



The Astrology of Investing

SYNOPSIS

- The media has coined the phrase “Dow 20K” to represent the Dow Jones Industrial Average index hovering around the 20,000 level.
- The media has a long history of designating major milestones in stock indexes and then running countless hours of coverage surrounding the event.
- Bulls and bears have differing opinions, and both offer convincing arguments, so investors are anxious to understand the implications of the Dow 20K.

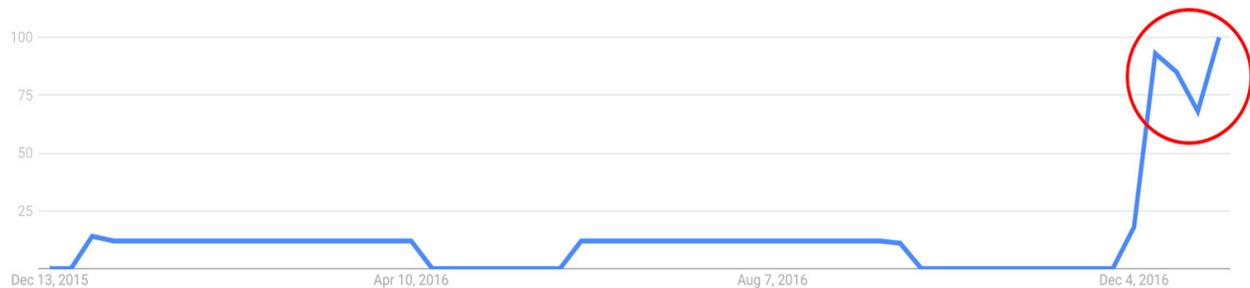
DOW 20K

The Dow Jones Industrial Average is a stock market index that tracks 30 large publicly traded stocks. The “Dow” was first calculated in 1896, and it remains one of the most popular stock indices in the world. In fact, the index is so widely followed that it is often regarded as a proxy for the entire U.S stock market.

This current bull market has recently pushed the index up to the 20,000 level, and the media has jumped all over this historic event and even coined the phrase “Dow 20K” to signify its importance.

A- Trend report on “Dow 20K”

Interest over time ?



Source: Google, Global Financial Private Capital analysis

Google hosts a website called Trends (<https://www.google.com/trends/>), which allows a visitor to search on a phrase and then graphically displays how popular the search phrase has ranked over time.

The chart below (A) is a trend report on “Dow 20K,” and the red circle indicates that recent interest has exploded.

Just because pundits apply meaning to numbers does not oblige these numbers to have meaning.

The second chart (B) is a trend report from 2013, where interest in the phrase “Dow 15K” spiked right around early May, when the index breached 15,000 for the first time.

If someone were to run a trend report on other major milestones for the Dow, it’s safe to say each would follow a similar pattern.

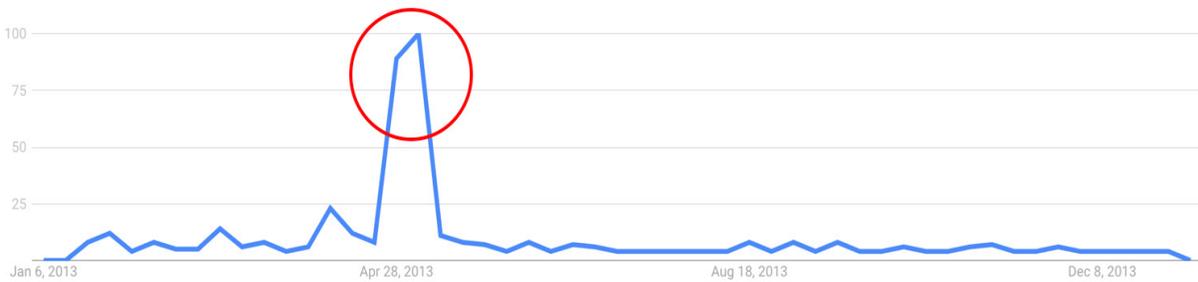
These milestones are covered so intensely by the media that many investors feel like they need to understand the implications of Dow 20K, but market pundits who are paid to offer their opinions cannot seem to agree on what to do next.



B- Trend report on "Dow 15K"

Interest over time

⋮



Source: Google, Global Financial Private Capital analysis

The bears urge listeners to sell stocks and lock in profits before the market takes a breather. They believe that the stock market is no different than Michael Jordan, in the sense that even the greatest need time to rest, and since the Dow has almost tripled from the depths of the financial crisis, hitting 20,000 means that stocks are now due for a break.

Evidence is aplenty for the bears, but no greater tale of caution can be cited than what happened just a few months after the Dow broke 2,000. Back in 1987, the Dow started at 1,896 and then staged one of the most impressive runs in history, surging nearly 44% to 2,722 in late August.

Days later, it reversed and dropped nearly 1,000 points in two months. The selling fury plateaued with a 23% crash on October 19, which lives in infamy as "Black Monday."

The bulls see things differently. They claim that hitting an all-time high only adds fuel to the engine of growth. It's a psychological level that will ignite even more confidence in a market that wants to go higher. Momentum will rule the day.

Once again, investors are faced with two opposing opinions that both make an equally convincing case. What is an investor to do?

IMPLICATIONS FOR INVESTORS

I turned 40 years old right before the New Year, and my wife was kind enough to throw a surprise birthday party

with close friends and family who flew in from all over the country to celebrate. The night was incredible and will always be a cherished memory.

The reason we celebrate big birthdays is because they signify milestones in life that society has designated to be important.

The same applies to the Dow, and investors should most certainly celebrate the Dow 20K when it happens because it signifies that the world's greatest economy has thrived over the past century in ways that few civilizations have ever experienced.

However, none of this changes the fact that both my age and the Dow index are just numbers. I did not wake up on my 40th any smarter, more confident, or wealthier. Aside from my amazing party, it was not much different than any other day that week.

The same goes for the Dow because it's not like the Dow 20K will add fuel to the entrepreneurship coming out of Silicon Valley or the innovation in biotech from universities surrounding Boston. Nor will it cause unemployment to improve further or increase the profit margins of companies in the index. Again, it's just a number.

Furthermore, every point of the index is technically an all-time high once it has been exceeded. Since the index started at one way back in 1896, once it crosses this major milestone, that means the Dow will have then hit its 20,000th all-time high. Why would this all-time high

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tell an investor something that the other 19,999 all-time highs could not?

The Dow has existed for 120 years, and since the average year has 252 trading days, there have been roughly 30,240 trading days ($120 \times 252 = 30,240$) through the end of 2016. Divide the number of all-time highs by the number of trading days ($20,000/30,240$), and we average an all-time high two-thirds of the time.

Meaning, on average, an all-time has occurred every Monday, Tuesday, Wednesday, and Thursday morning (two-thirds of a week equates to 3.3 days) for the last 120 years. Within this context, an all-time high does not sound all that unique.

Just because pundits apply meaning to numbers does not oblige these numbers to have meaning. On their

own, Dow index levels carry absolutely no predictive power at all, and those pundits on television who believe otherwise are using astrology to guide their investment advice.

At some point, the Dow 20K will be as much of a distant memory as the Dow 15K, Dow 10K, Dow 5K, and all others before it. Ironically, the media will be the first to have moved on because the story will become stale fast. They will put it away for a while until the day when the Dow begins to see 25,000 on the horizon. Then, take a wild guess what they will do.

The bottom line is that it is hard to find a more irrelevant story than Dow 20K to the long-term direction of stock prices, so it's best to just celebrate the event when it happens and avoid the temptation to react.

Sincerely,



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