Investors Monitor
Investment Research for RIAs, Hedge Funds and High Net-Worth Individuals

# Weekly Investment Commentary

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## Stocks Poised for a Substantial Pullback

After telling investors on Sunday, September 25 that stocks were in danger of pulling back sharply, our research indicates that stocks are now on the verge of a plunge. We say that, primarily, because of the following:

(1) An increasing number of corporate malfeasances were reported over the past few months, which we think is leading financial market participants to have less faith in the trustworthiness of CEOs, CFOs and other high-level personnel at publicly-traded companies. (The last time that a large number of corporate wrongdoings were reported – from late-1999 to late-2002 – stocks fell sharply).

(2) The aggregate corporate profits of U.S. publicly-traded companies declined, on a year-over-year basis, during each of the past five quarters, and our research indicates that corporate earnings continued to decline during the quarter ended September 30, 2016.

(3) Various valuation metrics indicate that U.S. stocks, as measured by the major U.S. stock market indices, are substantially overvalued.

(4) The readings on numerous economic statistics indicate that the United States' pace of economic growth will continue to decline after falling, on a year-over year basis, during each of the past five quarters.

Several examples of the recent corporate malfeasances, which we highlight in red on the Stock News page of our Internet web site, include wrongdoings committed by Wells Fargo (WFC), BB&T Corp. (BBT), UBS Group AG (UBS), Anheuser-Busch InBev (BUD), Bank of America (BAC), Weatherford International (WFT) and Deutsche Bank (DB).

In regard to corporate earnings, the after-tax profits of U.S. companies, in the aggregate, declined by 6.3% during the quarter ended June 30, 2016, after falling by 6.5% and 18.3%, respectively, during each of the two prior quarters, as compared to the same periods a year ago.

Meanwhile, the price-to-earnings (P/E) ratio for the S&P 500 Index is currently at the highest level since April 2004, and other stock valuation statistics, such as the ratio of the total market capitalization value of S&P 500 stocks to the United States' gross domestic product is currently near the highest level since January 2001.

In regard to recent economic developments, leading indicators for the U.S. housing market suggest that economic activity in that very important sector of the U.S. economy will slow considerably over the next few months, and leading indicators for the manufacturing sector of the economy suggest that economic activity in that sector of the economy will decline over the next few months.

  

Meanwhile, persons who invest in stock mutual funds continued to withdraw large amounts of money from those funds over the past few weeks, and institutional investors continued to allocate large portions of their funds to so-called “defensive stocks” over the past few months.

## Investment Advice

As a result of the factors and developments mentioned above, I’m advising my firm’s clients and persons who subscribe to our ***Weekly Investment Commentary*** to continue to allocate the majority of their financial market assets to cash-like investments (i.e. money-market securities) and to a few relatively-safe, yet high-paying dividend securities, including **Gabelli Equity Trust Inc. Series H Cumulative Preferred Stock (GAB-PH)**, **Welltower Inc. (HCN)**, and **Nuveen S&P 500 Buy-Write Income Fund (BXMX)**.

Although I’m also advising our clients to continue to hold their positions in **JPMorgan Alerian MLP Index ETN (AMJ)** and **E-TRACS Alerian MLP Infrastructure ETN (MLPI)**, there’s a good chance that I’ll advise our clients to sell those securities in the event that we see further signs that stock prices, in general, appear to be due for a substantial pullback.

**Click here and complete the form that loads on our Internet Web site if you would like for us to tell you when our research indicates that you should sell AMJ and MLPI and/or that you should become more defensive with your portfolio allocations.**



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