

## Are We There Yet?

It has been said that the bull run in US shares has been one of the most *"hated bull runs ever"*. This is due not only to the relatively slow pace since bottoming out in March 2009, but also to the ongoing disbelief, by the majority of investors, that market prices can continue up against the backdrop of so much uncertainty and a relatively sluggish global economy.

Investors are definitely correct to be concerned now when allocating hard earned savings into what appears to be expensive shares making new all-time highs. The S&P500 has just moved through the 3100 level – a new high having fallen to an intra-day low of 666 in March 2009.

So, when measured in terms of months (the current bull market in US shares is now running at 128 months), the longest bull market in the S&P500 (i.e. without a 20% pullback) since WWII. The second longest run was October 1990 until March 2000 (113 months).

Naturally, then, investors are concerned that we must be at a peak.

### But ...

*"Bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria."  
- Sir Johan Templeton*

As noted above by investor, Sir John Templeton, markets typically do not reach a peak merely because they are expensive, or when investors are generally nervous, or even where they have been going for extended periods of time. They typically reach a peak when the mood is one of euphoria, and where investors extrapolate only good news and discard all negative news.

Understandably, what is holding back investor sentiment are a number of global economic issues that have kept them a lot more cautious, including:

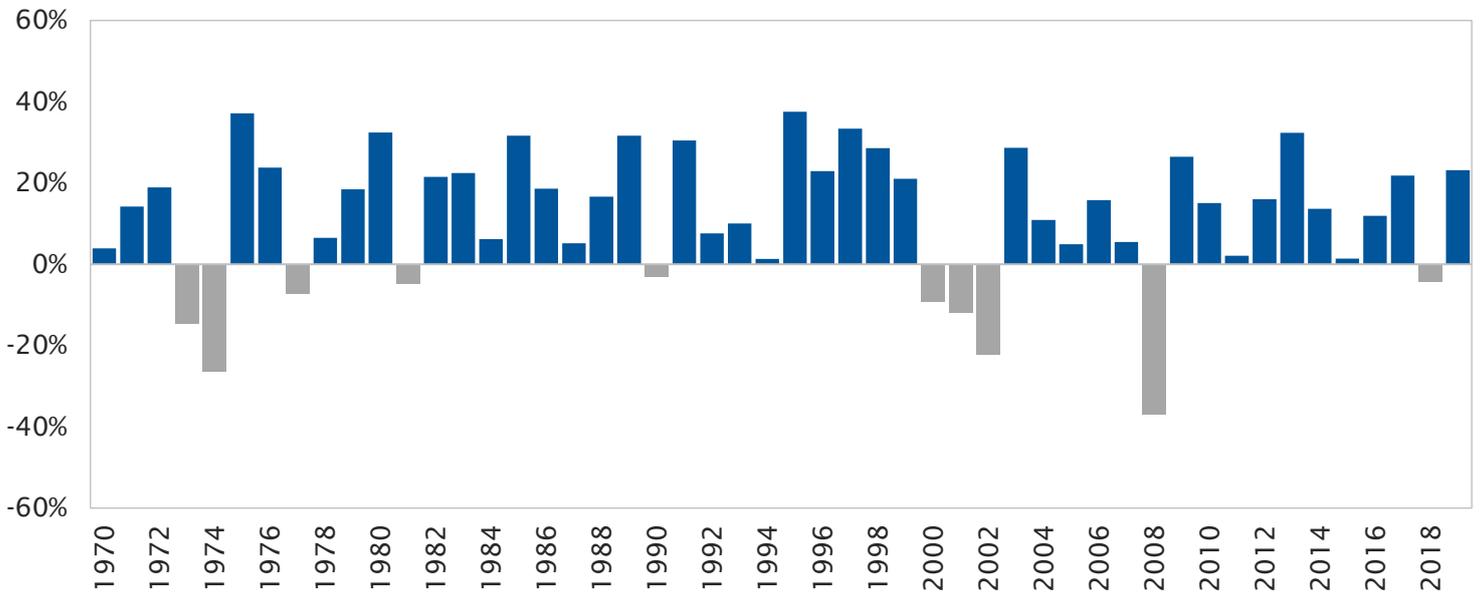
- Middle East tensions
- Trump Presidency and possible impeachment
- US/China trade wars
- Brexit uncertainty
- Slowing China growth
- High debt levels and ultra-low Interest rates

Therefore, even after more than 10 years of stocks generally climbing out of the 2009 lows (with just two major pull backs of 19% each in 2011 and the end of 2018), investors do not appear to be at the euphoric stage yet.

**Chart 1** (below) reflects annual percentage changes in the S&P500 index. Compare the recent history with the late 1990's.

## Are We There Yet?

Chart 1 : S&P500 Historical Annual Returns



Source : Seed Investments/Morningstar (November 2019)

### Contrarian Indicators

Another gauge of investor's attitude towards shares are investor polls. When there is a degree of scepticism, investors are often under-exposed to shares, and therefore also pricing in a lot of the negative news. Two polls indicate this generally widespread ongoing nervous outlook to the market:

- The American Association of Individual Investors has been asking members since 1987 where the stock market will be in the next 6 months. Historically 38% are bullish, 31.5% neutral and 30.5% bearish. It has recently moved to 40.3% bullish but remains low.
- According to the latest Barron's Big Money Poll, only 27% of money managers are bullish on the market's prospects over the next 12 months – this is down from 56% a year ago and the lowest reading in more than 20 years.

## Are We There Yet?

### Conclusion

While valuations are not cheap, they are not at extreme deviations from fundamentals. This is especially so against the backdrop of ultra-low interest rates, where investors have very few alternative options.

There does not yet appear to be pervasive bullish market sentiment. Investors remain nervous about a range of issues, but as uncertainty levels reduce and as market prices move to new highs, so there is a probability that investor optimism will morph into the euphoric stage of a market blow off.

Kind regards,



**Ian de Lange CA(SA)**

Director & CIO

## Are We There Yet?

### DISCLAIMER

Seed Investment Consultants is an Authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act (Act No. 37 of 2002). The laws of the Republic of South Africa shall govern any claim relating to or arising from the contents of this document. This document may not be amended, reproduced, distributed or published without the prior consent of Seed Investment Consultants.

No guarantee is provided as to the values of any financial product mentioned in this document. All illustrations, forecasts, information and opinions provided within this document are of a general nature and are not intended to address the circumstances of any particular individual or entity. This document does not constitute a solicitation, invitation or investment recommendation. While we endeavour to provide accurate and timely information, all illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only. We make no representation or warranty, expressed or implied with respect to the correctness, accuracy or completeness of the illustrations, forecasts, information or opinions. No party should act upon such information or opinion without obtaining the appropriate professional and specialised financial, legal and tax advice based upon a thorough examination of their particular situation. Seed Investment Consultants will not be held liable for any direct or consequential loss or damage suffered by any party as a result of that party acting on or failing to act on the basis of information or opinion provided by or omitted from this document.

The value of financial products can increase as well as decrease over time depending on the value of the underlying securities and market conditions. Changes in exchange rates may have an adverse effect on the value price or income of any product.

Past performance is not necessarily a guide to future performance. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager upon request.

Prescient Management Company and the Trustee are registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. There is no guarantee in respect of capital or returns in a portfolio. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. The CIS may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. In the event that specific CIS in securities are mentioned please refer to the relevant Minimum Disclosure Document in order to obtain all the necessary information in regard to that unit trust. In rare instances redemption transactions may be subject to a redemption fee. The applicable Prospectus and Key Investor Information Document will be made available upon request.

Please note that there are stipulated cut-off times for all documents, notifications of deposit, investment, redemption and switch applications. These cut-off times are product or fund specific and the applicable guidelines have been stipulated on the relevant supporting or transaction documents, application forms and Minimum Disclosure Documents. Where all required and supporting documentation is not received before the stated cut off time no service provider shall not be obliged to transact at the net asset value price as agreed to. Prices are published daily and are available on the Prescient website at [www.prescient.co.za](http://www.prescient.co.za).

Investors should at all times remain aware of the risks involved in the buying or selling of any financial product. Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks, and potential limitations on the availability of market information. The investor hereby acknowledges the inherent risk associated with any selected investments and that there are no guarantees (Paragraph 6(2)(f) of BN92). The Manager retains full legal responsibility for any third-party named portfolio (Paragraph 6(1)(g) of BN92).

For any additional information please visit our website on [www.seedinvestments.co.za](http://www.seedinvestments.co.za).