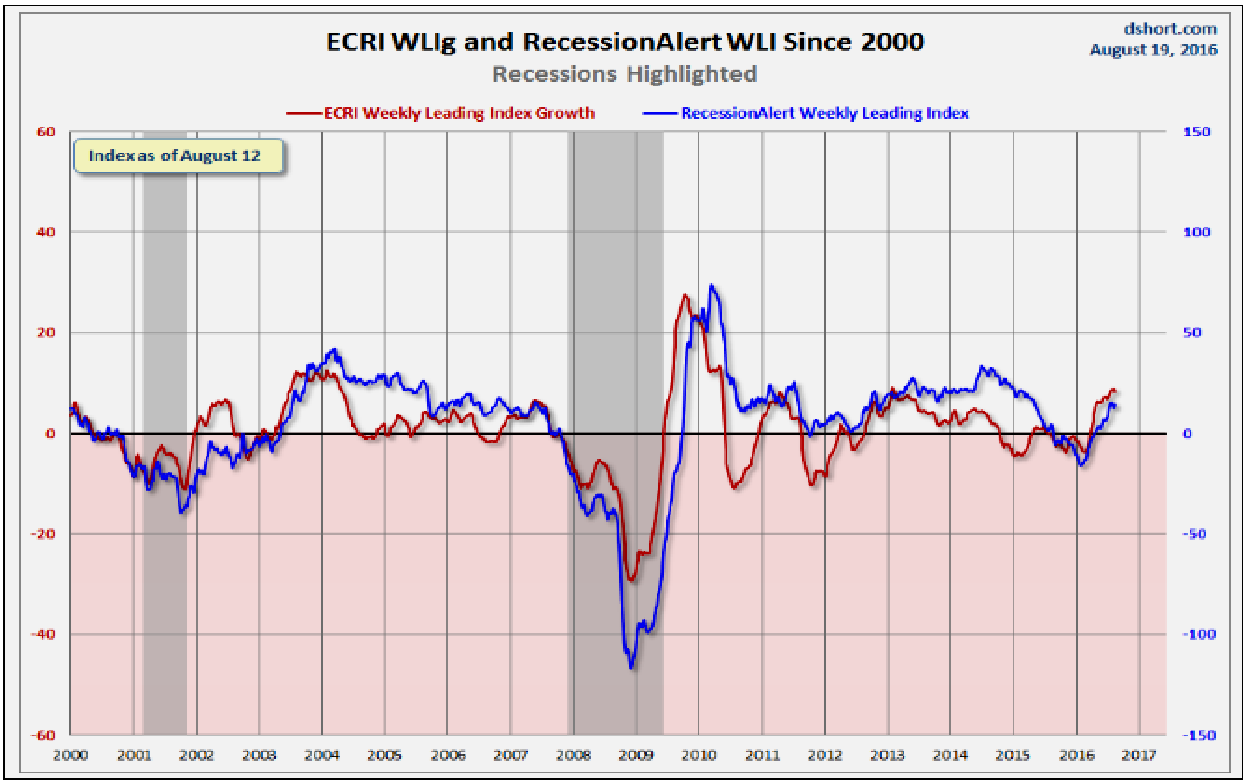
Bull Markets Don't Die of Old Age, They Are Killed by Recessions

I have been asked numerous times how long do bull markets last? Perhaps a pundit has been on television describing the reason why the market cannot go up, because the market has aged past the normal bull market cycle.

Bull markets don't die of old age, they are killed by recessions. When a country goes into a recession, GDP (gross domestic product) drops. The demand for cars, iPhones, homes, oil, almost any capital expenditure drops. About the only thing that doesn't drop is toilet paper, beer, cigarettes, and food. Layoffs and unemployment goes up. People's income drops so demand drops.

The technical definition of a recession is two successive quarters of negative GDP. As you remember, our last one was in the latter part of 2008 and in the first six months of 2009. Let's go ahead and look at some charts. In the first chart is an indicator that I follow, and I believe a picture really is worth a thousand words :



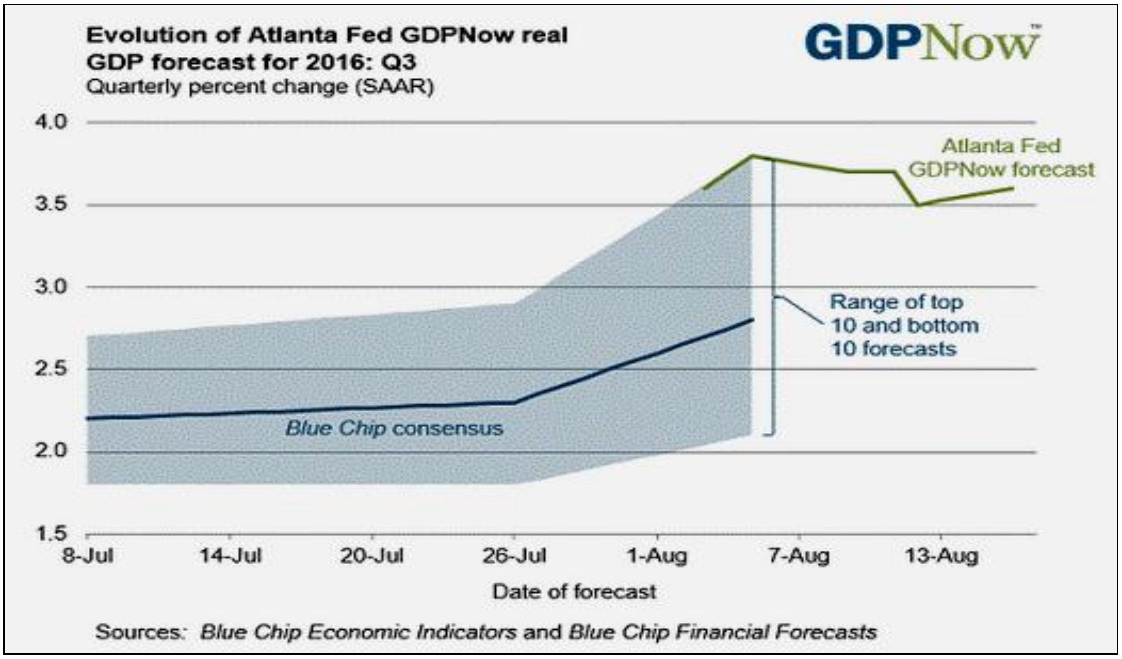
http://www.advisorperspectives.com/dshort/updates/ECRI-Weekly-Leading-Index [1]

It's called a recession alert, and there are two different lines. One is a red line (ECRI weekly leading index growth), and the other is a blue line (Recession alert weekly leading index). They are both very similar, but let's focus on the blue line. When the blue line is going down, that means the chance of recession is going up, and when the blue line is going up, the chances of recession are going down.

If you look at the last quarter of 2015 and the first quarter or two 2016, you could see the blue line was going down which signaled a weakening economy. Fortunately for us, if you look at the blue line now, you can see that line has been trending up for a number of months.

In my experience, the stock market is like a canary in the coal mine. It will normally start signifying a potential recession months away by trending down. If GDP does go negative, the market will even go down even further.

The second chart is a GDPNow model, a forecasting model that is done by the Atlanta Federal Reserve Bank.



https://www.frbatlanta.org/cqer/research/gdpnow/?panel=1 [2]

This chart also uses real-time data instead of using old data from three to six months ago. It is updated on a weekly basis and as of 8-16-16 is forecasting strong third quarter GDP.

Sincerely,

John Romano, CFP®

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