Sector Surfer
Change the Game

Shoot The Curl
Monthly Perspective

Perspective: Bulls & Bears Both Right? Bonds: Alternative Facts.

Mar 05, 2017

Dear Scott,

Are the Bulls and Bears both Right?
I'd like to begin with a few pearls of wisdom by Confucius, Eddy Elfenbein, Paul Samuelson, and John Maynard Keynes respectively.

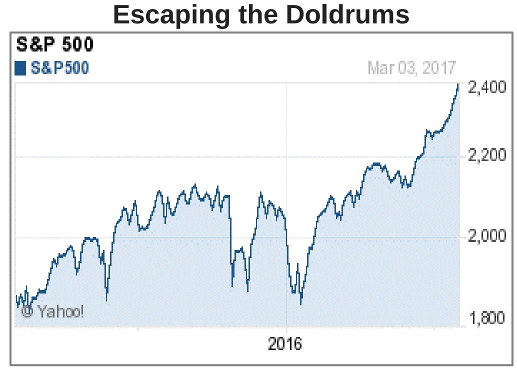
"True wisdom is knowing what you don't know."
"A bubble is a bull market in which you don't have a position."
"Wall Street indexes predicted nine out of the last five recessions."
"Markets can remain irrational longer than you can remain solvent."

The Bull Argument

3-Months

Following the election, the bulls have been out-tugging the bears. Particularly notable is the media's improved response and the market's strong rally reaction to Donald Trump's recent "more presidential" address to a joint session of Congress. The strong positive market response suggests there is an increased belief that the President will be successful in improving matters before the many economic perils before us can take hold and seriously drive down the markets. While it's true that optimism begets optimism and creates a self-fulfilling prophesy, it's also notable that every past major market high was, by definition, preceded by a long series of new highs. Thus, the case for a bull market is this: We have escaped the doldrums with a solid series of new highs, which is the very character of a market you must participate in to do well.

Escaping the Doldrums



3-Years

However, more than a few investors and analysts are still sitting in cash believing the market is in another precarious bubble. Many have been waiting for a 10% to 20% correction before jumping into what Alan Greenspan called "irrational exuberance." In addition to the concerns that it will be a while before the effects of his policies can actually be measured, most of the problems that might contribute to another market crash are still with us. The four charts (right) from the [St. Louis Federal Reserve Bank - Economic Research] speak for themselves, making the bear argument for our apparent dire situation and providing more than ample reason to believe this story will not end well.

The Bear Argument

Click to enlarge.

Will the market have a serious pull back from here? Is it really different this time? True wisdom requires acknowledging that we won't really know for quite some time. However, we do know this: Something is already different this time — the country hired an energetic CEO instead of a politician to be our President. We also know he won't be shy about using the bully pulpit (twitter?) to aggressively push his tax reform plan through congress. If he is successful, analysts have said the corporate tax reduction portion would amount to an instant 15% improvement in corporate earnings, which ties directly to the P/E ratio. Suddenly we could be looking at Dow 23,000 the same as we used to look at Dow 20,000. Perhaps the trend is still our friend.

Bonds: Some Alternative Facts?

Everyone with a little investment knowledge knows that bond prices move inversely to interest rates. The [SEC says so](). [Investopedia says so](). [Wells Fargo says so](). It's conventional wisdom, right?

As Rod Serling, creator of the Twilight Zone, might say: "Submitted for your approval" are the "Bond Alternative Facts" charts (right). Plotted below is the Federal Funds Rate, and plotted above are Vanguard funds VUSTX (U.S. Treasuries with 20 years average maturity), and VBMFX (a total bond market index fund). During the period of 2004 through 2009 the FED first raised rates by 4.5% and then quickly cut them 5%. Notably, during both the increase and decrease periods VBMFX appreciated about 7%. Furthermore, when rates remained near zero from 2009 through 2013, returns still averaged about 7% per year. Even in the 1998 through 2001 time period the conventional wisdom was problematic — there were falling rates while bond prices were flat, and increasing rates when bond prices rose strongly. Bond funds apparently contradict conventional wisdom. ***Perhaps fearing interest rate hikes is based on a bunch of hooey. If so, what's the explanation?***

[Bond fund laddering]() was developed specifically to combat interest rate risk. By buying numerous bonds with a range of maturity dates, it becomes possible to maintain sufficient liquidity while holding each bond to maturity to remove interim interest rate valuation risk. So long as customer redemptions aren't too extraordinary, a bond fund manager could virtually eliminate the inverse correlation between bonds and interest rates. The takeaway here is that ***the time to abandon a bond fund is not when interest rates start to rise, but rather when an alternative fund in your strategy takes leadership from the bond fund.***

Bond Alternative Facts

[Click to enlarge.]()

Advanced Strategy Design Principles
Streamed Live March 7th, 7PM PST

[Click for Event Details.]()

Advanced Strategy Design Principles

(Tues. March 7th, [Streamed Meetup Details]())

While a SectorSurfer Strategy is pretty easy to use, when custom-building your own Strategy there are numerous things under the hood that must be understood if your design is to have any chance of performing well. You can't just grab four random things out of the refrigerator and expect they will make a tasty sandwich.

We will discuss and demonstrate the importance of all the great concepts you have read about on the site, including: matched filter theory, differential signal processing, common mode noise, punctuated events, the character of various asset classes, Forward-Walk Progressive Tuning, decision shift days, lessons from the Strategy Hall of Fame, tips for making an excellent Strategy-of-Strategies, and whatever else may seem important. Please email me in advance with design problems you would like discussed.

Surf Well and Prosper,

Scott Juds
President & Chief SectorSurfer
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[www.SumGrowth.com]()

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Additional Resources

SectorSurfer Live Forum
By the Seattle SectorSurfers Meetup Group

The SectorSurfer Live Forum provides Internet-streamed access to the Seattle SectorSurfers Momentum Investing Meetup Group so everyone can attend the presentations and discussions hosted by Chief SectorSurfer. Click HERE

SectorSurfer Users Group
Join the Conversation

The SectorSurfer Users Group is an online Google Groups Forum created by Joe Gruender of San Jose, CA to provide a platform for exchanging strategies, ideas and learning from the experience of other SectorSurfers. Click HERE

ALPHADROID STRATEGIES
Professional Help - Change the Game

Bryan Sullivan founded AlphaDroid Strategies to provide True Sector Rotation and StormGuard technology to financial advisors in a framework that helps them manage high performance portfolios for their clients. Click HERE