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Investment Strategy

"Don't Just Do Something, Sit There."

"Don't Just Do Something, Sit There" is the title of a book written by Sylvia Boorstein. I was reminded of the title when I received the following email from a financial advisor at another firm last week:

> "Hey Jeff, not only do my clients want me to 'do something,' now I am starting to get the feeling I should *do something*. My shopping list of stocks to buy for the 'consolidation-pullback' is up 20%+ over the past five weeks, yet I have not bought any of them despite the fact I have plenty of cash on the sidelines. Now, the next pullback should be higher than where I started waiting for a pullback two weeks ago. For my active accounts, I've actually raised a little cash on every step to the upside, but have been holding back on that strategy this week. When my clients start calling ME to talk about what stocks to buy it makes me nervous and I start to get more cautious. Please remind me not to do *something just to do something*, to be patient. Regrettably, I'm starting to feel like an underperforming hedge fund manager."

It is typical to hear such laments at this stage of a "buying stampede" as the *outs* want to be *in* for the presumed next leg of the rally. Unfortunately, today is session 28 in the typical 17- to 25-session duration of a "buying stampede." As stated last Monday:

> "Such skeins only have one- to three-session pauses or pullbacks before they exhaust themselves on the upside. While a few have lasted for 25 – 30 sessions, it is very rare to have one last for more than 30 sessions. That said, this one feels like it will extend toward the State of the Union address slated for February 12th. That address will likely be viewed negatively by the equity markets, which should serve to finally bring about a 5-7% correction. How the stock market reacts following such a pullback will tell us a lot about the market's future direction."

Indeed, I have written that if I could script what the markets were going to do it would be for the D-J Industrial Average (INDU/13992.97) to confirm the D-J Transportation Average's breakout to new all-time highs with a new all-time closing high of its own. That would require the Dow to travel above its October 9, 2007 high of 14164.53, which is only 171.56 points away. If that happens, it would break the stock market out of its 13-year wide-swinging trading range, much like what occurred in August of 1982 following that 17+ year wide-swinging trading range market so often referenced in these missives. Likewise, it would clear up any doubts about a Dow Theory "buy signal." Such an upside confirmation would also reinforce my sense that we are potentially in a new secular bull market.

With the thought of a new secular bull market in mind, I went back and studied my notes from August through November of 1982, which was the "lift-off" phase of a new secular bull market that would last until the spring of 2000. Accordingly, the sideways, wide-swinging stock market of 1965 – 1982 ended on August 9, 1982 with the Dow at 780.34. From there it went into a 20-session "buying stampede" that would leave the senior index 18.5% higher before peaking at 925.13 with a subsequent 3.7% pullback lasting 20 sessions. The second leg of the "lift-off" phase began on September 30, 1982 and took the Dow up another 14.7% where it challenged the then all-time high of 1051.70 made in January of 1973, coincident with the peaking of the nifty-fifty stocks. The Dow did not make it through that level on its first try, but after regrouping for seven sessions, the upside breakout was complete and the rest of the story is history, as can be seen in the chart on page 3.

Fast forward, the INDU bottomed on November 15, 2012 and marched higher into its mid-December short-term peak for a 5.66% gain. The ensuing decline was only 2.7% before the back-to-back 90% Upside Volume Days of December 31 and January 2, 2013 that started this year's "buying stampede." As of last Friday said stampede has lifted the Dow another 8.2%. The combined ride from November 2012's intraday "lows" to the recent intraday "highs" has been 12.4%. Like in 1982, this two-step rise has left the Industrials and the S&P 500 (SPX/1517.93) within striking distance of their respective all-time highs. Whether they get through them on the first try remains to be seen, but many of the other indices have already done so. Yet, none of this really speaks to my emailer's question about "doing something."

To that point, I continue to like the strategy espoused by my friends at the Riverfront organization. To wit:

"First, identify the quantity of cash to be put to work – example: 20%. Second, break the trade into digestible chunks – example: break it into four parts, 5% each. Third, implement the first trade today – example: invest 5% into equities today. Fourth, set a date

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for implementing the second trade – example: two months from today invest the second 5%. Fifth, implement third and fourth segments if the market pulls back – example: invest the remaining 10% of the cash on market pullbacks. And six, after the date of the second trade occurs, return to step one with the remaining cash – example: two months from today, if the market never provides the opportunity to buy on a pullback, break the remaining 10% up into three to four parts and follow a strategy similar to the one utilized for investing the first 10%."

As for what to buy, a few of the equity-centric mutual funds I own, and know and talk to the portfolio managers, are: GaveKal Knowledge Leaders (GAVAX/$12.33); Goldman Sachs Dividend Growth (GSRAX/$16.24); Hennessy Small Capitalization Financial (HSFNX/$21.53); Lord Abbett Growth Leaders (LGLAX/$16.58); MFS International Diversification (MDIDX/$14.64); and Putnam Capital Spectrum (PVSAX/$28.18). As for individual stocks, I would point you to our Analyst Current Favorites list, which can be retrieved by contacting your financial advisor.

The call for this week: Well, here we are with tomorrow night's State of the Union address. Consequently, I am looking for a trading top this week follow by a 5% - 7% pullback and then we'll see how the markets handle themselves. Again, if I could script it, I would like to see the Dow Industrials confirm the Dow Transports with a new all-time high of their own, which would use up all the stock market's remaining internal energy on a short-term basis, resulting in a "sell on the news" pullback. However, they don't operate the various markets for my benefit.

Source: Thomson Reuters.

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