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Bear Market Worries (Continued)

BW: This is a second two-part article.

Why I Can't Put Away My Bear Market Worries #3: Money Flows That Look Like A Bounce And Not Like A Rally

Rallies share one very important pattern. In a rally, more investors and traders want to jump in as prices rise. They are convinced that rising prices mean that prices will climb even more in the future and so they buy, driving prices higher.

Bounces follow a different pattern. Investors and traders buy, often in a hand-over-fist fashion that spikes prices, but once prices reach a particular level, market participants start to sell. They are not convinced that prices will climb farther and, instead, worry that the bargains are gone and that they have seen the bulk–and maybe all–of the gains.

On Wednesday, January 16, Don Kaufman at TheoTrade ran a chart of the top ten ETF cash-flows-in and cash-flows-out for 2019 through January 15. The pattern is certainly more indicative of a bounce than of a rally.

The top five out-flows belonged to the Vanguard S&P 500 ETF (WOO) at $2.46 billion, Vanguard Real Estate ETF (VNQ) at $1.29 billion, Vanguard Information Technology ETF (VGT) at $1.25 billion, Consumer Discretionary Select Sector SPDR ETF (XLY) at $1.24 billion, and Vanguard Value ETF (VLV) $1.22 billion. ETFs invested in the NASDAQ 100, in the Russell 2000, the health care sector, and the financial sector all made it into the top 10.

Money flowed into the iShares Core S&P 500 ETF (IVV) at $3.74 billion, iShares Short Treasury ETF (SHV), iShares Core MSCI Emerging Markets ETF (IEMG) at $3.54 billion, iShares 1-3 Year Treasury Bond ETF (SHY) at $2.27 billion, and Vanguard Total Market ETF (VTI) at $2.03 billion. ETFs invested in 20-year-plus Treasuries, 7-10-year Treasuries, and emerging markets also made it into the top 10.

What is intriguing–and worrying if you would like the bounce to become a rally–is the money flowing out of the S&P, the NASDAQ, healthcare, and financials–all sectors that had done well in the bounce–and into Treasury bond funds and emerging markets.

The pattern would indicate that investors are looking to move to safety–in Treasuries–rather than follow stock prices upward–or that they are interested in putting cash into a lagging sector–emerging market ETFs–rather than follow U.S. stock prices upward.

The pattern is not so pronounced as to make me say “Run for the hills” since money did flow into the S&P following IVV and the Vanguard Total Market ETF. But these cash flows are not as strong an endorsement of the duration of the recent upward trend as I would like given the very strong flows into Treasuries.

Why I Can’t Put Away My Bear Market Worries #4: Consumer Sentiment Is Becoming More Negative

Bloomberg Consumer Comfort Index’s monthly expectations gauge fell for a third month to 44.5 in January. The weekly comfort measure declined to a four-month low of 58.1 as sentiment on the buying climate fell to its lowest since November.

The partial shutdown of the U.S. government undoubtedly played a part in this trend. But the shift in sentiment is extreme and the negative trend pre-dates the shutdown. This is the third straight monthly drop after expectations reached a 16-year high just three months ago.

I find this big of a shift in consumer sentiment worrying, because while economists do not have a good explanation for what causes recessions, they are linked to shifts in consumer sentiment. For reasons that remain murky, consumers start to feel uncertain about the future, and decide to save more and spend less, or to put less on their credit card and thus spend less.

I don’t think the U.S. economy is headed into a recession in either 2019 or 2020 but I do remember that one cause of the bear market that we ended up with in 2018 was Wall Street’s conviction that we were headed into a such a downturn. We may have nothing to fear but fear itself–but fear itself can do a job on the stock market.

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BW: See “About the Author” on the next page.

About the Author

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BW: here is an excerpt from Jim's WELCOME message on his website

After twelve years with MSN Money, I am excited at being on my own. The move gives me a chance to bring you, my readers, more and better ideas for profitable investing. Each week the folks at the MoneyShow.com and MSN Money will publish seven of my posts from this blog on their sites. That is already an increase in your weekly dose of Jubak from the days when I wrote Jubak's Journal twice a week. But you will also find another 18 or so posts a week on my JubakPicks.com blog that do not appear on either of those two sites. (Although they have appeared as much as three days ago and as little as a few minutes ago, if they are really important) on my new subscription site at http://jubakam.com/)

Here I am aiming for five posts a day five days a week. I won't always get to those numbers. Some posts just take longer to research and write and sometimes, like everyone else, I run out of gas and need to take a break. But my goal isn't some arbitrary number of posts, anyway. The goal is to bring you the best market intelligence that I can on a schedule that keeps you at least one step ahead of the market.

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