2019 Investment Summit
Williams Transcript

Joe Williams: When we were here last year, the market had gotten off to a strong start, up 7 or 8%. We were starting to get a little cautious on the market and we'll show you some charts. We had interest rates really starting to pick up. Valuations were high. You all were way too confident. We're going to show you what's happened over the last year because in that 7% we started up, we ended up the year down 4.4%. Along the way, two weeks after we had this meeting last year, we dropped 10%. Seven days after a new all-time high, we had the quickest 10% correction after an all-time high we've ever had.

And then in the second half, we were cautious. We were looking for a 10% correction. We didn't think we'd see a bear market in the second half, meaning a decline of 20%. Well, we were right. We got awful close because we ended up in the fourth quarter from the high down 19.6%. We got close to that bear market, but we didn't hit it, so this 10-year bull market continues. We'll start that on March 9th going into the eleventh year.

International stocks didn't fair well at all last year, another year. They've only had one good year in the last five. Down 13.8%. Emerging markets down 14.6%. As you'll see here in a moment, we had a big decline in interest rates in December. That was able to get the bond market returned from negative all year long to zero, so 0% for owning bonds, high yield bonds down to international bonds, 7.8%. Alternative assets, whether that's real estate investments, trusts, MLPs, master limited partnerships, and pipelines. Hedge funds had an awful year last year. They couldn't figure out what to be, what to belong in or what to be short. Nothing worked for them. They were down 5.6%. Gold, oil down 24%. If you had a wheat silo on your back, you could have made some money there, up 17.9%.

So, bonds, 0%. Let's look at what happened to interest rates. This is a 10-year bond yield going back to 2007 when we were at 5%. You can see the steady downward move down. All-time low, 1.37% after Brexit in July of 2016. And then we started moving up. We start off 2018 around about 2.3, 2.4%. And then interest rates really took off. That's what caused the first correction to the stock market last February. We hit our all-time high in the cycle, 3.24% in October. That's what caused the 19.4% correction as Jay Powell tried to explain, that he confused everybody of what the Feds were going to do over the next three to four months.

You can see the little decline in the upper-right hand corner there from 3.24% down to about 2.8, 2.7%. That's what gave us the rally in the bond market. We ended up at 0%.

Now, this indicator is one of my key indicators I used to judge the influence of interest rates on the stock market. It gets a little confusing at the bottom. I'm measuring short-term bond momentum, the price, of a three-year treasury. I'm looking at the price today versus where it was six months ago. If the price of a treasury was $100, six months ago and today, it's at $101, we'd be +1. Remember when bond prices go up, what's happening? Interest rates are coming down.

Just think about it. Whenever you're above the zero line, interest rates are coming down. Whenever the line's flat like we were for about five years, interest rates are going no place. Whenever we hit the lower line of -1.5%, it means interest rates are starting to accelerate at such a pace, it's a headwind for stock prices.

You can see the signals given from 1960s. It's worked in low interest rates in the 1960s and also in high interest rates in the 1980s. It says when the trend changes, regardless of low rates or high rates, you better pay attention.

This gave us a buy signal, December 31, 2009. The reason you haven't seen it for so long is because it's never given any other signals until last year in February. It finally signaled short rates are starting to increase at such a pace, it's a headwind now for stocks, gave a sell signal, and at the beginning of this year, with that decline in its rates, it's moved back to buy signal. This was one of the big headwinds we had last year was a negative for 10 months of the year. Now is a positive.

Another headwind was the valuation. This is the median PE for the S&P 500. 500 stocks in the S&P 500, so we're looking at the 250th company. We knock out Amazon at 90 times earnings or four to five times earnings. At this time, right now, we're at 20.2%. at this time last year, we were at 27%. This market was only overvalued more in the end of 1999 and 2002 did we ever see higher valuations than we did.

We were right. The market was right. 22% earnings growth. Well, they weren't right on that because it's actually a commit 26% earnings growth, but it was all priced in by the time we reached end of January. You can see that's really come down. We would say now we've moved from overvaluation to undervaluation as we've moved into the start of this year.

Consumer confidence. How do you all feel? We've been watching this march up for 10 years. We were the most depressed ever. In February of 2009, it's been consistently moving up. We hit our all-time high or third highest only to be outdone in 2000 and 1968. Keep those dates in mind. In September of this year, we got close to 140. Yesterday it just came out, we're down to 120 now.

We were very optimistic. Now, why is that important? Why do I get negative when you get optimistic? Because in this box down here, whenever we're above 110 on consumer confidence, stocks go up 1.74%. Whenever you're really negative below 66, stocks go up 14.8%. We knew we'd been overvalued for two or three years. Market kept going up, but at some point, that was going to come back and haunt us.

Now, we've come back. I do believe this like 1998. This is not the end of the bull market. We will see it rebound once the government now is opening back up. You'll see consumer confidence bounce back.

Okay, so remember the date. 1968, late 1999, and today. This is the percentage of stocks as a total of all financial assets as determined by the Federal Reserve. I like it because it goes back to the 1950s.

We are currently at 39.7%. We were there at the beginning of last year and at the end of September. I'm sure it's well down now when we get the new numbers. The other highs, the all-time high was the end of the '90s when we 44.4%. But the other two highs in consumer confidence, 1968, 37%; 2007, 36%; and now at 39.7%. We were the second most invested we've ever been in stocks at a time a year ago when the valuations were the second or third mostly highly valued and interest rates were going up. It's not surprising we had all this volatility.

We think this will come down when we get the latest numbers. We think people have become much more cautious. We do look for this market, already up 6%, we think it's going to go up another 5 or 6% from here. We think the outlook is pretty good.

Chris Schildz: The risk of loss in securities and other Investments can be substantial. You should always carefully consider whether Investments either entered into directly by you or through Commerce Trust or any financial institution on a discretionary managed basis is appropriate for you, in light of your investment objectives, financial circumstances, tax status, your tolerance to risks and your investment experience. In considering whether to trade or invest, you should inform yourself and be aware of the risks generally. Non-depository investments offered in connection with Commerce Bank are not guaranteed, are not FDIC insured, and as noted earlier, may lose value. Any information provided is for the purpose of general education, information, or illustration only and is not to be treated as the opinion of Commerce Trust Company or Commerce Bank as a recommendation on any future investment or market behavior. Providing this information which may be of value to you or others in the general audience shall not detract from an investor's responsibilities to take all such steps and make all such inquiries as may be necessary or desirable to ensure that you fully understand and are familiar with any potential future investment. Neither Commerce nor any of its officers, employees or agents have made any recommendation or given any advice as to the terms and profitability of any investment or market activity which may be referenced here. Accordingly, you understand that you are and shall at all times be fully responsible for any investment transaction you choose to enter into, and that you shall not have relied on any of the following information from Commerce as a basis for an investment decision. Please also note that Commerce does not offer tax, legal or specific estate planning advice, and while we may provide information or express general opinions from time to time, such information or opinions are not offered as professional tax or legal advice. If you are in any doubt about the risks involved in any trading or investment arrangements or you are uncertain of or have not understood any aspect of this Risk Disclosure Statement, you should seek independent professional advice. Markets, economic forecasts and specific investments can change from time to time based on a variety of individual, interrelated or complex factors of varying degree. This disclosure statement cannot, of course, disclose all the risks and other significant aspects of investments, economies or markets in which you may elect to transact from time to time. You should therefore carefully study relevant investment arrangements in advance of making decisions regarding investing.