

100% Stocks—A Very Rare Allocation

A Review of the Indicators

by Don R. Hays

I often promise you that the morning epistle will be a short one, but then I get all carried away and go on and on and on. . . .and on. But not this morning. I have to be at an interview at 7:00 a.m., so come hell or high water, this one will not keep you too long.

As the headline details, our asset allocation process is calling for long-term investors to be invested 100% in stocks, 0% in bonds, and 0% in cash. For moderate growth investors it is now at 85% stocks, 15% bonds, and 0% cash, and for conservative growth investors it is 65% stocks, 35% bonds, and 0% cash. This is the posture when all the background information is the most bullish, and stocks are dramatically more attractive than bonds. This is extremely rare. It only occurs when all the “stars in the universe” are perfectly aligned, you might say.

This only occurs when the risk/reward for stocks is extremely attractive. This only occurs when the prevailing fear around is extremely high. This obvious contradiction is why very few people are able to be good investors over time. In the high percentage of cases, these junctures only occur after major catastrophes. They can be financial catastrophe's (major meltdown of the financial structure of a country or major lending entity) physical catastrophe (massive hurricane damage), or a “Satan-induced” terrorist attack that kills 1000's. As you can surmise, the incident the typically produces major buying opportunities has caused severe losses to portfolio's up to that point. Investors are so nervous about their “life-savings” that they are retreating into the most convenient bomb shelter.

That is another reason that investing needs to always be done in a judicious way, that allows you to take a chance. I never bet the house on anything. But if you have your portfolio in the correct strategic category, and you have an effective tactical allocation system, when these rare opportunities occur, you can take advantage of them.

Now remember, these times arrive when few advisors and “experts” are telling you to move in. They arrive when the economic predictions are calling for recession, depression and collapse.

So quickly, let's review the discipline that would be so audacious to recommend in these perilous times that investors with a long-term growth strategy put 100% of your “investible” assets (now remember, don't bet the house, only your investible assets) into stocks.

As I have explained several times in these letters, my workload at this time, with the current manpower is heavier than my time schedule provide. (We are in the process of changing that with additional personnel, but not there yet.) So in my prioritizing, quite often the comments on the charts that are in our website get put on the back burner—and become dated. But the weekly charts are always updated each Monday morning, and the daily ones each morning. I did have a chance to update some of the comments yesterday, but this morning let me touch on a few of them that have pushed our allocation process into its most bullish category.

Psychology:

3 Week – 39 week equity put/call ratio at 20.8% has just triggered one of those very rare, and very accurate long-term buy signals.

Equity Put/Call Ratio—15 Day Moving Average moved up to the amazing level of 87.7%, by far the highest in its history.

Arms Index—10-day Moving Average for the first time in its history has triggered the above 1.5 level for the third time. The low day on Friday was the 20th day after signal that had been flashed on 8/15/01.

Smart Money Index-Very bullish new highs last week

There are many more psychology indicators at extremes, but quickly look at the following monetary charts.

10-Year Note/T-bill is been long considered the best economic forecaster of the economy in the next 12 months, and it has just moved to one of its most bullish levels in its history.

T-Bill/Discount Rate has dropped back close to the magical –10% level that would indicate another inter-meeting fed funds rate cut.

2-Year Treasury Momentum, MZM, and many more.

The time is creeping in, so I can't mention them all, but to put the cap on all this, the Valuation Composite moved to being 17.6% undervalued stating that stocks are much more attractive than bonds at this juncture. I'm telling you, in every case that this condition comes around the skeptics are saying, but it doesn't matter this time because "this or that" will happen in the future to distort this valuation reading.

I especially want you to look at the overbought/oversold type of indicators: the record-breaking oversold condition of the NYSE McClellan oscillators, my overbought/oversold indicator, and again and again, I could go on and on. All these indicators are at those magical levels that in the past have only occurred at major buy junctures.

So my asset allocation is saying that you should be fully invested in stocks to the maximum level that your risk/reward characteristics can stand. We bought stocks yesterday in our managed accounts to push the long-term stock positions

in those accounts to 84%, from its previous 77%. To finalize this process, by taking the next step up to the recommended 100%, we are waiting on the bottom-spotting signal to be triggered. This works like this: When a severe decline is reversed by a big, high-volume one day move, you must wait out through the first three days to let the emotional buying run its course. But in that period of the 4th to the 10th day when the major indices move up by 1% on volume that is higher than the volume of the previous day, that triggers a bottom confirmation signal that has been highly reliable at signaling that a significant final bottom has been made.

In truth, this is not all that important at this time, but with the intense high fear, I have to admit that this gives just a little more comfort level as to short-term timing.

The Hays Advisory Group does not guarantee the accuracy or completeness of this report, nor does the Hays Advisory Group assume any liability for any loss that may result from reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice and are for general information only. Hays Advisory Group, P.O. Box 50436, Nashville, TN 37205.

©2001 Hays Advisory Group, LLC. All rights reserved. The information contained in this report may not be published, broadcast, rewritten or otherwise distributed without prior written consent from Hays Advisory Group.