ZANETTI FINANCIAL, LLC

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The Stock Market Hasn't Done This In 23 Years

“The height of the pinnacle is determined by the breadth of the base.”
~ Ralph Waldo Emmerson

“It all depends on how you look at it. The point of view is everything in this world.”
~ Myrtle Reed

Happy Monday Everyone!

From an objective perspective, the pace of change in the stock market these last few years have definitely been something to marvel at. And this year has been no different.

Back in 2019, with the S&P hitting all-time highs, COVID 19 hit and the world shut down. With that, the S&P 500 fell 20%.

Then, Congress had the brilliant idea of dumping $6 Trillion into the economy. Eventually that would create the current inflationary environment that the Fed can't seem to bring back down, but it led to new market highs for the S&P 500.

That peak was achieved at the end of 2021, and was followed by the worst stock market fall since the Global Financial Crisis (GFC) in 2008.

Since that valley in 2022, we've just seen a new bump up in the last few months. The S&P is now up over 10% for the year and you might have read headlines about it this past week...

S&P 500 Starts a New Bull Market

Tesla, Amazon, Nvidia lead market higher, as they have done for past several weeks

BY AKANE OTANI AND ANNA HIRTENSTEIN

including **Amazon.com**, **Tesla** and **Nvidia**, led the market's advance Thursday.

This helped the S&P rise 26.41 points, or 0.6%, to 4293.93, allowing the index to finish up 20% from its October low.

The Nasdaq Composite climbed 133.63 points, or 1%, to 13238.52, and the Dow

It would seem the Bulls are running wild, but as usual looks can be deceiving.

I perceive that this rally we've seen is a bear market rally – meaning it's a bump up on the way down. And here's why.

It's the breadth, dear readers, the breadth.

During a true bull market (a stock market that is climbing higher), we typically see a wide assortment of stocks take part in the upswing. And not from just one sector – but across all sectors and industries. Makes sense, right? In such a case, the overall economy would be doing well.

That's not what we see when we dig into today's data.

What we see is that of the 500 businesses in the S&P 500 index, only 20% are above average. 80% are below average. Equilibrium would be 50/50. But no, we have 20/80 – that's not good.

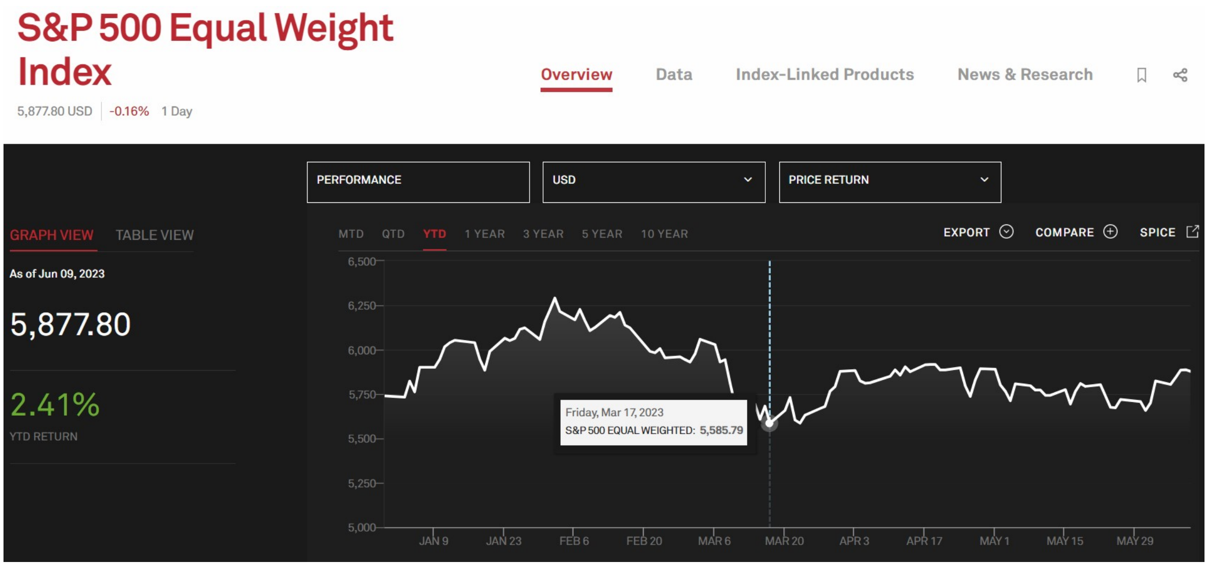
That's like a class where 20% of the students are making A's and 80% are making C's. Most of us would say that should not be the goal of most classroom teachers.

Moreover, those 20% of overperformers are the biggest businesses – and since the S&P 500 is weighted by market cap, bigger businesses have more influence on the performance of the index. Except for Berkshire Hathaway, the top 9 companies which are leading the S&P right now are all high growth/risk tech companies:

- Apple
- Microsoft
- Amazon
- Nvidia
- Alphabet (Google) – class A
- Alphabet (Google) – class C
- Berkshire Hathaway
- Meta (Facebook)
- Tesla

This overperformance by the minority – pulling the entire index is what I mean by a lack of “breadth.” There’s little breadth in the strength of the market. The strength is concentrated in the few – not the many – and really just in one industry.

If we were to weight every one of the S&P 500 companies equally, it would look much less impressive: 2.41%.



Not really a bull market, right? And, furthermore, that average is still taking into account the hot tech leaders.

If you removed the top 9 companies from the 500 companies in the S&P 500, even the weighted average would be a loss for the year so far.

The last time this breadth ratio was this poor in an upward rising market was in 2000, right before the dot-com bubble popped. And, when that bubble popped… that one was a doozy!

Do I think this bubble is going to pop? No, I think the 2021 bubble is still popping, but taking a breather.

The stock market has fallen from its dizzying height from 2021, and has had a recent upswing - but it still has not regained what it lost since 2021. So, I believe this is a classic bear market rally, which will correct and continue the earlier descent.

Your Saturday-And-Sunday-Are-The-Strongest-The-Rest-Are-Week-Days Financial Advisor,

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