FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Buying Stocks at an All-Time High

As I write this, the S&P 500 Index is hitting an all-time high. When something has never happened before, it makes my contrarian antennae perk up. Yes, because the value of the dollar is constantly declining, it may not be an all-time high in real terms, but it's still a notable event, especially from a psychological perspective.

Although the S&P 500 includes 500 stocks, as I pointed out recently, the so-called Magnificent 7 currently comprise 28.7% of the index. They also comprise more of the MSCI World Index than Japan, the UK, China, France and Canada *combined*. What could go wrong when close to a third of the index is in stocks that are described as "magnificent"? Isn't that moniker permanent? It means that their future returns will be magnificent, right? As an analyst on CNBC just assured viewers, "Buying stocks at all-time highs has actually been a very good strategy."

There are three major stories that are driving the index higher. First, the current "fever" for AI stocks (which include nearly all of the Mag 7) has investors drooling over the prospect of enormous gains. You see, these companies are developing a new product that's basically a computerized version of Zoltar the robot fortune teller, or the Magic 8 Ball. Ask it to answer a question or write something and it will immediately spit out a word salad based on its best guess of which word follows each new word it comes up with.

This will revolutionize society, because instead of having to fact check only statements that seem dubious, you'll have to spend time and energy fact checking almost everything. Why watch news reported and presented by humans when you can watch AI-generated news? Why read books by subject matter experts when you could read (much cheaper) books written by AI? Why date real women when you could have a relationship with an AI girlfriend? Ask Jeeves is back, and it's going to make investors a fortune!

Seriously, AI may be a neat parlor trick, but it's crap, and investors are going to lose trillions of dollars on this story. Humans are social animals, but in a world of fake money, fake news, fake health care, fake elections, fake prosecutions, fake achievement, and now even fake weight loss, we're starved for truth, accuracy, authenticity and human connection. The last thing we need is more bull crap.

The second story driving the S&P 500 higher is the hope that the Fed will start easing monetary policy soon, especially if inflation seems “under control.” First of all, like the Soviet Politburo developing a five-year plan, the Fed has no idea what it's doing. Sure, its employees are intelligent, educated and knowledgeable, but only the market can determine what the price of money should be.

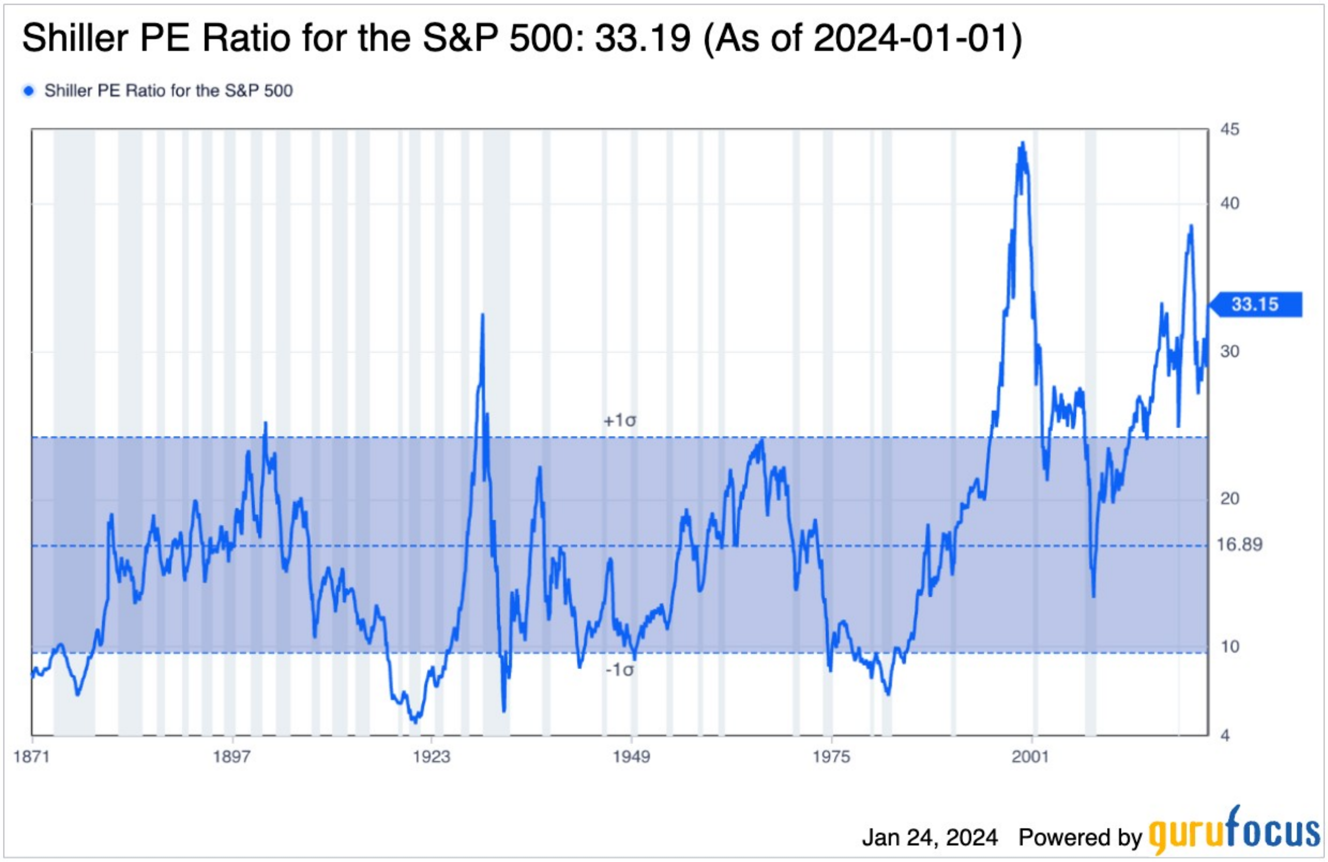
Also, the Fed is not some benign nonprofit that strives to achieve its Congressional mandate of price stability and full employment. Its real dual mandate is to maximize profits for the cartel of large banks that own it, and to make counterfeiting (currency printing) appear respectable, thus allowing the parasitic class to continue living at the expense of others, and the ruling elite to remain in power. So its policies will help precipitate the next financial/economic crisis, which (thanks in part to unprecedented levels of debt and moral hazard) will be not only the worst of our lifetime, but the worst in human history.

By the way, the real inflation rate is around 12%--nowhere near the Fed's stated goal of 2%. Inflation will never be “under control” until the federal government collapses, because due to runaway deficit spending, massive currency debasement will soon be its only option. History is the story of governments debasing their currency and defaulting on their debt. So the only “soft landing” we'll have is from jumping on the pile of worthless dollars that will soon adorn the streets as litter.

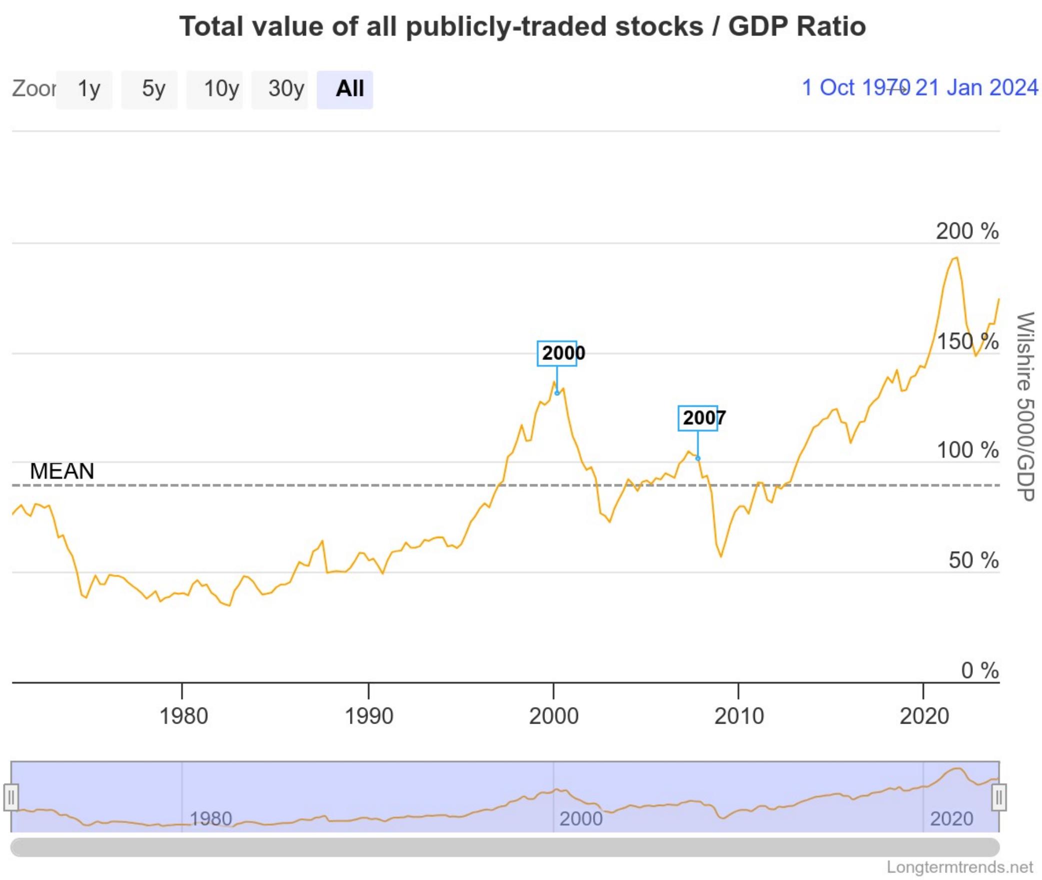
Third, the stock market is probably discounting a Trump victory in November. But nine months is an eternity in politics, and a lot of things could still happen, including skullduggery. Trump currently has a lead in Electoral College votes, but the swing states are the same ones that used voting fraud in 2020 to throw the election to Biden. So yes, currently, in a fair election, it seems that Trump would cruise to victory and Republicans could even take the Senate. But statists, the ruling elite and the Deep State are terrified of Trump and the threat he poses to their parasitic lifestyle and will do literally *anything* (using hundreds of millions of dollars from Zuckerberg and Soros) to keep him out of office.

Also by the way, small cap stocks—which are a better indicator of economic health than the larger stocks in the S&P 500—have not participated in this so-called bull market. The Russell 2000 Index is at the same level it was at the start of 2021. Perhaps that's due in part to the war on small business.

Instead of relying on *stories* in the financial media, let's look at some actual data. As of the end of 2023, the U.S. stock market had a cyclically-adjusted price/earnings ratio of 31.4 (yikes!), and based on four common measures of value, it was the third most expensive stock market in the world. The Shiller P/E Ratio for the S&P 500 is currently 33.2; its median is 15.9.



The [Buffett Indicator](#) (market cap/GDP), which Warren called "probably the best single measure of where valuations stand at any given moment," is currently 177.6% (anything over 151% is considered significantly overvalued)—close to an all-time high (going back to 1971).



The total value of corporate equities relative to U.S. GDP is 1.04; the record high (going back to 1952) of 1.3 was set in mid-2021. Before October 2017, the previous record high was .858, set in March 2000, just before the NASDAQ index crashed by 85%. The value of equities as a percentage of non-financial assets for U.S. households is .348, close to the record high (going back to 1952) of .377. The previous record high of .325 was set in March 2000.

U.S. investors have the highest expectations gap vs. financial professionals.

This article by respected analyst Mark Hulbert says Wall Street and Main Street disagree dramatically about the economy: "while this spread has narrowed slightly from its record high from a year ago, it nevertheless remains higher than ever historically....a recession soon occurred on each prior occasion when the spread began to retreat from a new high....Further evidence that a recession is not just possible but probable comes from the Conference Board's Index of Leading Economic Indicators (LEI). The latest reading of this index...is the 21st month in a row in which the LEI has declined — the third-longest streak on record. A recession occurred after every other streak of similar magnitude."

The Advisor and Investor Model—which measures the sentiment of retail investors and their advisors towards stocks--reached 1.0 in late December, a rare high going back to 1971, indicating extreme bullishness and low expected returns; it currently stands at .89.

Dumb Money Confidence reached 88% in December—a rare high since 1999--and is currently at the dangerous level of 72%.

The NASDAQ 100 Bullish Percent Index (for the 100 largest stocks on the tech-heavy NASDAQ exchange) reached 89% in December and is still at 81%, implying low expected returns. During the last 20 years, it reached that level only a handful of times. The S&P Technology Sector Bullish Percent Index reached 87.7% in December and is currently at 81.5% (a rare high), again implying low expected returns.

The QQQ Net High-Low % Index—which is calculated by subtracting the percentage of NASDAQ 100 stocks trading at a 52-week low from the percentage trading at a 52-week high—reached 36.3 on Jan. 22, the highest in six years (which implies a low expected return). A similar index for the S&P 500 is at the highest level since May 2021. A similar index for the technology sector just reached 42.2—the highest since November 2020.

The Equity/Money Market Assets Ratio remains worryingly high at 3.25; other than briefly during the COVID-19 scare, it has remained above 3.0 since 2013—during the Era of Easy Money.

At 2.2%, the Mutual Fund Cash Level remains near its record low (since 1955) of 1.9%; it didn't go below 4% until 2005. Part of this is due to the rise of (fully invested) index funds, part of it is due to artificially low interest rates for a prolonged period of time, and part of it is due to the bullishness of investors and fund managers (who have to give investors what they want). Regardless of the cause, there is almost no buying power left, and if a lot of investors suddenly want their money back, funds will have to sell stocks to raise cash, driving down their price.

Commercial hedgers (considered Smart Money) currently have the largest short position in the small cap Russell 2000 index since March 2021. On Jan. 9, small speculators (considered Dumb Money) had *by far* the largest net long position in U.S. stock index futures *ever* (going back to 1987). This implies a comfort with risk-taking and a low expected returns for these indices.

The Corporate Insider Buy/Sell Ratio for the energy sector is at a record low (going back to 2010) of 0, which means insiders (who are Smart Money) aren't buying their company's stock at all.

The Rydex Money Market % Index—which is the amount of assets in Rydex money market funds as a percentage of the amount in their bullish stock funds—is at .07%, close to the record low (going back to 1995) of .05% set in January 2022. Dumb Money tends to use Rydex funds, so this is bearish for stocks. The Rydex Ratio—which is the amount of assets in bullish funds as a percentage of the amount in bullish and bearish funds—is at .87, and has been inching closer to the record high (going back to late 2000) of .94. At the end of 2023, the amount of assets in leveraged bull Rydex funds nearly tied the record high (going back to 2000).

So if you've been experiencing FOMO and want to try out an investment strategy of buying stocks at an all-time high, come on in, the water's great! After all, CNBC has given you permission to do so. Microsoft may have a market cap of $3 trillion, but it's going even higher. And if things don't work out and you suffer an 85% loss, an AI girlfriend will always be available to console you.

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(I receive a commission if you buy a book via this link.)

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