Casey Mullooly: Welcome back to the Mullooly Asset podcast. This is your host, Casey Mullooly. I'm here with Brendan and Tom this week. This is episode 365. So you could listen to one of our podcasts every day of the year, and I really think that that would be a good way to spend your time.

Tom Mullooly: Time well spent.

Brendan Mullooly: 24/7, 365, MAM.

Tom Mullooly: We're always on.

Brendan Mullooly: Let's do it.

Casey Mullooly: Did you guys know that the S&P 500 has officially doubled off of the pandemic low in March of 2020?

Tom Mullooly: That really is remarkable because it's only been 16 months.

Casey Mullooly: Yeah, we're recording this in the middle of July. I think the only other time the market rebounded off the bottom for a double like this was during the great recession, I think, going back that far. I don't think that this has happened this quickly very much, if ever, in history,

Brendan Mullooly: Yeah, this is the second fastest double for the S&P 500 index in history. So, you're spot on with that.

Tom Mullooly: Which is pretty remarkable because when you consider if you were investing in 2008 and 2009, that seemed very dramatic. I mean, the way the market came roaring back in the middle of 2009, but even this beats that.

Casey Mullooly: Yeah, it just goes to show, we've said it, we've beat the drum, how things seemed so bad last year, but then they came right back. And if you miss a double in the stock market, that's kind of hard to come back from. But it's been an interesting rebound, especially of late. We've seen some headlines around that it's been fewer stocks leading the way back up. There was a statistic recently that less than 60% of stocks in the S&P 500 have been able to climb above their 50 day moving average. So what does that say to you guys?

Tom Mullooly: Well, first let's just take apart 50 day moving average. That's 10 weeks of data. So we go back about two and a half months when we're talking about a 50 day moving average. And historically, people who want to be neurotic about stocks look at the 50 day moving average and the 200 day moving average, which is 20 weeks. And that works out to be ... Help me with my math. That's how many months?

Brendan Mullooly: It's about half a year of trading.

Tom Mullooly: Yeah, it's about a half a year.

Casey Mullooly: So the general idea is if a stock is above its 50 day moving average, that means it's moving up in price.

Tom Mullooly: It's got some positive momentum in the short term.

Brendan Mullooly: I'd say too that you look at it, the term that everybody will throw around, and they have been lately, is just breadth in terms of the percent of stocks above their 50 day moving average should indicate how much participation is happening with market hitting new highs, how many stocks are participating in that and helping to cause that, and that's a shift in what we saw for many months, probably from like this time last year through about April of this year, in terms of participation being better than that. Meaning some sectors that had been laggards for a pretty long period of time, like banks and energy, everybody was partying for many months last year. And that's switched at least in these last couple of months.

Tom Mullooly: But at different times throughout the 12 months, we saw different groups and different sectors and different styles all come in or out of favor.

Casey Mullooly: So, is that the same thing where it's more participation is better and less participation is not a good sign for the market? Or is it that too black and white for it and it kind of depends on the situation?

Brendan Mullooly: It depends. I wanted to share some stats that relate to this from a blog post that Michael Batnick at Ritholtz Wealth Management put together this week. So, he shared a similar storyline in the sense that he said that since the early 2000s, we've never had an all-time high on the S&P 500 without at least 50% of stocks being above their 50 day moving average. That happened four times in June. And that was the first time in two decades that that had gone down. So Michael said that he would put this into the interesting but not useful category, because he also said that it would probably be true that if we were on the other end of the spectrum with greater than 90% of stocks above their 50 day moving average making highs alongside the S&P 500, that there would be another group of people saying, "This is as good as it gets. You should get defensive. This is not a good sign." So I think that you can look to stats like percent of stocks above the 50 day moving average to confirm whatever you want it to be.

Tom Mullooly: Sure. And when you see the breadth shrinking, meaning only a few stocks are really carrying the market, I don't know, maybe it's just Murphy's law, but it always seems that those are not my stocks. Those are not my guys who are carrying the flag to move ahead.

Casey Mullooly: Well, it's interesting-

Brendan Mullooly: Well, we should just own those stocks then. If only we could identify them beforehand.

Casey Mullooly: We're saying that's sarcastically.

Tom Mullooly: Well, that actually does lead to another point that comes up is that people turn on the TV and they see that the market is setting new highs and then they rip open their statement and they see, we actually lost money in June. How is that possible? So yeah, we have to be able to explain that you don't own the 30 stocks in the Dow Jones in the exact same components, in the same ratios.

Brendan Mullooly: Nor do you want to. Sure, you might want that when it's hitting new highs and your account isn't. But back at the end of last year, things like value and small caps and international stocks were all ahead of things like large cap, US and tech. So it paid to be a little diversified then. And so you've got to remember that these different areas are not all going to hit new highs simultaneously, and it's all right. It doesn't mean that anything's broken or wrong, or really anything needs to be done as a result. We can have bad breadth, and the market overall doesn't have to be poor because if the stocks that are continuing to make new highs make up 20% of the index, like some of the names in the S&P 500 do right now, that's how you get that divergence, and that can continue for long periods of time and not matter.

Brendan Mullooly: So I don't think you can take a stat like this and say it's time to get defensive or it's time to get more aggressive. I just, again, interesting, and it's always cool to look under the hood of what's happening in the market, but I don't know that there's anything to do as a result of that for somebody who has a reasonable investment portfolio already.

Tom Mullooly: Yeah.

Casey Mullooly: Interesting, not useful. I love that line.

Brendan Mullooly: Yeah.

Casey Mullooly: That's a great line.

Brendan Mullooly: How many things that you read on a daily basis in relation to investing fall into that category?

Casey Mullooly: 98%.

Tom Mullooly: Yeah. I was going to say almost everything.

Brendan Mullooly: If you're doing it right, a lot.

Tom Mullooly: Yeah.

Casey Mullooly: Yeah. So I just wanted to get into what it takes for an index to double or for someone's account to double, because I think that that is not what people think it might be. So the S&P was down in March of 2020 last year, 30%.

Brendan Mullooly: 35.

Tom Mullooly: 35.

Casey Mullooly: 35, 40%.

Tom Mullooly: Right, 35.

Casey Mullooly: So could you explain how the math works behind that?

Tom Mullooly: So I'm not going to go through the entire times tables.

Brendan Mullooly: Yeah, please don't. Just like the SparkNotes version.

Tom Mullooly: SparkNotes version is if your investment or the market goes down 10%, you need 11% to get back to even. So if the market or your investment goes down 20%, you need 25%. This is just to get back to even. So when a market goes down 35%, you're going to need, I think the number is something in the high 40s just to get back to even. To double, you're going to need pretty much what the NASDAQ did in the last 12 months.

Casey Mullooly: Which is again, ballpark 80, which I know you've been having conversations with our clients about that, and how markets need to digest and take a breather from those kind of moves.

Tom Mullooly: You know what? We're using the same analogy now with housing prices. And I don't want to make predictions about things I know nothing about, but you look at what's happening with housing prices and you say, "Wow, it can't continue to go up like it has over the last year or so." That's true. It doesn't mean that it may go down and give some of this back. It may just flat-line for a while. Same thing with stocks that I've seen over 35 years, where when we have an advance like we have ... Everybody remembers how the market fell apart in a few short weeks in February and March of 2020, but just go from March 23rd forward and look at this. We have not had a 10% pullback in 15 or 16 months. I mean, we know historically that that happens on average about once a year and the data goes back for 90 years.

Tom Mullooly: So we're going to need to have some time where the market just digests some of these gains and just takes a breather. I think it's very reasonable to consider that we may be jogging in place for a while. I think that's a possible outcome at this stage of the game.

Casey Mullooly: So Bren, would you throw the math behind a double into the same category as interesting but not necessarily useful?

Brendan Mullooly: Yeah, I think just to share my feeling, like the times table that Tom was referring to in terms of here's how much you need to recover from this percent loss. I have a little point of contention with that because it's normally attached to an article, a blog post, or other piece of content that then is telling you how you can trade better to avoid those losses in the first place, if you will just pay the low price of 1995 per month or some ridiculous bull crap like that.

Tom Mullooly: Yikes.

Brendan Mullooly: Yeah, I don't appreciate that and I don't think that it's helpful to investors. I think that it's slimy content that it's usually attached to. While the math is the math, not disputing it, numbers are the numbers, I'm just saying if it's attached to something telling you how you can make and never lose money by trading in a system, just stop.

Tom Mullooly: I will say that I picked up that line about if the market goes down or your investment goes down 10%, you need 11% to recover and that whole thing, I got that from the Lehman PitchBook.

Casey Mullooly: Enough said.

Tom Mullooly: Yeah. These were the tools of the trade 30 years ago.

Brendan Mullooly: You can use that sort of information to make people act now and do things that are maybe not in their best interest, or stuff that you don't need to do to be successful as an investor. So yeah, the numbers are the numbers, but I don't like where I see those stats trotted out.

Casey Mullooly: Yeah, it's not an indication that you have to rip up the script. It's more an indication of, hey, let's be patient. These things happen.

Brendan Mullooly: Yeah. I feel like the implication there is that even a 10% loss is so much work. And the whole idea of getting back to even in the first place is just, for somebody who has an investment portfolio that is attached to a financial plan that has a reason for existing, we just said a 10% pullback's going to happen in the market on average every single year it's not something that you need to be worried about recovering from. You're going to recover from it as long as you don't do something crazy to yourself in the interim.

Tom Mullooly: I do have one wish as we're talking about all of these things. And it's every now and then we'll get a phone call when the markets are down. We'll get a phone call from someone and they'll say, "A few weeks ago, my account was worth X and now it's X minus," fill in the dollar amount. "I just lost X amount of dollars." Well, no. I mean, if we didn't sell right at the very tippy top, then these are paper gains. These are things that are going to be very squishy and they'll be higher tomorrow or they'll be less tomorrow, but those are not hard and fast numbers that you can take to the bank.

Brendan Mullooly: So just to piggyback on that, another stat from the post I was referring to earlier by Michael Batnick said, and I was kind of surprised by this, but I'm trusting in him that the numbers are right, that since 2007, the S&P 500 has had 321 new all time highs. If you think about that period of time and the number of highs, and we have 252 trading days a year, and over the better part of two decades, like 15 years or so there, 321 new all time highs. So if you're going to anchor to the high watermark in your account all the time, you are going to be disappointed so, so, so much. All the time, you're going to be disappointed. It may not feel that way in a year, like last year or 2019 where the market, aside from the obvious downturn when the whole pandemic started, pretty good.

Brendan Mullooly: I mean, I know that we haven't had a down month on the S&P 500 technically since November of last year, so it feels like it just goes up and up forever. And maybe it feels like there are more all time highs than that of late, but the numbers are the numbers. Again, you're not going to have new all time highs in your account all the time, and you're going to be perpetually disappointed if you're going to anchor to that sort of stuff.

Casey Mullooly: Yeah. Definitely important to keep that in mind and to keep that context in mind when you're reviewing your accounts. And like you said, not to anchor to that high water mark, because I mean, all time highs are all time highs. They're not your average high or your expected high. This is the best it's ever been.

Brendan Mullooly: Until now. It's not the forever high either.

Casey Mullooly: Forever, yeah.

Tom Mullooly: I firmly believe that there's plenty of people who go in and they'll check their account and they'll print that. They'll print that page and they'll keep that page on their desk at home until it's replaced by another new high. And you're right, they're going to be very sad most of the time because it's not back at its old high.

Brendan Mullooly: You can invest however the heck you want to, you're still going to be disappointed. So it's not a reflection of you having a bad approach or a bad strategy. And I understand it because it's human nature to look at that and see the high value and get excited by it and remember it, but you've got to be able to look at that information and then also consider the bigger picture and the fact that you're not going to see a new all time high each and every month or week or even you don't have to see one every single year in the market. We're not promised anything.

Tom Mullooly: I think one of the best exercises would be to remind people to take out your statement from March of 2020. Look at that.

Brendan Mullooly: Yeah. I think contextually, if you could scratch the itch of looking at the account and seeing your new all-time high while also maintaining just the awareness of maybe where you were a year or two or three, looking on those long-term basis approaches too just to see like, oh man. I mean, yeah, maybe we're a couple of percent off the high here. We showed a loss on the last monthly statement, but holy crap, a year or two ago, this account was-

Tom Mullooly: Way below where it is now.

Brendan Mullooly: Yeah.

Casey Mullooly: So, don't just print out the all time high page of your account. Print out 10 years ago statement, five years ago statement, March 2020 bottom statement and the all-time high statement, and keep those all side by side on your desk.

Tom Mullooly: Along with a bowl of ice cream. So it's going to be okay.

Brendan Mullooly: I'm just thinking too, like your point about if the market were to stay in place for a number of months here, maybe like the rest of this year. I mean, if you looked at the end of this year and then took the 2019, 2020, and 2021 period, all those years of returns across it, it's been a nice period of time. So yeah, it'll stink if we got to mid 2021 and then flat lined through the end of the year, but that three-year period is something that any investor would sign up for. The annualized return over that period of time is bonkers. You would never anticipate getting returns like that over a three-year stretch. So I think anybody has to be pretty happy with returns over that period of time, as long as they've been doing something reasonable.

Casey Mullooly: Yeah, definitely agree with that. Interesting to see that it's officially doubled and we're moving on. We'll see if it continues to have this divergence that we've seen over the last couple of weeks, and we're going to stay on top of things as we move into the second half of 2021. I think that's going to be it for episode 365. Thanks again for listening. We will see you on episode 366.

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