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Subject: KKOB Friday Transcript

Hello Everyone,

Flashdance's song **Maniac** and the S & P 500 are not words usually used in the same sentence. The "*steel town girl on a Saturday night*" ~~was not likely thinking of earnings season when the water fell on her.~~

Had she known, however, that 35-years later the MANIAC stocks of Microsoft, Apple, Netflix, Intel, Amazon, & Cisco were keeping the market from showing negative returns for the year (as it is, the markets are flat YTD), perhaps she would have spent less time dancing and more time planning for her retirement. Just saying.

I hope you find this week's missive helpful in seeing that things are not always as they appear on Wall Street.

Signed, Your Dancing-Like-He's-Never-Danced-Before Financial Advisor,

Greg

KKOB 05.25.2018 MANIAC Is Moving The Stock Market

Bob: So, Greg, the markets have been range-bound since the beginning of the year. Lots of ups and downs, but not a whole lot of movement in either direction.

Greg: You're right, but when we say the word "markets" people tend to think **that all stocks** are generally moving in the same direction. But, this isn't the case. As of last week, consumer staple stocks were down almost 13% for the year. This is kind of odd considering consumer staples (think toothpaste, laundry detergent, toilet paper) are considered steady-eddy stocks. The real estate and telecommunications sectors were each down 4%. Another conservative sector, utilities, were down almost 4% as well.

So, what sector is advancing this year? The answer is, IT, Information Tech. And, when you dig a little deeper, you'll find that only six stocks have accounted for over 80% of all the S & P 500's rather small 1% gain

have accounted for over 80% of all the S & P 500's rather small 1% gain this year. And those six stocks are Amazon, Apple, Microsoft, Netflix, Intel, and Cisco. If you rearrange the first letters, you can spell maniac. Microsoft, Amazon, Netflix, Intel, Apple, Cisco. MANIAC.

Bob: So, if you didn't own those six stocks, the chances are you are down for the year, even though the market looks like it is treading water.

Greg: Right. And, the irony is, if you invested in the safe havens of toothpaste, toilet paper, telephones, and electricity, you are off to a rough start. But, there is a bigger story here. We've been seeing this phenomenon for over a year now. We've had a very narrow band of stocks supporting the whole market. We've talked about this before on your show--- and the term we use is "breadth". What you want in a healthy bull market is dozens, if not hundreds, of stocks all moving up together. Breadth. When you have only six MANIAC stocks accounting for 80% of the market's strength, that's not exactly encouraging.

In fact, a few months ago you made a joke and said the market had bad breadth.

Bob: I remember that. And, it was kind of funny. Still, I see what you are saying, and what you talked about several months ago is playing out now. Six can't pull the load--- which is why the market seems range bound.

So, what does this do to the adage of diversify, diversify, diversify?

Greg: That is a great question and one that a lot of people in the industry are asking now. For example, earlier this month, Harvard University's Endowment Fund reported 72% of its stock holdings are in just three stocks. Three! Apple, Google, and Microsoft. Now, Harvard has a lot of money in funds outside its Endowment Fund, but it's pretty clear these guys have abandoned the notion of diversifying.

The Swiss National Bank did the same thing last year, piling billions into Facebook, Apple, Amazon, Netflix, and Google. They managed to goose the market, but they did it by concentrating in just a few stocks. The Swiss National Bank benefitted, but the diversifiers did not.

Bob: But, you're not telling our audience to invest like these mega-players, are you? I mean, what if only one of the "chosen few" stocks gets clobbered...like, let's say Netflix...then what?

Greg: You're right; I'm not telling your listeners to do that. What I am saying that the old rules of diversifying by using the standard mix of the bond fund, the high-yield fund, the small, mid, and large cap fund, along with an international fund or two isn't working anymore. Pension funds are learning this the hard way. And, narrow breadth is the reason many investors are scratching their heads wondering why their returns aren't matching the rah-rah narrative Wall Street pushes.

Bob: Yeah, you'd have to be a MANIAC to believe all that.

Greg: And, on that note, have a great weekend everyone. We'll talk again on Monday...oh, wait, no we won't. Monday is Memorial Day. I'll talk to you in a week.

Bob: Have a great long weekend. How do people reach you?

Greg: My number is 508-5550, 508 triple 5 zero.

Bob: For those of you who want transcripts of what Greg and I talk about each week, just email him at gregradiotranscripts@gmail.com.

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