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ALL-TIME HIGHS: A SIGN OF AGE OR EXHAUSTION?

This Bull Market Has Had the Third Fewest New Highs Since 1949

During the past few weeks, the financial media has constantly reminded investors that the S&P 500 has recorded successive all-time closing highs. They also make it sound as if we should enjoy these days while they last, for this bull market is therefore likely to end in the very near future. I don't know why they say that, other than to instill fear and thereby ensure that investors stay tuned. History, on the other hand, shows that new highs are typical in a maturing bull market. How else would the S&P 500 trade at 1692 (as of 7/19/13) versus 13.55 at the start of the bull market in June 1949, unless it frequently traded in uncharted, new-high territory?

There have been 11 bull markets since 1949, the one in which the S&P 500 finally eclipsed the 1929 high on September 22, 1954. Each bull market lasted an average 57 months. In addition, 7% of all trading days within these bull markets set all-time closing highs, with the first new high occurring a shade beyond midway (52%) through each bull market. Indeed, the S&P 500 saw as many as 12% and 13% of all bull-market days basking in the glow of all-time highs during the bulls of 1962-66, 1982-87 and 1990-2000, while five saw a below-average number of its bull-market days setting all-time highs.

S&P 500 Daily All-Time Highs During Bull Markets Since 1949

Bull Markets	Duration in Months	First High % of Way in Bull Mkt.	New All-Time High Days: Count	New All-Time High Days: % of Bull Mkt.
1949-56	86	74%	77	4%
1957-61	50	22%	88	8%
1962-66	43	33%	119	13%
1966-68	26	26%	47	9%
1970-73	32	68%	35	5%
1974-80	74	94%	24	2%
1982-87	60	4%	152	12%
1987-90	31	63%	19	3%
1990-00	113	4%	308	13%
2002-07	60	93%	9	1%
2009-7/19/13	52	93%	22	2%
All Years	**57**	**52%**	**900**	**7%**
Secular Bulls	**64**	**33%**	**127**	**9%**
Cyclical Bulls	**48**	**70%**	**29**	**4%**

Source: S&P Capital IQ. Past performance is no guarantee of future results.

The bull markets typically described by Wall Street historians as "Secular" (extended, upward-sloping advances), lasted longer than those called "Cyclical bulls within secular bears" (shorter periods of undulating, sideways patterns of advances and declines), surviving an average 64 months versus 48 months, respectively. Secular bulls also recorded their first all-time high much earlier than cyclical bulls (33% of the way through the average bull market vs. 70%). Plus, secular bulls ended up with more than twice the percentage of days in all-time high territory than cyclical bulls (9% versus 4%). I believe the jury is still out as to whether the current bull is the start of a new secular bull market or just the continuation of the secular bear market that started in 2000.

This bull market, which is not included in the tally for either secular bulls or bears, has lasted 52 months and recorded its first all-time high on 3/28/13. If this bull ended on July 19, this first all-time high happened 93% of the way through. What's more, the 21 additional all-time highs since then represented only 2% of all bull-market trading days. This percentage is only half the average for cyclical bulls, less than 25% the average of all secular bulls, and less than 1/3rd the average for all bull markets. Not surprisingly, this bull market ranks 9th out of the 11 bull markets since

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1949. So history would indicate, but not guarantee, that this bull market has many more new-highs to record before finally running out of steam.

Bouncebacks from Pullbacks

Even though we think the bull market probably has more all-time highs to record, another pullback (decline of 5%-9.9%) or correction (decline of 10%-19.9%) could be only a few weeks or months off. On March 28, 2013, the S&P 500 finally closed above the prior bull market high that was set on 10/9/07, taking 49 months to recoup all that it lost in the ensuing bear market that plunged 57%. After advancing in price a bit further once getting back to breakeven, the S&P 500 has historically followed a fairly consistent four-step dance routine of: 1) finally succumbing to a pullback from the exhaustion of climbing back above the prior high, 2) recovering from that pullback, 3) advancing an additional 4% to 8% after recovering from that pullback, before 4) ultimately slipping into a new and deeper decline of between 10% and 20%. We already did steps 1 & 2, and are in the midst of step 3. Its step 4 that has me a bit concerned.

S&P 500 Performances After Recovering From Bear Markets From WWII Through 7/19/13

Bear	% Decline	Breakeven Date	% Gain After Post-B.E. Decline	Next >5% Decline
6/48-6/49	(21)	1/7/50	5	(6)
8/56-10/57	(22)	9/24/58	19	(28)
12/61-6/62	(28)	9/3/63	21	(10)
2/66-10/66	(22)	5/4/67	3	(10)
11/68-5/70	(36)	3/6/72	7	(48)
11/73-10/74	(48)	7/17/80	1	(6)
11/80-8/82	(27)	11/3/82	18	(7)
8/87-12/87	(34)	7/26/89	2	(20)
7/90-10/90	(20)	2/13/91	2	(5)
3/00-10/02	(49)	5/30/07	0	(57)
10/07-3/09	(57)	3/28/13	???	???
Medians	**(28)**	**14 Mos.**	**4**	**(9.9)**
Averages	**(33)**	**24 Mos.**	**8**	**(19.7)**

Source: S&P Capital IQ. Past performance is no guarantee of future results

On July 11, the S&P 500 recovered from its 57th pullback since WWII. Through July 19, the S&P 500 closed at 1692, or about 1% above the recovery close. What investors are asking now is “Where do we go from here?” Well, If history is any guide, for its never gospel, the S&P 500 has risen a median of 4% and a mean of 8% beyond the pullback retracement level before stumbling once again into a sell-off of 5% or more. What has me concerned is that the second decline after getting back to breakeven from bear markets since the late 1940s was between 10% (median) and 20% (mean). Granted, four times the market merely slipped into another pullback, but in four other times it fell into another bear market. Translating this to levels of the S&P 500 today, the S&P 500 could rise to between 1738 and 1804 before slipping into a correction that could take then take it down to between 1450 and 1567.

Conclusion

So there you have it. The S&P 500 has registered 22 all-time closing highs since March 28, or 2% of all trading days in this bull market. This is the third lowest number and percentage for all 11 bull markets since 1949. For this bull market to equal the average for all 11 bulls, we would need to record an additional 2-1/2 times the number already seen, implying that this bull market isn’t likely to roll over and die anytime soon. That said, history also tells us that the “500” has a few more percentage points to go to the upside before possibly slipping into another decline of 5% or more. What’s more, the average for this upcoming second decline after getting back to breakeven from a prior bear market has averaged from slightly less than 10% to a shade short of 20%. Therefore, buy-and-hold investors should prepare to hold on tight and don’t let your emotions get in the way of maintaining an appropriate asset allocation. However, for those willing to trade short-term swings in equity prices, another opportunity may just be around the corner.

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B	Below Average		

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CY- Calendar Year
DCF- Discounted Cash Flow
DDM– Dividend Discount Model
EBIT- Earnings Before Interest and Taxes
EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization
EPS- Earnings Per Share
EV- Enterprise Value
FCF- Free Cash Flow
FFO- Funds From Operations
FY- Fiscal Year
P/E- Price/Earnings
P/NAV– Price to Net Asset Value
PEG Ratio- P/E-to-Growth Ratio
PV- Present Value
R&D- Research & Development
ROCE- Return on Capital Employed
ROE- Return on Equity
ROI- Return on Investment
ROIC- Return on Invested Capital
ROA- Return on Assets
SG&A- Selling, General & Administrative Expenses
SOTP- Sum-Of-The-Parts
WACC- Weighted Average Cost of Capital

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Ranking	North America	Europe	Asia	Global
Buy	35.0%	27.7%	38.7%	34.3%
Hold	56.0	48.6	50.3	54.2
Sell	9.0	23.7	11.0	11.5
Total	100.0%	100.0%	100.0%	100.0%

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Sell	40.0	35.2	30.7%	34.8
Total	100.0%	100.0%	100.0%	100.0%

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