StraightTalk
PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES VOLUME 6 DECEMBER 2017

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Rhyming and Repeating

There is an age old expression that history does not repeat itself, but it does rhyme. We take this to mean that while the events in the past are not likely to exactly duplicate themselves in the future, often times there is an eerie similarity. This is particularly true regarding the financial markets. We use history as a guide because, although the names and dates of specific investments will be different from past to future, there is a pattern to them that remains very similar if one knows how to look for it. The fine lawyers in my compliance area will be thrilled to see me write that "past performance does not determine future success," which is narrowly true when discussing individual investments. However, when discussing *the entire stock market,* past history is not only extremely relevant, it becomes a roadmap for a general set of future expectations. This is because there actually is no "stock market" but rather a market of stocks, whose fortunes are bid on daily by investors. In other words, every day people buy, sell, or hold based on human emotion - which has had an easy-to-follow historic pattern over the long term.

So, as we approach the end of another successful year, reviewing the anatomy of a bull market might be helpful in combating the dire headlines and predictions for what's next in the markets. This is just the third bull market in the last 100 years. That number may seem low to anyone with any tenure in the investment world, because the media definitions of bull and bear markets is different than mine. By their definition, any time the stock market moves up 20% or more - it is a bull market, and likewise, any decline of 20% becomes more than a correction - it is a bear market. There have been dozens of those, but that is not what I mean when referring to a bull market. My definition is a secular bull market, which unfolds over a decade or two, and lifts prices hundreds of percentage points higher. These bulls are driven by many forces, none of which are short-term like terrorist attacks, Presidential elections, or Fed policy, just to name a few. These markets unfold based on birth rates, geopolitical shifts, and emotional swings from fear to greed. The latter is often referred to as "investor sentiment."

In looking at the first secular bull, which was born out of the Great Depression, the pattern was set. In 1929, the Roaring Twenties came to a crashing halt, both figuratively and literally. The stock market crash did not cause the Great Depression, even though the two events are forever linked together in history. As even amateur historians know, the stock market fell precipitously in 1929, becoming the most famous crash of all time, and stocks remained in short-term bear territory until 1932 before beginning to rise again. However, far fewer people know about the stock market decline in 1937, which occurred as a result of the Depression within the Depression. The stock market fell roughly 40% during that decline and was the washout event that caused those remaining in the markets to capitulate and sell. It took from 1937 to1958 before stocks became popular again, as the Nifty Fifty captured the investing public's attention. In other words, after a second bad "bear market" year in less than a decade - investors fully lost their appetite for stocks for almost two decades, during which time the market went up roughly 400%.

The second of the three secular bulls came out of the malaise of the late 1960's. In 1966, the stock market hit a top, and the next 18 months were a short-term bear market. After the stock market declines of 1966-67, the stock market traded completely sideways for years, crossing through Dow 1,000 in both directions again and again. Along came the "washout" event of 1973-74, during our nation's worst energy crisis. Many of you will remember the long lines at corner gas stations, with odd and even license plate rationing, as the oil markets were held hostage by the OPEC cartel. However, most of you

may not remembering investing your hard earned dollars into the stock market during that time, because almost no one did that. Stocks were shunned from 1974 until 1995, when the dot com era attracted the public's eye towards stocks once again. In other words, after the capitulation year of 1974, investors fully lost their appetite for stocks for two decades, during which time the market went up roughly 650%.

In each of these cases, as the public shifted from being fearful of the markets to embracing them, and ultimately being greedy in them - those markets went higher. In the case of the public's shift in 1958, the market continued to rise for another six years before rolling over into a secular bear. Similarly, in 1995, when everyone in the markets was convinced the next dot com was going to change the world forever, the market moved higher for almost another five years, before giving way to a secular bear market.

This brings us to our current secular bull, which came from the dot com bust and the years that followed. All of us can remember the short-term bear years of 2000-02, in which the Nasdaq cratered, the economy dropped into a recession, and the World Trade towers fell. However, the market did rise from 2003 until 2007, when the washout event occurred exactly in line with the historic pattern. The catalyst was the mortgage meltdown and the financial scares that we remember all too well. The point, though, is that 2008 was the seminal event that created lasting fear in the minds of investors, just as 1937 and 1974 had decades before. The public still has yet to embrace equities, as the net dollars going into stock ETFs and mutual funds have been negative ever since. In plain English, this means that across our country since 2008, more people have sold stocks than have bought them. If the historic pattern holds, investors could once again embrace the stock market around 2025, *after it has risen most of its secular bull climb*. This is not a prediction, it is simply what has been the demonstrable pattern of the public pendulum swinging from fear to greed and back again.

Information moves much more rapidly today than in the past, so maybe the public embraces stocks sooner than the historic pattern. Or perhaps the bad actors on the world's stage (of which there are many) create a "black swan" event that spooks the markets in the short term, and delays the public's embrace of stocks for a few years longer than the historic pattern. I don't know the answer – and my crystal ball is currently in the repair shop. However, history would suggest that while the pattern may not repeat exactly, it will rhyme. Historically, secular bull markets have not ended when the investing public is still fearful of owning stocks – the pendulum must swing to greed before the bull is done.

Speaking of rhyming and repeating, these historical patterns of long cycle expansions in the market do not at all fit with a media narrative built around shock value, and today's crisis du jour. In fact, when it comes to the financial press, the adage should really be – the financial media doesn't rhyme, but it does repeat itself. A recent article by Ben Carlson titled just that, points this fact out succinctly. In it, he pulls headline quotes from such varied sources as Business Insider, CNBC, Yahoo! Finance, The New York Times, CNN Money, and more. The headlines - years apart - are shockingly repetitive. Starting in 2010 with *"U.S. stocks surge back towards bubble territory,"* to 2011, "*Why this stock market looks like the tech bubble of 1000 all over again,"* which was similar to 2012's *"Robert Shiller eyes another tech bubble,"* which almost exactly matches the 2013 headline of *"Nobel prize winner warns of stock market bubble."* The fact that all of these were spectacularly wrong, and therefore bad advice, did in no way dampen the media's enthusiasm for this narrative. The headlines continued in 2014 *with "Time to worry about stock market bubbles,"* which was followed in 2015 with *"Fears grow over U.S. stock market bubble."* Doubling down on the bubble theme continued in 2016 with *"Uh-oh. Is the stock market in a bubble again?"* which was simplified earlier this year to *"Is the stock market a bubble?"*

Is it me, or do these financial news headlines rhyme <u>and</u> repeat?

So, the question is…do you listen to the shrill call of the media rolling out the same wrong footed headlines over and over again, or do you use the history of secular bull markets over the last century as your guide? I think you know my answer….

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