

HAPPY ENDING

eResearch Corporation is pleased to provide an article from ***The Reformed Broker***, featuring Josh Brown.

Today's article looks at the market performance in the final months of an extended bull market.

The Reformed Broker is a blog about financial markets and the economy.

From Josh Brown's website: My blog is about markets, politics, economics, media, culture and finance. I'll use statistics, satire, anecdotes, pop culture references, sarcasm, fact, fantasy, and any other device that I feel necessary to get my points across.

What I don't do on this site is give financial advice or tell anyone what to invest in. The Reformed Broker is a forecast-free blog. What I will do on this site is provide you with a running commentary of my market-related insights and thoughts as events unfold. I'll point you toward other interesting content around the web. I'll challenge your perceptions, call it like I see it and, occasionally, I'll make you laugh.

A link to the blog's website is provided here: <http://www.thereformedbroker.com/>.

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Here Comes The Happy Ending

By Josh Brown

March 28, 2017

You do not want to miss the end of a bull market, says Savita Subramanian, Bank of America Merrill Lynch's Quant-in-Chief. It is where some of the most explosive upside moves take place. Parabolic, skyscraper-like charts can happen just before it is all over.

Additionally, you need euphoria to show up – not in the form of sentiment surveys but in actual dollar volume. You need fund flows. Savita makes the case that, if history is guide, we have not seen the best part yet (even if it ends in tears, as usual).

Here is a look at the performance of stocks heading into historic bull market peaks, 24, 12, and then 6 months prior. It is painful to miss the end of these things (you may click to embiggen):

Table 3: Historical S&P 500 total returns preceding market peaks since 1937

Peak	Return			% of cycle return		
	24 months	12 months	6 months	24 months	12 months	6 months
Mar-37	129%	33%	19%	58%	12%	7%
May-46	72%	33%	15%	46%	19%	8%
Aug-56	74%	20%	15%	24%	5%	3%
Dec-61	32%	32%	11%	34%	34%	11%
Feb-66	30%	11%	11%	34%	12%	12%
Nov-68	44%	18%	12%	82%	35%	23%
Jan-73	39%	19%	14%	52%	25%	17%
Nov-80	65%	39%	29%	44%	25%	18%
Aug-87	93%	40%	20%	46%	18%	8%
Jul-90	45%	15%	10%	65%	21%	14%
Mar-00	42%	22%	20%	11%	5%	4%
Oct-07	36%	18%	9%	38%	18%	9%
Average	58%	25%	16%	44%	19%	11%
Median	45%	21%	14%	45%	19%	10%
Min	30%	11%	9%	11%	5%	3%
Max	129%	40%	29%	82%	35%	23%

Source: BofA Merrill Lynch US Equity & Quant Strategy, Bloomberg, S&P

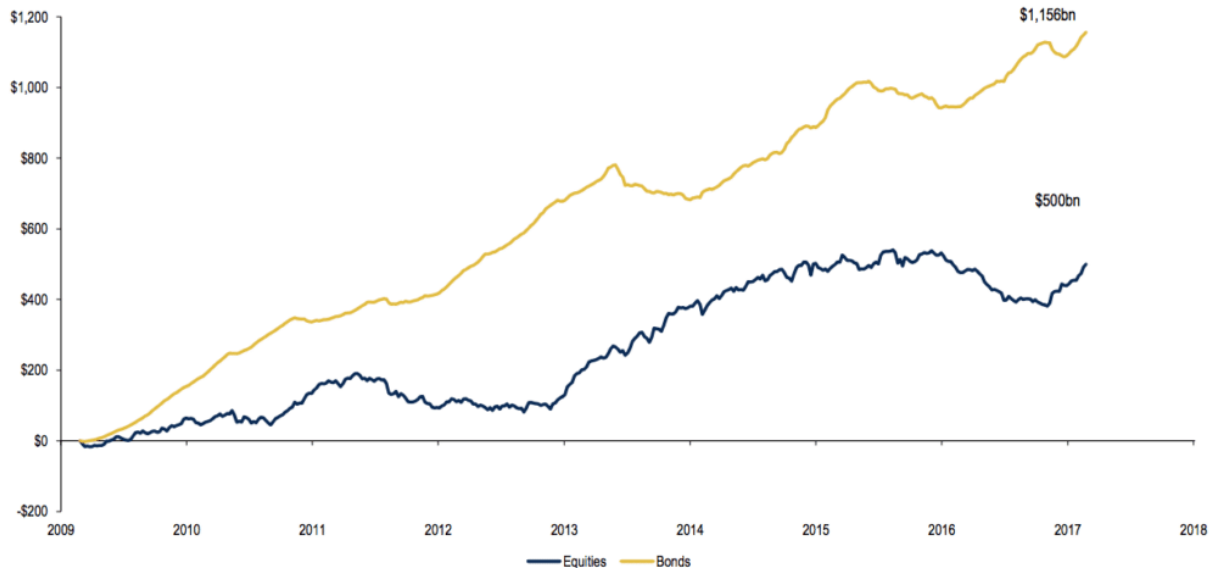


Also, here is why we have not crossed over into true euphoria territory yet (you can thank the Trump administration's endless legislative bumbling for prolonging this phase so far).

Bond funds are yellow, stock funds are blue:

The great rotation hasn't happened yet

Chart 3: Cumulative flows into global equities vs. bonds since 2009 (as of 2/22/17)



Source: EPFR Global, BofA Merrill Lynch Global Investment Strategy

The negatives – yes, we have shrugged off geopolitical events in the recent past, but Savita cites the fact that positioning was light anyway, defensives were over-owned, and cyclicals were barely owned. Not the case now. Additionally, buybacks were a major source of fuel and now they are slowing down. Lastly, valuations are high, both in terms of earnings to book value as well as market cap to GDP.

But if investors make up their mind to get euphoric and fire all of their guns at once, we could still explode into space. So what do you do?

If you are a trader, you need to be open to this possibility – not just open to it, but willing to be positioned for it.

If you are an asset allocator or an individual investor, it might be more profitable to prepare yourself for this mentally than it would be to make a dollar bet on it. This means remaining diversified and not fully exposed to the end-run boom, and forgiving yourself for not capturing all of it, if and when it comes.

Because they won't send you an email when it is about to end, and it is highly unlikely that you would be able to unwind a big bet on this sort of thing smoothly and in a timely fashion. The only category of people who can do this are called Liars, according to Bernard Baruch.

My counsel to clients is to enjoy the portion of their portfolios that gets to participate in whatever melt-up may come, and thank the heavens that that they are not positioned to enjoy *all of it*. I am too old for hangovers and so are they.



Source:

The beginning of the end of the Trump put

Bank of America Merrill Lynch – March 27th 2017

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