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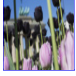
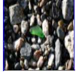
 Smart money is flowing back to Europe

 ‘Turning over the stones’ to find small-cap gems

Five-year bull market shows little sign of cooling

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**Five-year bull market shows little sign of cooling**

## Looking at long-term trends, experts see more life in the ‘special bull market’ that has followed the credit crisis

By: MARY GOODERHAM

Date: May 14,2014

The fifth birthday of a bull market is typically an important milestone, a point in a heated economic cycle when things can start to cool.

But there’s little typical about the bull market that turned five in March, says Jurrien Timmer, director of Global Macro for Fidelity Investments. And looking at the multiple-cycle “secular” trend, despite some static numbers through 2014 so far, he sees significant strength ahead.

“The market may have plenty of life left still,” Mr. Timmer says. “We are at a very pivotal moment here.”

The current rally started in March of 2009, when the S&P 500 ended its downward spiral at 666, which Mr. Timmer calls “perhaps a generational bottom.” In March of this year it stood at 1,800, having recovered the ground lost in the 2008 credit crisis, representing an “impressive” annual return of 23 per cent over the period.

Mr. Timmer says the past five years have been unusual compared with the market’s “normal” history. For example, risk levels have remained largely static but returns since March of 2009 are vastly higher, resulting in much higher risk-adjusted returns. Meanwhile, the market has been supported by quantitative easing (QE) by the U.S. Federal Reserve as well as a zero interest rate policy.

The strong cycle “brings into question what the secular context is,” he says, suggesting that the U.S. stock market could be quite near the beginning of a secular bull market, meaning that it is long term. “If so, 23 per cent may be actually par for the course for the next number of years.”

The secular bull market in the 1980s and 1990s brought annual returns of 20 per cent, compared with the usual long-term average return of 8 per cent, he recalls. In the secular bear market in the 2000s, the market rose an average of 1 per cent annually.

Even in a “secular up-trend,” the recent weak economic data, with the S&P “going exactly nowhere,” he says, is to be expected.

“The fact that we’re in a fifth year, which normally would be a down year, may not be quite as meaningful as if we were in a secular bearish environment,” he explains. “Maybe what we’ve seen this year to date, this kind of sideways, volatile range, with pretty severe rotation among sectors and styles, maybe that’s what a down year would look like in a secular bull market.”

Saurin Patel, assistant professor of finance in the Ivey Business School at Western University, says the current bull market is different from recent ones we've seen because it is driven by multiple sectors, including financials, consumer discretionaries, technology and industrial stocks. This gives the market strength, he explains, and makes it less likely that an asset or stock "bubble" will cause a sudden drop.

He notes that only half of the dozen bull markets since the Second World War have reached the five-year point. However, this one is a "special bull market," he says, following the credit crisis.

"The way the market has bounced back is amazing, in such a short time, with all of the economic uncertainty around the world."

Dr. Patel expects the S&P will now plateau for a while, because "valuations are very high right now for companies," although economic conditions are good, based on recent job numbers, mergers and acquisitions and new IPOs. "Firms are thinking it's a good time to issue capital, which is always a good sign."

He suggests that a modest increase in interest rates would show how robust the market actually is, although he doesn't expect that in the next year or more.

Mr. Timmer is not surprised at this year's flat numbers, calling it a period of "treading water" as earnings growth catches up to prices. He notes that the S&P returned 32 per cent last year on "tepid" earnings growth of just 5 per cent.

He says the Fed "would like to get out of the QE business" and see the market achieve sustained higher growth, known as escape velocity.

"The economy needs to be able to stand on its own two feet, like a patient who's being discharged from the hospital. … We have not gotten there yet," he says, noting that even with the recent tapering of QE, the Fed is projecting GDP growth of 3 per cent.

"The market seems to clearly agree with the Fed, or we wouldn't be at the levels that we are," he stresses, although the poor weather over the winter "added some clouds in terms of understanding whether we are at escape velocity or not."

Mr. Timmer notes that economic cycles have "elongated." The statistical odds that the U.S. economy will go into recession in a given year have gone from one in two in the boom-or-bust pre-Depression days to one in four through the 1980s and one in seven more recently.

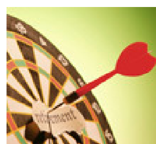
Investors today are "digesting" the possibility of increased interest rates ahead, he says. China's growth is expected to slow somewhat with defaults occurring in its shadow-lending system, which could affect markets that export commodities to China, including Canada. Meanwhile Europe, the United States and Japan are in "mid-cycle" expansion.

"Maybe we will go sideways for six months, which is really not too bad after five years of up 23 per cent. That allows the market to reset itself, it allows earnings growth to normalize again, it allows all of the weather-related weakness to pass," he says. "Maybe 2014 is a kind of in-between year, where everyone takes a breather and then allows the system to relaunch itself."


## Millionaires need downside protection, too

The risk tolerance of high-net-worth investors in North America is growing, a new study shows. But money managers say that preservation of wealth should come first

## Retirement readiness: Learn more about target-date funds



Also called lifecycle funds or age-based funds, they are not a 'set-and-forget' option, says Fidelity's Peter Walsh. Participants must set goals and save diligently

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