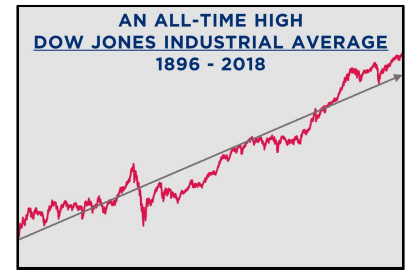


Market Observations September 2018

LONGEST BULL MARKET?

Recent headlines reported a financial milestone, the longest bull market in history. This may have been “fake” news for more than one reason. There are many markets and market sectors. There even is some dispute on how to measure a bull market. Not in dispute is that the overall U.S. stock market has enjoyed a long and notable period of gain, reaching an all-time high without a major setback. An assessment of this accomplishment as well as a review of some relevant context can provide perspective.



Perspective

Drawing on the 122-year history of the Dow Jones Industrial Average, **Table I** provides a comparison of longest calendar-year “bull” markets. The measure is consecutive calendar years of gain. As such, and if the 2018 gain holds through yearend, the current run of 10 consecutive calendar-year gains will be the longest in history. Even if a reversal from here resulted in a 2018 loss, the prior nine years of gain would tie the previous record of 1991 - 1999. The current “bull” market duration is impressive but the annualized return, while good, is not record-setting.

Certain measures of a stock market advance can indicate its sustainability. **Table II** provides such measures for the Standard & Poor’s 500 Index. A median (one-half higher, one half lower) stock return below the index return indicates that top performers are biasing the index higher. A higher impact on the index return from the return of the top five stocks confirms this bias. A higher percentage of stocks with losses indicates a narrowing base of support. All measures now are cautionary for 2018. Three individual stocks - Amazon, Apple, Microsoft - contributed disproportionately to the S&P 500 return in 2017 and have continued to do so in 2018.

Foreign stock markets have had less favorable outcomes, particularly since earlier this year. Three factors influence relative performance among stock markets - country, company, currency. At the start of 2018, all three factors were expected to trend in favor of foreign markets. Since then, only the company factor has remained favorable. Trade and tariff concerns have impacted adversely emerging market economies and currencies. An example of the performance outcome is shown in **Chart I** with the diverging trends between U.S. and China stock markets.

Investment Implications

With hindsight, recent stock market performance suggests the merit of concentrated investing in U.S. “winners.” As markets go, certainly better a bull than a bear. As portfolios go, better to address risk in advance than to experience its adverse consequence. Diversification remains a principle of risk management and prudent investing.

TABLE I

DOW JONES INDUSTRIAL AVERAGE CALENDAR YEAR “BULL” MARKETS		
PERIOD	# OF YEARS	ANNUALIZED RETURN
1924 - 1928	5	25.7%
1982 - 1989	8	20.6%
1991 - 1999	9	20.4%
2009 - 2018*	10	14.8%

*To August 31

TABLE II

STANDARD & POOR’S 500 INDEX Comparative Performance Statistics			
	2018*	2017	2016
INDEX RETURN	9.9%	21.8%	12.3%
MEDIAN STOCK RETURN	5.6%	20.0%	14.7%
TOP 5 STOCKS IMPACT	46%	23%	16%
STOCKS WITH LOSSES	36%	19%	23%

*To August 31

CHART I

