Quick Glance

Hardee Investment Group

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Riding the Storm Out: Part 2

Buying low isn't always as easy as it sounds. Historically the market has seasonal tendencies. It typically goes down in the summer and early fall and rises in the winter and spring. What happened this time?

Oil dropped much faster than expected. What scares markets is fear of the unknown. When it happens quickly, it exacerbates fear. When fear emerges, demons multiply and everything goes to extremes. We can find five times in the last 40 years when we had a down January. Only one of those times the year was down significantly and that was 2008. The other four times, one year was flat and the remaining three were up. 2009 was the best when the market was up 24% according to Dorsey Wright, Associates. We can only assume that we're not following seasonalities because we're now concerned the Fed will raise interest rates faster than forecasted.

As we wrote last summer, there are certain signs that measure extreme fear. Over the last four decades these are few and far between. We last saw these signs in 2008 and more recently in 2011. The first indicator is the number of new weekly highs and lows on the NYSE. Last week we experienced 1,451 new lows and only 26 new highs. This typically ranges between 500 new highs and lows. 1,451 new lows represent an extreme. The second indicator is the number of bullish advisors according to Investor's Intelligence. Just recently we saw 24% of investors were bullish and the remaining 76% were bearish. The third indicator we see are high levels of insider buying. These are extremes we experience as panic manifests itself by rapidly declining prices and increased trading volume, where the volume is more than 90% sell oriented.

When change happens this quickly, everything is questioned and all credibility goes out the window. Just last year conventional wisdom was $50 oil was low. Now we've been below $30 oil and $50 oil is considered acceptable. Who do you believe and what do you do? When there's fear you go to the investments that help you feel most safe — dividend-paying stocks and bonds.

Once again our themes will guide us. If oil is to stay lower for longer, users of energy will benefit. Users of energy that pay dividends will do better. We have maintained high levels of cash and are now able to find dividend yields in excess of 7% because of market decrease. Last year, these stocks were twice the price and ½ the yield.

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Wealth Management

Most will remember in 2008 when MarkWest went from $34/share in august to $8/ share in December. It was our largest position and the world looked very bleak. 18 months later, it was at $40/share. It's hard to focus when everyone is shooting first, but the question ought to be "where can we be 18 months from now?" MarkWest is a reminder of where we should be focusing.

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