

In the past month, two well-known and highly respected money managers have made confident assertions about the markets. Their comments would lead one to believe that the future path of the market in the coming months is known. Sadly, many investors put blind faith in the words of high-profile, accomplished professionals and do little homework of their own. While we certainly respect the background, knowledge, and success of these and many other professionals, we take exception with their latest bit of advice. Before the election in November 2016, were there investment professionals that claimed a Donald Trump victory would drive equity prices significantly higher? Although we are certain there were a (very) few, they certainly were not publicly discussing it, and the broad consensus was overwhelmingly negative. • In March of 2009, which professional investors were pounding the table claiming that the next decade would produce some of the greatest market returns in history? Again, while some may have thought valuations were fair at the time, few if any were raging bulls. The two instances are not unique. More often than not, investor expectations fail to accurately anticipate the future reality. This is not solely about amateur individual investors, as it equally applies to the best and brightest. Despite the urge to heed the sage advice of the "pros", we must always remain objective, especially when everyone seems so certain about what will happen next.

The Known Future

The current message from Wall Street analysts, media gurus and most investors is that stock prices will undoubtedly go up for the foreseeable future. •Unbridled optimism about corporate earnings offer one point of fundamental justification for such views, but in large part these forecasts are predominantly based on the simple extrapolation of prior price trends. In late January 2018, a few esteemed Wall Street analysts actually raised their year-end S&P 500 price forecast from what it was only weeks prior. Although rationalized by stronger estimates of earnings expectations and an improving economic prognosis, the fact that January's market rally has the S&P 500 already approaching their year-end forecast also played a meaningful role. **Basing future**



Indicator Description	10-Year Bearish Extreme	10-Year Bullish Extreme	Recent Value	Bullish -ness Percentile	Date of Recent Value
3-Month VIX	49.21	13.00	14.60	96 th	1/31/18
Investors Intelligence	-32.2%	+54.0%	+53.4%	99 th	1/26/18
Consensus, Inc. bulls	18%	78%	76%	96 th	1/26/18
Market Vane bulls	32%	72%	72%	99 th	1/26/18
AAll cash allocation	44.8%	13.0%	13.0%	99 th	12/31/17
NAAIM exposure index	0%	+100%	+100%	96 th	1/24/18
MMF/MF + ETF assets	41.0%	12.7%	12.9%	97 th	12/31/17
Equity fund cash levels	5.9%	3.0%	3.1%	99 th	12/31/17
Rydex bear/total assets	59.2%	3.4%	3.4%	99 th	1/30/18

of the excessive

While there are a

slew of technical reasons to suspect the recent market dip may be a speed bump on the way to higher prices, there are some serious fundamental warnings along with geopolitical

concerns that argue downside risks are being grossly ignored. We would avoid using the word **certainty** to describe a market or economic forecast, and given the juxtaposition of risks and excessive valuations, relying on the certainty of others is not a prudent way to build wealth.

Ray Dalio

The following quotes came from a recent interview with Ray Dalio:

- *"We are in this Goldilocks period right now. Inflation isn't a problem. Growth is good, everything is pretty good with a big jolt of stimulation coming from changes in tax"*
- *"There is a lot of cash on the sidelines. ... We're going to be inundated with cash," ... **"If you're holding cash, you're going to feel pretty stupid."***
- *Finally, he said he expects to see a market blow-off despite the economy being in the last legs of the economic growth cycle.*

What could go wrong? Ray Dalio, the billionaire founder of the world's largest hedge fund, warns us that taking a conservative posture will make you *feel pretty stupid*. There are four problems with these comments. First of all, does Ray Dalio really believe there is *cash on the sidelines*? For every buyer there is a seller. The concept of *money on the sidelines* does not hold in a free market economy. **This is one of Lance Robert's 7 Myths of Investing.**

<https://realinvestmentadvice.com/7-myths-of-investing/> Second, neither he nor anyone else knows what the future holds and for every buyer there is a seller. Third, even if we presume him to be correct concerning the market, will he let you know when it's time to sell stocks and hold cash? • Keep in mind that wealth is compounded most effectively by *not* chasing markets higher but by avoiding large losses. Finally, Mr. Dalio almost certainly has hedges in place so that, even if he is wrong, his portfolio will have some cushion. Again, although we respect his insight and he may well be correct, it is concerning to hear a person of such influence potentially mislead investors into thinking the future is certain and worse mocking those taking precautionary measures.

Jeremy Grantham

Mr. Grantham, also a very successful investment manager, has made similar comments as to how this bull market ends.

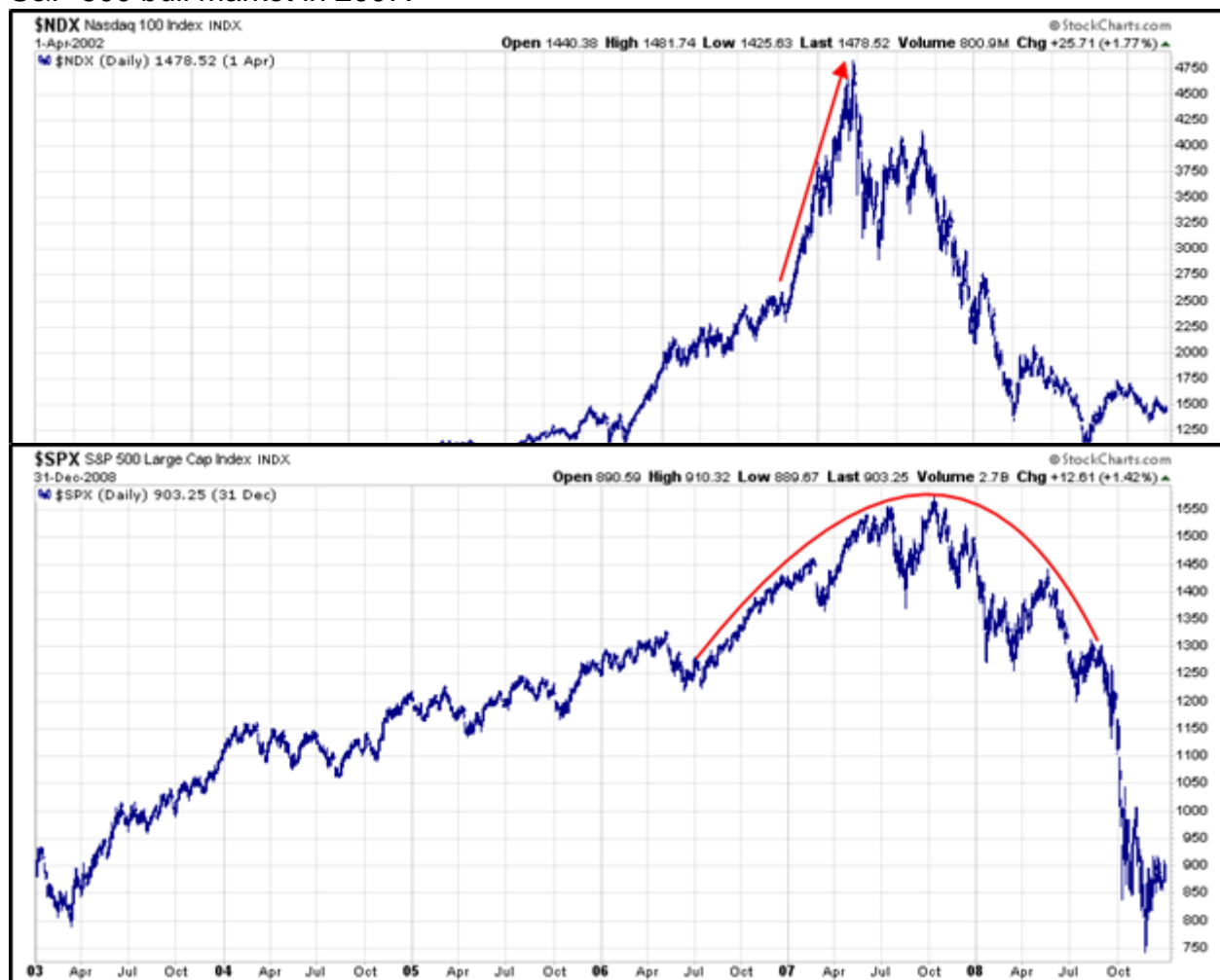
- *"I recognize on one hand that this is one of the highest-priced markets in U.S. history. On the other hand, as a historian of the great equity bubbles, I also recognize that we are currently showing signs of entering the blow-off or melt-up phase of this very long bull"*
- *"A melt-up or end-phase of a bubble within the next six months to two years is likely, i.e., over 50%."*

Mr. Grantham has a perfect track record this millennium of calling out the equity bubbles of 2000 and 2008 well in advance. Further, he has stated unequivocally that equity valuations are excessive and investors should expect flat to negative returns over the longer term. Currently, his firm GMO is forecasting annualized inflation-adjusted returns of -4.4% for U.S. large-cap stocks over the next seven years. Despite the prospects of negative returns and wealth losses, he feels confident influencing others to chase a *melt-up* bubble that may last from six months to two years.

Dalio/Grantham Wisdom

Both highly successful investors and thought leaders are telling the story of tenable market risks but then tempting investors with the possibility of a grand finale worth chasing. No one knows how this current bull market will end. Dalio and Grantham may be correct, and it may end with a melt-up, blow-off rally for the ages. • On the other hand, it may have ended last week with the blow-off

rally having occurred over the last year. To put a historical perspective on how this market may top, the following charts compare the death of the NASDAQ 100 bull market in 2000 and the end to the S&P 500 bull market in 2007.



As

shown, the topping of the last two bull markets took vastly different paths. Whether a blow-off rally as seen in the late 1990s, the one advocated by Grantham and Dalio, is the right call or a more frustrating rounded top of 2008 is the answer, we do not know. Left for consideration is whether the 37% rally since Trump's election was the blow-off top and, if so, has it reached its apex?



Summary

While market geniuses in their right, Dalio and Grantham's ideas about how this ends have zero certitude. If their minds change, we will almost assuredly be the last to know. Although a cynical premise, could they be propping the market up with talk of a magnificent rally so they can reduce their own risk? There is abundant evidence this occurred in 2007 as the mortgage meltdown progressed, albeit with different protagonists. •So, we think it is a fair question to ask in this instance. Given current valuations, the risks are significant and if history is any indication, we can be assured you to ignore that you wealth may be in jeopardy. This is not a message encouraging fearful investors. Rather we remind you of your good fiduciary and worthy steward of your money. By Dalio and Grantham and avoid their ulterior motive. We all know how much money Wall Street's best and brightest

2008 FORECAST: Wall Street strategists weigh in on stocks, bonds, profits and industry sectors.



Larry ADAM
Deutsche Bank
S&P 500 '08 Target: 1640
Profits: \$99.40 Growth: 9%
10-Yr Treasury Yield: 4.75%
Fed-Funds Rate: 3.0%
Favorite Sectors: Technology, Health Care, Industrials
To Avoid: Consumer Discretionary, Utilities



Thomas LEE
JPMorgan
S&P 500 '08 Target: 1590
Profits: \$100.21 Growth: 8.6%
10-Yr Treasury Yield: 5.0%
Fed-Funds Rate: 4.5%
Favorite Sectors: Financials, Energy, Health Care
To Avoid: Consumer Discretionary and Staples, Materials, Industrials



Richard BERNSTEIN
Merrill Lynch
S&P 500 '08 Target: 1525*
Profits: N/A Growth: -7.3%
10-Yr Treasury Yield: 3.7%
Fed-Funds Rate: 2.5%
Favorite Sectors: Consumer Staples, Health Care, Telecom, Tech.
To Avoid: Energy, Materials, Financials, Consumer Discretionary



Tobias LEVKOVICH
Citigroup
S&P 500 '08 Target: 1675
Profits: \$96.50 Growth: 5.2%
10-Yr Treasury Yield: 4.40%**
Fed-Funds Rate: 3.5%
Favorite Sectors: Semiconductors, Diversified Financials, Specialty Retail
To Avoid: Materials, Real Estate, Capital Goods



David BIANCO
UBS Securities
S&P 500 '08 Target: 1700
Profits: \$101 Growth: 10%
10-Yr Treasury Yield: 4.0%
Fed-Funds Rate: 3.5%
Favorite Sectors: Industrials, Technology, Energy
To Avoid: Utilities, Telecom, Health Care, Consumer Discretionary



Tom McMANUS
BoFA Securities
S&P 500 '08 Target: 1625
Profits: \$98 Growth: 5.4%
10-Yr Treasury Yield: 5.0%
Fed-Funds Rate: 3.0%
Favorite Sectors: Health Care, Consumer Staples, Utilities
To Avoid: Consumer Discretionary, Financials



Abhijit CHAKRABORTI
Morgan Stanley
S&P 500 '08 Target: 1525
Profits: \$93 Growth: 3%
10-Yr Treasury Yield: 4.5%
Fed-Funds Rate: 3.75%
Favorite Sectors: Health Care, Consumer Staples, Energy, Technology
To Avoid: Financials, Consumer Discretionary, Materials



Jonathan MORTON
Credit Suisse
S&P 500 '08 Target: 1650
Profits: \$95.30 Growth: 5.5%
10-Yr Treasury Yield: 4.25%
Fed-Funds Rate: 3.5%
Favorite Sectors: Technology, Beverages, Pharmaceuticals
To Avoid: Regional Banks, REITs, Consumer Discretionary



Abby Joseph COHEN
Goldman Sachs
S&P 500 '08 Target: 1675
Profits: \$95 Growth: 5.6%
10-Yr Treasury Yield: 4.0%
Fed-Funds Rate: 3.0%**
Favorite Sectors: Health Care, Cons. Staples, Info. Tech., Energy
To Avoid: Consumer Discretionary, Financials, Materials



Ian SCOTT
Lehman Brothers
S&P 500 '08 Target: 1630
Profits: \$85.65 Growth: -5%
10-Yr Treasury Yield: 4.2%
Fed-Funds Rate: 3.25%
Favorite Sectors: Technology, Financials, Telecom
To Avoid: Consumer Staples, Utilities, Industrials



Jonathan GOLUB
Bear Stearns
S&P 500 '08 Target: 1700
Profits: \$100 Growth: 12.4%
10-Yr Treasury Yield: 5.0%
Fed-Funds Rate: 4.75%
Favorite Sectors: Health Care, Energy
To Avoid: Consumer Discretionary, Financials, Technology



François TRAHAN
ISI Group
S&P 500 '08 Target: 1750
Profits: \$100 Growth: 7%
10-Yr Treasury Yield: 4.0%
Fed-Funds Rate: 3.5%
Favorite Sectors: Financials, Consumer Discretionary
To Avoid: Materials, Industrials

* 12-months target from 11/30/07. **Average over 4Q 2006.

in 2008.