

## Commentary

October 9, 2017

### The Markets

Slow and steady...

It has been 332 days since the Standard & Poor's 500 (S&P 500) Index experienced a 5 percent drop, reported *Barron's*. If there isn't a selloff on Monday or Tuesday, this will become the longest rally without such a drop.

During this period, the Index has gained 33 percent. Think about that for a moment: 33 percent over 332 days. By *Barron's* calculations, the market has gained less than 0.1 percent per day. That's a very slow rate of increase, relatively speaking. The longest-ever rally without a 5 percent drop, which began in November 1994, was accompanied by a gain of 56 percent or 0.17 percent per day.

The most recent issue of *The Economist* pondered the phenomenon of the slow-as-molasses bull market that has pushed asset prices higher:

"No one would mistake the bloodless run-up in global stock markets, credit, and property over the past eight years for a reprise of the 'roaring 20s,' or even an echo of the dotcom mania of the late 1990s. Yet only at the peak of those two bubbles has America's S&P 500 been higher as a multiple of earnings measured over a ten-year cycle. Rarely have creditors demanded so little insurance against default, even on the riskiest 'junk' bonds. And rarely have property prices around the world towered so high... the world is in the throes of a bull market in everything."

It would be a mistake to assume asset prices will continue to move higher indefinitely. One characteristic that may signal the onset of a bear market is investor euphoria, and we haven't seen that. The most recent *American Association of Individual Investors' Sentiment Survey* showed 2.3 percent more investors were bullish last week, pushing the total to 35.6 percent. That's still well below the historic average of 38.5 percent.

Last week was punctuated by a senseless shooting. Our hearts and prayers are with the people of Las Vegas.

Data as of 10/6/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.2%	13.9%	18.0%	9.1%	11.9%	5.1%
Dow Jones Global ex-U.S.	0.5	19.3	17.5	3.3	4.8	-1.0
10-year Treasury Note (Yield Only)	2.4	NA	1.7	2.4	1.8	4.6
Gold (per ounce)	-1.7	8.9	0.6	1.8	-6.6	5.6
Bloomberg Commodity Index	-0.6	-4.1	-1.9	-11.1	-10.6	-6.9
DJ Equity All REIT Total Return Index	0.5	6.6	8.6	10.2	10.1	5.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, *Barron's*, *djindexes.com*, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**ZOMBIE TOURISM AND ZOMBIE COMPANIES.** Zombies have a special place in the heart of pop culture. The undead are pivotal characters in books, movies, games, and television shows. The practical can read *The Zombie Survival Guide*. Thrill seekers can binge on *The Walking Dead*. Romantics have *Pride and Prejudice and Zombies*. Anyone looking for a laugh can watch *Shaun of the Dead* or *Zombieland*.

If you're one of those people who just can't get enough of roamers, rotters, biters, and crawlers, you're in for a treat: zombie tourism. *National Geographic* has identified several travel destinations that are steeped in zombie legend:

- 1. Haiti.** American zombie culture appears to have origins in Haiti, where slaves believed death would reunite them with their gods and homelands. The exception was suicide. If slaves took their own lives, they "would be forced to remain in their bodies, soulless, and continue to work the plantations."
- 2. Greece.** In Greece and elsewhere, folklore historians have found anyone who died of plague or was cursed, murdered, or born on an inauspicious day, could potentially rise from the dead. Some archeology digs have found graves with skeletons weighted by rocks or millstones.
- 3. Georgia (in Europe).** You won't find any zombies here – and that's the point. Apparently, Georgia

boasts some of the world's most promising zombie-proof dwellings. The village of Chazhashi, at the confluence of the Inguri and Black Rivers, has more than 200 nearly impenetrable medieval tower houses.

Zombies aren't always undead humans. There are zombie companies, too. A zombie company is debt-laden and on the edge of bankruptcy. In fact, the *Organization for Economic Co-operation and Development (OECD)* thinks zombie firms may be one reason economic growth has been so slow. *The Economist* reported:

"We know that a few companies are still producing substantial productivity gains but it may be that monetary policy, by keeping rates low, has stymied the forces of creative destruction; 'zombie' companies have been kept alive, dragging down the productivity numbers. Whatever the reason, economic growth won't rebound until productivity perks up."

Perhaps *National Geographic* should add some quarterly earnings calls to its zombie tourism list.

### **Weekly Focus – Think About It**

"Fear is the main source of superstition, and one of the main sources of cruelty. To conquer fear is the beginning of wisdom."

--*Bertrand Russell, British philosopher*

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- \* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- \* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- \* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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