Triweekly Series

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LINDNER INSIGHTS

Market Peak….What market?

LCA

LINDNER CAPITAL ADVISORS, INC.

A Registered Investment Advisor

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"Big enough to deliver, small enough to care"

by Chris Briggs, CFP® and Leo Rose, AIF®

Market Peak…What Market?

Many advisors and clients alike are curious if the stock “market” has reached a peak. This is a loaded and relative question primarily because it depends entirely on what you own (your asset allocation), what “market” you are talking about, and what you define as a “market” peak. To complicate matters, you will need to determine if you are willing to pay taxes (if taxable) to protect gains and then determine a point at which you believe the market is either done going down or is down enough for you to then buy back in. People try to determine the exact day on which the market has peaked, which is only known far after it has become obvious to everyone.

Thoughtfully constructed portfolios, like all of those here at LCA, contain diversified investments ranging in size, style, type, and geographic origin. Each of these investments have unique characteristics that drive their returns, risks, highs, and lows. Investments, or “markets,” rarely all peak at the same time and for the same reasons. This diversification takes advantage of the unsystematic nature of returns and risks, meaning, when one investment style or geographic region is out of favor due to one set of circumstances, the other styles and regions you have invested in will perform and help maintain portfolio value. This unsystematic relationship in various assets’ performance is the basis of asset allocation strategies that can offer more consistent long term performance. Systematic risk, or market risk, can negatively impact all traditional portfolio assets (such as the September 11, 2001 terrorists’ attacks or the 2008 financial crisis). Market-wide drops are rare and hard to predict. Protecting against systematic risks can be done, but it is expensive and can dampen long term performance.

Let’s look at a few “market” peaks to drive home our point. Consider the financial crisis of 2008. Most people would say that the “market” peaked on October 9th, 2007, as that was when the S&P 500 and Dow Jones Industrial Average hit their high point. Taking a look under the hood though reveals that other markets had peaked months earlier, like the Russell 2000 (small cap stocks) and Dow Jones Transportation Average in July, 2007, the Dow Jones Utility Average in May, 2007, and the SPDR S&P Regional Banking ETF in December of 2006. Knowing that the “market” peaked on October 9th, 2007 is really only useful for a specific market, not all investments. [1]

[1] https://www.wsj.com/articles/the-myth-of-stock-market-tops-1504532327

Multiple Peaks

When several market averages/sectors hit their bull-market highs in what was considered the October 2007 market top

S&P 500 Oct. 9, 2007	**Russell 2000 index** July 13, 2007
DJIA Oct. 9, 2007	**Dow Jones Utility Average** May 21, 2007
Dow Jones Transportation Average July 19, 2007	**SPDR S&P Regional Banking ETF** Dec. 29, 2006

Sources: HulbertRatings.com THE WALL STREET JOURNAL. [1]

Another prime example of diverging market highs and lows is the dot-com bust of the early 2000s. The S&P 500 peaked in March of 2000 and didn't hit its trough, or low point, until October of 2002. During that same time period though, small cap value stocks actually saw increases in their market value.[1]

What we're getting at is that being hyper-focused on the "market" peaking is in no way in-line with a prudent investment strategy. First, there is no one market peak date. There are many markets to invest in and they often behave differently from one another, so there are many peak dates that need to be considered. Second, you have to figure out when to buy back in, which means correctly determining when each market hits their own bottom. Third, this is all based on guesswork as there's no way of truly knowing when peaks/troughs occur until after the fact. That's a whole lot of decisions to be making based on guesswork!

If market peaks were easily and accurately predicted, we would never be caught by bubbles, recessions, or crashes. Markets are cyclical and unpredictable; when it becomes clear a cycle has finished, the next one, often in different areas and for different reasons has already begun. At LCA we own investments representing many investment styles, sizes and from places all over the world. This gives our clients a good opportunity to always have something working in their favor.

About LCA…

Lindner Capital Advisor, Inc. is a federally Registered Investment Advisor based in suburban Atlanta, Georgia, with representation throughout the United States. Our investment platform provides access to institutional fund strategies and exclusive money managers that are not readily available to the retail market. Our portfolios are designed to be consistent with a client's unique investment objectives, individual time horizon, and tolerance for risk. LCA has been CEFEX certified since 2006 and is committed to our fiduciary responsibility.

Ask your Relationship Manager for a copy of "The Educated Investor" written by Robert Lindner.

For more information, call (770) 977-7779 or email portfolios@LindnerCapital.com.

Visit LCA's website at www.LindnerCapital.com

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