

## **Sevens Report Alpha Webinar:**

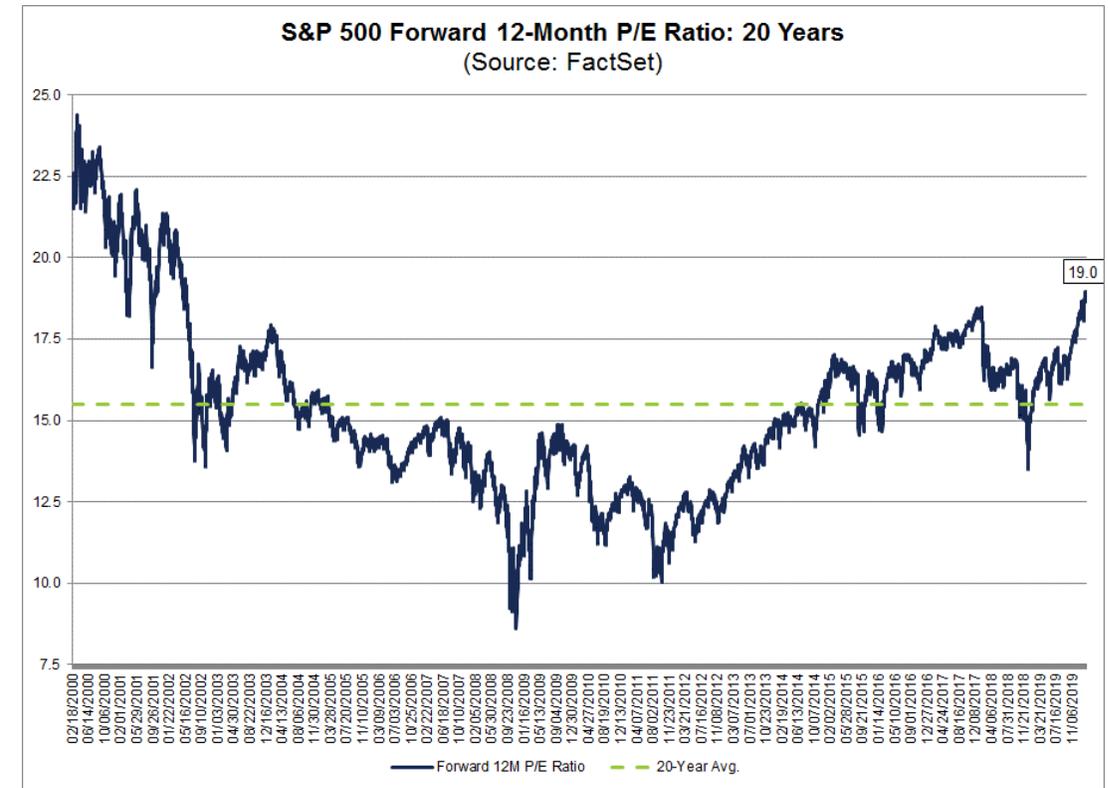
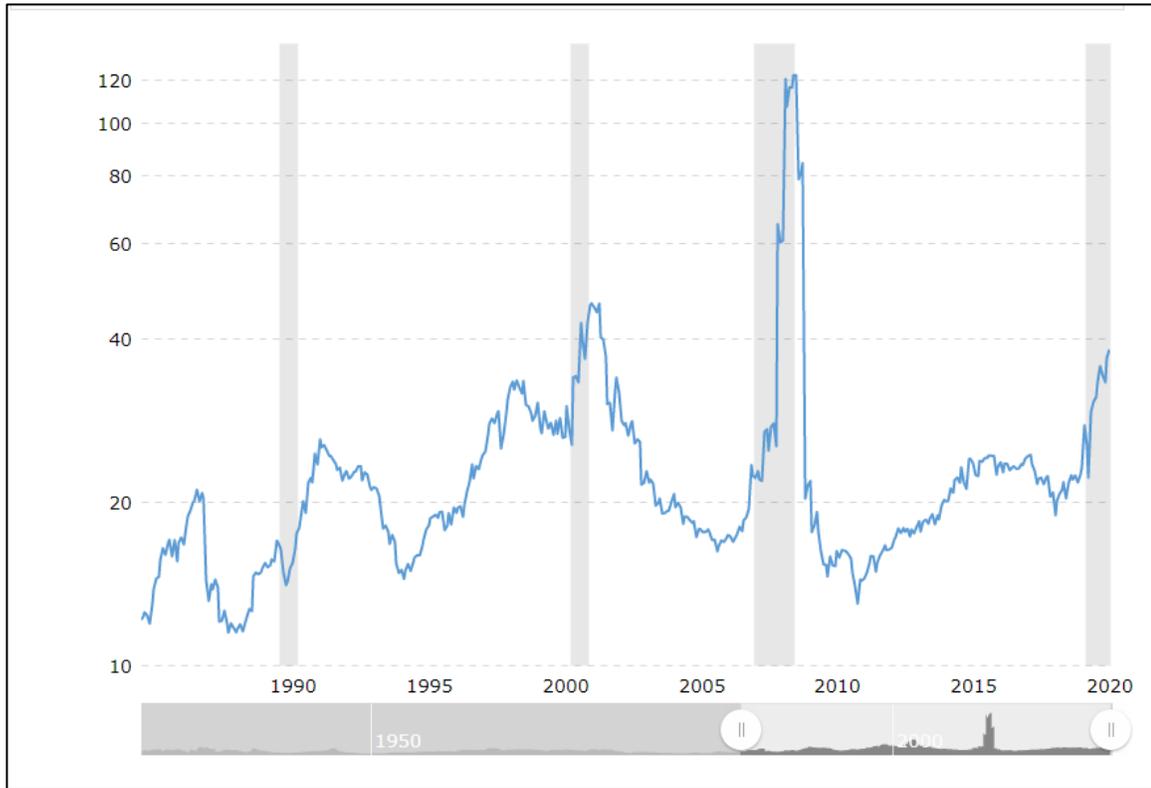
**How Complacent Is This Market?**

**Thursday, January 21<sup>st</sup>, 2020**

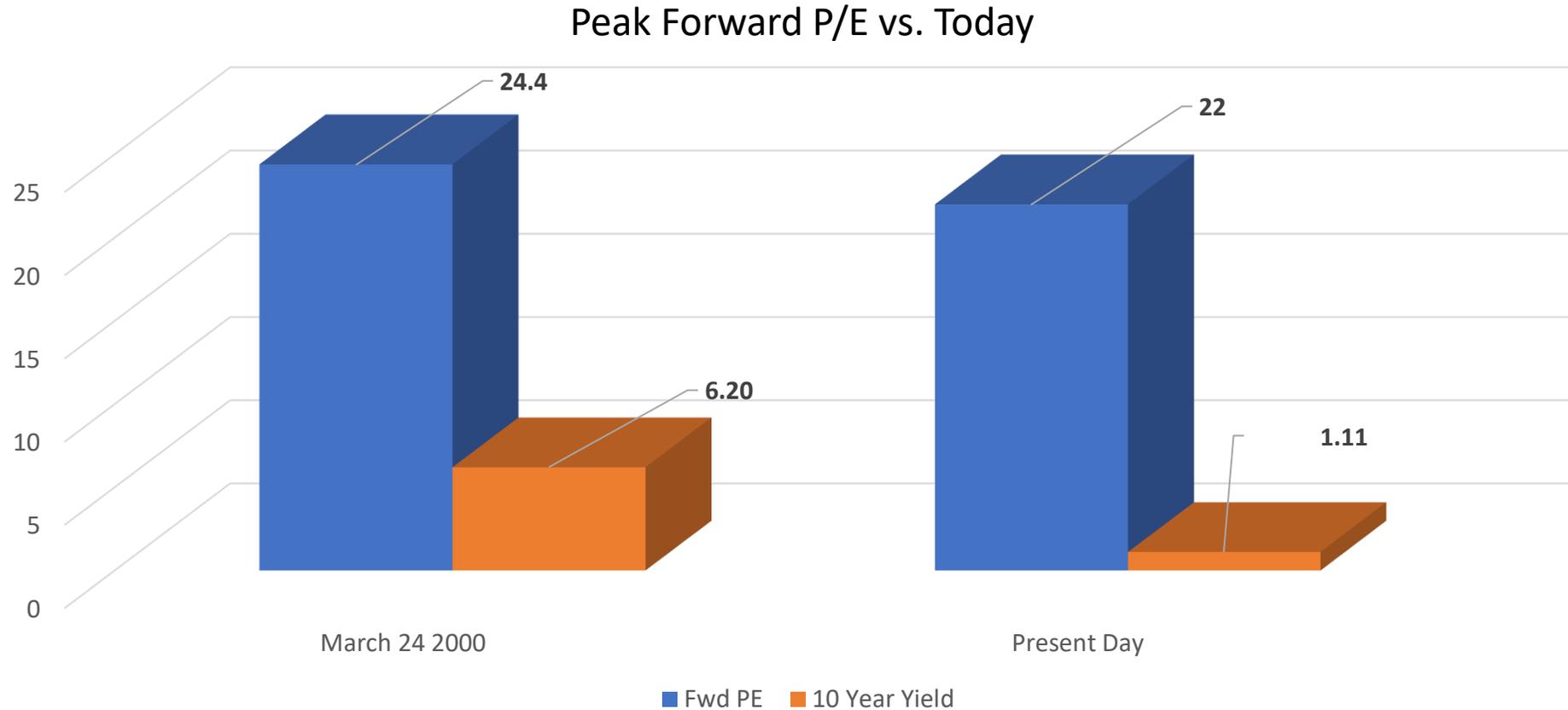
**Tom Essaye, President Sevens Report Research**

## Market Valuations: Are they really in bubble territory?

### Trailing S&P 500 Earnings



## Market Valuations: Are they really in bubble territory?

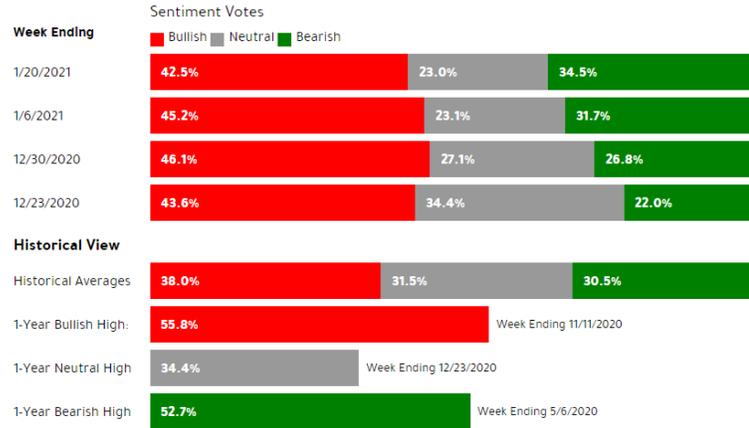


Market Valuations: Are they really in bubble territory?

- **Verdict: Markets are not expensive enough to be considered a bubble, and as such de-risk.**
- Markets are expensive historically speaking and fundamental valuation support is easily 10% - 15% lower. But at this point, especially when considering yields, the S&P 500 is not anywhere close to historically “bubble-ish” valuations yet on a trailing or forward P/E basis.

## Investor Sentiment: Is It Euphoric?

### What Direction Do AAI Members Feel The Stock Market Will Be In The Next 6 Months?



[More Historical Sentiment Data](#)

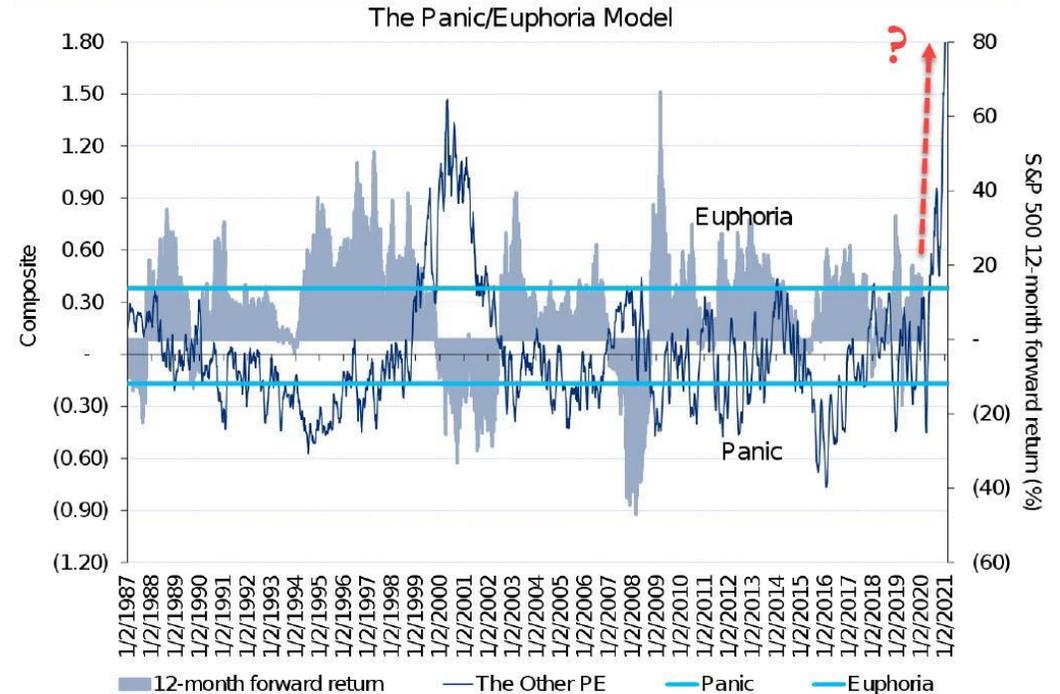
### FREE Weekly AAI Market Sentiment Email

Learn where individual investors think the market is headed over the next six months and how these levels may be used to forecast future market movement.

Your email address

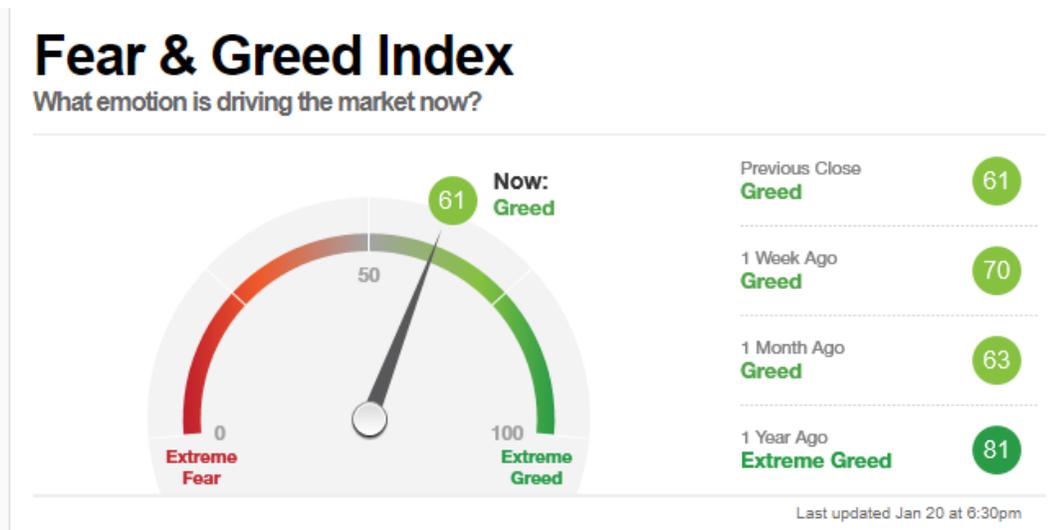
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### Sentiment



Source: Haver Analytics, Pinnacle Data, and Citi Research – U.S. Equity Strategy

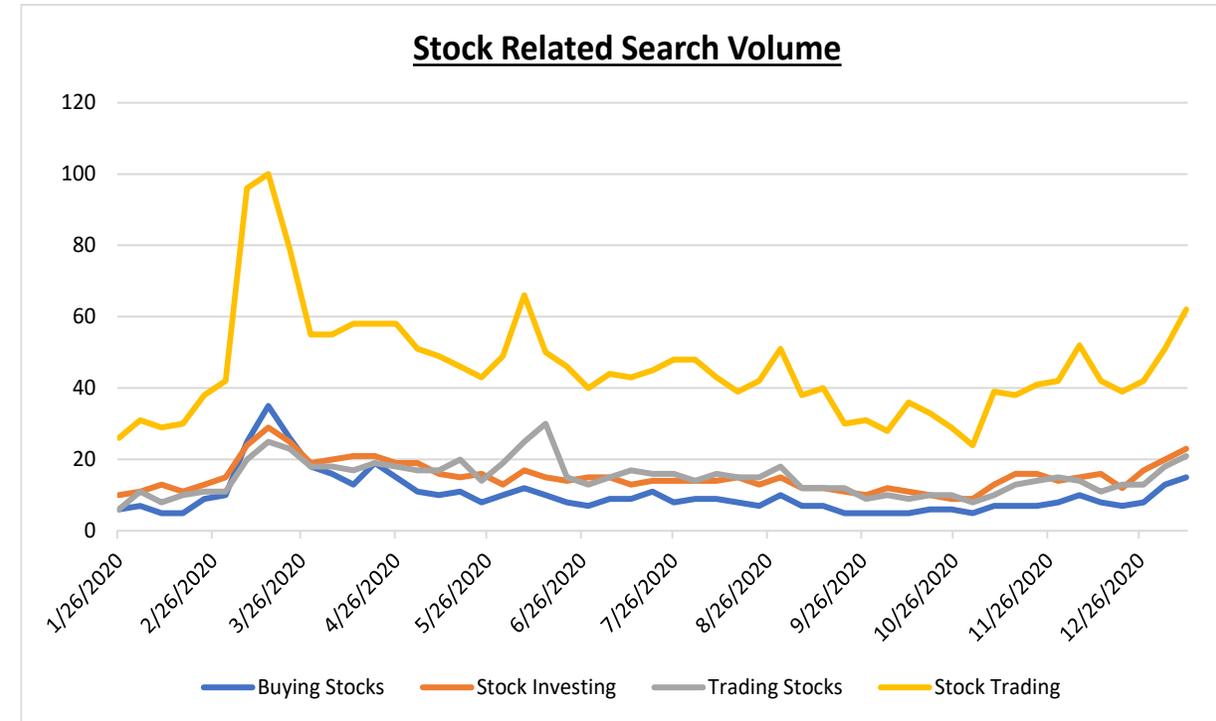
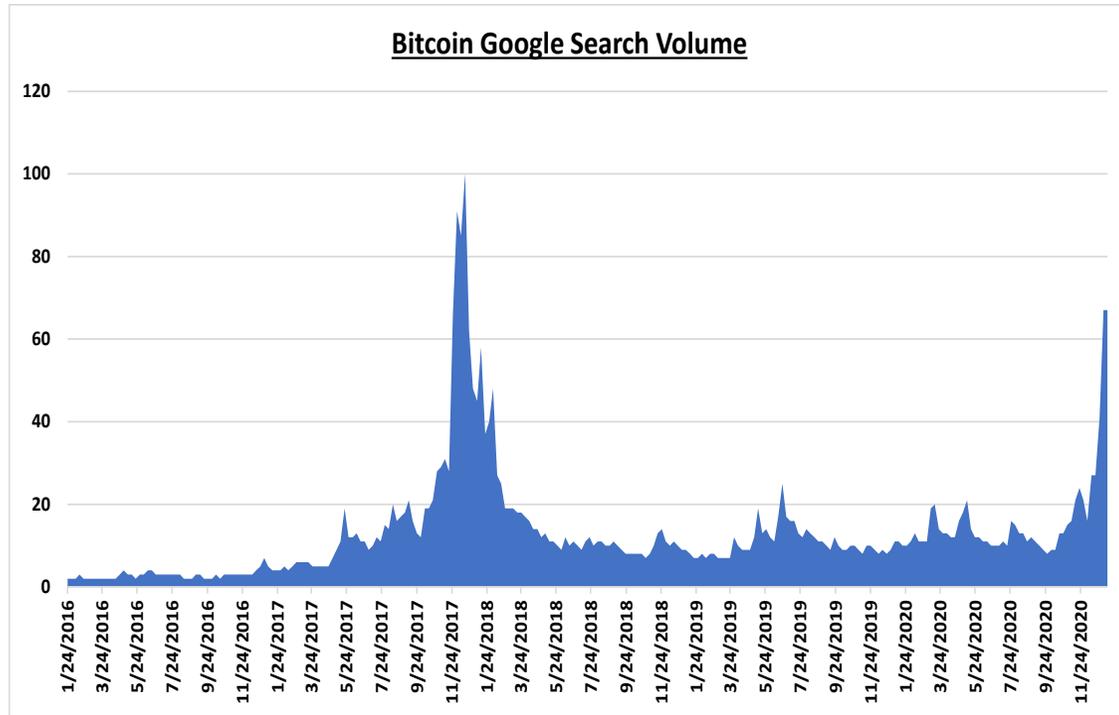
## Investor Sentiment: Is It Euphoric?



### Advisor Sentiment:

- 16.8% Bears, near 2020 low.
- 66.7% Bulls.

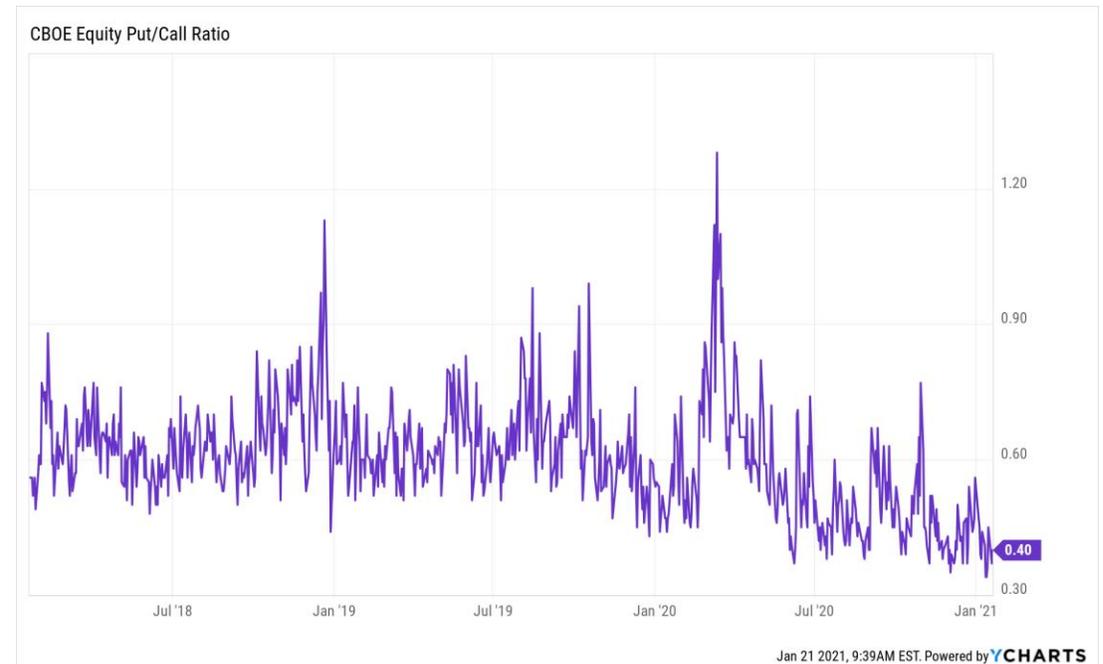
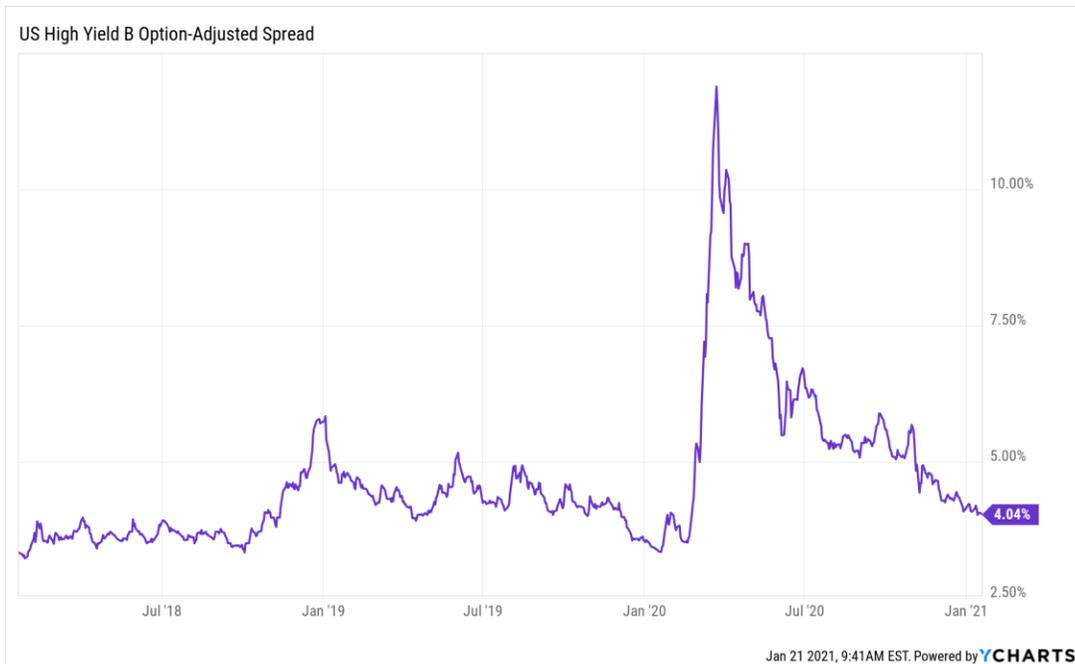
## Investor Sentiment: Is It Euphoric?



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- **Verdict: Investors are not euphoric enough to warrant de-risking.**
- Sentiment is optimistic, but outside of the Citi Panic/Euphoria model, none of the other more traditional sentiment indicators are implying the type of rally ending investor euphoria – although clearly it is going in that direction.

## Market Technicals: Are markets stretched?



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- **Verdict: Markets are not stretched to the point where investors should de-risk.**
- In the short and medium term, clearly markets have upside momentum, but multiple technical indicators are not at the levels where they would imply it's time to sell stocks.

## Conclusion

Valuations: Elevated, but not in bubble territory and not where investors should de-risk because of them.

Sentiment: Clearly bullish. But, not so euphoric that it's a clear "sell" signal.

Technicals: Definitive upside momentum, but multiple technical indicators are not so stretched that they require de-risking.

## Conclusion

- Valuations, sentiment and technicals do not cause sell-offs.
  - Events cause sell offs. Valuations, sentiment and technicals merely dictate how bad the sell off will be.
  - At this point, while clearly there is complacency in the markets, it's not bad enough that it would require pre-emptively de-risking out of stocks, because while stocks could correct, it likely won't be bad enough to warrant missing out on medium and longer term upside.
  - Bottom line, don't be shocked by an "air-pocket" but that "air-pocket" shouldn't be bad enough to warrant de-risking today.
- **Alpha Strategies for the Current Environment:**
    - **Cyclical Rotation to Value. 11.3.2020.**  
RSP/VTV/RPV.
    - **Post COVID Strategies. 8.25.2020.**  
JETS/PEJ/KBE/REZ.
    - **Hedged Equity ETFs. 3.10.2020.**  
DMRL/CCOR/JHEQX.
    - **Minimum Volatility ETFs. 5.21.19.**  
USMV/SPLV/EEMV/EFAV.