June 1, 2015

Dow 36,000

As usual, I was reading the new issue of *Barron's* magazine while drinking my coffee this past Saturday morning. This is a ritual which I have been performing for the last number of years. Saturday morning is quiet time in the Greiner household. My wife, Pam, sleeps later than I during the weekends. This allows me to get caught up on my reading and research. *Barron's* is one of my regular reads.

The latest *Barron's* issue carried an article authored by Lawrence Strauss. Lawrence is a Senior Editor at Barron's, and a good reporter, (I've talked with him a few times), who handles the mutual fund and asset manager beat. In the latest issue, he interviewed Jeffrey Saut, the chief investment strategist at Raymond James – a brokerage firm based in Florida. Mr. Saut believes the U.S. equity market is in the middle of a major multi-year secular bull run.

He is one of the few strategists who have placed a long-term price goal for the S&P 500. He expects the S&P 500 to rise to 4,300 in nine years. The index is currently trading at 2,100. So, Mr. Saut believes the market will double in value over the next nine years. Using that same rough percentage gain, would launch the Dow Jones Industrial Average to the 36,000 range.

Secular Bull

I have been writing about the secular bull market for some time. I've commented that I believe we are experiencing the fourth major secular bull market since the year 1900 (See my latest commentary on this subject, *Long Equity Cycle*). Other commentators have joined the secular bull market parade – Ed Yardeni of Yardeni Research, Brian Belski of BMO Capital, Liz Ann Sonders of Charles Schwab, Tom Lee of FundStrat, Adam Parker of Morgan Stanley among others…an impressive list, and the list is getting longer.

Due to various reasons, my concern of an increase in price volatility in U.S. stocks is rising. ***But, it is the wise investor who*** **will look through periods of price volatility with the firm belief that stock prices will eventually rise.**

Some historical data is important to understand the capital markets:

1. Out of the last 65 years (1950 through 2014), the S&P 500 index rose in 48 of those years, representing a positive batting average of .740. Babe Ruth, Ty Cobb and George Brett would have killed for that type of batting average.

2. With this in mind, if an investor had been completely void of equity exposure over any particular year during that 65-year period, the investor would have had a 26 percent chance of being right. I don't like those odds.
3. The S&P 500 index declined by 5 percent or more 299 times from 1928 to today. That means, on average, the stock market has declined by 5 percent or more 3.4 times each year. The average decline of these 299 instances was 10.9 percent.
4. Twelve months following these 299 declines, the investor had lost 0.6 percent of their capital from peak valuation – again on average. In other words, if an investor had ridden through the average decline in the market (5 percent or more) the investor was made mostly "whole" within 12 months from the peak valuation.
5. Bottom line, the persistent investor has reaped the rewards of being patient.

Anatomy of Market Declines – Understanding Historical Market Movements

From a historical perspective, what do stock price corrections look like? Let's look back in the history books – back to 1928 onward – and look at market corrections. Data is provided from our friends at Ned Davis Research (NDR).

	Dip 5% or More	Correction 10% or More
Number of Occurrences	299	94
Mean Occurrences per Year	3.4	1.1
Mean Decline	-10.9%	-19.60%
Mean Number of Days – Decline	36	102
Last Occurrence	9/18/2014	4/29/2011
Average 12-Month Return After Peak	-0.60%	-3.60%

Some conclusions of the above data:

- Of the 94 10+ percent corrections which have taken place in the S&P 500 since 1928, the average decline was -19.6 percent, almost a full bear market.
- The average "correction" lasted 102 trading days (or about 5.3 months to the trough of the correction), dragging stock prices downward by an average of 19.6 percent.
- Twelve months from the start of the correction, the S&P 500 had lost 19.6 percent of its value and rebounded by an average of 16.0 percent, leaving the investor down a mere 3.6 percent from peak valuation.
- If the investor had panicked and sold stocks after the 19.6 percent decline, they would have locked in a loss totaling almost 20 percent of their value. If the investor had ridden through the decline, they would have recouped the vast majority of their lost capital *within 6.7 months of the trough valuation level.*

Take Away: Have patience with the stock market. If a decline in values takes place, historical averages suggest that the vast majority of the capital lost will be recouped within a 12-15 month period.

Anatomy of Market Declines – Secular Bull and Secular Bear

Following is data pertaining to various specific market declines which many of us remember. They have all happened within the last 30-year period of time. ***Let's call this an Anatomy of Recent Market Declines.*** Data is provided by Baseline.

Period of Market Decline	Percent Change	Decline Duration	Duration of Recovery
August 1987 – December 1987	-34.5%	.33 Years	1.66 Years
July 1990 – October 1990	-20.4%	.25 Years	.33 Years
February 1994 – April 1994	-9.6%	.17 Years	.83 Years
May 1996 – July 1996	-11.0%	.17 Years	.17 Years
July 1998 – October 1998	-21.7%	.25 Years	.08 Years
May 2011 - October 2011	-21.5%	.41 Years	.33 Years
Average	**-19.80%**	**.26 Years**	**.56 Years**

The declines and subsequent price recoveries all occurred during secular bull markets…markets when stock prices have been rising on a secular or long-term basis.

Next is data from Baseline pertaining to two stock market declines, which took place during the recent secular bear market of 2000 – 2009:

Period of Market Decline	Percent Change	Decline Duration	Duration of Recovery
May 2000 – October 2002	-50.5%	2.58 Years	5.00 Years
October 2007 – March 2009	-57.7%	1.41 Years	4.08 Years
Average	**-54.1%**	**1.99 Years**	**4.54 Years**

As can be seen above, the viciousness and duration of a decline in stock prices is highly dependent on what type of secular environment the markets are facing. The duration of recovery column refers to the time the markets were back to the old highs, prior to the start of the correction noted. Conclusions of the above data are as follows:

- The average market decline during this, and the last, secular bull market has been -19.8 percent vs. – 54.1 percent during the last secular bear market.
- The time-frame of the average decline during secular bull markets has been .26 years (about three months from top to bottom), as compared to 1.99 years (about two years from top to bottom) during the last secular bear market.
- The average duration of recovery was .56 years for declines occurring during secular bull markets, as compared to 4.54 years during secular bear markets.

Take Away: History shows investors need to treat market declines differently, depending on the secular positon of the equity market. During secular bull markets, investors need to look at 10+ percent declines in equity markets as true buying opportunities, as the normal declines have been short in duration. Additionally, stock price recoveries tend to be short lived.

Another Take Away: I believe the U.S. stock market is in a secular bull environment. Due to this, remaining fully invested makes sense. Market contractions which occur during secular bull phases have tended to be short, staccato affairs. They are notoriously hard to time. Don't try to do so – stay the course per your financial plan.

Stock Price Correction Upcoming?

So, with all of this being said, do I think a stock market correction is in the offing? Although I don't know one way or the other, I **DO** believe market volatility will rise over the next few months, and at times, could lead to some frightening episodes. In our annual outlook piece "Smoke From a Distant Fire" we highlighted our view that price volatility in many asset classes was probably going to rise in 2015. We stand by that view. Price volatility has already risen in the bond and currency markets, along with many foreign equity markets.

If U.S. equity price volatility starts to rise, I suggest treating this as a ***true buying opportunity***. If I'm right in my belief that we are experiencing the fourth major secular bull market since 1900, ***market timing is secondary to making sure you are participating in the stock market.***

We will be back next week.

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P. S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.