When the pendulum sways, obey Mr. Market

Inflection points are the most difficult periods for investors to identify and successfully navigate.

Many overzealous money managers from the 1990s stayed bullish on technology stocks even after it was clear the bubble had burst in 2000. Many bearish investors from 2008 remained so even after it was apparent the economy and market had turned for the better in 2009.

Well, after about 18 months of weak markets and U.S. presidential election uncertainty, another inflection point is upon us and the bull market is back on.

The world experienced a global economic slowdown in 2015 and early 2016 which weighed on corporate earnings growth. Crashing oil prices added to investor pessimism and all this was being reflected by deteriorating stock market trends around the world. But, as is often the case with markets, the sentiment pendulum swung too far as investors became overly bearish.

We saw signs of life again in the aftermath, only to be met with the negative shock of Brexit. Markets muddled along while a political cloud of uncertainty drew closer.

But this election uncertainty was lifted in November and revealed a new business friendly administration in Washington.

With the Republicans firmly in control of the White House and Congress, expectations for fiscal stimulus in the form of corporate tax cuts and increased spending on infrastructure and the military grew quickly.

This was the catalyst which caused a monumental sentiment shift in investor confidence and caused markets to rally.

In my opinion, money managers miss turning points because they are too dogmatic and don't listen to the message of the market. Keep in mind, it's not what you or I think or want, but what Mr. Market thinks that matters most. He is smarter than you and I, and don't forget that.

The bond market may be the best leading indicator for stocks and it's currently signaling growth. The yield on the U.S. 10-year Treasury bond went from below 1.40 per cent in July 2016, to 2.60 per cent by December. This is a material move and a bullish signal. Gold began to roll over in July, as investor demand for safe haven assets fell, while demand for cyclical assets rose.

Cyclically sensitive small cap stocks stumbled ahead of the election, but outperformed their large cap counterparts after, which is reflective of more investor appetite for risk. Again, a bullish signal.

Many stocks are participating in the rally as well, which is indicative of a healthy trend. Commodity prices have even been supportive as prices have made a significant move off the bottom, reflecting higher demand.

No one signal should be taken as gospel, however, and it's important you see confirmation from many, lest it be market noise.

Turning points are difficult to spot, but one has been underway since November. There was a time to be defensive, but this is no longer it. The setup for 2017 is bullish and the message from Mr. Market is signaling as much.

Lori Pinkowski is a senior portfolio manager and senior vice-president, Private Client Group, at Raymond James Ltd., a member of the Canadian Investor Protection Fund. This is for informational purposes only and does not necessarily reflect the opinions of Raymond James. Past performance is not necessarily indicative of future performance. Lori can answer any questions at 604-915-LORI or lori.pinkowski@raymond-james.ca. You can also listen to her every Monday morning on CKNW at 8:40 a.m.