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Investment Strategy

"Déjà Vu?"

"It's like Déjà vu all over again."

. . . Yogi Berra

I loved Yogi Berra! First as a baseball player, who in his 19-season career played in 18 All-Star games and on 10 World Series Championship teams, and then as a manager and coach. He always had a way of turning a phrase with such famous quotes as:

"When you come to a fork in the road, take it." "You've got to be very careful if you don't know where you are going, because you might not get there." "If the people don't want to come out to the ballpark, nobody's going to stop them." "We made too many wrong mistakes." "You can observe a lot by just watching."

But by far my favorite Yogism is, "It's like Déjà vu all over again," which is appropriately the title of today's strategy report. Déjà vu because harken back to near the February 2016 "lows" when The Royal Bank of Scotland's strategy team said to "sell everything." At the same time a major brokerage firm in this country was advising clients not to sell everything, but to sell most of your stocks. Other firms trumpeted that same theme. Well, here they go again, for two weeks ago I was pounded by clients, advisors, and portfolio managers with, "Hey Jeff, did you hear that DoubleLine Capital's Gundlach is telling investors to 'sell everything' and Goldman Sachs' market strategist just put out a report calling for a 10% correction?" My response to those queries was, "Of course I heard about them, but just like at the February lows I do not believe them." It reminds me of the old Groucho Marx line where his wife sees him with another woman and he tries to explain to her that nothing is going on by saying, "Who are you going to believe, me or your own eyes?" The same thing can be said about the stock market.

Recall, it was just last Monday when I wrote:

> Years ago award-winning strategist Stan Salvigsen wrote some of the best strategy reports ever penned on the Street of Dreams. One of them in 1982 was titled 'Surf's Up' where he showed a picture of hundreds of surfers standing on the beach in Hawaii watching 40-foot waves roll in, yet only a few were brave enough to surf them. Stan's tag line was, 'If you want to catch a wave you need to grab a board and get in the water!' The allegory was that although you are afraid, you need to buy stocks. At the time investors could get a 20% return in a money market fund, so there was little interest in equities. Verily, the stock market had decoupled from the fundamentals with the SPX trading below book value with a dividend yield of roughly 7%, ignoring improving geopolitics, the improving economy, etc. The same thing happened in 1997 with astronomical equity valuations that stayed that way for over three years. The equity markets are doing it again here. You can either take that as a few years from now we are going to be in a bear market, or that the stock market is 'telling' us things are going to get better. I am 'long' . . .

Now, I really do hate quoting myself, but it does test one's patience having to repeat the same thing over and over again on the phone and in emails. So here is the sixth time I have written this, and this is the last time I am going to use it:

"In all the previous times when the S&P 500 has made a new all-time high, following at least 52 weeks below the old high water mark, the average return over the next 12 months has been 12.28% (median +12.30%) with an average pullback of 5.48% (median 2.73%)."

Additionally, consider this: the Coppock Curve is a technical indicator that measures how fast the S&P 500 is currently rising, versus 11 and 14 months ago, to identify good buying opportunities. When it moves from a negative to a positive position, like now, it is considered a buying opportunity. And, according to the good folks at LPL:

> On July 29, 2016, the S&P 500's monthly Coppock Curve once again moved from negative to positive territory, recording a value greater than 1.0, and increasing the likelihood for a long-term bullish trend for stocks. It is interesting to note that this is only the third time in more than 20 years that this long-term momentum indicator has triggered a buy signal. Looking at historical data going back to 1950, when the monthly reading on the S&P 500's Coppock Curve moves back above zero, subsequent long-term price levels on the index tend to rise. Since 1950, this happened only 15 times. Six months later, the S&P 500 was higher 87% of the time, with average and median returns of 7.8% and 7.1%, respectively. Going out nine months, the returns are higher 93% of the time, with average and median returns of 11.1% and 14.0%. Looking out one year, the returns were higher 100% of the time, with average and median returns of 14.9% and 14.8%.

Meanwhile, back at my perch from holiday, I am getting emails like this:

> Jeff, it seems to me that you are the only bull out there. The money flows out of equity mutual funds. The mood of individual investors and a lot of market pundits are so negative. The cash levels of money managers are at pretty high levels. What will be the catalyst that will lift the equity market to new highs based on your internal energy buildup scenario? It is hard to see with August, September and early October being very volatile months in my experience. Did I mention that Goldman Sachs Market Strategist just put out an article in the last week calling for a 10% correction? Your thoughts?

Indeed, "If the people don't want to come out to the ballpark, nobody's going to stop them!" Just substitute "investors" for the word "people" in that quote and you have the current stock market sentiment. However, since the February "lows," and again at the Brexit "lows," Andrew Adams and I have tried to tell investors that the equity markets are going to go a lot higher than most expect. Our model actually "called" the February low of 1810 on the S&P 500 (SPX/2182.87) and targeted new all-time highs. Moreover, Andrew and I "called" the "Turning Tuesday" low following the Brexit vote again with the mantra of "New all-time highs." We have consistently written about stocks, mutual funds, and ETFs for consideration in portfolios. In this business when you are wrong, you say you are wrong, yet you need to be wrong quickly for a *de minimis* loss of capital. To wit, "We made too many wrong mistakes." However, "You can observe a lot by just watching;" and our observation that "The stock market has decoupled from the fundamentals" since February has been net-worth changing. Or as another great markets observer once opined, "The stock market can stay irrational longer than you can stay solvent" (a tip of the hat to John Maynard Keynes).

The call for this week: "When you come to a fork in the road, take it!" We did . . .

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