Wednesday, September 02, 2015

# INVESTMENT ADVISORY

The decision all of us have to make is now upon us. Our Technical Model (the technical "Long Term Trend" Model) is telling us that the long term trend in the stock market is now negative; that is, stock market prices are going to fall. The question is: "Do we sell out all of our equities? Or do we decide to buy more stocks as the market goes down. Today, the S&P 500 Index is priced at about price = 1950. The stock market, as represented by the S&P 500 Index, is likely to go as low as price = 1729 before it finds a bottom, during this market retracement from the highs. That would mean about a 16% loss for the year 2015 - for the S&P Index.

The long term Technical Stock Market Trend Indicator has turned negative.

## SUMMARY OF RECOMMENDED ACTION

1. The fundamentals surrounding the US economy are positive, indicating a continuous, but relatively slow growth, for the foreseeable future - 3-5 years.
2. For the past 9 months, stock market trading action has been consolidating the strong rally that has been in effect since April, 2009. This consolidation period is likely to continue for several month (3-7 months); during this period of continued consolidation, there will be opportunities to add to equities positions to our portfolios. The stock market as represented by the S&P 500 Index is likely to find a trading range that is targeted to be between S&P = 1729 and S&P = 2213.
3. Now is the time to begin adding to equities positions, using a dollar cost averaging process, and making purchases on a periodic basis over the next 3-6 months.

## YOUR DIRECTION IS REQUESTED AT THIS TIME

<u>Please provide your instructions</u>:

a) To proceed with the recommended purchase of equities (Assuming that your asset allocation calls for adding more equities to your portfolio).

b) To make no changes to your current portfolio strategy.

c) To liquidate all equities in your portfolio (If you are concerned and uncomfortable with the risk of significant losses to your portfolio).

## ANALYSIS LEADING TO THE RECOMMENDATIONS PROPOSED

Let's lay some groundwork for making a decision as to what to do:

a.) *Sell out of all stocks; or,*

*b.) Buy more stocks on the way down.*

The #1 rule in investing is: Preservation of capital

If you knew that the bottom of the market would occur as predicted, than it would be easy to decide what to do. Needless to say, there is no certainty when it comes to predicting stock market moves. When there is uncertainty, than all you can do is manage your risk of loss. How much risk are you willing to take?

The #2 rule in investing is: Manage your level of risk

Risk is a measure of price volatility. The question is, how much will you lose as the market goes down?

As it turns out, based upon the design of your portfolio, you can pretty well estimate what your losses will be when the stock market goes down:

- If your portfolio is 100% stocks, your percent losses will mirror the S&P 500 Index (assuming a well diversified investment strategy).
- If your portfolio is 50% stocks and 50% fixed income, the losses you will incur will be less than half of the total stock market losses.
- If your portfolio is 30% stocks and 70% fixed income, your losses will be less than 1/4th of the S&P 500 Index losses.

In other words, if the S&P Index value falls 15%, a) your portfolio value will fall perhaps 6.75% if your portfolio is allocated 50% equities and 50% fixed income; b) it will fall perhaps 3.38% if your portfolio is allocated 30% equities and 70% fixed income.* You can calculate your own potential losses based upon your portfolio allocation mix.

* Fixed Income includes corporate bonds, mortgage backed bonds, structured bonds, preferred stock, bond funds, and high yield closed end funds, REITS and ETFs.

- The overall High Desert Investment portfolio is approximately 34.5% Equities, 58.4% Fixed Income, 4% waiting to be invested into equities, and 3.1% Money Market Accounts.

The two predictive models we use are conflicted.

- The Long Term Trend Model recommends liquidation of all equities.
- The Fundamental Model (designed around US monetary aggregates) is suggesting that our economy is relatively strong, and growing at a rather slow, but consistent, rate, projecting higher stock market values.

From our most recent Advisory dated August 25, 2015, you will see the following statements about the S&P Index:

- ***1729.86 is the most likely bottom of the current downtrend;***
- ***.....this will be the point from which the next long term market rally begins.***

***"My guess is that we will see this price level within the next 2-3 weeks, and then, the cyclical nature of periodic Federal Reserve meetings will forecast a cycle low, thereby predicting the real beginning of the coming long term, slow growth economy as a stock market driver."***

## IT IS TIME TO MAKE A RECOMMENDATION:

My sense is that, in today's market, the fundamentals will outweigh the technical long term trend. After the S&P Index bottomed at price = 666 in 2009, more than six years ago, we have seen an almost continuous rally in the stock market, ending recently at a price level of S&P = 2134. For the past 9 months, the market has been consolidating around the year-end 2014 ending price = 2058. The downside target is S&P = 1729. What all of this means is that now is a time to buy breaks in the market. This is not a time to liquidate current holdings. As the market continues to consolidate over the coming several months, whenever there is a break and prices fall, plan to add to your equities positions until your target allocation is achieved.

Based upon technical analysis, The long term targeted S&P 500 Index price level is between 2500 and 2900.

Today, we have a considerable amount of money to put to work in equities, but only for about 40 accounts in the High Desert portfolio. It is now time to begin putting that money to work once again. The remainder of our accounts are fully allocated already.