

Weekly Market Review

eResearch Corporation is pleased to provide a commentary courtesy of Urban Carmel of **The Fat Pitch**.

Detailed information on **The Fat Pitch** is provided at the end of the article. However, a brief overview is provided immediately below, with the article beginning on the next page.

WHAT IS THE FAT PITCH?

Specifically, the Fat Pitch on this site refers to two situations.

First: A Fat Pitch comes at a market turning point.

Second: The Fat Pitch is a favorable investing environment.

Objectives

The objective of The Fat Pitch is to provide a structured, quantitative, and empirical methodology for evaluating the state of the market. At any point in time, there are a variety of factors pulling on the market. We want to determine the relative importance of each factor in order to answer two questions:

- (1) In which direction should we be investing in the market?
- (2) Are tailwinds behind this direction or are headwinds picking up?

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Bob Weir, CFA
Director of Research

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The Fat Pitch

January 18, 2018

Fund Managers' Current Asset Allocation - January

Summary: Global equities rose 22% in 2017. Throughout almost that entire period, fund managers held significant amounts of cash and were, at best, only modestly bullish on equities. All of this suggested lingering risk aversion following a recession scare in 2016.

As 2018 begins, cash levels have fallen to the lowest level in 4 years. Allocations to global equities have risen to the highest level in nearly 3 years. In most respects, investors are now bullish.

In the past 6 months, U.S. equities have outperformed Europe by 12% and the rest the world by 2%. Despite this, fund managers remain underweight the USA. U.S. equities should out-perform their global peers.

Fund managers are under-weight global bonds by the greatest extent in 4 years. Only 4% of fund managers believe global rates will be lower next year, a level at which yields have often fallen, at least temporarily.

* * *

Among the various ways of measuring investor sentiment, the BAML survey of global fund managers (see chart, next page) is one of the better as the results reflect how managers are allocated in various asset classes. These managers oversee a combined \$600b in assets.

The data should be viewed mostly from a contrarian perspective; that is, when equities fall in price, allocations to cash go higher and allocations to equities go lower as investors become bearish, setting up a buy signal. When prices rise, the opposite occurs, setting up a sell signal.

We did a recap of this pattern in December 2014 ([post](#)).

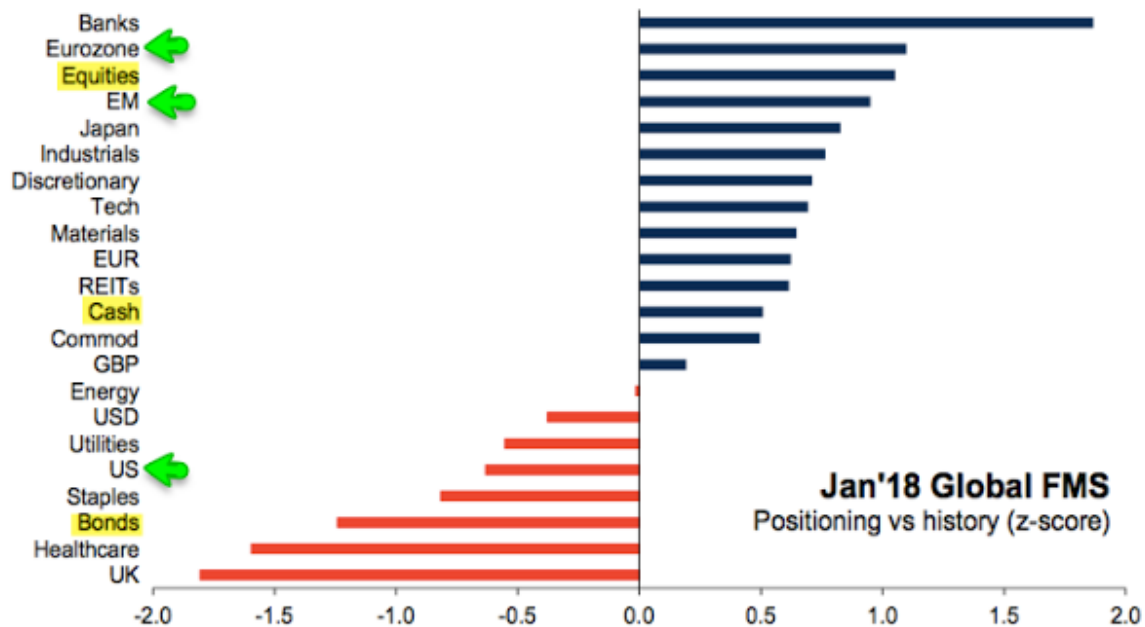
Let us review the highlights from the past month.

Overall: Relative to history, fund managers are over-weight equities and under-weight bonds. Cash is neutral. Enlarge any image by clicking on it.

Within equities, the USA is significantly under-weight while Europe, Japan, and emerging markets are all significantly over-weight.

A pure contrarian would overweight U.S. equities relative to Europe, Japan, and emerging markets, and over-weight global bonds relative to a 60-30-10 basket.

The Fat Pitch



Source: BofA Merrill Lynch Global Fund Manager Survey. *data since 2006 for commodities & real estate; since 2001 for everything else

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BW: Information on Mr. Urban Carmel and his blog, The Fat Pitch, follows on the ensuing page.

The Fat Pitch

WHAT IS THE FAT PITCH?

In baseball, a fat pitch is a hittable ball. The odds are in your favor. You might miss, but it is a situation where you should take a swing of the bat. If you swing at good pitches and avoid the crappy ones, you improve your OBP. Once on base, it becomes a running game.

The stock market serves a lot of curve balls. Now and then there comes a Fat Pitch, your odds-on opportunity to swing the bat. So, get on base and then manage your base-runners.

Specifically, the Fat Pitch on this site refers to two situations.

First: A Fat Pitch comes at a market turning point. It is an identifiable and quantifiable capitulation point where sellers or buyers have become exhausted and panic or euphoria is at an extreme. The Fat Pitch here is measured by a combination of (in no particular order): put-call, Trin, NYMO, sentiment, fund cash balances, major accumulation or distribution, volume, price relative to Bollinger bands, volatility, and consecutive days in a row in one direction. Swinging the bat without popping up is the hardest part.

Second: The Fat Pitch is a favorable investing environment. Old hands talk about there being only a few good times each year to be involved in the market. The remainder are unprofitable. I think this is correct. The Weekly Market Summary is intended to help discern when it is favorable to be long (or short) and when it is best to work on improving your French.

Every day, week, and year is a learning experience. The purpose of this site is to help refine what constitutes a Fat Pitch. Like baseball, you have to continue to work on your swing.

Our Objectives

The objective of the Fat Pitch is to provide a structured, quantitative, and empirical methodology for evaluating the state of the market. At any point in time, there are a variety of factors pulling on the market. We want to determine the relative importance of each factor in order to answer two questions:

1. In which direction should we be investing in the market?
2. Are tailwinds behind this direction or are headwinds picking up?

Every Friday we publish a Weekly Market Summary with green, yellow, and red lights on it. Green is good and red is bad. Everything on this site is in support of this market summary.

The little tabs across the top of the site (trend, breadth, etc.) mirror the different factors we follow to monitor the market. There is nothing here that does not fit with the methodology.

Anytime you want to understand why a factor is red or green, click on the tab and read the accompanying analyses. To the fullest extent possible, we quantify and use empirics to determine the state of every factor.

The Fat Pitch is authored by Urban Carmel, see below.

The Fat Pitch

Urban Carmel



Strategy Consultant and Finance Commentator

Current	The Lewis Carmel Group
Previous	UBS Securities Indonesia, East Asia Hamon Asset Management, McKinsey & Company
Education	Wharton School, University of Pennsylvania

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