

Hello Everyone.

So, the impeachment is now in the hands of the Senate...with each punch and counter-punch carefully scripted. As Russell Crowe said in the movie *Gladiator*, "Are you not entertained!?"

My concern is--regardless of outcome—will the other side accept the result? What about the upcoming elections? Will either side accept the voters' choice---- or is all now suspect? Are political solutions no longer possible? I have my doubts...

And, on that happy note, :>) ----- we will delve into the bear case for the broader markets in 2020.

Remember though, wealth isn't usually destroyed. It moves. I believe you are positioned to benefit as the cycle changes.

Signed, Your Wondering-If-Politics-Will-Ever-Affect-The-Markets Financial Advisor,

Greg

## **KKOB 01.17.2020 Which Way Will It Go? Part 3**

**Bob:** So, Greg, last Friday we gave the positive bull market case for 2020. So, in the interest of fairness, today were going to address the bear market case. Right?

**Greg:** Right. Bulls and bears. Let's give equal time. First, let's dispense with the usual doom-and-gloom stuff that could happen in any given year. Yes, we could have:

- War
- Recession
- Currency crisis
- Debt implosion
- Socialist takeover
- Banking crises

And, Bob, I don't want to minimize those possibilities. They are very real. But they've been real for many years. So predicting them doesn't mean much.

So, Bob, let's go another direction and look at some numbers.

**Bob:** I'm not surprised you said that. You're the only guy I know who thinks mathematics is more important than the Republicans or the Democrats.

**Greg:** Well, math is certainly less emotional...and, yes, Mr. Math is present at every meeting...even if the participants refuse to acknowledge him.

Anyway, there is something called the CAPE Index---and, Bob, over the decades (!) the CAPE has proven to be the best indicator of whether a market is overvalued or undervalued.

Anyway, currently the CAPE sits near 32. And, Bob, since this is the bear case today, your listeners can probably guess....a 32 CAPE was last seen in 1929 and 1999.

**Bob:** And, everyone knows what happened in 1929. And 1999 was just before the dot com crash, right?

**Greg:** Right. With that said, CAPE followers never claim that CAPE predicts crashes. All CAPE says is---if you are investing in stocks right now, you are buying at historically high prices.

And even though there are many differences between days past and today, it gives pause.

Anyway, moving on...

Last year was something of a bizarre year. While the market went up 28%, overall company *profits actually fell about 10%*. That meant something called valuations exploded upward.

Let me explain what that means.

Bob, as you know, price to earnings ratios are a quick way to evaluate stocks. It's kind of like a golf score. Lower is usually better--- with a PE of 12-14 historically considered a fair trade

between buyers and sellers. Above 14, meant you might be paying too much. Below 12 meant you might be getting a deal.

Well, that ratio for the overall market went to 23 by year end 2019. Thus, the bears are saying, *“Whoa! This is way above historical norms. We are due for a pullback.”*

And, then, Bob, the bears shake their fists at the bulls and say, *“You can’t defy gravity forever!”*

**Bob:** But, you probably can’t. And, look, I’m not an expert, but what goes up must eventually come down-----and we haven’t much “down” for about 11 years.

Plus, didn’t a lot of last year’s gain come from companies just buying back their own shares?

**Greg:** Way. To. Go. Bob. And, yes, the biggest buyers of stock in 2019 were companies themselves. Oh, and many bought those shares with borrowed money. So, while stocks rose, the bears would say the debts rose more.

**Bob:** But, eventually you have to pay those debts back. So, since profits were down last year—which was a good year-- what happens when a recession hits? Won’t it be harder to pay back debt?

**Greg:** Now, you’re talking like a bear. And yes.

Oh, and recessions used to come every 4-6 years. We haven’t had one since 2009.

Also, one more thing. In the past decade, the US economy has grown about 50%. Not bad. Meanwhile, stocks are up 400%. Many say, *“Hey, there’s a disconnect here.”* And if you dig deeper, you’ll find only a handful of stocks are pulling the overall

market indexes ahead. Usually you want lots of stock hauling the wagon.

Anyway, if you put it all together, there is a strong case for a market pullback. But, it's all about the timing. Bob, almost everything I said in this report could have been said in January of 2019---only with slightly different numbers. And, what happened? The market soared.

**Bob:** Timing is everything. And, yes, you were fair and balanced. How do people reach you?

**Greg:** My number is 505-250-3754. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com)

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