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COULD THE U.S. STOCK MARKET YIELD 0% GAINS OVER THE NEXT SEVERAL YEARS ?----

HOW TO PROTECT YOURSELF NOW!

All serious investors have to be asking themselves: has the stock market topped for this cycle?

And if it has, what can we expect next? If we are to believe the Federal Reserve, there's very little in store to reward investors over the next several years (some experts are saying as long as 5 years). Many money managers, pension fund managers, etc. tend to rely on longer term projections such as those put forth by famous investors like Warren Buffet or Robert Shiller (who won a Nobel Prize for his predictive model of stock market valuations).

But they tend to look at longer term cycles of around 10 years. For those of us with a need to know what to expect in the nearer term (say 5 years), when we may be retiring or trying our best to maintain the retirement lifestyle we’ve worked so hard for, the following information may be more practical and actionable. Here’s the ugly truth: not only is the long term (10 year) outlook calling for below average stock market returns---as suggested by Buffet and Shiller---but the Federal Reserve has hinted it believes the total stock market return over the next 5 years could be ***0%***!

How can that be you are no doubt wondering? The Fed’s own data, based on a proven formula that’s 65 years old, makes the case that over the next several years the S&P 500’s total return could be 0. That’s right: zip, nada, zilch, etc.

What the Fed does is plot the stock market’s total 5-year return against their “Household’s Financial Assets and Liabilities” statistics (a few non-profit organizations that specialize in family assistance are also included). The Fed measures the percentage of liquid assets held by homeowners. These include mutual funds, ETFs, stocks, REITs and other liquid assets as opposed to bonds and cash on hand. The bottom line is this: when household allocations to stocks are higher than the historical average, there will be lower than average stock returns going forward. This is now the case.

The reason is really pretty simple: when household stock/equity ownership gets high it means almost everybody has put their money into the market and there aren't many buyers left to keep moving stock prices up. It would be consistent with the Fed's statistics to see a return of 0% stock market gains over the next several years. And that's before subtracting the loss of buying power due to inflation.

Several prominent financial research organizations have recently reviewed the Fed's statistics and two of the most prestigious found an 89% and 91% correlation with the Fed. So, what does this mean for those of us counting on reliable stock market returns to keep our investment portfolio growing as we focus on a well-deserved retirement (or just conservative asset growth)? The short version is this: it's time to forget yesterday's buy and hold approach that will take your assets to the bottom quickly if the Fed's projection is correct (remember trying to buy and hold in 2008 and 2009---how did that work out for you?).

Today's volatile global markets are driven by so many variables that, as an individual investor, it's increasingly difficult to keep up with them. Some would say impossible. But a realistic solution might be to understand that market trends can be successfully followed, and that by doing so you are letting the "black boxes" who control the money flow into and out of the markets take you along for the ride. You'll never be able to outsmart the giant hedge funds and investment banks that push the markets up and down, but you can certainly follow in their footsteps profitably if you know the right indicators to watch and how to interpret the signals they are sending.

It used to be impossible for the small, individual investor to be able to track the "big money" but not anymore. Tools that were once available only to the investment banks of the world are now available to investors of all sizes and pocketbooks. As an example, our elegant suite of indicators has been refined from dozens available to a mere handful that keep us invested in the market when it's trending and safely in cash when it's not. And to keep it very simple, we switch between only 2***: SPY*** and ***SH. SPY*** makes us money when the S&P 500 index is going up and ***SH*** makes us money when the market has turned bearish and is headed down. If there's no clear direction for the market, we move to cash. We normally make switches only every few weeks or months---we have more important things to do than sit in front of a computer screen and follow the market second by second—but are always ready to make a switch to cash at any moment if safety and profit preservation are indicated.

But maybe the most important thing is **we can make good money when the market is going down** as well as up. And we do it by staying fully diversified across 500 of the largest companies in America. We pay miniscule fees, are always liquid and there’s never a penalty for withdrawals.

Plus, our system is perfect for 401Ks, IRAs, pensions or any type of qualified account. Wouldn't it be great knowing you may never again have to worry about your retirement account taking a massive hit like has happened in the past? What would that kind of peace of mind be worth?

J. Michael for

The Investment Team

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