The Rennie Quarterly Return

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Bull & Bear Markets—Where are we now?

Listening to investment pundits and forecasters on TV, one of our least favorite things to do, leads to a perennial state of confusion—as it always has. Just a few months ago, more than a few of these experts seemed to feel that the US stock market was due for a pullback. After last year's 32% gain (S&P 500 Index total return), and a small 2.2% gain in 1Q14, the thinking was that the market was plateauing and would retreat in the months to come. Also, the current bull market had lasted quite long, by historical standards. Indeed, a pullback would be healthy for the market over the long term. The fact that market valuations, as measured by price-to-earnings ratios (P/Es), were in the "fair-to-middling" ranges was given little credence.

Lately, many of the forecasters of doom, while not abandoning their previous positions, are certainly giving them serious reconsideration. They now seem more focused on current economic and market fundamentals rather than historical patterns. We're surprised that this has taken so long.

S&P 500 earnings growth for 2Q14 have recently been announced at around 10%, a very healthy figure. While a bit higher than most forecasts, this is still very good news. Future forecasts are moderately lower, but still healthy enough to support further stock price increases.

The P/E ratio over the past twelve months is about 19.0. The forecast for the next twelve months is about 15.7. Since 1880, the median P/E has been 15.5; since 1929, it has been 16.8. Obviously, current P/Es are neither quite low nor excessive.

At last, consumer spending, which accounts for two-thirds of the US economy, has picked up smartly. A notable rise in credit card (revolving) debt and purchases of big-ticket items such as automobiles further support feelings of guarded optimism. Overall, the economy and future investment returns seem to be in a state of "tensioned equilibrium" with, in our opinion, a slightly higher probability of upside rather than downside.

Bull & Bear Markets

The threat of a bear market sends chills up the spine of any red-blooded investor. Yet an examination of historical market data shows that there have been many bull and bear markets yet the overall upward trend has been unstoppable. So where are we now? Consider the following:

Duration-Bull Mkts	Months
3/09-present	66.0
Historical Avg.	31.3
Longest 12/87-3/00	150.0
Shortest 6/40-11/40	0.8

Duration-Bear Mkts	Months
Historical Avg.	10.0
Longest 1/73-10/74	21.0
Shortest 9/29-11/29	1.9

Returns-Bull Mkts	% ROR
3/09-present	190.0
Historical Avg.	106.0
Highest 12/87-3/00	582.1
Lowest 6/40-11/40	20.9

Returns-Bear Mkts	% ROR
Historical Avg.	-35.4
Lowest 11/31-6/32	-61.8
Highest 6/48-6/49	-20.9

Observations

The duration of the current market (by definition a bull market) is more than twice as long as the average but still a newborn compared to 12/87-3/00. Likewise, its return is almost twice the average, but miniscule compared to 12/87 to 3/00.

The bear market data adds perspective. It is somewhat comforting that bull markets last about three times as long as bear markets, also that the magnitude of bull market average returns are about three times greater than bear market average returns. These data support the fact that stocks have provided a cumulative return of almost 5,000% or about 10% per year since reliable data began in 1926.

Note: All data above are derived from the returns of the S&P 500 Index since 1929. Over that period, there were 25 bull and bear markets. A bull market is a gain of 20% or more without a 20% correction. A bear market is a loss of 20% without a 20% rally.

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Our Two 1¢

No man's life, liberty or property are safe while the Legislature is in session.

Mark Twain

Quarterly Trivia:

Which country's stock market has provided the highest returns so far this year?

India