Boenning Morning Comment

This report is prepared for use by Tower Bridge Advisors August 17, 2017

Stocks closed out last week at record highs despite some disappointment with earnings of three of the largest U.S. banks.

Last week extended a record string of individual shareholder bearishness. According to the American Association of Individual Investors, last week only 28.2% were bullish. This marked the 20th straight week that bullish sentiment was below its long term average. I have noted many times that bear markets are born either out of pending economic dislocations (e.g. a recession) or excess investor euphoria. I am not sure how to quantify euphoria but 28.2% bullishness hardly can be described as euphoric.

Psychologically, after markets have risen for eight straight years and price/earnings ratios have moved meaningfully above historic norms, bells go off emitting warnings signals. The instinctive reaction is to sell risky assets knowing that when a bear market begins, the damage can be swift.

All that is true. But it is also true that stock markets go through long cycles that measure far longer than 8 years. The Great Depression started with the stock market collapse of 1929. It wasn't until after World War II that markets fully regained their footing. The Post-World War II bull market crested in the mid-sixties, then went sideways or down for a period of 16 years. When the 1982 market bottomed, it was at about the same level as the 1966 peak.

Ah, but then the golden times arrived. Stocks soared 10-15 times between the 1982 lows and the 2000 peak just before the Internet bubble burst. At that point, the Dow was over 14,000. It would take well over a decade for it to return to that level.

Bull markets rise steadily. Bear markets crash. Bull markets can last a decade or more (albeit with several intervening corrections). Bear markets are merciless but quick. The typical bear market lasts about a year. The bear market associated with the Great Recession lasted about 18 months, the longest bear market since the Great Depression.

Whatever skepticism investors bear today, no one is seriously suggesting we are on the cusp of a Great Recession or another collapse within the banking industry. There isn't a housing bubble. Housing starts today are barely more than half of what they were in 2004-2005.

If bear markets last 12-18 months, market corrections of 10-20% typically last 1-2 months. They can reflect real fears (e.g. the European debt crisis of 2010-2011), or imaginary ones (worries about China in early 2016). They can be valuation corrections if markets move too far too fast. They can be a reaction to political events. They could be a reaction to changing monetary policy. Whatever. However, if the economic causes don't disturb the upward track of international growth, ultimately, these corrections are erased and stocks return to their bull market glide path. For most investors, what is lost in 4-8 weeks is quickly recovered.

None of the above is meant to suggest either complacency or any desire to ignore possible warning signs. Tropical depressions can become category IV hurricanes. But markets also overreact often predicting future disasters that never happen. For long term investors, corrections don't mean much. But the fear of correction can keep excess money idle sitting on the sidelines earning nothing while markets continue to rise.

To avoid this dilemma, I offer two disciplined suggestions. First, stay true to your asset allocation. Periodically, at least once per year, rebalance. Second, if one has excess idle cash, set a timetable stretched out over months or even years to invest that money in stocks and bonds, again according to your asset allocation.

Suppose you have $2 million in cash but are afraid of the market. Your target asset allocation is 50:50. You are afraid of bonds because you fear rising interest rates. You are afraid of stocks for all the reasons I mentioned at the beginning of this note. Here's a possible answer. Every six months take $500,000 and invest it. Put half into bonds and half into stocks. It will take you two years to invest the money. In your bond portfolio build a ladder and keep duration short, at least until long term interest rates are higher than they are today. Since you intend to hold the laddered portfolio to maturity, any day-to-day change in value is meaningless unless you are forced to sell for reasons beyond your control.

As for the stocks, even if I presume a 12 month bear market happens six months into the program, you will buy high twice and you will buy low twice. Average costing will mitigate the damage. Assuming a bull market follows the bear market, it won't be long before you are ahead. Should no bear market ensue for two years, you will be ahead immediately.

The conclusion from all this is that fearfully staying on the sidelines can be quite costly. Even if you are correct that tomorrow will offer a better buying point at 10-20% off, will you buy then or wait because either the news environment is sour or you think the correction has further to run?

Investment management is all about managing your investments in a disciplined way. Assuming our economy will continue to grow over time as both population and productivity rise, patience is on your side. Emotions are the devil to successful investment. Discipline is your friend. Stocks go up and they go down. You can't just own them on up days. But just as sunshine follows rain, there will always be another bull market.

Worldwide economic numbers are good. Inflation is still absent. A healthy amount of skepticism remains. Those are ingredients for rising markets even allowing for a healthy correction every once in a while.

Today Luke Bryan is 41. Angela Merkel is 63. Camilla Parker Bowles is 70. Donald Sutherland turns 82.

James M. Meyer, CFA 610-260-2220

Additional information is available upon request.
* - Boenning and Scattergood may act as principal in buying this stock from or selling it to the public.
# - The author of this report or accounts under his management at Tower Bridge Advisors owns this security.

BOENNING & SCATTERGOOD
ESTABLISHED 1914