

Hello Everyone,

It's been a while since the last missive...but, the holidays are now behind us, so it's time to start our 2019 assessment.

We'll begin with a "where are we?" look at the stock market--- and then take a quick look at "flow". If money is leaving stocks (and it is), where is it then going? So far, it is going to things we like here at Zanetti Financial.

I hope you find today's missive both edifying and encouraging.

Signed, Your Ready-For-A-Full-Week-Of-Work----Really!---Financial Advisor,

Greg

KKOB 01.07.2019 Buffett Indicator

Bob: So much has happened since we last talked. What had been a good year in 2018 evaporated in just a matter of weeks.

Anyway, I don't think it surprised you. You had been urging caution for most of 2018. And, that must have been hard---- because until December you seemed wrong. Then, you were really right.

Greg: Yes, I read (and listen) to people who are smarter than I am. So, looking ahead--- what are the smart guys saying? Let's start with Warren Buffet...not because I like his politics, or he gets everything right. It's not that. He does, however, understand money---and he runs in circles I don't.

Anyway....

Mr. Buffett has a very simple calculation to determine if, in general, the stock market is too high or too low. Here's how it works. He adds up the values of all the stocks on Wall Street---

from biggest to smallest. He just calculates the entire market's value. Simple.

Then, he looks at the value of the US economy...the GDP. That's even easier. Then, he divides the stock market by the economy and gets a ratio. You can do this for international markets, too.

Bob: OK. So, wait. Let me think this through real-quick. The stock market should reflect the economy. I get that. But not every company in America trades stock. So, the stock market's value should be less than the GDP, since the stock market is a subset of the economy. Is that right?

Greg: You're thinking clearly. So, knowing what you just said, guess what was valued higher for all of 2018, the stock market or the US economy?

Bob: Well, I don't know. But, based on what happened in December, I'd say the stock market must have eclipsed the economy somehow.

Greg: It did. In fact, for much of 2018, the stock market was valued at 150% of the economy. That was a level we hadn't seen since 1999---you know, just before the dot com bust.

So, the next question is this. How much more must the market fall, to get back to what Buffett would call normal?

Bob: I don't know. Obviously, we are closer to normal today than a month ago because of the correction, but we're still not down that much.

Greg: You're right... we would need to drop another 30-40%. Or, conversely, the GDP could grow super-fast.

Bob: Wait, again. The stock market would have to fall another 30-40%?! If that's the case, then you're saying the worst isn't behind us ...which means investors should not be buying the dips. This bear market could just be beginning.

Greg: I'm not saying it. Buffett is. Well, wait, yes, I am saying it, but I'm echoing his thoughts---and the thoughts of a host of other smart old guys who were saying this stuff last year-- but not many wanted to listen. So, Bob, that leads to the question, "What is an investor now to do?"

Bob: Go drinking at the local bar?

Greg: No. Although I understand the sentiment. No, if one bull market is ending, then another one is beginning. Remember, wealth isn't necessarily destroyed, wealth moves. So, where was the money going as stocks were heading south? Bonds? No. They fell. Real estate? International funds? Currencies? The dollar? No, no, no, no. Even cash lost money compared to inflation.

Bob: But something had to make some money...like you said, wealth moves. So, let me guess --although I already know because I checked---gold is going up. Right?

Greg: You did your homework...and you can throw silver in there, too. Now, one quarter does not a trend make, but as stocks slid, gold went up \$80 ounce (or 6%) and silver rose over a buck—or,

about 9%. All of which tells me fear became the predominant emotion in the last quarter.

Bob: And, that's very human isn't it? We go from greed to fear--- back to greed. So, since wealth moves, your goal should be to get ahead of the trend. How do people reach you?

Greg: Well said----my number is 508-5550, 508-triple-5-zero, or go to my website at zanettifinancial.com

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