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Dynamic

by Steven H. Weiss, CFS

Relying on the old adage "the more things change, the more they stay the same" may be a great mantra to adopt when investing in the stock market. There is no shortage of high brow technical white papers with mathematical formulas or charts showing the growth of an invested dollar in the market when weighed against various historical crises.

It's clear the long term trend is up. When the S&P 500 Index numbers are reviewed one year after various crises, positive returns are generally significant. After five years, nearly all rebounds are in positive territory. On point, the current bull market, borne out of the global financial meltdown in September 2008 has lasted just over 2000 calendar days (March 2009 lows), the fourth longest since 1928 as measured by the S&P 500, according to Bespoke Investment Group.

Investors who adopt Baron Rothschild's contrarian approach to "buy when there is blood in the streets (even if it is your own)" can been well rewarded. Our current situation is clear in this regard. Most investors that have stayed the course, almost any course where they are fully invested in the stock market, have see their account balances meet or surpass levels from just before September 2008.

My philosophy with investors is clear. Every day you are invested in the market, you have bought the market. Most believe there are three choices, buy, hold, or sell. In reality, there are only two. When holding an investment, you own it at that current level and to you it is still a buy. Otherwise, it should be sold with the proceeds used for another idea that appears more promising. There had to be some belief that patience would be rewarded with a recovery for investors who stayed with their core holdings after March 2009. Value was there for those who either stuck with the market, or used the opportunity as contrarian investors and added to positions.

Dynamics, a constantly changing marketplace, creates opportunity whether it is borne from disruption from events or those of innovation. In "Triumph of the Optimists: 101 Years of Global Investment Returns" authors Dimson, Marsh, and Staunton display changes in U.S. Sector Weightings.

Innovation is most telling in the U.S. Sector Weightings. The number one sector in 1900 was Railroads with a 62.8% weighting. By the year 2000 it accounted for only 0.2% of the stock market. Information Technology did not exist in 1900 and was number one by 2000.

With advances in technology, these sector weightings and rotations are more much more dynamic then demographic shifts. Whole categories displaying market disruption have led to investment opportunity. Retail, for example, is no longer a 'bricks and mortar' proposition and Amazon.com is among the beneficiaries. How does an investor keep up or take advantage of these changes?

Let's go back to the quote in my opening line, "the more things change, the more they stay the same." Investment gurus consistently espouse the idea of investing for dividends to stay ahead. The premise is simple; companies that pay or can grow their current dividends have positive earnings and generally present a quality investment.

While in agreement, my philosophy regarding quality has an additional view which may help an investor identify opportunities when the dynamics of market disruption and innovation take hold. Invest with companies that are number one or two in their sector. These entities by definition have revenues and market share and will probably present a quality investment.

In the beverage industry, we think of Coca Cola and PepsiCo. Take it one step further and consider companies in the same space that have taken advantage of innovation and market disruption. Monster Beverages (formerly Hansen) fits that bill. Monster, a leader in energy drinks out-performed its grandfathers. While Coke and Pepsi have approximately doubled in price from the March 2009 lows, Monster advanced more than five times in value. The key is to be sure to consider companies with earnings, distribution, and clear market leadership.

In conclusion, markets will be dynamic even when volatility is low. Unforeseen events, new technology, and innovation will generally create new opportunities for successful investing. Buy quality investments when markets are down and/or innovators take the lead. Through the years, the best stories from my clients have come from that one time when they made the "great investment." With proper guidance and conviction, there can be more than that one time home run. This is Steven Weiss hoping all your investments are wise.

Broker Spotlight

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