FirstPoint Financial

WEEKLY MARKET THOUGHTS

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Rarified Territory – Market Correction Ahead?

Is the stock market going to "correct" in the near future? Frankly, I don't know and nobody else does either. But, I do know market history – and history would indicate that small capitalization stock values, in particular, have entered rarified territory. Let's take a look at some historical standards regarding the current upward move in stock prices.

Long Term First

At Mariner Wealth Advisors, we are very positive toward the long-term outlook for stocks, in general, on a global scale. We believe the U.S. stock market was in a secular, long-term bear market from 2000 until 2013. History shows that the S&P 500 Index (excluding dividends) lost

ground to inflation over the years of 2000 to 2012. The S&P 500 Index lost value relative to the Consumer Price Index from March of 2000 until April of 2012. We label that period of negative real, inflation-adjusted returns as a secular bear market in U.S. stocks. Over that long 12-year period, stock investments, from point-to-point, were a capital destroyer – not a capital creator.

In my opinion, we have entered a new, secular bull market for U.S. stocks. There are many fundamental and technical reasons we believe this to be the case – but that is a story for a future writing. Our vision for U.S. stock prices is positive, over the long-term.

Bullish Sentiment Abounds – Stocks in General

Investors like stocks. Period. Institutional investors, individual investors – it doesn't matter. Current surveys show that investors are very bullish on stock prices. This is good, right? Well, it depends on your time horizon. Excessive optimism has been an indicator that stock prices may be vulnerable to a short-term set-back. Why? If investors are bullish in their outlook, *they already own stocks – perhaps most of the money may already be invested in stocks, with little left in reserve, and the market may be vulnerable to a setback, given some type of negative stimulus.* Let's take a look at two investor sentiment polls and what history teaches us about these polls.

Ned Davis Research takes a number of regular polls, attempting to measure investor sentiment – or what investors think of various asset classes. Its "Crowd Sentiment Poll," which measures individual investor sentiment, currently registers a 70% bullish response. Going back over the last number of years, when this poll is 61.5% or more positive, the stock market has struggled and generated an average return of 2.8% (S&P 500) over the preceding 12-month period, as compared to a more normalized return of about 9-10%.

Another poll asks the same question of financial advisors. Currently, 75.4% of financial advisors consider themselves bullish. The last time the reading was this high was prior to the crash of 1987 – a period when the S&P 500 declined by more than 25% in value over a short period of time.

Market Correction? It's About Time!

It has been a long time since the S&P 500 has generated a meaningful price correction. This isn't to say that simply because stock prices have risen, they have to decline. That isn't correct over a long-term horizon. But, it is interesting to note the data as to how long it has been (in trading days) since the market has generated any type of measurable downturn. Consider the data below.

Average Number of Days Between

	5% Price Correction	10% Price Correction	20% Price Correction
Secular Bull Markets	84	331	1105
Secular Bear Markets	31	91	486
All Periods	50	161	635
Current Market	**113**	**699**	**1348**

The database used for historical purposes in the above table measures from 1929 to today. It is provided by our friends at Ned Davis Research.

As illustrated, based on historical data, stock prices may be primed, from a timing standpoint, for a meaningful price correction of some sort. This can be said even if we are in a secular bull market. By past standards, the current bull has not only been strong, but very stable.

When Will the Correction Occur?

Again, frankly, I have no idea when the correction in stock prices will occur – but, it will. The market tends to correct a major move in prices to the upside. The correction could take place over the next few months or it may start to take place later in the year. It is reasonable to ask the question: What type of impact, over the short-term, will the Federal Reserve's ending of Quantitative Easing have on the financial markets? Remember, the Fed is scheduled to end QE3 activities in October. Is that the catalyst that will start the measurable correction in stock prices? More questions than answers, but the questions need to be asked.

Long-Term Focus

I advise that most investors shouldn't be concerned about a 5% - 10% price correction. Most are not nimble enough to truly take advantage of a 5% - 10% correction in stock prices. If, indeed, I am right and the stock market has re-entered a secular bull environment, a 5% - 10% correction will be barely recognized in the future. Over the last three secular bull markets, going back to the year 1905, the S&P 500 has generated an average annual return of 14.8%.

My advice for most investors is to look past a potential short-term downward shift in stock prices, if it does occur. I favor looking at a downward push in prices as a moment of opportunity. If I'm right about my long-term call for the stock market, that short-term moment of volatility should prove to be a long-term opportunity.

We will be back next week.

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