

Is Anyone Chasing This Market?

December 4, 2019

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Last Week's S&P 500 Index:
+1.0%

Key takeaways

- » *Investors, overall, have not been jumping into the stock market, worried they would miss out on more upside. They have continued to largely remain cautious during this multi-year rally.*
- » *Past stock market cycles have shown that the end of big equity rallies have almost always been accompanied by investors chasing returns.*

We are far, far into the current bull market that began after the S&P 500 Index hit its low in the wake of the 2008 financial crisis. For those of you who need a reminder, the index traded to a stomach-churning intraday low just a touch under 667 on March 6, 2009. But then stocks started to turn around. The market has come a long way since those bleak days. The S&P 500 Index is currently trading near the recent record high and just above 3,125 as of the time of this writing. Those who have participated may want to take the time to smile and celebrate.

But many investors have missed much of the ride. Fearful that equities were on the verge of taking another nasty tumble, many fled stocks near the bear market lows of early 2009 and never fully returned, even all these years later. Unfortunately, past downturns have shown that a noticeable number of investors bail out of the market at just the wrong time. Fear and greed are two of the most powerful drivers of stock prices when the market is at extremes. When the downside is extreme and retirement dollars are perceived to be melting away and at further risk, many investors just can't take the pain. But no one with market experience ever said investing was easy. It isn't. And in the end, we all have to sleep at night.

The impressive stock market rally of the past 10 years has differed from those of past cycles in many respects, but one thing sticks out in our minds. Normally, this far into a recovery, especially given the magnitude of the price rise in this cycle, investors would be piling into the market, chasing stocks higher, worried they were going to miss out on the next move to the upside. They would be waiting to pounce on any pullback. The greed part of human emotion would have typically come into play long ago. That has not happened up to this point as many investors remain cautious. Yes, some investors have been trickling money into the stock market from the sidelines. However, in our opinion, many remain underinvested in stocks and are sitting on abnormally large amounts of cash. And as most of us know, holding too much cash at low current yields isn't helping us move the retirement savings ball down the field.

When we look back at history and try to analyze investor behavior near the end of big multiyear rallies in the stock market, the chasing characteristic has nearly always been present. This is an important consideration in our view of the equity market and feeds into our positive outlook that the cycle is not coming to an end and stocks may offer modest upside as we look out through the end of next year. The question is, are we more confident about this cycle projection because many investors remain cautious and are not jumping in to buy so they do not miss out on higher prices? Simply put, yes we are.

So is anyone chasing this market? Not many are at this point, at least from what we can see. But before the start of the next bear market in stocks, we would bet that characteristic will be front and center among investors.

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