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THE TEMPO VANTAGE

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Bull Markets and Market Bull

After a modestly positive and volatile first half of 2018 the market had a fairly profitable third quarter. Leading the way were large cap U.S. Equities (i.e. S&P 500) which returned over 7.5%. Most other sectors had good quarters, though not as good as large cap U.S. equities. Small cap stocks made just over 3%, international stocks made about 1%, and bonds were essentially flat.

All in all, though, a good quarter for investors.

But good news does not sell newspapers. Fear and foreboding do.

The media's latest tack is an implicit nod at *what comes up must come down* by tracking the length of the current bull market. If you've read any recent headlines you know it is the longest in modern stock market history... or is it?

As of this writing this bull market has lasted 3,453 days. But the bull market from 1987 to 2000 lasted 4,494 days. Why don't people count that one?

A bear market is defined as a drop of 20% from a market high. Between July and October 1990 the market fell 19.92%. Most market observers have rounded that up to 20%, thus qualifying the dip as a bear market. But using the strict definition it was not and the longest bull market is 4,494 days.

Another way you might look at the strength of a bull market is to consider how profitable it is. Looking back over the past 100 years we can identify five Bull Market Super Cycles (my definition). These are periods of extraordinary stock market gains that lasted multiple years.

Dates	Length	Total Return	Average Annual Return
1932 to 1946	13.9 years	815.3%	17.2%
1947 to 1961	15.1 years	935.8%	16.8%
1974 to 1987	12.9 years	845.2%	19.0%
1987 to 2000	12.8 years	816.5%	19.0%
2009 to ????	9.3 years	350.1%	17.5%

Why aren't these Super Cycles considered the longest bull markets in history? Because at some point during each of these runs (1987-2000 being the exception) there was a decline of 20% or more.

Twenty percent is an arbitrary figure. I've been studying the markets for 30 years and I have no idea who decreed that "A bear market shall for now and ever more be defined as a 20% drop."

Tweaking that up or down by just a few percent would present an entirely different view of bull and bear market cycles. For example, if instead we were to define a bear market as a 22.5% drop we would increase the length of the longest bull market to about 5,500 days, making the current bull market only 62% as long. Alternatively if we define a bear market as a drop of 17.5% the current bull market would have ended in 2011 (and a new bull market started in 2012).

Two things stand out to me when I look at the above figures:

- The other Super Cycles lasted 4 to 6 years longer than the current Cycle.
- The other Super Cycles all gained in excess of 800% as compared to the current Cycle, which has gained 350%

I don't know about you, but I'd gladly suffer a 20% decline or two to gain more than 800%.

Will we gain another 400% or more in this Super Cycle? Will there be a 20% decline or two along the way? Maybe.

Please don't misunderstand me, there are certainly legitimate reasons why the markets may fall. Length of a bull market isn't one of them. Unexpected inflation is.

As you consider other potential legitimate reasons for the market's future direction beware when you hear statistics that encourage you to think one way. Statistics can show you anything you want if presented in a certain light.

Tempo Financial Advisors' 3rd Quarter Investment Performance

All three of Tempo's strategies made money for the third quarter. Let's start with **Tempo Dynamic Income**, which was up 1.8%. Although this was the lowest absolute return among our strategies, relative to its benchmark Dynamic Income was the stand-out. Bonds were fractionally positive in the third quarter which means that Dynamic Income outperformed by nearly 1.5%.

From a longer-term perspective Dynamic Income was up 0.7% for the one year ending 9/30/2018. This may not seem like a lot (okay, it is not a lot) until you consider that the BarCap Aggregate Bond Index was down 1.2% over that same time period.

With interest rates rising there has not been a lot of money to be made in bonds. The only positive areas have been sectors like bank loan bonds, high yield bonds, and convertible bonds, all of which have helped Tempo accounts.

Tempo Dynamic Growth accounts gained 2.8% in the third quarter. This was about half a percent less than our benchmark, but a result I am pleased with considering that we were only 40% in equity, the minimum allowed in the model.

Year-to-date Dynamic Growth is about half a percent ahead of its benchmark.

Dynamic Growth accounts have been rebalanced for the fourth quarter and we continue with the lowest amount of equity allowed. As we start the fourth quarter that looks like a good thing as the markets have been drifting down since the calendar turned to October.

Tempo Lifestyle accounts had the largest gains among our investment programs in the third quarter with accounts gaining between 3.5% and 4%. Conservative accounts were in line with benchmarks, whereas moderate and aggressive account trailed by less than half a percent.

This was one of those quarters where the biggest gains were in one segment of the markets (large cap equities - see above.). When this happens more diversified portfolios (i.e. those holding small cap stocks, international stocks, etc.) struggle to keep up. And so it was for Tempo.

Year-to-date we were more successful as our gains are about half a percent better than benchmarks.

See what I did there? I compared Dynamic Income returns to its benchmark for the year ending 9/30/2018, whereas I compared both Dynamic Growth and Lifestyle to their year-to-date benchmarks. Why? Dynamic Income looks better over one year. Beware of statistics!

For the record Dynamic Income is in line with benchmarks year-to-date.

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Dan

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