Perspective

December | 2014

At a Glance...

- Bull Market Runs: Make Missing Out a Thing of the Past

Bull Market Runs

Making Missing Out a Thing of the Past

Given the torrid advance of the current bull market for stocks in United States, investors often worry that bull markets don't last forever. Most investors miss the market because they attempt to time it, which rarely works out. Bull and bear markets normally follow economic cycles and some cycles are more severe than others and the timing of these cyclical transitions is difficult if not impossible to predict. The average bull market lasts for four years, yet there have been at least two bull markets during the last 100 years that lasted well beyond the four year average. Could the current advance be one of those long lasting bulls? It sure seems that way with 2014 bringing gains of over 13% as we move into the final stretch of 2014, supported by economic activity in the United States that continues to gather momentum.

Bear markets, as defined by a 20%-25% drop for stocks, average about 14 months in length. Bear markets normally begin in anticipation of an economic downturn or recession which is defined as two quarters of negative economic growth. The conundrum becomes; can I figure when the bull market is going to end, and exit with all my winnings avoiding the next bear market in the process. I wish investing was that simple.

The current bull market, beginning on March 9, 2009 is over 2,070 calendar days old. It is the fourth longest running bull market in modern history, generating the fourth largest rise at nearly 200% according to Bespoke Investment Group. While this historical bull market advance has treated many investors well, many missed some, most or even the entire advance. This is one of the most hated bull market rallies in history. Many investors exited the markets in 2008, as they were convinced the U.S. financial market system was on the verge of collapsing. Part of the lack of confidence was due to the S&P 500 dropping 25% in 10 trading days in late October of 2008, and the Federal Reserve stepping in to save Goldman Sachs, forcing Merrill Lynch to merge with Bank of America and bailing out AIG.

In addition, the DOW Jones Industrial Average has gone over 700 days without a 10 percent correction, the fourth longest period in history without a 10% pull back according to data from S&P Capital IQ. As recently as October, the S&P 500 and DOW declined nearly 7% and 8% respectively while the NASDAQ dipped 10% on Ebola fears and European growth concerns. The U.S. averages quickly recovered from this

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downdraft on news that Japan was determined to stimulate their economy by embarking on further asset purchases, and news of strong third quarter profits and favorable U.S economic reports including 3.8% GDP growth.

Investors are anxious and advisors are perplexed about what the next two years will look like for stocks and bonds given the current backdrop of economic conditions. Interest rates across the globe are at historically low levels and both Europe and Japan continue to print money putting more downward pressure on their world interest rates. The US interest rates have experienced additional downward pressure as investors move money from European and Japanese bond markets to get higher rates from U.S. Government Bonds.

We are likely in the late stages of this historical bull market advance and investors are at a cross road. Some on Wall Street are predicting the S&P 500 could reach 3,000 by December of 2015, but not before it drops below 1,750. In other words, the ride ahead could be quite bumpy, especially considering how low volatility has been for this historical rise in stock prices. In addition, given the historical rise in stock prices, maybe some investors are willing to sit out the next stage of this bull market rally. It should be noted that trying to time the market correction or market transition into a bear market decline is extremely difficult. Ask all the folks who missed this rally and continue to have money on the side lines earning nothing in money market accounts or CDs waiting for a better time to enter the market.

A more troubling development is the outlook for global interest rates and the potential rise in interest rates due to inflationary pressures. While inflation will eventually rear its ugly head, investors must try to anticipate the arrival, especially considering how low interests are and how expensive the bond market is at current levels. Hiding in government bonds to reduce portfolio risk is likely one of the most risky bets an investor can make in today's market. More importantly, investors should own the right kinds of bonds in their portfolio, bonds which are less susceptible to a rise in interest rates.

Currently the economic indicators in the United States continue to improve and the Federal Reserve has maintained a very accommodative stance on interest rate policy, committing to keep interest rates low for an extended period of time, with the likely first increase in short-term rates scheduled for June 2015. The Federal Reserve has been

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very transparent about their willingness to keep rates low for an extended period of time. Lower interest rates are generally good for stocks.

Time is on My Side (a Favorite Rolling Stones Song)
According to Yale University Robert Shiller, U.S. stocks have earned positive returns 60% of the time in all one month periods, however in every 15 year period, U.S. stocks have delivered positive returns 95% of the time and in every 20 year period U.S. stocks have delivered positive returns 100% of the time. If your time horizon for your stock portion of your portfolio is at least ten years you will likely have more than enough time to regain any paper loses generated in your portfolio from a market correction or bear market. In addition, using strategic and tactical asset allocation will also allow you to take advantage of fixed income and alternative asset allocation strategies along the way. Realizing that time is your best friend when it comes to the market is the first investment lesson we should all learn at a very young age. After all, investing, like almost anything in life, the earlier you start the likelihood of a successful outcome increases.

HighTower Bellevue is part of HighTower Advisors, a national partnership of independent financial advisors who are driven to create successful outcomes for our clients. Our advisory team in Bellevue, Washington has over three decades of experience in designing and implementing financial planning and asset allocation strategies for our valued clients.

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