Sector Surfer Change the Game

Shoot The Curl Monthly Perspective

Perspective: 4th of July Weekend BBQ Ponderings

Jul 05, 2014

Dear Scott,

4th of July BBQ Ponderings

May this note find you pleasantly pondering this magnificent country and its wonderful capitalistic markets in which we play — all while barbequing something tasty to go with your thirst quenching drink.

As for me - I'm in Cecil, Wisconsin for a week, at brother Mark's lake cottage on Shawano Lake, with my SectorSurfing mom, wife Erin, and others. A grand feast of BBQ chicken and Johnsonville brats is on the way, and ice cubes are being aggressively marinated as an improvement over the controversial atmospheric release of CO_2 in the act of consuming beer ... just doing our part to save the world.

So, ponder what? It seems that the media's in-vogue market topic has become all about whether we are already in another bubble or not. Even a casual look at the S&P 500 charts to the right might suggest we have been enjoying a fairly nice market rebound (and extension) for quite some time — and perhaps too long?

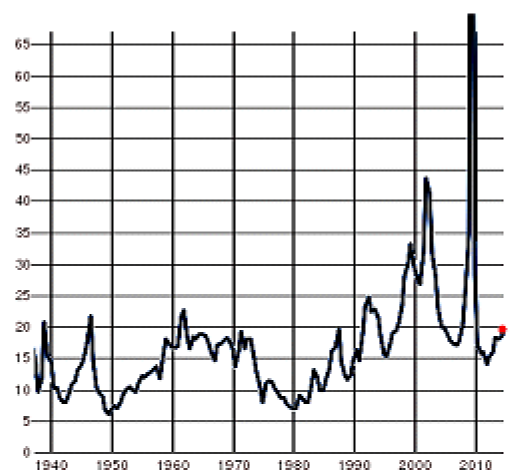
6-Months

6-Years

A chartist looks at the crash of 2001 and the crash of 2008 and predicts the pattern will repeat this year or next. The only problem is that there was no similar crash in 1994, nor a predictable 7 year cycle demonstrated by the markets previously. Furthermore, we know the reasons why the market crashed each time previously, and none of the reasons were resolved to have been caused by charts. Events drive charts - charts don't drive events.

Bubbles, on the other hand, are signs of excess that eventually revert back to a prior mean value. The problem is that we are always somewhat blind to identifying a bubble when it is upon us. We tell ourselves that this time it is different. For example: This time it's clicks, not bricks, that matter.

One of the better measures of a bubble is having the S&P 500 P/E (price/earnings) Ratio wildly higher than its long term average value of 15. As can be seen in the third chart, during the 2001 dot-com bubble, the P/E Ratio of the S&P 500 peaked at 43, and during the real estate bubble in 2009 it peaked even higher at around 68. However, today it is sitting at a measly 19.



S&P500 P/E/ Ratio

I think the BBQ is calling me for priority pondering of proper time and temperature to apply to the chicken and brats ... particularly now that I can breathe deeply knowing no bubble is about to pop all over my retirement account.

Scott Juds
President & Chief SectorSurfer
SumGrowth Strategies, LLC
www.SumGrowth.com

SectorSurfer
Change the Game