



Ride The Bull

Stock Market Analysis and Strategies

An IFG Special Report

2017

“Our understanding of the forces driving long-run trends in interest rates is nevertheless limited,” she said, “and thus all predictions in this area are highly uncertain.” -- Janet Yellen

Does anybody know what she just said? I think she’s admitting that they don’t know which way interest rates will go. Buying Stocks has been the best game in town since 2009. Higher interest rates may change that game.

Today, March 9th2017, is the anniversary of the beginning of the eight year bullish stock market. The Dow Jones Industrial Average (DJIA) has rallied to over 21,000 from the 2009 lows of less than 6,500 that were established after the economic downturn in 2008. What does this mean to you? If you’re one of the approximate 50% of Americans that don’t own stock, probably not much. Well, it should. The Great Recession of 2008 was a painful reminder that everyone needs some sort of protection from economic downturns whether you own stock or not. There are ways to protect yourself and potentially profit from a dramatic correction in the stock market. If you do own stock these strategies will work for you as well. Your stock broker may tell you to have no fear. Your broker may tell you that the market should be bought all the way down. Then you’ll see the headlines stating that trillions (with a T) have evaporated and that the economic world is coming to an end, just like 2008 and 2009. But doing nothing means you wait and watch as the anxiety and fear of a tumbling Dow Jones grips you and your family. I’m suggesting that there is an alternative, a better answer.

Selling stock index futures is not rocket science. Anyone that meets the basic financial requirements is eligible to trade. It takes about 5 minutes to open an account. You can even open an IRA futures account to hedge the exposure you have in your IRA stock account. I’ve read blogs where ill informed “experts” warn of financial Armageddon if you are reckless enough to open a futures trading account. Of course no banker warns you about banks getting over-leveraged again or no stock broker warns you about the fear and anxiety associated with a stock market downturn. By the same token, has any politician warned you about the impact higher interest rates will have on our massive \$20 Trillion dollar debt? All of these factors may have a negative impact on the stock market. You don’t need a reason. You need a plan.

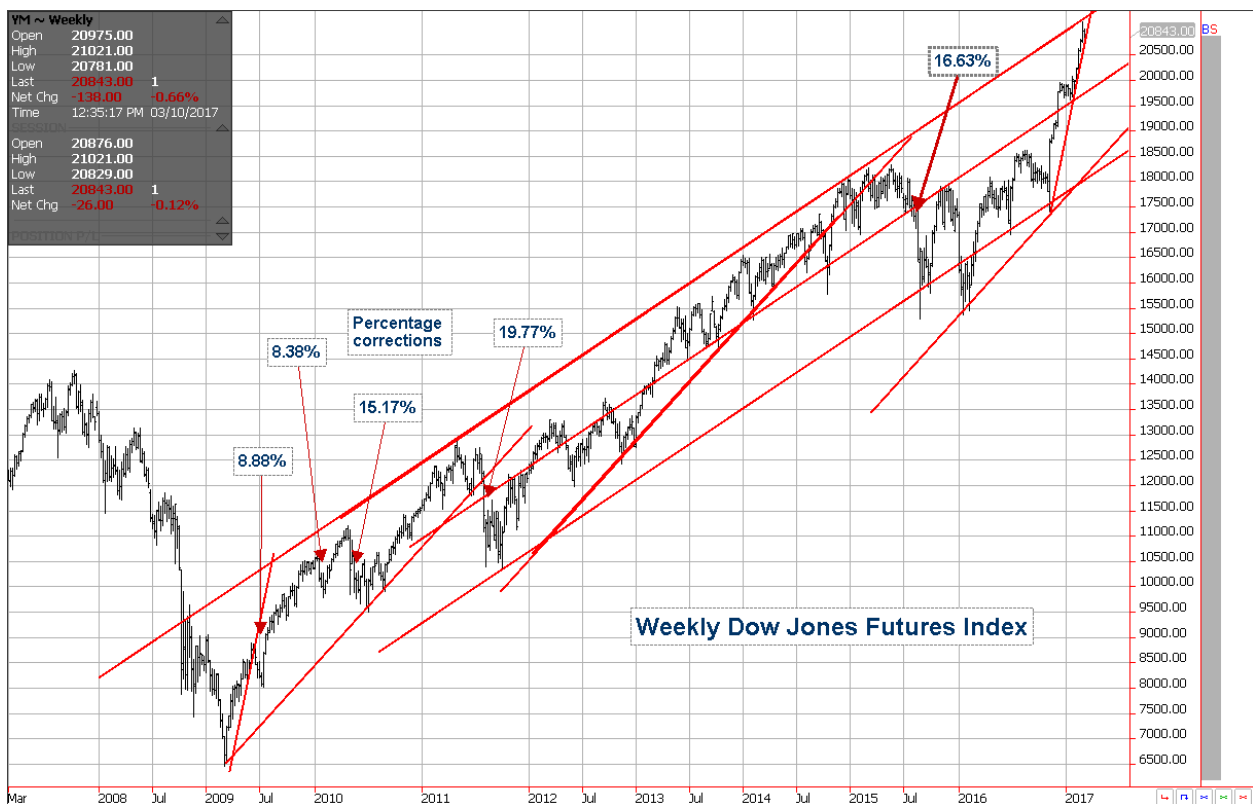
If you’re one of the 50% that have an investment or savings account that has stock market exposure, you need protection too.

The DJIA has gone parabolic since the November election. A market cannot sustain this dramatic angle of ascent. It’s like a stunt pilot pushing his plane into a hammerhead stall. It accelerates straight up until there’s not enough power to continue pushing it higher. The



market, much like a stalled aircraft, has to correct. The plane ride may not be over, but we may need to put our nose down to get our airspeed back! It's also interesting to note that we have not had an angle of this degree since the market bottomed. Does that portend a potential top?

We'd be foolish to not acknowledge the bullish dynamic of the eight-year bull market. But we think it's prudent to calculate when and where to look for potential corrections. Even Harvard University has advocated the use of futures markets as a means of reducing the volatility in an investment portfolio.¹ As you can see from the chart below, we've had corrections of 8.38% to 19.77% over the last eight years. Plug some of these potential percentage correction numbers into today's lofty levels and the calculation is a bit unsettling. An average correction of the last 8 years would slash 3000 to 3100 points off the Dow.



This weekly continuation chart might give you some potential resonance points to consider seeking cover or protection. Keep in mind we're not suggesting selling your stock or mutual funds. We're merely recommending you consider using suggested strategies in the stock index futures market to take some of the volatility and exposure out of your financial life. There is obviously a risk in fading a trend that is

¹ Dr. John Lintner of Harvard University concluded that "The combined portfolios of stocks after including judicious investments in managed futures accounts show substantially less risk, at every possible level of expected return, than portfolios of stocks (or stocks and bonds) alone." (Dr John Lintner, "The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds," 1983.) Correlations will change over time. Not all alternative investments provide low correlation to traditional markets.



this dynamic. That is why we advocate using a trained and licensed professional to assist you in this endeavor. Each individual must determine their own acceptable risk versus potential reward scenario. Your broker can help you adhere to this critically important discipline.

In my opinion, our eight-year bull market in the DOW was created by a concerted Federal Reserve Policy. The American public needed to have renewed faith in the health of our financial system. The Federal Reserve policy to keep short term interest rates @ zero pushed money or capital flows to the stock market. The plan worked. But we wonder if it worked too well. Is the stock market suffering from irrational exuberance? Has the Federal Reserve created an equity bubble? Is the DJIA in hammerhead ready to stall? I don't think we need to be that dramatic, but it does suggest that the prudent man consider some potential strategies to take some risk out of your future.

There are several effective and complex strategies to consider, but it's imperative that you work with a broker to ensure that you have an acute understanding of the risk versus potential reward. We would be happy to share these strategies upon request. Please contact us at yprmtg@ifgfutures.com or 1-800-786-4475. It is our goal to help you recognize and realize opportunities that may exist in the futures market.

There is significant risk involved in trading futures and/or options on futures. Futures and/or options of futures trading may not be suitable for all investors. Investors should consider these risks and evaluate their suitability based on their financial conditions. Past performance is not indicative of future results.

