Dear Client,

In 1964, Supreme Court Justice Potter Stewart, referring to a case Jacobellis vs. Ohio, famously described his threshold test for obscenity with the words “I know it when I see it”. The court was wrestling with what constituted illegal pornography vs. legally protected free speech. The same colloquialism may apply to the level of the stock market, the ultimate peak of which can only be measured in 20/20 hindsight. It’s squishy and subjective, but the market is starting to feel a little bubbly to us.

What is perfectly plain to anyone who cares is that we are in a raging bull market. The S&P 500 hit its 43rd new high for the year this week, including six in a row ending 10/6/17, a 20 year record. And unlike previous bull markets, this one is broad based and healthy. It is not just a handful of tech stocks participating. The Russell 2000, made up of mid-cap and small-cap stocks, has also been on a tear.

This type of action always gets people asking me if they should be worried about a “correction” (a decline of 5-10%), or a full-fledged bear market (a drop of 20% or more). The honest answer is that I, nor anyone on the planet knows this or can predict it with any degree of certainty. What I do know is that the warning signs are appearing.

We mentioned in the past that marijuana stocks were showing signs of extreme speculation. One such stock, which will remain nameless, was trading at $0.06 per share around the time of my last letter. The stock promptly went to $0.23 per share in July, timing that jump exactly with the legalization of pot in Nevada. It is now back to $0.06. Too bad for the heavy-breathing penny stock players. These type of move show excess optimism, the bane of all bull markets.

Another favorite contrary indicator is flashing yellow. It’s kind of a muted yellow, but still concerning. The cover of The Economist magazine recently featured a bull with the title “”The bull market in everything—are asset prices too high?” Bullish stories on magazine covers have an amazing track record of predicting market peaks. This one (in our opinion) is less concerning, because The Economist is not to be found in the super market checkout rack. If Money magazine ran such a story, we would be running for the hills. The general public is always the last to arrive at the party.

So the next time the stock market takes a little breather, what clues should we be looking for to determine if the next downturn is at little blip on the chart, or the beginning of something bad? Bull markets tend not to end quietly. They generally end with a dramatic surge in buying, a broad-based crescendo where the last skeptical investor finally throws in the towel, and says “I can’t take it anymore, get me in!” A big such move in the major indexes would be a sign of a major peak.

Another such sign would be broad interest in trading stocks among the masses. If we heard stories of people quitting their jobs to trade stocks online, we would be very concerned. So far, the general public is very disinterested in the stock market, an encouraging sign.

In summary, it may be a good time to look at your total stock exposure and make some adjustments. We constantly monitor the exposure of our clients' accounts, but each individual is different and may have different levels of risk tolerance. Please feel free to contact us if you would like to discuss.

Regards,

Samuel Gross
Sr. Vice President, Investments

Joseph Brady
Sr. Vice President, Investments

Tonya Rasmussen
Financial Advisor