Investment Parachutes; Do You Have Yours? March 27 '15

Doug Wakefield

"After twenty minutes, a bell rings and a commander jumps to the end of the line of us and takes the yellow cord from the packs on our back and hooks it up to a cable running the length of the plane. He quickly checks our helmet and reserve chute, then moves on to the next one in line. A few more minutes later and the side rear doors of the plane open, kicking up dust and leaves that were tracked into the plane. The breeze cools us temporarily, but then another commander looks down the line and raises his arms for the first ten guys to stand up….

We wait for the light to turn from red to green, then to jump out of the plane."
[How To Paratroop From a Plane]

Are we waiting for someone to ring the bell, and open the door so we can see the ground below? Are we hoping that someone or "the markets" will merely continue to stop declining at the same point over and over again? Do we have our parachute strategy in place, ready to get out when someone announces, "investors are leaping out of markets"?

Look at the chart above. How is it possible that we have watched the S&P 500, one of the most followed equity indices in the world, stop at, or right below, its 100 day moving average every time since December 5th, its highest price on record at the time? Is it really possible that millions of investors around the world are "randomly" deciding to sell heavily down to this line, and then immediately deciding to stop selling and start buying?

I know, I know, this sounds like I am pushing some conspiracy theory. Or does it?

Every person in the world can see from the chart above, that the S&P 500 has stopped declining at or around this line called MA (100) before immediately rallying back the same day or the next, since early December. This was not just one sell off, but the first of many from its highest on record.

No financial news or economic realities seem to get "investors" excited enough to sell beyond this one line. Hmmm?

Now if that doesn't spook you a little, tell me what will it take.

Goldman Sachs Speaks

On May 21, 2013, right before the Nikkei topped right under its 16,000 level and fell 3500 points in 11 trading days, David Kostin, Chief US Equity Strategist for Goldman Sachs, made the following comments:

> "Goldman Sachs Group Inc. said the U.S. stock-market rally may last at least another 2 1/2 years, sending the Standard & Poor's 500 Index (SPX) up 26 percent to 2,100.
>
> David Kostin, the bank's New York-based chief U.S. equity strategist, raised forecasts for the U.S. equity benchmark, predicting it will finish 2013 at 1,750 and 2014 at 1,900 as stock valuations increase, according to a research report dated yesterday.

Considering the shake out of shorts over the last two days, the most likely path is back to another high. Yet Goldman's target at the May 2013 top of the S&P 500 at 2,100, has not moved as shown by an article just last month." [Red text color mine, S&P 500 May Reach 2100, Goldman Sachs Says, Bloomberg, May 21, 2013]

We then leap forward, to read these comments by Mr. Kostin in November 2014, just weeks after the latest QE program by the Federal Reserve ended in October.

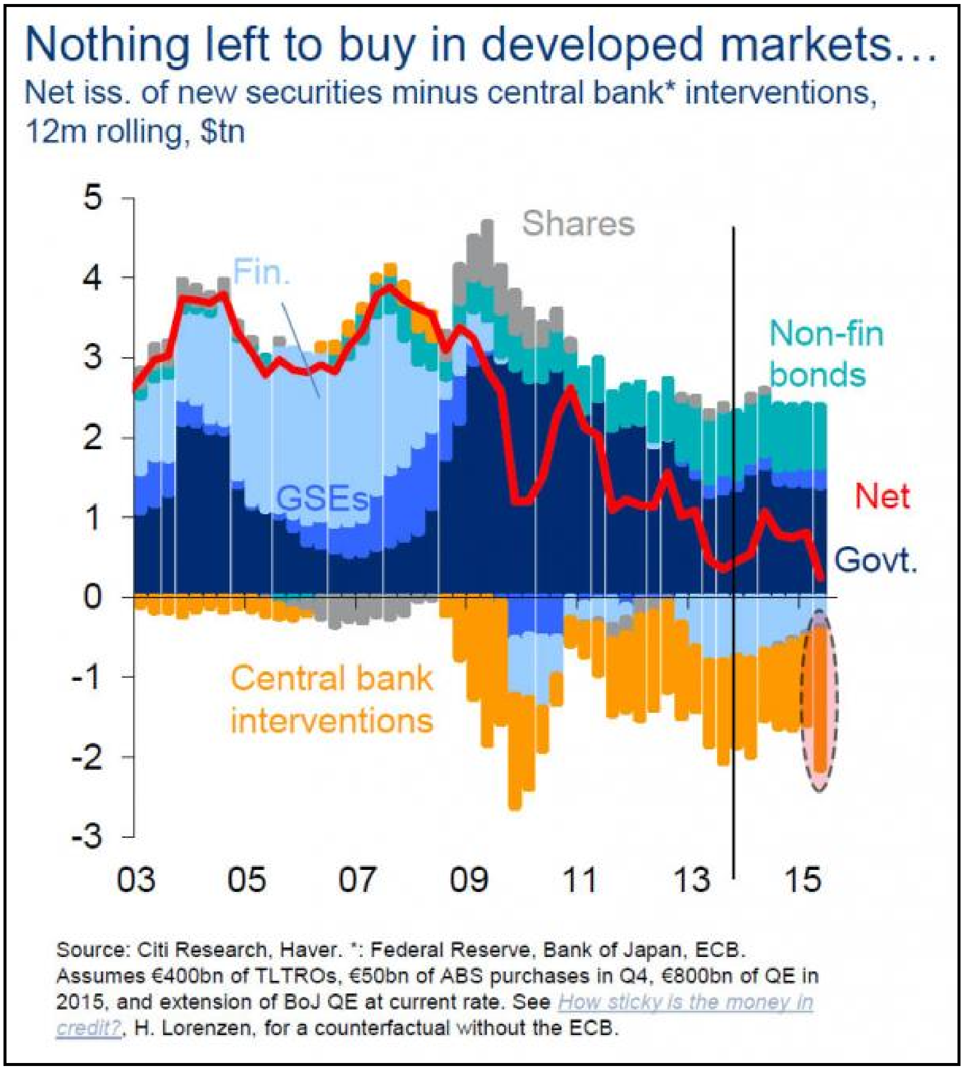
"Goldman Sachs equity strategist David Kostin is out with his 2015 outlook for the S&P 500.

Kostin's price target: 2,100."[Red text color mine, Goldman: The Stock Market In 2015 Will Be...Meh, Business Insider, Nov 20, 2014]

And with all the excitement about QE Europe, if you missed it, here is another recent comment by Mr. Kostin about the level of US equity markets:

"Stocks with attractive valuation are rare in the current environment of stretched share prices. The only time during the past 40 years that the index traded at a higher multiple was during the 1997-2000 Tech Bubble. The median stock sports a P/E and EV/EBITDA of 18.0x and 11.0x, respectively. These valuations rank in the 99th percentile of both P/E and EV/EBITDA multiples since 1976.

The proverbial 'smart money' is selling, not buying**.** Completed private equity sales through M&A and via follow-on offerings have both surged to record levels measured by both number of deals and by transaction value." ["The Smart Money Is Selling, Not Buying", Goldman Warns With Valuations in The "99th Percentile", Zero Hedge, Feb 21 '15]



Now I know you may be saying, “But who cares what Kostin said in 2013, 2014 and recently in 2015. So what that his forecast of 2100 on the S&P 500 by 2015 in 2013 and 2014 has already been met during Q1. The markets have spoken, and they are still “bullish”, as shown by “the crowds” refusal to sell below the S&P 500’s 100 day moving average.”

But doesn’t this all seem more like constant “assistance” from some entity or entities instead of a random crowd of “informed and rational investors”?

Waiting For the Bell

I know that most of you are like me, reading all the time and amazed at the scope of the drama unfolding every week. If you are not watching this drama, and see it in the larger historical context, it seems like some sci-fi plot you saw on TV or the movies.

Yet, my two most recent collections of articles and documents on the free portion of the Best Minds Inc website, make it clear that warning bells are going off every where for anyone willing to seek out information and prepare for "the jump".

Anyone reading the various articles linked under my most recent post to the Weekly page titled, *Look Who Is Warning Of the Slowdown and Declining Asset Values* (Mar 25), can see that various Federal Reserve banks and former high ranking officials in the central banking world have produced many public warnings in the last few weeks.

For the individual seeking to understand the enormous systemic risk from placing our faith in prices that "always bounce back", my latest post on the Research page titled, *Expect Sudden Wide Swings in Prices; The New Norm, Beware of All Time Highs* (Mar 25), provides documents and articles at the highest levels in world markets, proving that the ongoing stream of problems that have resulted from the collision of speed with "liquidity".

The bells are continuing to get louder for anyone listening. As most of you know, once the bells go off and the signal given to jump, the pressure from so many trying to jump at the same time will be alarming to those who have not even thought about an exit plan from the plane at these altitudes.

We have been told that "patience" has been removed from the script. Isn't it time for investors, advisors, managers, and businesspersons to consider their action plan for the time when the lights move from red to green and the door underneath these levels open up?

Being a Contrarian

The big shift from longs to shorts and shorts to longs continues to rumble, a warning that this global shift grows stronger with each delay.

The value for good research is extremely low in comparison to the speed in which wealth can be destroyed once the floor opens up. Click here to start the next six months reading the newsletters and trading reports as we come through this incredible year.

On a Personal Note

I have recently started a blog called, Living2024. It is a personal blog, not business. I wanted to have a place to write some deeper stories about where this entire drama seems to be taking us all. Check out my latest post, A Centrally Planned Sex and Financial Life.

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