



K2 ADVISORS®

Shrugging Along

“I'd keep playing. I don't think the heavy stuff's gonna come down for quite awhile...”

Carl Spackler (character) Played by Bill Murray

Caddyshack. Harold Ramis. Warner Bros. Pictures, 1980.

“Passive investments have been an extremely efficient way to capture nearly 100% of the market upside. The question today is— given the maturity of the bull market for both equities and bonds, are you prepared to capture that same 100% on the downside.”

David C. Saunders, Founding Managing Director, K2 Advisors



Brooks Ritchey
Senior Managing Director
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To me *Caddyshack* belongs in the pantheon of great films in cinematic history; but I find myself in the minority when sharing this opinion with the youngsters in the office (generation Z??? Millennials??). Apparently the humor does not hold up in their view...who knew?

Critical observations aside, I think we all would agree that markets — like the unflappable Carl Spackler — have demonstrated a remarkable level of optimism and resilience post 2009. One could even go so far as to say investor sentiment has at times reflected a sanguine naiveté, or indifference, to macro factors...driven forward with an unbridled confidence fed steadily by a diet of central bank stimulus. Indeed, participants in U.S. markets have apparently not seen the heavy stuff — or at least *recognized* it — for 2,333 days (as of July 30), representing the third-longest bull run in history.

Even more compelling, its has been 1,433 days since the S&P 500 has experienced a correction of 10 percent on a closing basis.

Resilient indeed...

Out of curiosity, I recently searched Google for the terms ‘markets’ and ‘shrugged’ in the headline or body of news articles published over a six year period, from July 21, 2009 through July 21, 2015 (Google is an amazing tool by the way). My search yielded an incredible [31,000 results!](#) The headlines (in no particular order) help jog the memory as to the many speed bumps we’ve passed along the way — potential obstacles blown past without so much as a basis point shudder.

A Whole Lot of Shrugs...

TheStreet.com, “Ukraine Crisis: Markets will **Shrug** off Crimea Standoff,” *March 3, 2014*

Telegraphy.co.uk, “Markets **shrug** off fears of worldwide flu pandemic,” *April 27, 2009*

Telegraph.co.uk, “Blue-chips **shrug** off economic woes,” *Jan 1, 2013*

CNN, “Stocks **shrug** off shutdown...” *October 1, 2013*

Yahoo Finance (blog), “Stocks **shrug** off Ebola concerns...” *October 24, 2014*

Financial Times, “Investors **shrug** off Mexican drugs violence,” *July 29, 2011*

MarketWatch, “Stocks **shrug** off Syria strikes...” *September 23, 2014*

CNNMoney, “Big Bank stocks **shrug** off Volcker Rule,” *December 10, 2013*

NBCNews.com, “Stocks close higher as markets **shrug** off government shutdown...” *October 1, 2013*

Los Angeles Times, “Economy shrinks for first time in 3 years; markets **shrug**...” *May 29, 2014*

Financial Times, “Scottish funds **shrug** off referendum fears,” *July 27, 2014*

Financial Post, “Investors **shrug** off economic woes in Greece and China” *July 13, 2015*

Financial Times, “Equities **shrug** off fall in crude prices,” *December 2, 2014*

Financial Times, “Stock **shrug** off lingering growth worries,” *September 24, 2014*

Reuters, “Global Markets-Stocks rebound, **shrugging** off volatile and weak China,” *July 28, 2015*

And the list goes on. My shoulders hurt...

To be clear, I am not attempting to predict a market top or correction, or suggest that we all run for the exits. Can the positive momentum continue? Probably...in fact I thought the Chinese market rout could have been the proverbial straw, but the band played on. Frankly who would know? We may still double from here (theoretically). As the father of modern game theory John Von Neumann (1903 – 1957) said, “there is no use in being precise...”. For me it is not about trying to predict dives or rallies, but rather about preparing for incipient shocks smartly and strategically; it is about *being vigilant*. What I do know, what I am 100% certain of, is that the markets will correct eventually.

And when that happens, when the heavy stuff is at long last upon us, I would like to be well on my way to the clubhouse — or at least have a good sturdy umbrella.

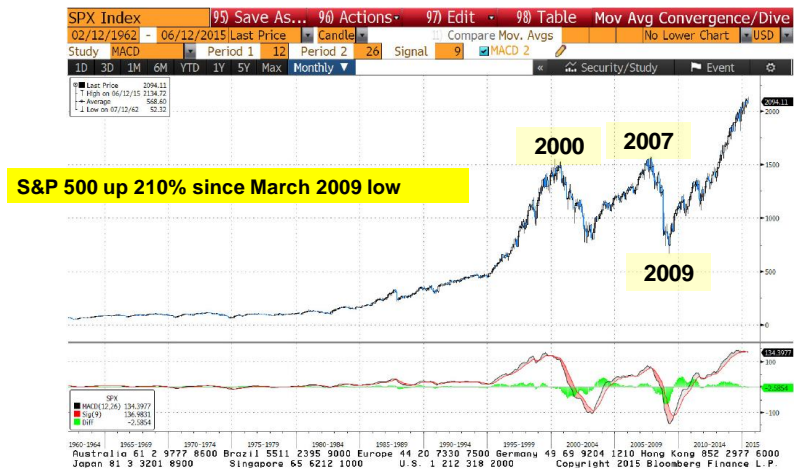
Longest Bull Markets

Period: Dec. 4, 1987, to March 24, 2000
Run in index points: 223.92 to 1,527.46
Change: 582.15 percent
Duration: 4,494 days

Period: June 13, 1949, to August 2, 1956
Run in index points: 13.55 to 49.74
Change: 267.08 percent
Duration: 2,607 days

I recently presented at the 21st Annual GAIM conference and found the following charts resonated meaningfully with the audience, so I thought I would share them here. Again, my intent is not to instill fear or predict peril, but rather to provide some clarity as to where we stand from a historical perspective. I prefer to be directionally agnostic in times of substantial uncertainty...and these are most decidedly uncertain times. What I would say is that by any measure it can reasonably be observed that the markets are running a tad bit hot...

U.S. Equities – Is ‘Reversion to the Mean’ Extinct?



Source: Bloomberg. Review period February 12, 1962 – June 12, 2015. Past performance is not indicative nor a guarantee of future results.

U.S. 10-Year Treasury Note Yield – History Over 53 Years

Is the downtrend in yields since 1981 reversing towards average levels?



Source: Bloomberg. Review period February 12, 1962 – June 12, 2015. Past performance is not indicative nor a guarantee of future results.

Thanks for reading.

Brooks Ritchey

Senior Managing Director, K2 Advisors

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