drivers.

The monster's engine roared with a final sound that resembled a demonic laugh.

The invasion is imminent. The traffic apocalypse awaits.

Welcome to "Season" in the Florida Republic.

September Begins

We begin September with a typical conversation between Tim Melvin and me.

Typically, we'd be at his house for Labor Day weekend, watching my daughter swim and discussing market seasonality. But Tim has a fever, and we're laying low this Sunday.

I have a different kind of fever - the type that comes when Equity Momentum (EQM) turns positive - and there's an opportunity to make money. One of the key conversations Tim and I have shared over the years has centered on stocks with strong F scores, Z scores, and attractive valuations.

By layering these stocks on top of strong momentum and ample trading liquidity, we can identify attractive long-term targets using short-term trading tools.

But let's back up...

Tim has shared on our live broadcasts that **the Piotroski F-score is a nine-point system that rewards each company for meeting a certain criterion on its balance sheet.**

The F score does measure management's performance but also measures the company's ability to grow in a meaningful way.

How are companies improving their balance sheets year over year?

And how are shareholders enhancing shareholder value?

Are companies buying back stock or lowering their debt?

If the company meets all nine criteria, it has an F-score of 9.

That means it has a perfect score.

The Altman Z-score is a weighted average of five metrics to determine whether a company might go out of business.

If a company falls below 2.6, it has a risky balance sheet.

That risk is tied to a balance sheet that likely has lots of debt or weak cash flow.

We are looking for stocks with a Z-score of 3 or higher. Let's be very cautious in this environment. As I'll explain this week, the Treasury Department is piling on risk to the markets.

A high F and Z scores is a quick hack into basic forensic analysis.

Then, there's the last part... We don't want stocks trading at insane valuations. We don't want unprofitable companies. So, we use one or various valuation metrics that can tell us a very

simple story about how this company trades compared to its peers and its price history.

But for good measure... there's *one more* screen we must run.

We don't want to have a list of stocks trading over the counter. We want established companies that trade on the NYSE, NASDAQ, or even the AMEX.

We want stocks with plenty of volume - so we won't settle for anything less than 125,000 shares traded on average.

And finally, we want to generate gains off these stocks - whether the market goes up... goes down... or sideways. We can use put spreads [a feature of our favorite way to trade and invest in **Occidental Petroleum** (NYSE: OXY).]

That delivers some interesting names.

Qualify Everything

The screen leaves us with eight names. There are two coal producers, five oil-and-gas players (including a shipping company), and one forest product manufacturer.

Symbol	Company	Price	Industry	F-Score	Z-Score
ARLP	Alliance Resource Partners LP	\$ 20.42	Other Energy Sources	9.00	3.62
CEIX	CONSOL Energy Inc	\$ 86.04	Other Energy Sources	9.00	3.85
ERF	Enerplus Corp	\$ 17.11	Oil & Gas	9.00	4.46
INSW	International Seaways Inc	\$ 42.97	Oil & Gas	9.00	2.81
LBRT	Liberty Energy Inc	\$ 15.95	Oil & Gas	9.00	4.19
NEX	NexTier Oilfield Solutions Inc	\$ 10.61	Oil & Gas	9.00	4.20
RES	RPC Inc	\$ 7.99	Oil & Gas	9.00	8.60
SLVM	Sylvamo Corp	\$ 41.77	Forest Products	9.00	3.78

Now - we must qualify *everything*.

I'll be honest. Despite rising natural gas prices in Europe, I'm not a massive fan of investing in U.S. coal now.

This sector feels like there is a sword hanging over it at any given moment - and looking into 2024 - it will become even more political than ever.

We are always one sternly worded edict from a shutdown of U.S. coal production. It's insane.

I'm intrigued by the forest product space. But **Sylvamo Corp.** (SLVM) took a nasty downgrade from RBC Capital three weeks ago.

Shares have bounced back nicely from a recent low of \$37.65 in August - but given the current state of materials stocks - I think there will be better options in the sector that I know best - oil and gas.

Let's take a quick look at the average price target of the five remaining stocks... and some other key indicators that should warrant your consideration.

Have insiders been purchasing the stock or selling the stock?

Ticker	Company	Supply Chain	Price Target	Insider Activity
ERF	Enerplus International	Upstream E&P Midstream	18.34% Higher	Neutral Selling August 2023
INSW	Seaways	Tanker	62% Higher	19.8% Selling August 2023
LBRT	Liberty Energy Nextier Oilfield	Upstream	Higher	10.5% Selling August 2023
NEX	Solutions	Upstream	Downside	Selling Late 2022
RES	RPC Inc.	Upstream	4.6% Upside	2022

Given the positive momentum in energy right now, all five of these names intrigue me. But Enerplus - with a nice price outlook and neutral insider activity has attracted my attention.

Without even digging into the stock itself, I can set myself up with an interesting trade (or backdoor to invest in the stock at a lower price). As you likely know, I'm very bullish on oil and gas over the long term.

But the short-term markets (seasonal volatility and questions about the Treasury Department's latest antics in duration bonds) do give me a little anxiety.

So, I can trade a bullish put spread that has a high probability of success... and can generate capital on a stock that I'd want to own at a lower price.

Later this week, I'll discuss put spreads and why they are great ways to generate capital on stocks that you'd be willing to own at a lower price.

I'll use **Enerplus** (ERF) as an example.

For now, I need to go watch some Orioles baseball... and fire up the grill.

Stay positive,

Garrett Baldwin
Secretary of Finance
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