The Dot Com Bubble: 1995-2000

The Housing Bubble: 2003-2008

The Bitcoin Bubble: 2009-?

What is the definition of a bubble? Investment bubbles are extremely hard to quantify. It's very hard to identify the beginning of a bubble, and impossible to identify the end, except in hindsight. But all bubbles share some common attributes:

1. A dramatic rise in the price of some asset, tangible or intangible
2. A viral, exponential growth in the number of buyers, driven by greed and a burning Fear Of Missing Out
3. An ever-increasing rise in the number of new participants who have absolutely no clue what they are buying
4. A detachment from fundamental economic reality

Speculative bubbles are as old as markets. They occur with regular frequency, usually many years after the previous bubbles, after peoples' memories have had ample time to fade. Here is my very unscientific definition of a bubble:

Investment Bubble: An investment idea about which my hair dresser asks me if she should get in to.

Like the shoe-shine boys giving stock tips in 1929, a sure fire way to identify the age of a bubble is to examine who is participating. Not to sound too cynical, but by the time it has permeated the consciousness of John Q. Public, it's over, or nearly so. Another red flag is when the fraudsters and con artists get in the action. Like wolves circling a stray sheep, they are quick to identify and easy buck. In the late 1990's, hundreds of very small, infrequently traded public companies changed their names from "Acme Widgets" to "acme.widgets.com. For a while this all but guaranteed a sharp rise in the price of their stocks. "Investors" (I use the term loosely) piled into these stocks, desperate to get in the action early so they could flip their shares to some unsuspecting "greater fool". Human nature does not change. Greed is a powerful motivator and larceny a tempting proposition. Look at the following table of stocks:

Company "Name"	Ticker	Price 11/15/17*	December Peak Price	Price 12/29/2017
Longfin Corp	LFIN	$ 5.17	$ 142.82	$ 56.30
Riot Blockchain	RIOT	$ 7.93	$ 46.20	$ 28.40
The Crypto Co.	CRCW	$ 20.00	$ 642.00	Delisted
Net Element	NETE	$ 3.98	$ 33.51	$ 11.13
Future Fin Tech	FTFT	$ 1.60	$ 8.20	$ 4.54
*or recent IPO price				

What happened to these stocks to magically levitate their share to multiples of their recent prices? Did they discover a cure for cancer? Did they invent a time machine? No, they merely announced that they were changing their focus from making fruit juice, or whatever, into the exciting new field of The Block chain. All of these stocks crashed days or minutes after people bought them in a speculative frenzy

So what is this Block chain?

Unless you are living under a rock, you have probably heard of Bitcoin. It's all anyone is talking about! "Did you hear about that geeky kid from New Jersey who put all his Bar Mitzvah money into Bitcoin? He's worth $20 million!"

Most people who are throwing money into Bitcoin have absolutely no idea what a block chain is. Block chain is the technology which is behind Bitcoin and dozens of other "cryptocurrencies". It is real, it works beautifully, and it will undoubtedly play a huge role in banking, insurance, contract law and real estate one day. As a concept, it's mind-numbingly complicated to get your brain around. If you would like a detailed explanation of Bitcoin and the block chain, please let us know. But for now, we prefer to put our clients' money into more traditional stores of value like stocks, bonds and the US dollar.

Any conversation in the financial press about Bitcoin inevitably turns into a parallel with the stock market. What is driving the relentless climb of the stock market to new all-time highs? Some of it is related to corporate earnings. In the spring of 2009, when this nine year bull market began, analysts were slashing their estimates for S&P 500's earnings as a whole. The banks were losing billions, and I remember seeing estimates of $66 per "unit" of S&P 500. The S&P 500 hit a low of 666 in March of 2009, about ten times the depressed earnings. The earnings estimates for 2018 are about $155 per S&P 500 unit, so the S&P 500 sells at 17.67 times forward earnings. The Rule of 20 sums the S&P 500 earnings and the inflation rate. If this number is below 20, then the market is considered undervalued or fairly valued. Inflation is running at about 1.80%, so this would imply the market is fairly valued. However, analysts are notorious for overestimating earnings early in the year and bringing them down later.

Some of the rise in the market is due to low interest rates. Rates have been rock bottom all over the developed world for the past nine years, though they are starting to rise now. What we are watching for is 1. A sharp rise in the yield on the ten year Treasury bond (now at 2.47%) or 2. An inverted yield curve, which always precedes a recession. An inverted yield curve is when the two year Treasury bond pays more than the ten year bond. Right now, the ten year pays 0.51% more than the two year, and the spread has been decreasing.

The third thing to watch is sentiment. This has been called the most hated bull market ever. The investing public is just not interested in stocks the way they have been in past bull markets. According to the WSJ, nearly $1 trillion has been pulled out of retail mutual funds since 2012.# It is estimated that about 40% of this number was recycled back into the market through the growth of ETF's, but that still leaves nearly $600 billion taken out of the stock market! Compare this to 1999-2000 time frame when money was pouring into stock mutual funds. Clearly, the average saver has just not bought in—yet. Sentiment is not extremely bullish, which is a classic contrary indicator of peak in the market.

Our bottom line is that we are still seeing value in the stock market, but we are going to continue to monitor these factors and many others.

Regards,

Samuel Gross
Sr. Vice President, Investments

Joseph Brady
Sr. Vice President, Investments

Tonya Rasmussen
Financial Advisor

https://www.wsj.com/articles/as-dow-tops-25000-individual-investors-sit-it-out-1515099703