

A Different Perspective

October 28, 2013

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In last Tuesday's *Wall Street Journal* there was a story titled "No Rocket? Venture to Sell Balloon Trip Into Space." The article began, "Space tourism may not be rocket science after all. An Arizona company wants to develop high-altitude balloons to send thrill seekers to the edge of Earth's atmosphere. The trips would cost less than other proposed space jaunts, but passengers wouldn't experience the same intensity of weightlessness." The article reminded me of another encounter that happened years ago. I like this story by Jeff Bowden from Living Legends (as paraphrased):

Years ago I heard a Dick Bass story. Bass, who is no relation to the Besses of Fort Worth, is a Dallas oilman, adventurer, and developer of the Snowbird Ski Resort in Utah. In the story, Bass gets on a transcontinental flight. As he sits down in first-class, his seatmate recognizes him. "I just read your book, *Seven Summits*," the plain-looking man gushes. "I loved it." An unlikely flatlander, Dick Bass was the first person to climb the tallest mountain on each of the seven continents. Bass proceeds to hypnotize his admirer for the next three hours. He talks him up Mount McKinley, up Aconcagua in South America, and up Mount Vinson in Antarctica, where Bass' group was only the third party in history to climb the most remote of the seven summits. Eventually Bass has the man teetering on a knife-edged ridge on Mount Everest at very nearly the same altitude as the airliner. (Bass notes that things take on a whole different perspective looking down from a high mountain peak). At the point at which the captain informs the passengers to raise tray tables and seatbacks, Bass abruptly stops talking. "I just realized," he says, horrified. "I've been talking about myself the entire flight. I haven't asked anything about you." Surely the man had a favorite outdoor story. Perhaps a bear carrying off an ice chest. "I haven't even asked your name," Bass says. "Oh, that's okay," responds his good-natured companion, offering his hand. "I'm Neil Armstrong."

Indeed, one gets a different perspective when things are viewed from high places. The starship Enterprise sought, "To boldly go where no man has gone before," and last week the stock market boldly went where it has seldom gone before. Indeed, in last Thursday's *Morning Tack* I referenced the fact that all 10 of the S&P macro sectors were overbought, and overbought by more than two standard deviations above their respective 50-day moving averages (DMAs). As the invaluable Bespoke organization writes:

It is not too common for even one sector to trade two standard deviations above its 50-DMA (45% of all trading days), but to have the S&P 500 and all ten sectors trading at these levels simultaneously is practically unheard of. This event is so rare in fact, that going back to 1990, there have only been two other days where we have seen similar readings! . . . [The] first occurrence came in the aftermath of the first Gulf War on 2/11/91. The second occurrence came on 12/29/03 in the early stages of the prior bull market. Back then, there was no major catalyst driving the rally besides some stronger than expected economic data and the typical seasonal strength that is common towards the end of the year. Leading up to the 2/11/91 occurrence, the S&P 500 rallied 17% in just four weeks. However, even after that rally, equities did not see any meaningful pullback over the following year. While the momentum slowed, over the next year the S&P 500 never traded more than 2% below the closing level from 2/11/91.

If that is the way it is going to play this time, it implies this "bull move" could extend a lot longer than most think. In past reports I have commented that many pundits have suggested this "bull" is long of tooth at 56 months. And, measuring from the March 2009 nominal price low that would be true. But, just like the D-J Industrial Average (INDU/15570.28) made its nominal price low at 577 in December of 1974, it did not make its valuation low until August of 1982; and most market observers measure the beginning of the 1982 to 2000 secular bull market from that August 1982 valuation low. Fast forward, I believe the 12-year trading range market (similarly to the 1966 – 1982 trading range market) made its valuation low in March of 2009. However, as repeatedly stated I think the valuation low occurred with the "under cut" low of October 4, 2011, which was identified in these missives. Measuring from there shows we are only 24 months into this "bull."

While it's true my timing models, which targeted late summer as a window of vulnerability (even though we didn't get the 10% pullback I was looking for), are now calling for another downside window from mid-November into early December, I would expect any hesitation to be similar to what we got last summer. Given that view, how do we invest with the potential for a stutter-step in November? Well, one place to start is with the 10 S&P macro sectors. Currently, the S&P 500 (SPX/1759.77) is trading at 16.4x this year's bottom-up operating earnings estimate. Looking at the P/E ratios of the 10 macro sectors shows that only the Financials (13.4x), Energy (13.8x), and Utilities (16.1x) are trading at a discount to the SPX. On the Energy theme, only three stocks in Raymond James' research universe have a Strong Buy rating from our fundamental analysts, and screen bullishly using my proprietary models: Enterprise Products Partners (EPD/\$64.48); Memorial Production Partners (MEMP/\$21.11); and Valero Energy (VLO/\$39.44). Raymond James covers many Strong Buy-rated names in the Financials complex, and these seven also screen well by my system: Everbank Financial (EVER/\$15.29); Huntington Bancshares (HBAN/\$8.93); Lakeland Financial (LKFN/\$35.19); New York Community Bancorp (NYCB/\$16.08); Private Bancorp (PVTB/\$24.95); Webster Financial (WBS/\$28.59); and Wintrust Financial (WTFC/\$44.14). I would put these names on your watch list for potential purchase. Since we have no fundamental analyst covering Utilities, I suggest contacting our Exchange Traded Fund research department for the appropriate ETF.

The call for this week: Last week just about all of the indices I monitor made new all-time highs except for INDU and the COMP. Likewise, seven of the S&P's 10 macro sectors made new all-time highs with the exceptions being Consumer Staples, Telecommunications, and Utilities. Moreover, despite predictions of imminent disaster for stocks there is little evidence suggesting a sudden collapse is at hand. Indeed, the Buying Power Index is above its September highs, while the Selling Pressure Index recorded a new low last week, and all of the Advance/Decline Lines I look at rose to new highs. Accordingly, the short-term "buy signal" that occurred on October 10th remains in force. Surprisingly, given last week's strength, the McClellan Oscillator became less overbought. And don't look now, but 63.5% of companies reporting earnings have beaten the estimates and 54.4% have beaten revenue estimates. This morning there are more stories about no tapering by the Fed this year, a stance I have taken since last August. That sense is what buoyed stocks late last week and it is having the same effect this morning.

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