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Braeburn Observations

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WHAT IF HE IS RIGHT?

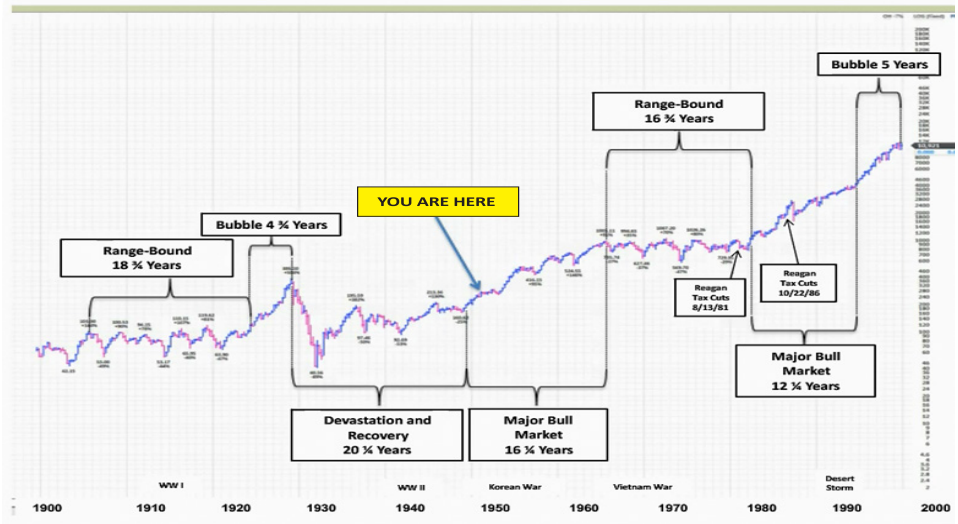
Writing this in mid-September of 2018, it is widely accepted as common knowledge that the stock market is in the late stages of one of the longest bull markets in history. Since bottoming in 2009, the market is up over 330%, as measured by the S&P 500. Yet, a senior analyst at William O'Neil and Company thinks this is wrong. He thinks that this bull market began in 2016 shortly after the Brexit Announcement.

He uses comparisons to the market cycles illustrated in a 100-year chart of the Dow Jones Industrial Average and that of the Nasdaq Composite Index. The Dow Jones Industrial Average bottomed out in the early 1930's following the Great Depression. Yet it continued on in a sideways pattern as the devastation from the Depression was worked out of the system. We don't measure the low point following the Great Depression as a start of a new bull market. If we did that would have occurred in about 1932 and then lead to a bull market lasting until roughly 1962, some thirty years.

The major bull market that followed the Great Depression actually started with the economic ramp-up of World War II, somewhere in the mid-to-late 1940s. The period from the peak of the Roaring Twenties until that time is one of devastation and recovery, illustrated in the chart above.

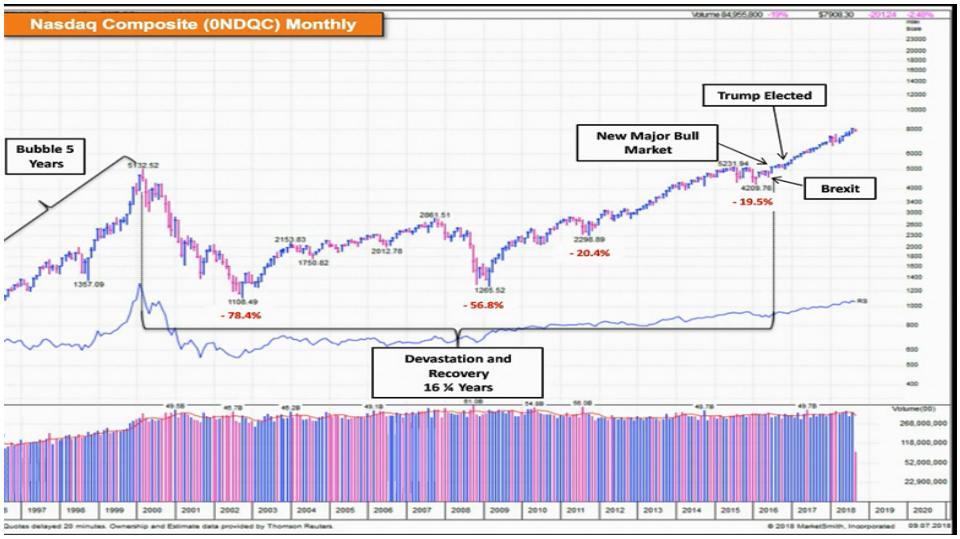
Below, is a chart of where the O'Neil Analyst thinks we are. He thinks the current bull market started in late 2016, and if he is correct we may have another 14 years of favorable markets ahead of us. On the chart above, he thinks that we are back in 1951 by way of comparisons.

Charts 1 & 2 by: MarketSmith



What if he is right?

Similarities that support his argument start with the fact that we don't measure the immediate low point following the Great



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Depression as the start of a new "30 year bull market" as discussed above. Rather, we recognize a long sideways period before market levels finally eclipsed those highs of 1929.

The analyst argues that the Nasdaq Composite is the more relevant index to follow. After all, the Dow Jones Industrial Average is only 30 stocks and does not contain major economic contributors such as Alphabet (formerly known as Google), Amazon, Amgen, Adobe, and many other large parts of our stock market, not the least of which are Facebook, Starbucks and Netflix.

Also, just as back in the years following the Depression we make significant note of the fact that the stock market never broke above its 1929 highs for good until the late 1940's. It is noted that the stock market of today, the Nasdaq 100, never broke above its year 2000 high for good until 2016. The intervening periods following the Great Depression and those that encompass the 2000-2002 sell-off and ensuing Great Recession, are both periods of devastation and recovery. It took that long before the major corporations in the country were totally healed and "lean and mean."

The narrative of the current bull market being a tired and aged one is promulgated by the media so frequently that it is taken as a given. But, what if this is not correct? What if the bull market is barely begun? What if, as he points out in the top chart, we are back in 1951?

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time prefessional money manager who developed an in-depth expertise in computerized analysys and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

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