Global Financial
Private Capital

Here We Go Again

SYNOPSIS

- All three major U.S. stock indexes have hit concurrent all-time highs over the past two weeks, which has caused many pundits to issue fresh warnings.
- Markets don't fall for the sole reason that they have hit new highs, and historical data tends to support this notion.
- The real risk to an investment plan is changing it due to short-term concerns.

WE HIT THE TRIFECTA

Over the last two weeks, the S&P 500, the Dow and the NASDAQ all hit highs on the same day. This market trifecta has not happened since 1999, so naturally, the media jumped all over the story.

There was simply no way that this proverbial "salt lick" for fear mongers and market pundits would go untouched. Their logic was centered around a myriad of repurposed stories and excuses that I've addressed already, but two, in particular, caught my attention.

The first came from Marc Faber, who made yet another bold call that the S&P 500 will now crash to 1,100 eventually. Earlier in the year, I wrote about this "permabear" and his annual predictions for the market to implode (click here to read *Using Google To Discredit A Fear Monger*).

The second even made The Wall Street Journal on Tuesday. The infamous "Soros Put" is back and better than ever. Apparently, George Soros, the legendary investor, has doubled-down on his bet that the S&P 500 will fall (click here to learn why this story is so misleading - *Billionaire Investor Runs For Cover)*.

Although most of what was spoon-fed through the typical financial media outlets focused on doom and gloom scenarios, I was able to come across a few that used real data and sound investment theory to offer up a different story.

If you think it's hard to call a top in the market, just try to catch a falling knife!

One of them came from LPL Research, who took the time to analyze some rather interesting historical data to answer the question as to whether investors should listen to the pundits and "sell everything."

Their efforts were focused on (1) determining how the stock market performs during the last 100 days of a year, and (2) how the market performs during this final stretch after being up over six percent, which is right around where we are year-to-date. Here are three conclusions from their research:

1. **Strong Historical Performance:** The S&P 500 has been higher year-to-date 56 times with 100 days to go in the year. Furthermore, the last 100 days has averaged a return of 4.2% and has been higher 83.9% of the time.
2. **More Than Six Percent**: There have been 40 other times the S&P 500 was up more than 6% for the year with 100 days to go, and on average, the rest of the year has been up 5.3% and higher 90% of the time.
3. **One Bad Year**: Only once in history has the S&P 500 been up more than 6% with 100

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> days to go and finished down for the year, and that was in 1929 (the Great Depression). Said another way, 39 of the previous 40 times the full year finished positive.

Simply put, the conclusions from LPL Research indicate that a strong start to a year is historically followed by higher prices to end the year.

IMPLICATIONS FOR INVESTORS

Let me be crystal clear and state that in no way am I attempting to either estimate what will happen to stock prices over the next 100 days or use past performance to predict future returns. I don't own a crystal ball.

But here's the thing to remember - none of the pundits on television do either. The conclusions above are nothing more than a different way to look at the current state of the market. The real question is what should investors do now with two very different takes on where we stand.

Listening to the pundits would require selling stocks, which may seem attractive to some at the moment. There's no question that the world feels less safe than it did a few years ago, and we are moving closer to arguably the most contentious presidential election in our nation's history. Taking profits and waiting for prices to come back down could work.

The problem with this approach is that it requires an investor to get lucky not once but twice. This investor must sell at or around the top and then have the discipline and more importantly the guts to buy back in after the market fell. If you think it's hard to call a top in the market, just try to catch a falling knife!

The other choice is to do nothing. Although far more boring, this option is predicated upon the fact that what has been driving stocks is not going to disappear suddenly just because the market hit an all-time high. Hence, if the fundamentals have not changed, then there is no justification to make a change to an investment strategy that has been working. At the moment, I choose this option.

The bottom line is that reaching an all-time high in the U.S. stock market is not, on its own, a reason to alter an investment strategy.

NOTE*: The full LPL Research report can be read here: https://lplresearch.com/2016/08/11/with-100-days-left-in-2016-should-you-really-sell-everything/*

Sincerely,

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