

# Leuthold Weeden

CAPITAL MANAGEMENT

## The Bull Market: Six Years Old... And Not Over

April 22-24, 2015

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33 South Sixth Street, Suite 4600 • Minneapolis, MN 55402

612.332.9141



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# Major Trend Index remains mildly positive

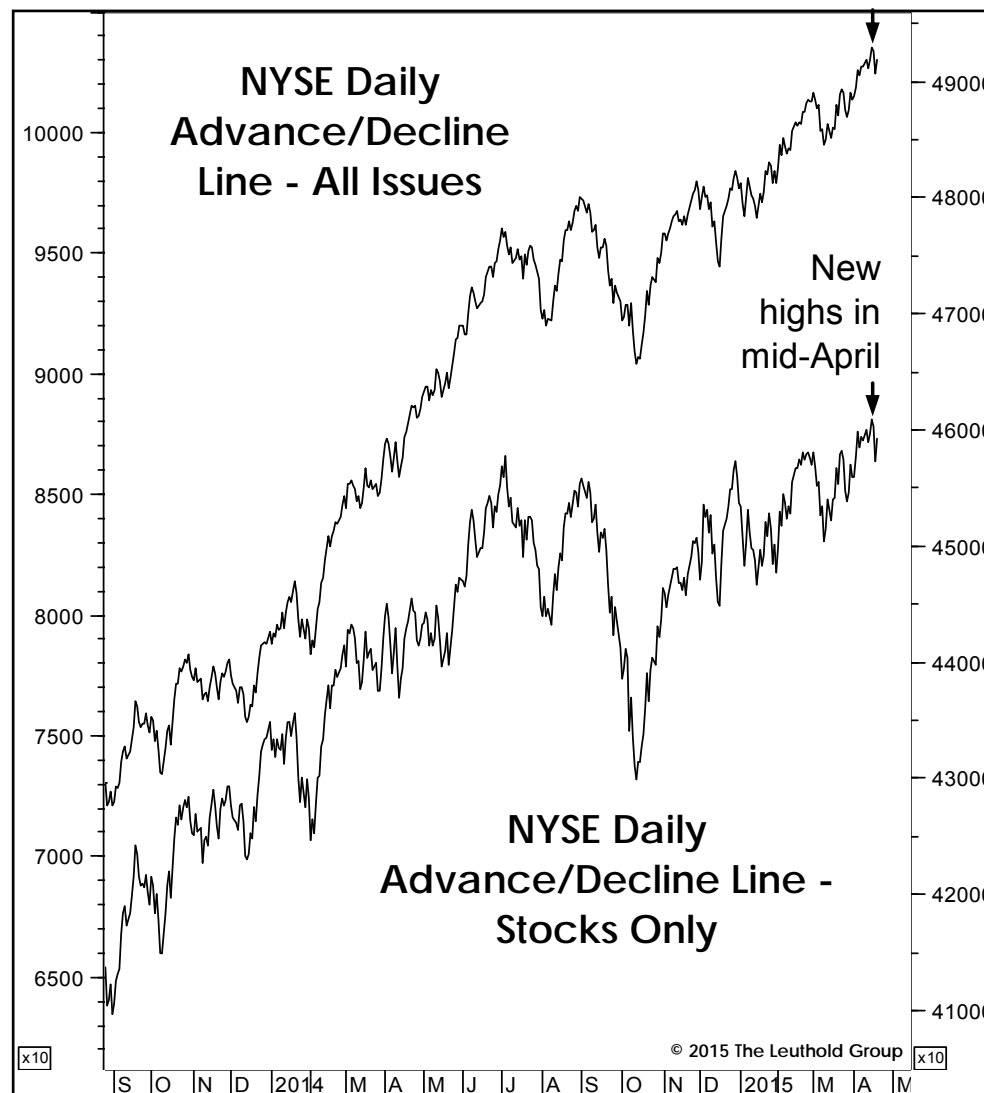
<b>POTENTIAL WEIGHT</b>			<b><u>THIS WEEK CURRENT NET READING</u></b>			
+	-			+	-	Net
1200	1200	Intrinsic Value	No Change	70	442	-372
1100	1100	Economic/Interest Rates/Inflation	Gain 22	492	176	316
1200	1200	Attitudinal	Gain 17	160	389	-229
600	600	Supply/Demand	Loss 8	121	72	49
1800	1800	Momentum/Breadth/Divergence	Loss 55	713	295	418
				<u>1556</u>	<u>1374</u>	<u>182</u>

BALANCE : +182 (+206 Last Week)  
\*RATIO: 1.13 (1.15 Last Week)

\*Total Positive Points : Total Negative Points. (0.95 to 1.05 is a "Neutral" reading.)



Market  
advance has  
been broad,  
which is  
near-term  
bullish





# New high in breadth suggests bull market life expectancy has been pushed out...

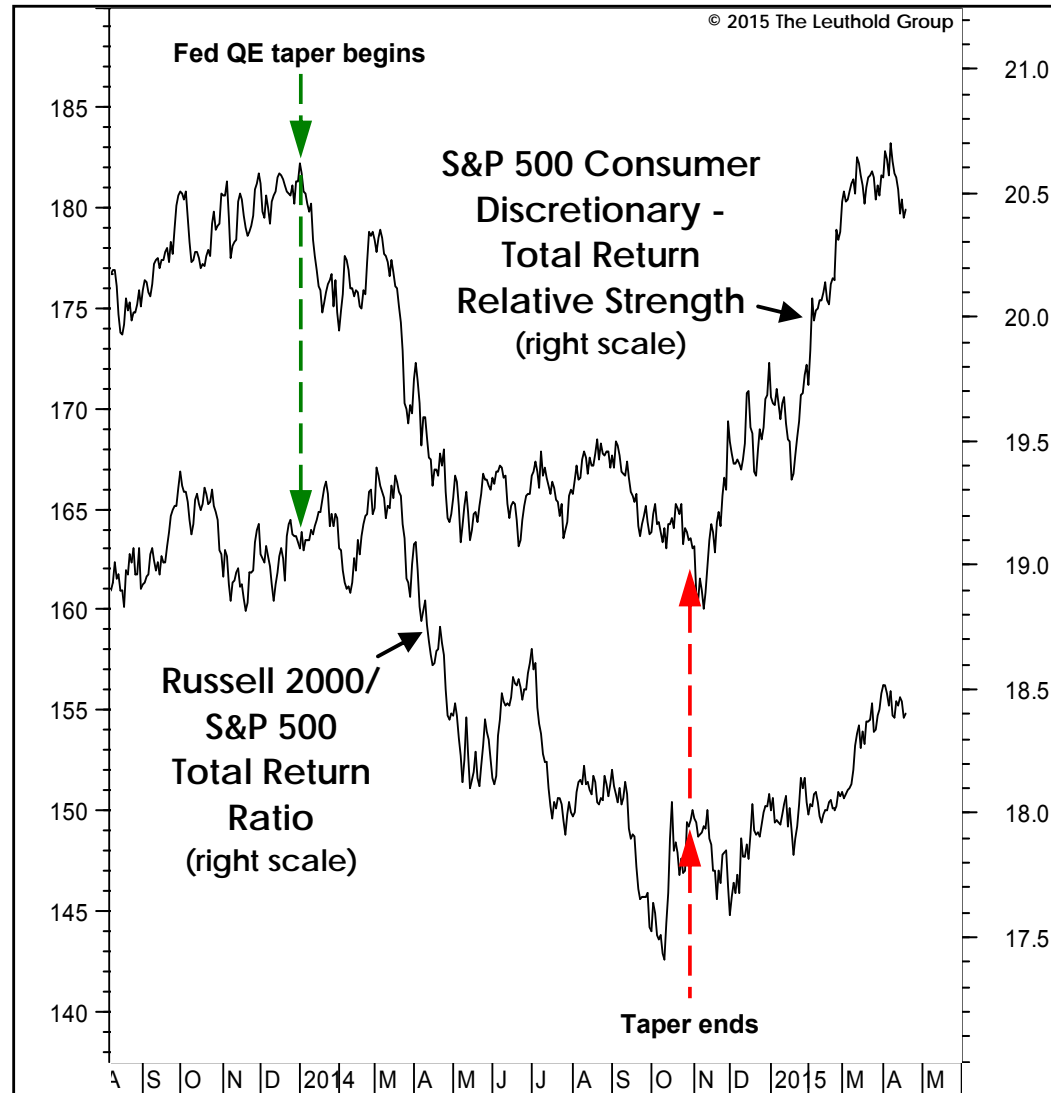
© 2015 The Leuthold Group		No. Of Weeks From Breadth Peak To Market Peak	S&P 500 Gain From Breadth Peak To Market Peak
Date Of Peak In NYSE Breadth (Daily A/D Line)	Date Of Bull Market Peak In S&P 500		
May 14, 1928	September 7, 1929	69	56.2 %
January 21, 1937	March 6, 1937	6	4.0
November 12, 1938	November 9, 1938	0	0.0
May 29, 1946	May 29, 1946	0	0.0
March 15, 1956	August 2, 1956	20	3.6
May 17, 1961	December 12, 1961	30	7.8
May 6, 1965	February 9, 1966	40	4.6
August 2, 1967	November 29, 1968	69	13.1
April 28, 1971	January 11, 1973	89	14.8
July 22, 1977	September 21, 1976	0	0.0
September 11, 1978	November 28, 1980	116	31.4
March 23, 1987	August 25, 1987	22	11.8
August 8, 1989	July 16, 1990	49	5.6
April 3, 1998	July 17, 1998	15	5.7
January 6, 1999	March 24, 2000	63	20.1
June 4, 2007	October 9, 2007	18	1.7
<b>Median:</b>		<b>26</b>	<b>5.7 %</b>

A/D peaks 2 trading days after S&P →  
A/D line and S&P 500 peak on same day →

A/D line peaks 10 months after S&P →

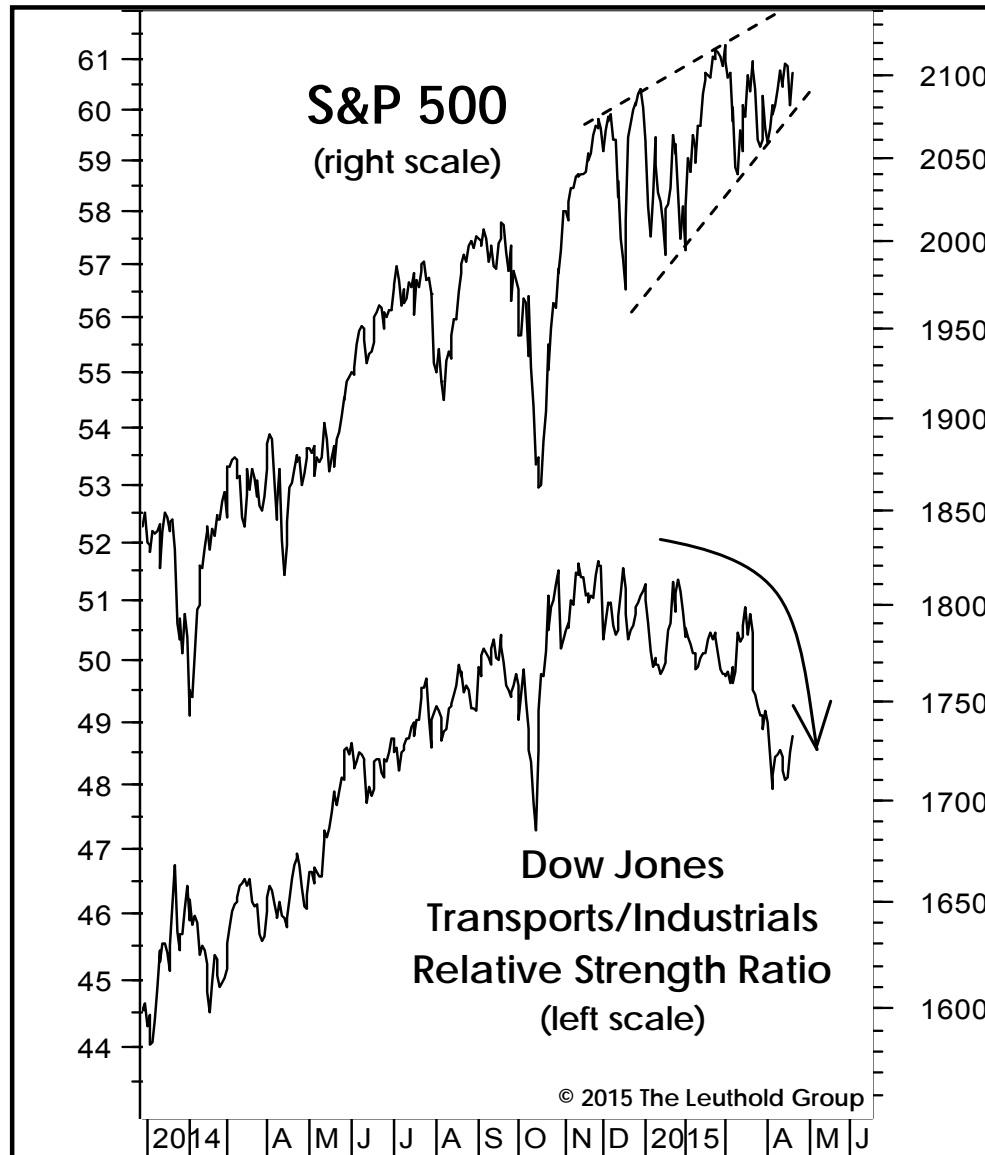


# The Taper Caper





Transports' weakness could be an early warning sign



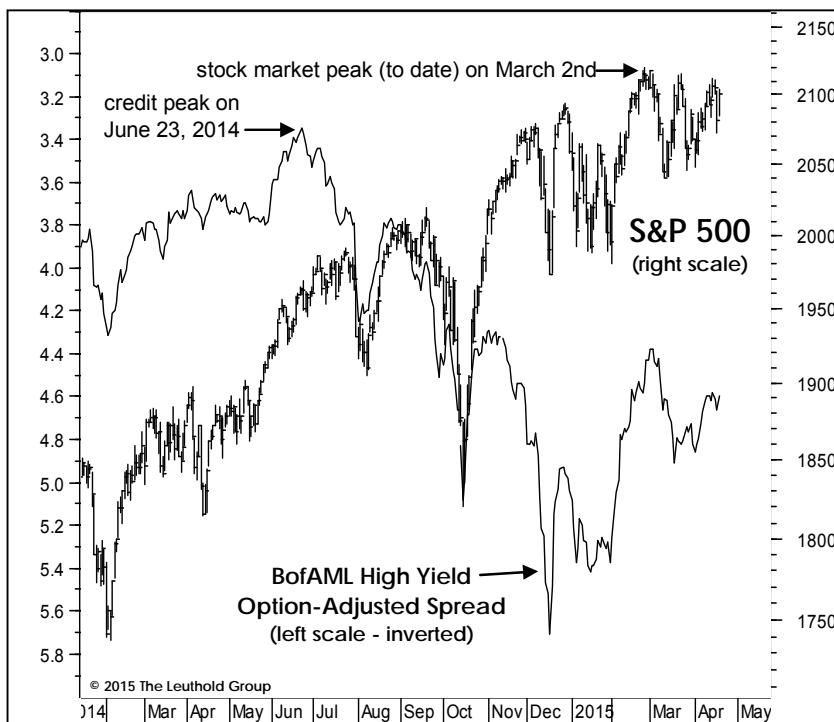


# Spreads sniffing out trouble

2007:  
Credit Leads Stocks



2014-15:  
Credit Leads Stocks??

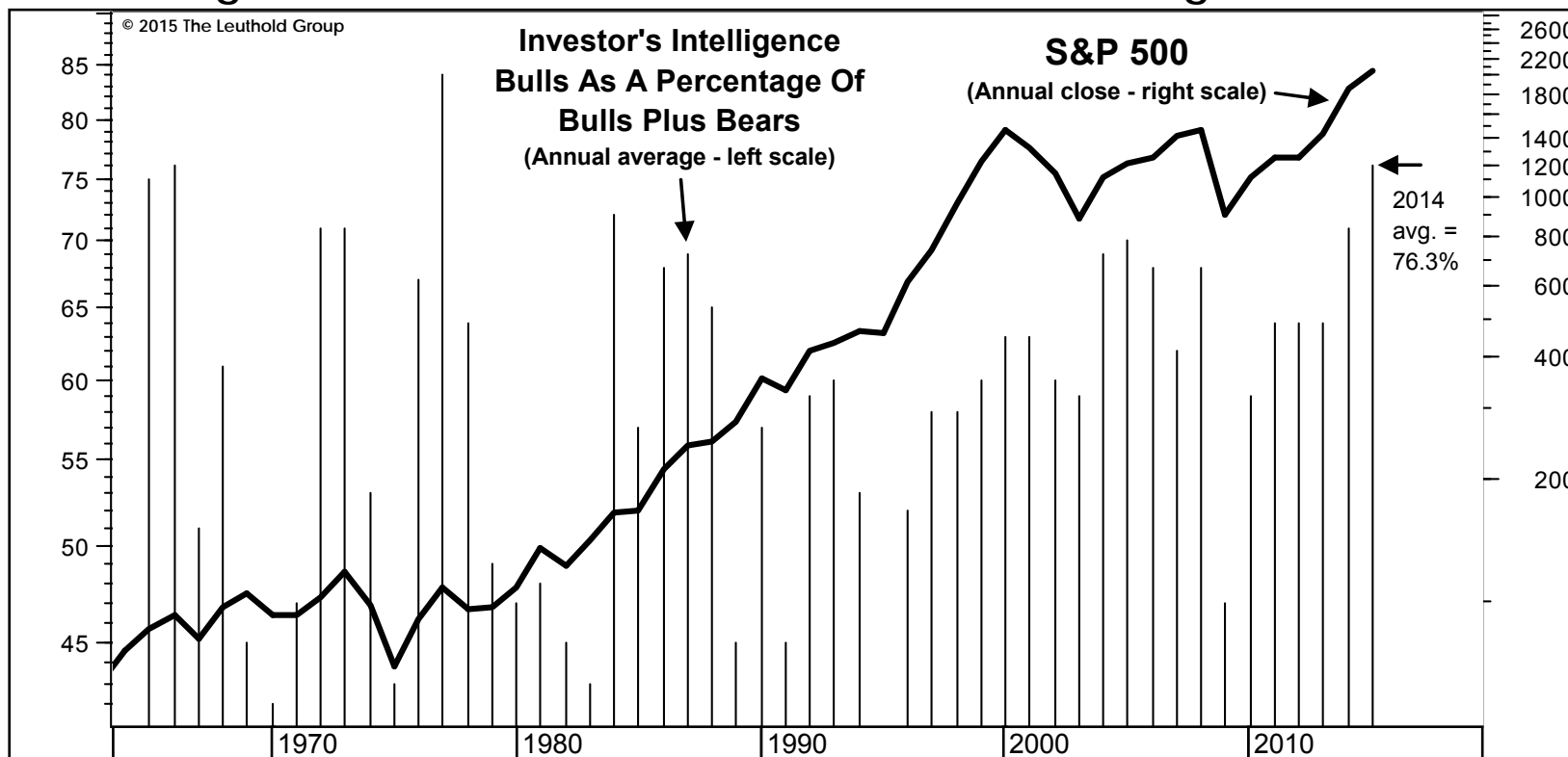






# The "hated" bull market?

## "Average" Sentiment Levels In 2014 Were The Second-Highest On Record





## High Sentiment Years & Subsequent Market Action

© 2015 The Leuthold Group <b>Ten <u>Highest</u> Average Sentiment Years</b>	<b>Average Sentiment Reading</b>	<b>Subsequent Year Gain Or Loss In S&amp;P 500</b>
1976	83.7 %	-11.5 %
2014	76.3	?
1965	75.6	-13.1
1964	75.0	9.1
1983	72.3	1.4
2013	71.0	11.4
1972	70.8	-17.4
1971	70.5	15.6
2004	70.3	3.0
1986	68.9	2.0
<b>Average Return:</b>		<b>0.1 %</b>



Bull markets  
have  
frequently  
topped near  
current  
valuations...

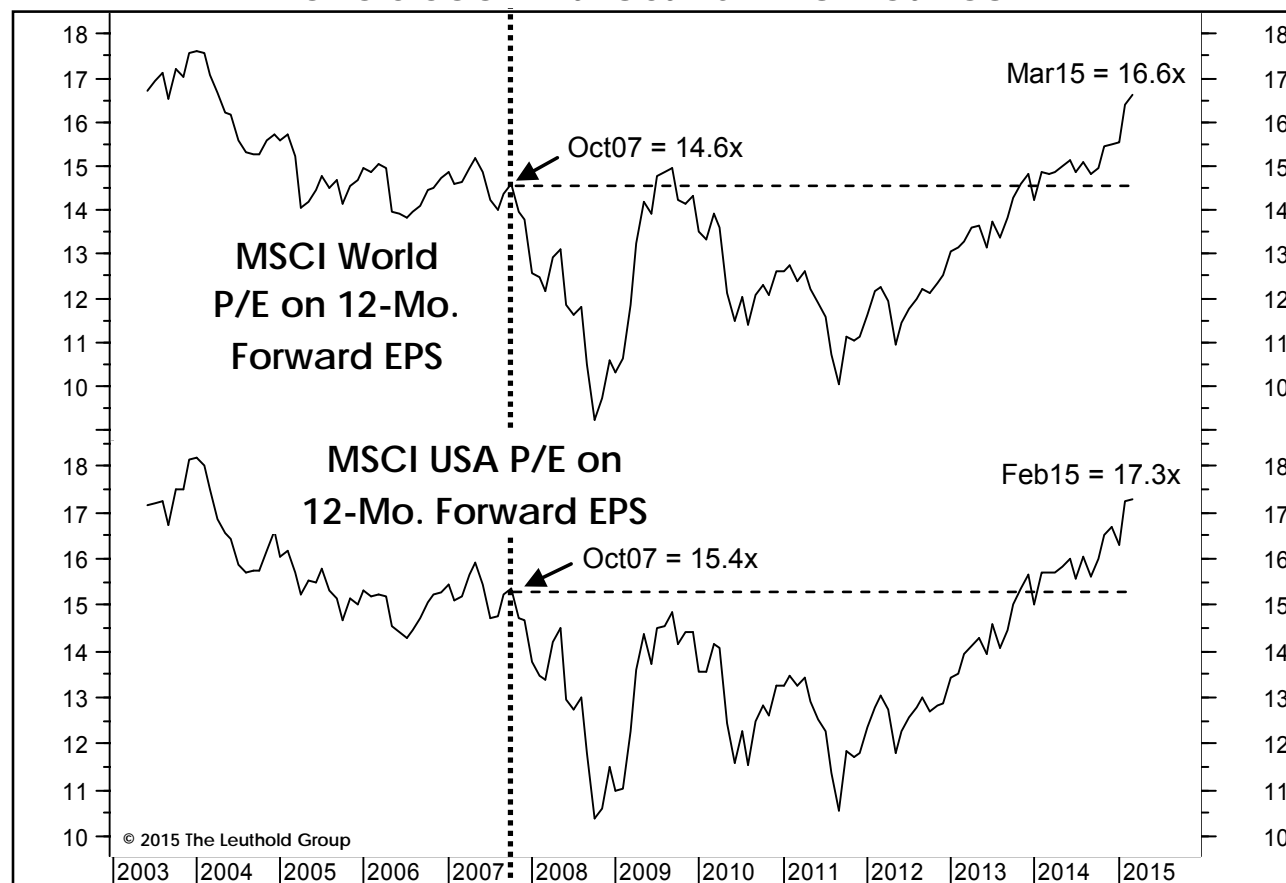
Date Of S&P 500 Bull Market Peak	S&P 500 Normalized P/E At Bull Market Peak
December 31, 1961	22.3 x
February 28, 1966	23.0
November 29, 1968	20.6
January 31, 1973	20.8
September 29, 1976	13.6
November 29, 1980	11.3
August 31, 1987	22.3
July 31, 1990	18.4
July 31, 1998	27.7
March 31, 2000	32.1
October 31, 2007	20.9
April 29, 2011	20.5
<b>Median At Modern Era Bull Market Peaks (1957 To Date):</b>	<b>20.8</b> x ←
<b>March 31, 2015</b>	<b>21.2</b> x ←

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Even forward P/E ratios look pricey...

### Forward P/Es Now Far Above Levels Seen At Last Bull Market Peak



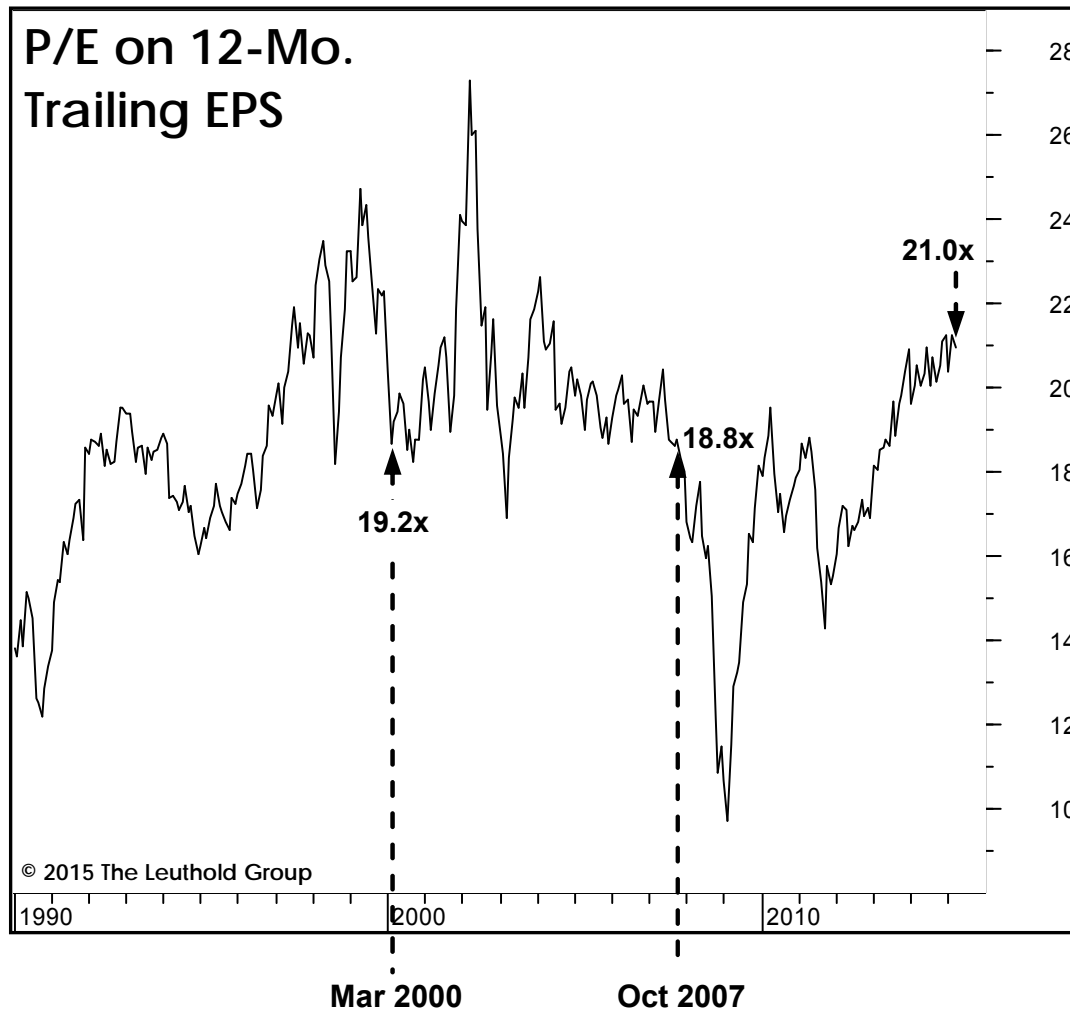
October 31, 2007  
(month-end peak of 2002-2007 bull market)



Stock market is  
“broadly”  
overvalued

### "Median" S&P 500 Stock Pricier Than At 2000 & 2007 Peaks

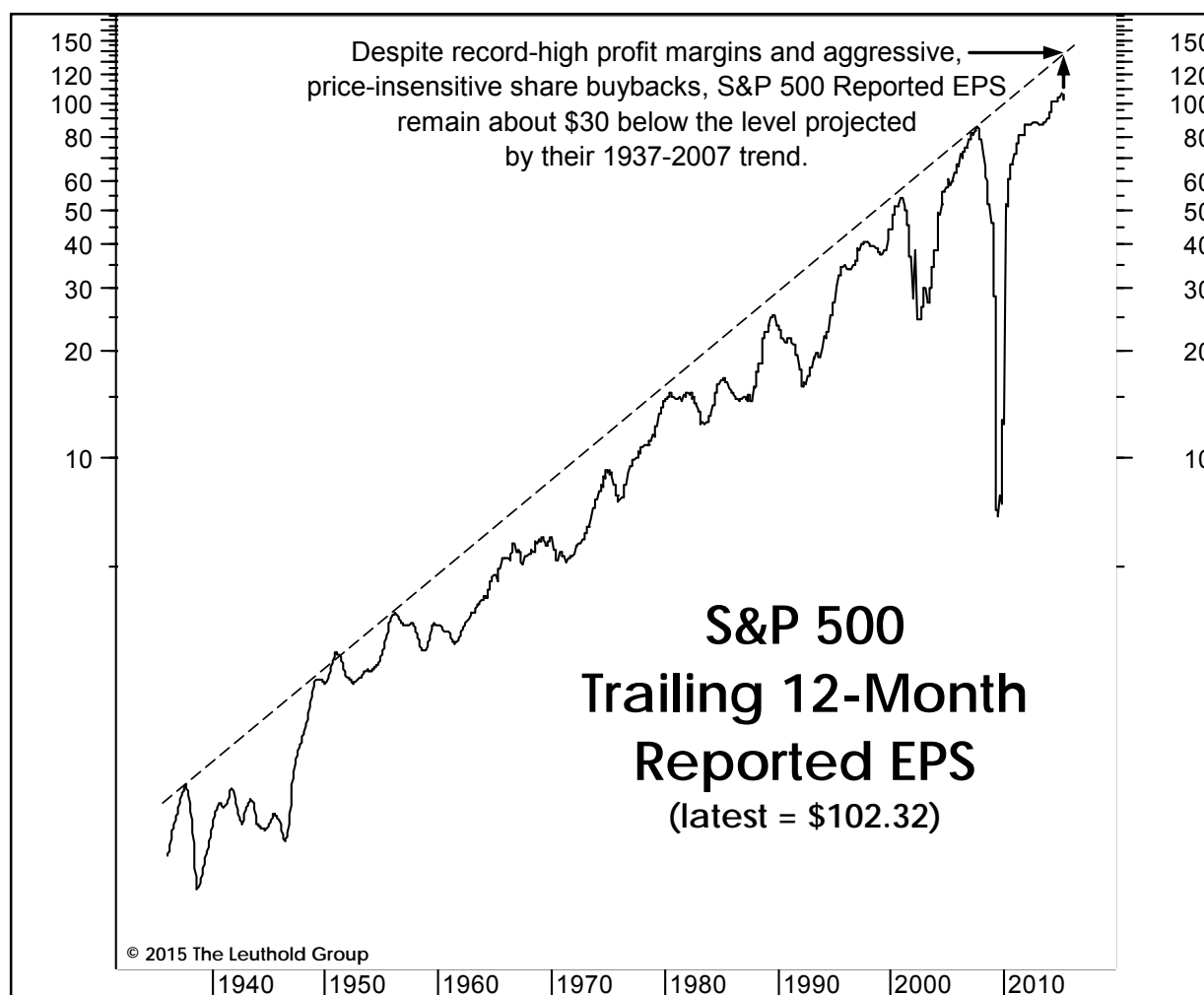
	<b>S&amp;P 500 Median Net Profit Margin</b>
March 2000	6.9%
October 2007	8.9%
March 2015	10.1%





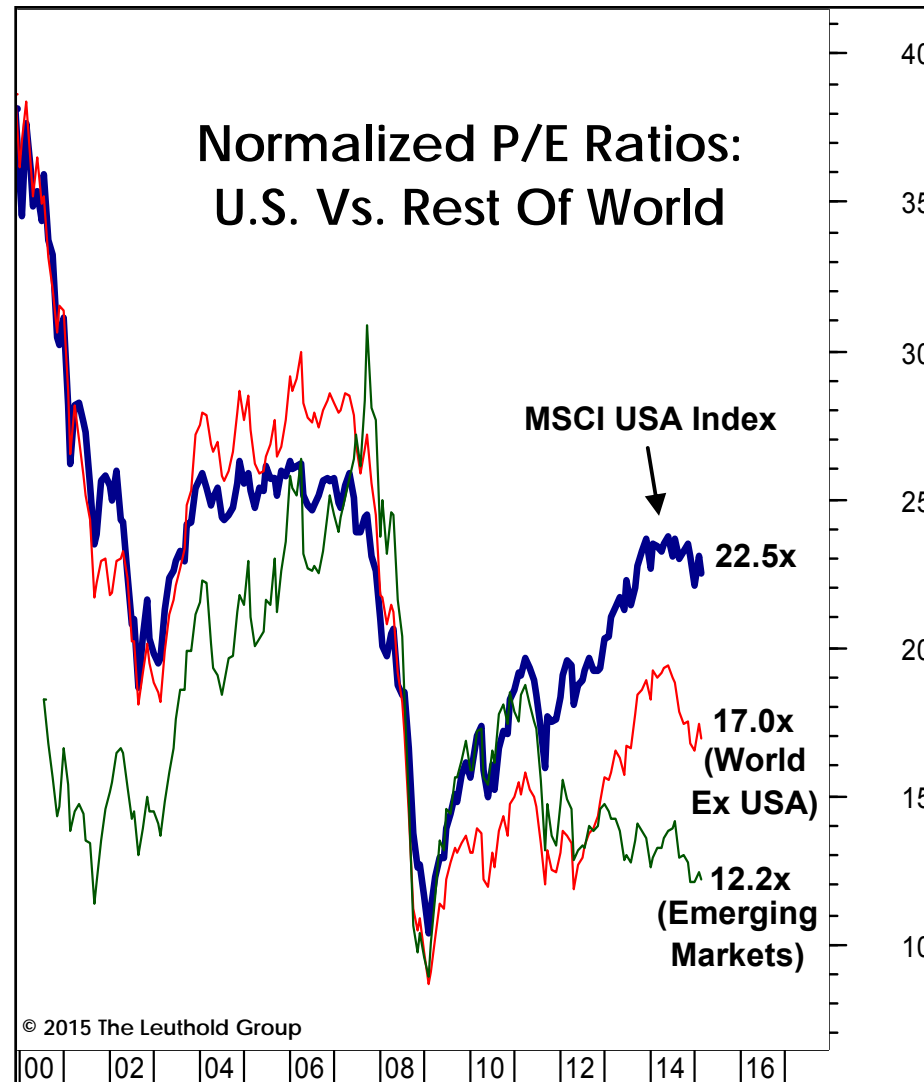
“Earnings are phenomenal!”

Oh, really?





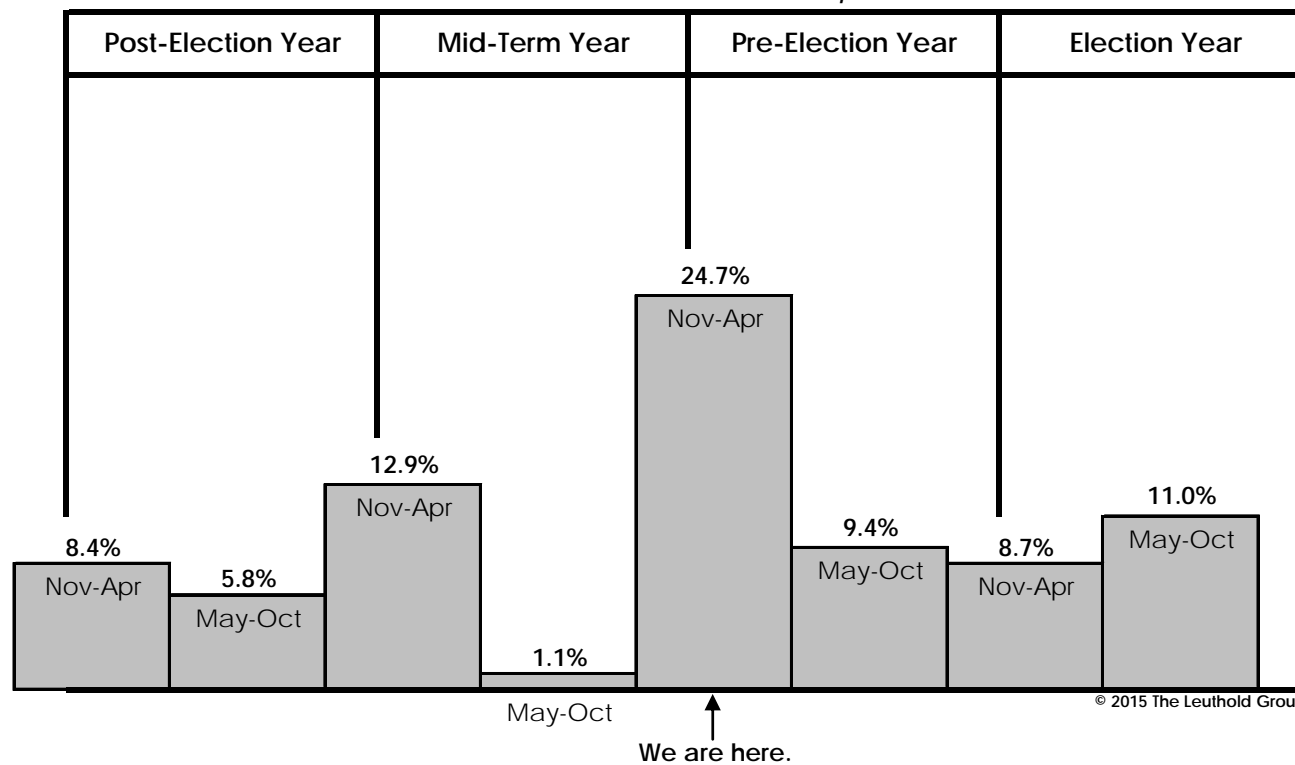
Rest of world  
looks cheaper;  
Opportunity or  
value trap?





A pair of  
bullish time  
cycles are  
coinciding...

The Stock Market's Annual & Presidential Cycles Combined:  
S&P 500 Annualized Total Returns, 1926 To Date







# More stock market numerology...

## Dow Jones Industrials In Statistically Favored Years (1898 To Date) (DJIA Performance Figures Are Price Only)

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Pre-Election Years	
--------------------	--

1899	9.2 %
1903	-23.6
1907	-37.7
1911	0.4
1915	81.7
1919	30.5
1923	-3.3
1927	28.8
1931	-52.7
1935	38.1
1939	-2.9
1943	13.8
1947	2.2
1951	14.5
1955	20.8
1959	16.4
1963	17.0
1967	15.2
1971	6.1
1975	38.3
1979	4.2
1983	20.3
1987	2.3
1991	20.3
1995	33.5
1999	25.2
2003	25.3
2007	6.4
2011	5.5
2015	?
<b>Average:</b>	<b>12.3</b> %

<b>All Years (1898 - 2014)</b>	<b>7.6</b> %
--------------------------------	--------------

Years Ending In "5"	
---------------------	--

1905	38.2 %
1915	81.7
1925	30.0
1935	38.1
1945	26.6
1955	20.8
1965	10.9
1975	38.3
1985	27.7
1995	33.5
2005	-0.6
2015	?
<b>Average:</b>	<b>34.6</b> %

Pre-Election Years Ending In "5"	
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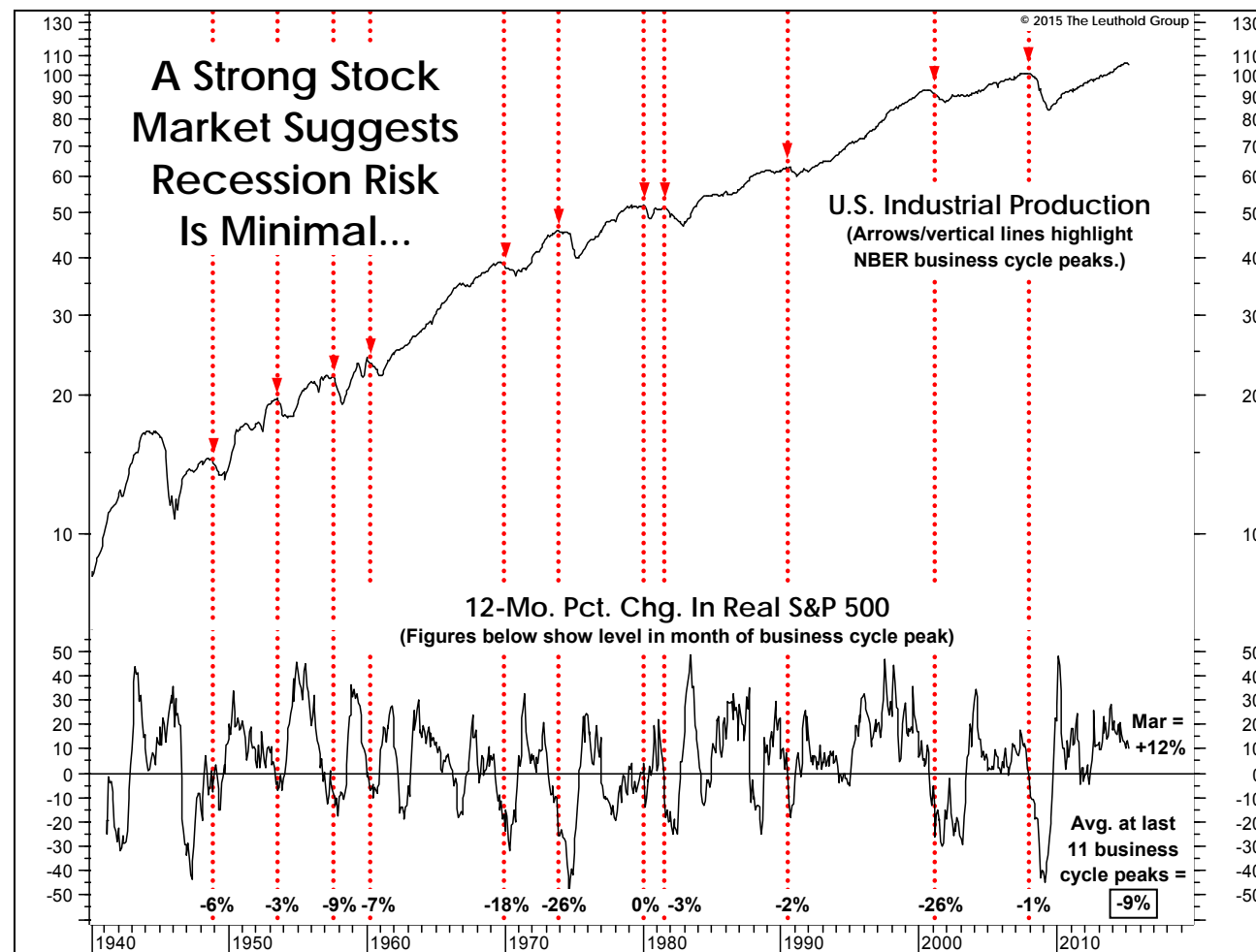
1915	81.7 %
1935	38.1
1955	20.8
1975	38.3
1995	33.5
2015	?
<b>Average:</b>	<b>44.7</b> %

Years Preceding A Bush/Clinton Election	
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1991	20.3 %
2015	?
2019	?
2023	?
<b>Average:</b>	<b>20.3</b> %

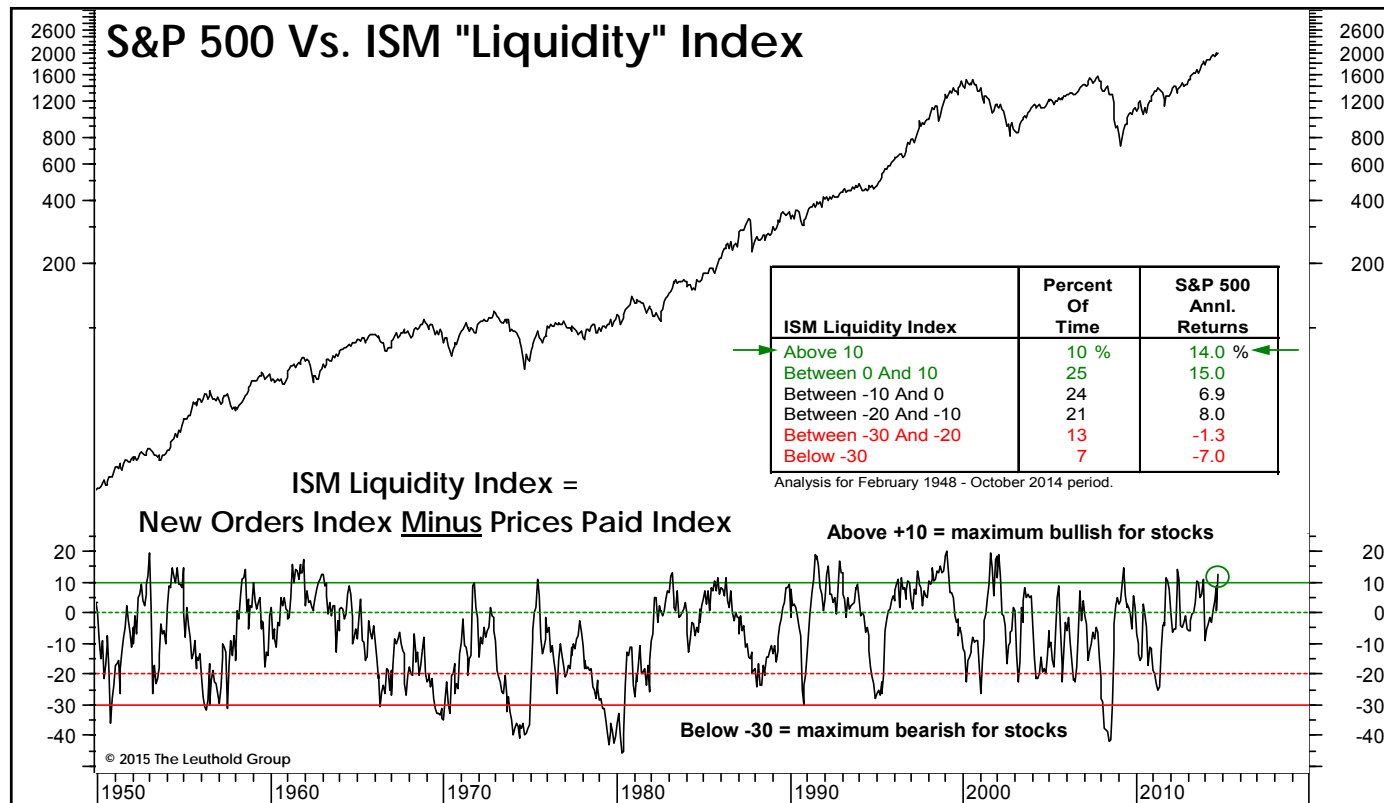


Recessions rarely catch the stock market by complete surprise...



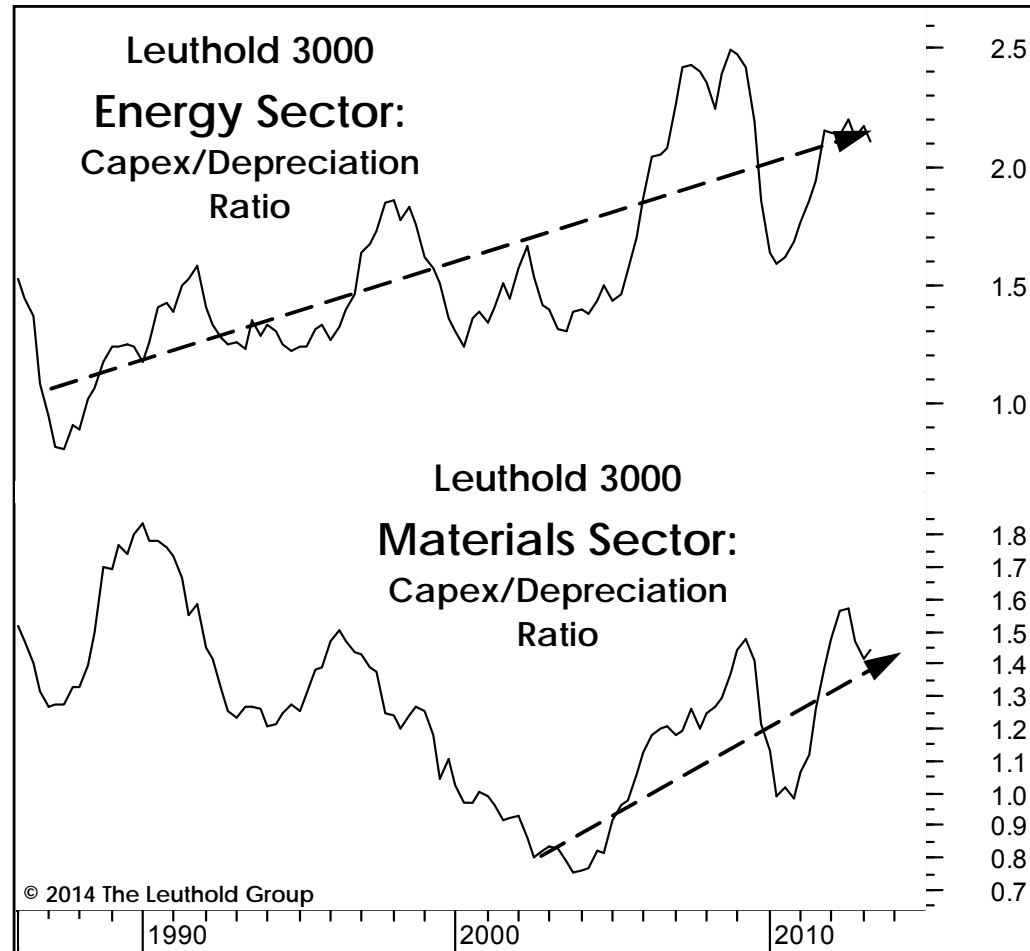
The year-over-year change in real stock prices has been either flat or negative at all post-WWII business cycle peaks. Near-term recession risk looks very low on this basis.

Simple economic gauge remains bullish





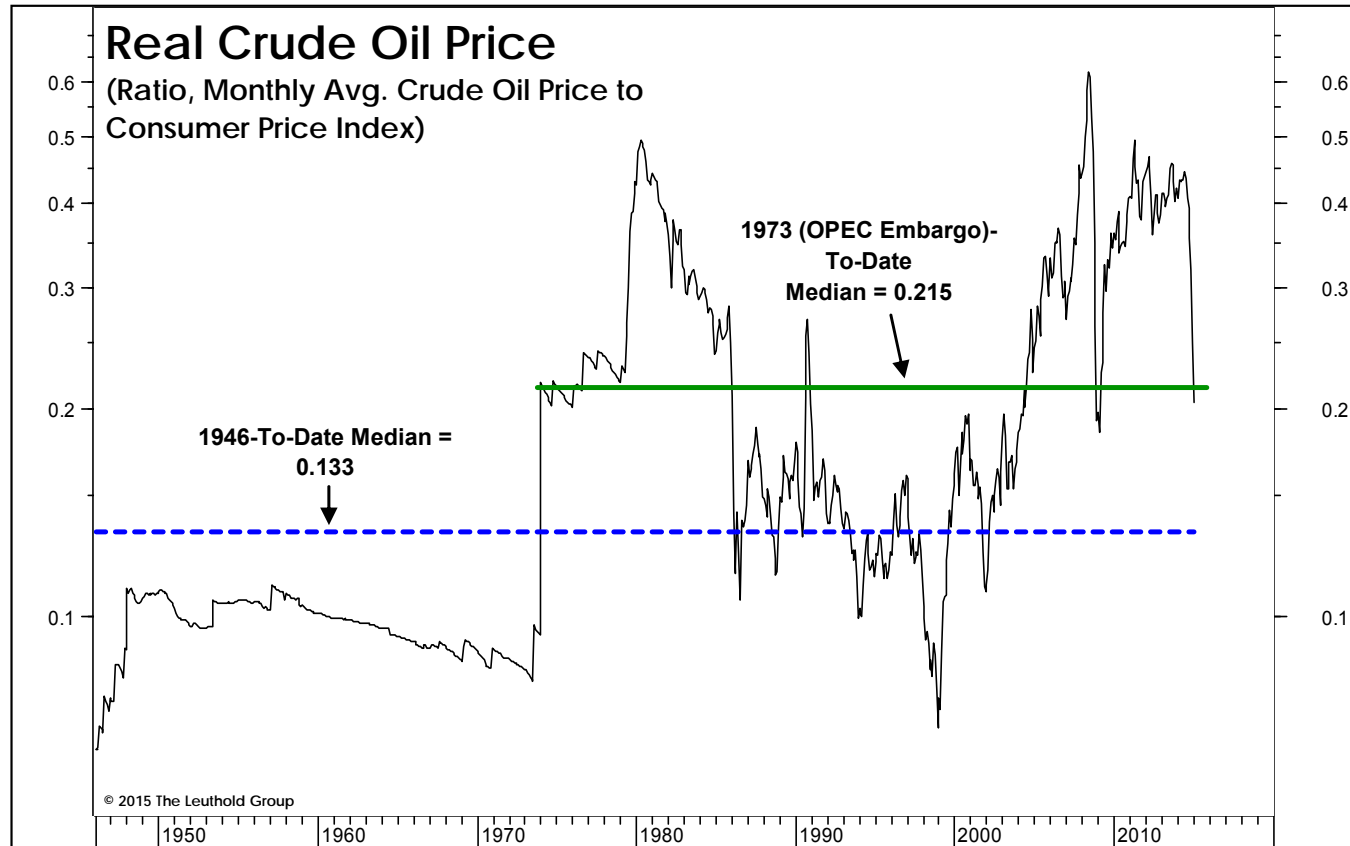
Commodities:  
The problem  
is **supply**.



Both series are weighted medians.

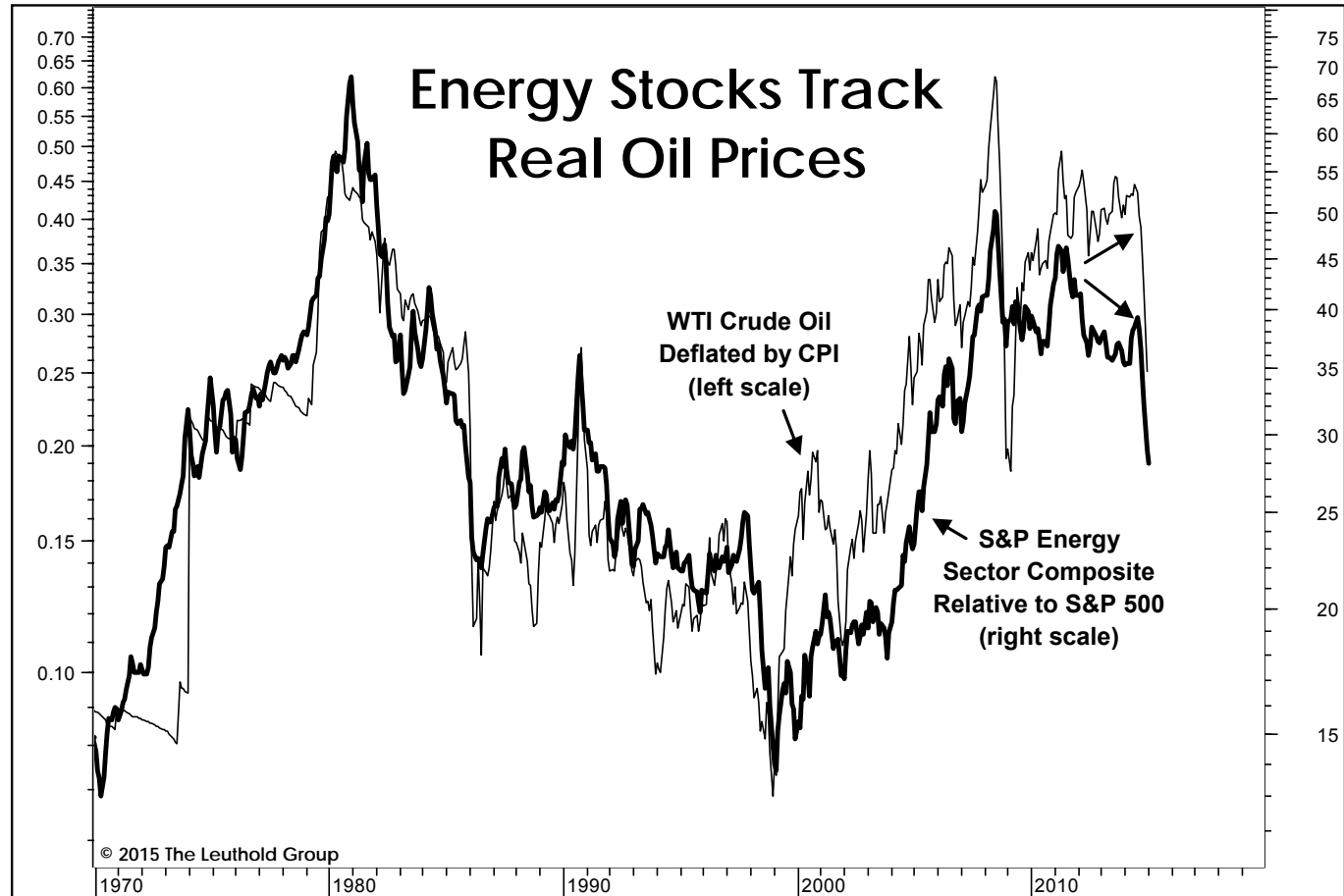


# Oil's plunge in perspective





# Why “real” oil prices matter





Energy:  
Should you  
catch the  
falling  
knife?

The "Cheapest Sector" Annual Strategy  
1991-2014

	S&P 500 Total Return	Last Year's Lowest P/E Sector	Cheapest Sector Strategy Total Return
1991	30.5 %	Financials	49.1 %
1992	7.6	Financials	23.3
1993	10.1	Financials	10.6
1994	1.3	Financials	-3.5
1995	37.6	Financials	54.1
1996	23.0	Financials	35.2
1997	33.4	Utilities	24.7
1998	28.6	Utilities	14.8
1999	21.0	Materials	25.3
2000	-9.1	Utilities	57.2
2001	-11.9	Telecom Services	-12.2
2002	-22.1	Energy	-11.1
2003	28.7	Utilities	26.3
2004	10.9	Energy	31.5
2005	4.9	Energy	31.4
2006	15.8	Financials	19.2
2007	5.5	Energy	34.4
2008	-37.0	Financials	-55.3
2009	26.5	Energy	13.8
2010	15.1	Utilities	5.5
2011	2.1	Utilities	19.9
2012	16.0	Financials	28.8
2013	32.4	Industrials	40.7
2014	13.7	Financials	15.2
2015		Energy	

1991-2014 Annualized:

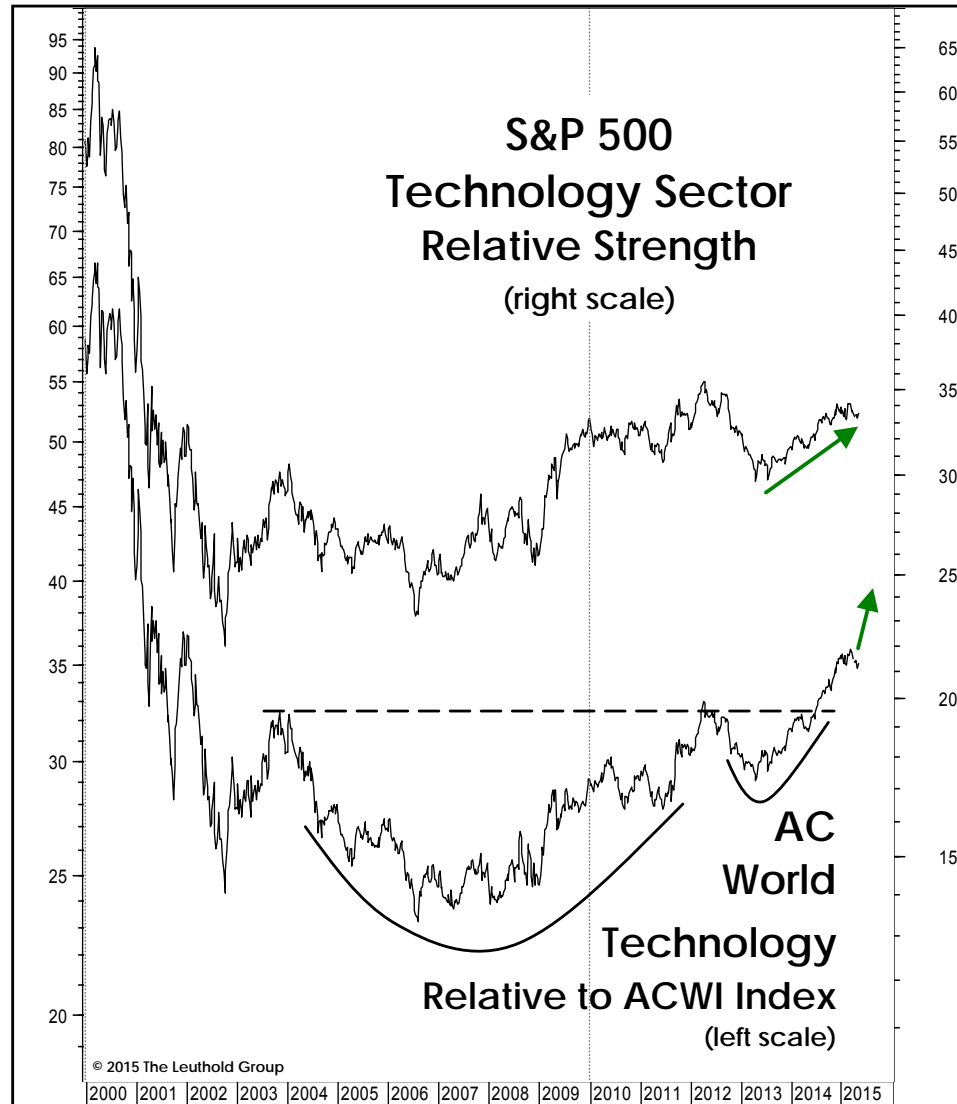
Total Return	10.2 %	16.9 %
Std. Deviation	18.4 %	24.1 %
No. Yrs. Outperforming S&P 500:		16/24
Correlation With S&P 500 (Annual Returns):		0.67

Results assume annual rebalancing of S&P 500 sectors;  
numbers include dividends, but exclude transactions costs.

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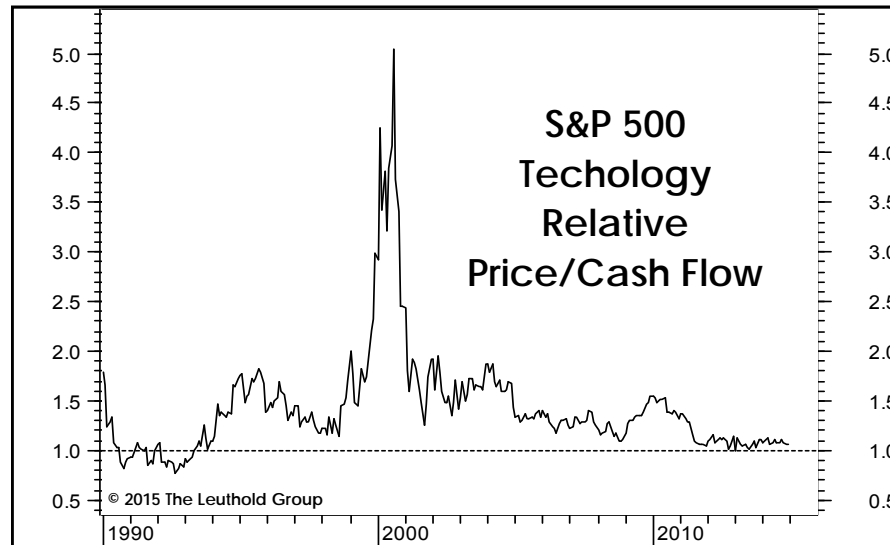
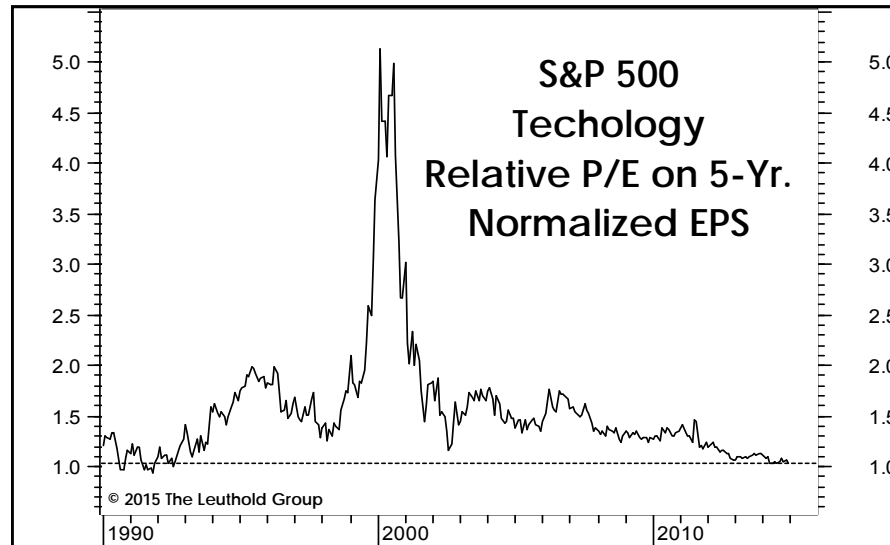
# Long-term leadership from Technology?







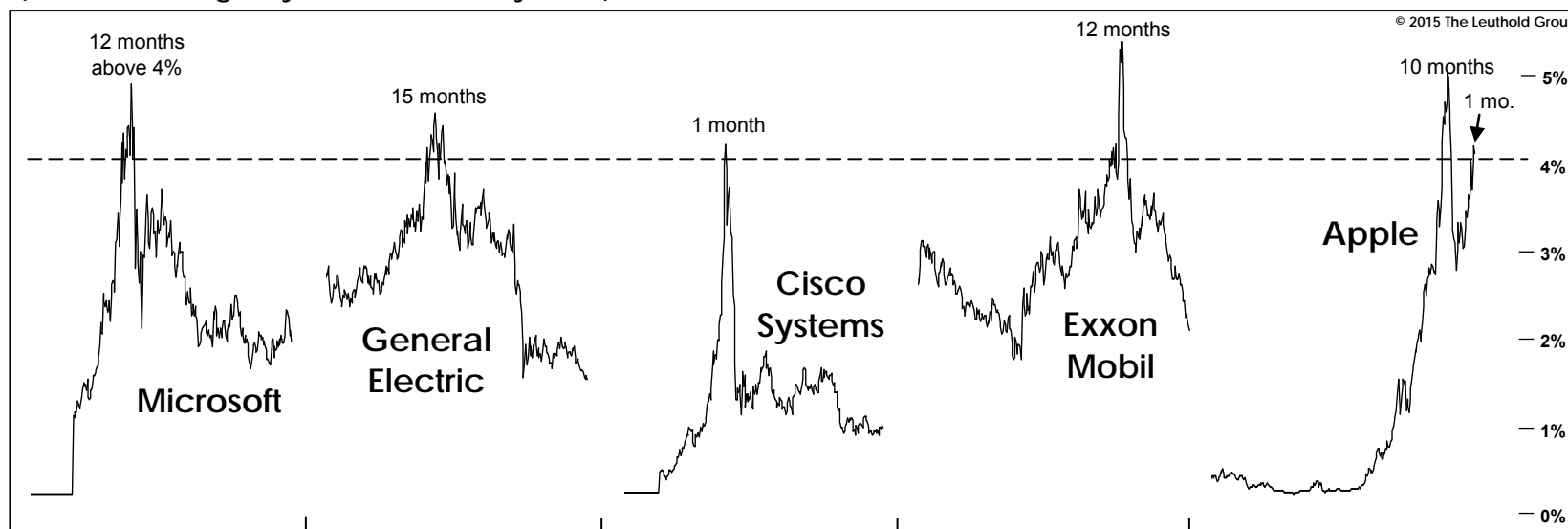
# Technology bubble? Far from it...





# Apple in perspective

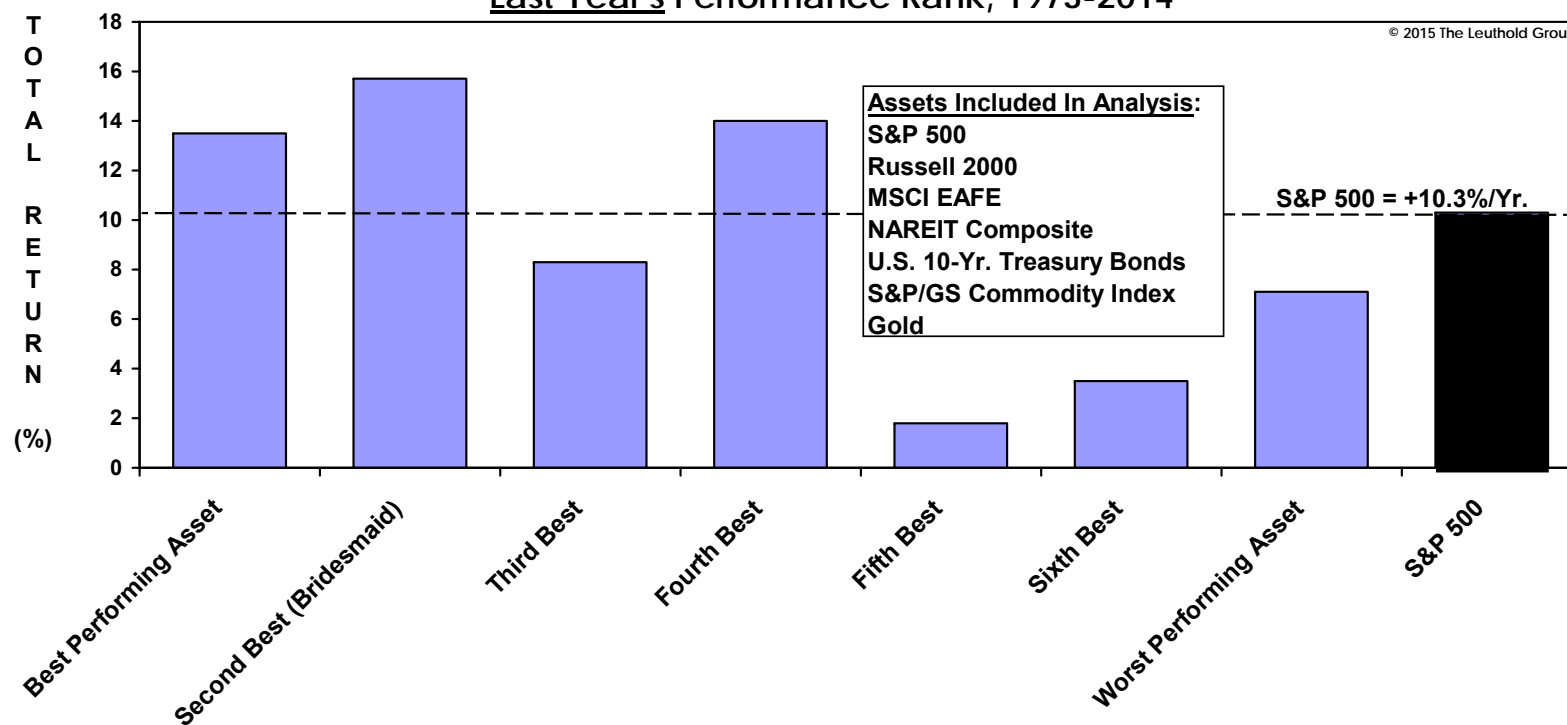
**Companies To Have Reached A Four Percent Weight In The S&P 500, 1990 To Date**  
(...and how long they were able to stay there)





# Asset allocation: Beware of “bottom fishing”

A Simple, Single-Asset Annual Allocation Strategy:  
Select From Among Seven Asset Classes Using  
Last Year's Performance Rank, 1973-2014





# Asset allocation: Own last year's runner-up asset class during the following year...

	2014 Total Return
2015 Bridesmaid - → REITs (NAREIT Index)	27.1 %
S&P 500	13.7
10-Yr. U.S. Treasury Bonds	10.7
Russell 2000	4.9
Gold	-0.2
MSCI EAFE	-4.5
Commodities (GSCI)	-33.1

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Year	S&P 500 Total Return	Bridesmaid Asset Class Owned During Year	Bridesmaid Strategy (Own Previous Year's Runner-Up Asset Class) Total Return
1973	-14.7 %	Commodities	75.0 %
1974	-26.5	Gold	66.3
1975	37.2	Commodities	-17.2
1976	23.8	Large Caps	23.8
1977	-7.2	REITs	19.1
1978	6.6	Gold	37.0
1979	18.4	EAFE	6.2
1980	32.4	Small Caps	38.6
1981	-4.9	Large Caps	-4.9
1982	21.4	Govt. Bonds	39.3
1983	22.5	REITs	25.5
1984	6.3	REITs	14.8
1985	32.2	REITs	5.9
1986	18.5	Large Caps	18.5
1987	5.2	Govt. Bonds	-2.2
1988	16.8	Commodities	27.9
1989	31.5	Commodities	38.3
1990	-3.2	Large Caps	-3.2
1991	30.5	Govt. Bonds	18.8
1992	7.7	REITs	12.2
1993	10.0	REITs	18.5
1994	1.3	Small Caps	-1.8
1995	37.4	Commodities	20.3
1996	23.1	Small Caps	16.5
1997	33.4	Commodities	-14.1
1998	28.6	Small Caps	-2.5
1999	21.0	EAFE	27.4
2000	-9.1	EAFE	-14.0
2001	-11.9	REITs	15.5
2002	-22.1	Govt. Bonds	15.4
2003	28.7	Gold	20.9
2004	10.9	EAFE	20.7
2005	4.9	EAFE	14.0
2006	15.8	Gold	22.5
2007	5.5	EAFE	11.6
2008	-37.0	Gold	4.3
2009	26.5	Gold	26.5
2010	15.1	REITs	27.6
2011	2.1	REITs	7.3
2012	16.0	Gold	5.9
2013	32.4	EAFE	23.3
2014	13.7	Large Caps	13.7
2015		Large Caps	
<b>1973-2014, Annualized</b>			
Total Return	10.3		15.7 %
Std. Deviation	18.0		18.5
No. Years Matching Or Exceeding S&P 500:			28/42
Correlation With S&P 500 Annual Returns:			-0.10



# “Bridesmaid” has been a winning sector strategy, too

2015 Bridesmaid - - ->

S&P 500 Sectors	2014 Total Return
Utilities	29.0 %
Health Care	25.3
Information Technology	20.1
Consumer Staples	16.0
Financials	15.2
Industrials	9.8
Consumer Discretionary	9.7
Materials	6.9
Telecom Services	3.0
Energy	-7.8
S&P 500	13.7 %

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	S&P 500 Total Return	Bridesmaid Sector (Last Year's Second Best Sector)	S&P 500 Sector Bridesmaid Strategy Total Return
1991	30.5 %	Consumer Staples	41.7 %
1992	7.6	Financials	23.3
1993	10.1	Consumer Discretionary	14.6
1994	1.3	Industrials	-2.4
1995	37.6	Health Care	58.0
1996	23.0	Financials	35.2
1997	33.4	Financials	48.2
1998	28.6	Health Care	43.9
1999	21.0	Telecom Services	19.1
2000	-9.1	Materials	-15.7
2001	-11.9	Health Care	-11.9
2002	-22.1	Consumer Discretionary	-23.8
2003	28.7	Materials	38.2
2004	10.9	Materials	13.2
2005	4.9	Utilities	16.8
2006	15.8	Utilities	21.0
2007	5.5	Energy	34.4
2008	-37.0	Materials	-45.7
2009	26.5	Health Care	19.7
2010	15.1	Materials	22.2
2011	2.1	Industrials	-0.6
2012	16.0	Consumer Staples	10.8
2013	32.4	Consumer Discretionary	42.9
2014	13.7	Health Care	25.3
2015		<b>Health Care</b>	

<b>1991-2014 Annualized:</b>			
Total Return	<b>10.2 %</b>		<b>14.9 %</b>
Std. Deviation	<b>18.4 %</b>		<b>24.8 %</b>
No. Yrs. Outperforming S&P 500:			15/24
Correlation With S&P 500 (Annual Returns):			0.94

Results assume annual rebalancing of S&P 500 sectors; numbers include dividends, but exclude transactions costs.