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Want to be famous?

(and what could end the bull market?)

Seriously, fame is good for business, especially in a competitive business like the securities industry. Hedge fund managers are battling each other for the title of "Master of the Universe". Mutual fund managers are locked in a dead heat battle for their stars from Morningstar. Investment banks fight for the top spot on the deal making charts.

But the ultimate prize goes to the man or woman who is THE one to call a market top or bottom. Two of the most famous calls I can think of is the famed market crash call by Elaine Garzarelli (Lehman Brothers Chief Market Technician) just before the crash of '87 and the "generational low" by Doug Kass (@DougKass, Seabreeze Partners Management) at the bottom of the "bursting of the housing bubble" bear market in March of '09.

Over the last 5 years, I've been hearing and reading about one big "MARKET TOP" call after another from strategists and portfolio managers. And the stock market has done nothing but go up in this time frame with only one major correction to speak of. And that correction reversed so quickly that it's hard to even remember why or how. It was the battle in Congress over raising the debt ceiling in the summer of 2011, by the way.

So, who will win the "MARKET TOP" call this time around? Easy. The last one to make the call before the stock market goes down 10%, the technical definition of a correction. And the others who made the call too early? Well, it is doubtful anyone will remember those calls. You can safely bet that there will be a lot of "told you so's" from everyone who wants to look like they were right the whole time and/or from those who finally can claim vindication for being way too early. Of course, if someone made the market top call six months or a year too early, then that makes them wrong, plain and simple. If you keep making the same market top call every day, eventually you'll be right, but that does not make you accurate. This is exactly why *perma-bears* and *perma-bulls* lose their credibility. Anyway, the sugar high from fame eventually fades and it isn't a workable investment strategy.

Yes, we will continue to have corrections, recessions, and bruising bear markets. Then we will move onto new stock market average highs. Even the NASDAQ is only about 12% below its all-time high of 14 years ago. Really, it is all about the particular times when you will actually need to convert your financial assets to cash for your financial goals. Meaning, reallocating to cash and bonds as one ages or as one gets closer to needing funds for a major purchase, is a process that is much more important than calling market tops and bottoms. Sometimes people get lucky because they do this during a bull market simply due to the timing of a major financial need. And sometimes people are unlucky because they are forced to scale back on equities in a bear market simply due to the timing of a major financial need. My job is to be prepare clients for both and to make sure clients are investing within their stated objectives like risk tolerance and time horizon.

There are activities that I undertake; rebalancing, over-weighting quality large caps, diversification, and using various types of orders like limit orders and trailing stop orders. Above all, I am constantly communicating with clients about their upcoming needs. Their needs, particularly the timing, are often a moving target. Sometimes the most important recommendation to a client is to raise cash and accept that they will earn zero return on it; that the goal for said cash is preservation for the time being. Stopping clients from yield chasing has become a part of what I do; they are getting bombarded by sales pitches for non-traded REIT's, high yield fixed income products, oil and gas leasing partnerships, leveraged closed end fixed income products, and other assorted junk that will blow up when interest rates rise and/or the product sponsors can no longer raise new money from new investors. By the way, if that last tidbit sounded Ponzi-ish, I meant it to sound that way.

In any event, the above activities may not make me famous (but a little never hurts, right?), but they do make for more consistent returns over the long haul that are in line with when you'll actually draw down your investments to pay for your needs and wants. I'm not saying we shouldn't focus on the short term; quite the contrary. As well, we should focus on the intermediate term and the long term too; none should be ignored. Each one of these time horizons are important because we have different goals that come at us at different times of our lives. Increase equity exposure, decrease equity exposure, increase cash, decrease cash, input new buy-limit orders and stop orders, look for dividends, diversify among sectors, update the forecast, search for a decent municipal bond, and call Mr. Jones again to see if he still plans on retiring next January. Call Mrs. Jones to recommend converting part of her child's 529 plan to cash. Call Jim and Lisa to see if they updated their will and beneficiary designations since the arrival of their 2nd child. Refer an attorney to Frank, who wants to sell his business to a private equity firm. Rinse and repeat.

Here is how I see things that could either end or continue the current bull market:

I see it all coming down to a battle between those who believe the FED will raise rates before of after next June 30th of 2015.

- I see the FED raising rates between March and June of next year, which means the first rate hike could be in 7 to 10 months.

Read More: My comments on CNBC from June 7, 2013 about FED Taper from QE:
http://www.cnbc.com/id/100798914

- The school of thought that Janet Yellen subscribes to is that there is ample labor supply from the ranks of the unemployed and underemployed and that people will rejoin the workforce as the labor market strengthens. This, in turn, will keep wage inflation low.

- The other school of thought is that the labor market is getting tight, layoffs are declining, and that people outside of the labor force are out permanently. This has to do with 10,000 new retirees per day and that many people no longer possess the skills needed for today's workforce. This is the one I subscribe to.

- One more thing, the ZIRP (zero interest rate policy) in place since 2008 was for an economy in the intensive care unit, which is no longer the case today.

I see the FED raising rates sooner but at a moderate and steady pace as opposed to waiting to shift during the 2nd half of 2015, which would give us more ZIRP time, but rates would have to be raised more quickly. I envision the early part of this shift in policy causing a few hiccups for the stock market at first, but then investors will have better interest rate visibility and the belief that the FED is in control of inflation. This is a moderately bullish scenario.

If the FED waits to shift until 2nd half of 2015, I see it doing damage to its reputation it earned as an inflation fighter during the Paul Volcker (Named by President Carter as Chairman of Board of Governors of the Federal Reserve System; served that post from '79 to '87) era in the early 1980's. The FED could find itself having to raise rates rapidly. This, of course, is a bearish scenario.

All the rest is interesting, but this is what it comes down to.

Thanks,
Mitch

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MissionStatement:
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