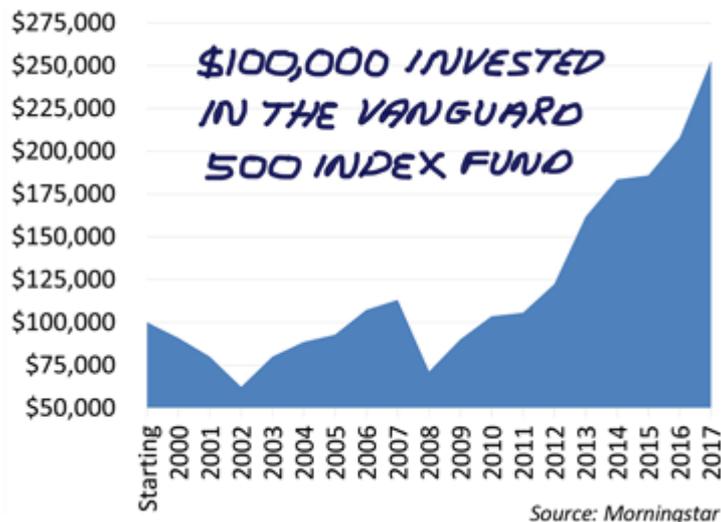


Comparing the 2018 Melt Up to the 1999 Bubble

☒ “‘Melt Up’ Rally Propels Dow Above 26,000 as Fear Turns to Greed” proclaimed The Wall Street Journal this morning. The headline comes as optimism in our weekly sentiment survey is staying at an unusually high level. Even outside of the office, more people have been bringing up the market’s run to me in conversations.



The current market environment does not feel like the dotcom bubble (some of you have expressed concerns about the market’s valuation and/or the possibility of a forthcoming drop in stock prices), though there are similarities. We’re in the midst of an extended bull market. Tech and internet company stocks have done well. There’s a bubble in emerging technology companies, especially those associated with cryptocurrencies. (At least during the dotcom bubble, you could buy gifts from Toys.com and dog food from Pets.com. Good luck buying either from a national retailer with bitcoin, ether or ripple.)

Followers of Yale Professor Robert Shiller’s cyclically adjusted price earnings (CAPE) ratio will point to it as another similarity. The CAPE ratio is at 33.6, a level only exceeded during the dotcom bubble. The CAPE ratio reached a record high of 44.2 in 1999. The market topped out a few months later.

While all bull markets and bear markets are different, I thought it might be useful to see what would have happened to an investor who got into the stock market in January 2000. This hypothetical investor ignored all allocation rules and simply invested \$100,000 into the Vanguard 500 Index fund (VFINX), which tracks the S&P 500 index. The chart at the right shows the portfolio’s returns.

[Continue Reading »](#)

This month, AAI is publishing our popular year-end review of stock screening strategies and if you

join AAI today, I'd be pleased to pass along a copy for your review.

The data in this special report is pulled from the popular Stock Ideas area on AAI.com and if you're not familiar with this free members-only service, you'd be amazed at the investment ideas it can generate.

In a nutshell, AAI Stock Ideas allow you to tap into the investment philosophies of promising investment professionals as well as see the resulting stock picks. With AAI.com Stock Ideas, you can choose one of our more than 60 screening approaches to build a list of winning stocks. The stock approaches and investment ideas are virtually endless and the resulting performance is top-notch. In fact, over the last 18 years, more than 90% of our stock screens outpaced the overall market.

Here's a quick peek at some of our more popular screens and their impressive 2017 returns:

MAGNET Complex up 150.8% ...

Fisher (Philip) up 101.4% ...

O'Neil's CAN SLIM Revised 3rd Edition up 79.3% ...

MAGNET Simple Revised up 66.7% ...

MAGNET Simple up 59.6%*Return data as of 11/30/2017.*

Join AAI Now and you'll receive our year-end overview of the AAI stock screening strategies, plus gain full access to the Stock Ideas Area on AAI.com.

AAI Model Portfolio Update

No changes were made to the Model Shadow Stock Portfolio.

The AAI Model Shadow Stock Portfolio lost 3.9% in December. The Vanguard Small Cap Index fund (**NAESX**) added 0.4% for the month, and the DFA U.S. Micro Cap fund (**DFSCX**) fell 1.0% in December. Even with the decline, the portfolio gained 14.0% last year.

More on AAll.com

- [The Investment Implications of Lower Stock Return Prospects](#) - The guidance given in this 2001 *AAll Journal* article is still applicable today for those who are concerned about returns being lower in the years ahead.
 - [The Trinity Portfolio: Combining Diversification, Tilts and Trend-Following](#) - Those of you who are not content with a simple buy-and-hold approach may find this approach useful.
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Highlights from this month's *AAll Journal*

- [Insights on Using the 4% Withdrawal Rule From Its Creator](#) - Bill Bengen revised his oft-followed withdrawal rule from 4% to 4.5%. Find out why.
 - [52-Week Highs Perform Better Than Record Highs](#) - Returns are higher when investors focus on buying stocks trading at their respective 52-week highs than at their record highs.
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AAll Sentiment Survey

Optimism is above 50% for the fourth time in five weeks, and remains at an unusually high level for a sixth consecutive week. [More about this week's results.](#)

This week's results:

- Bullish: 54.1%, up 5.4 points
- Neutral: 24.5%, down 1.8 points
- Bearish: 21.4%, down 3.7 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

What's Trending on AAI

1. [Should You Maintain an Allocation to Bonds When Current Rates Are Low?](#)
 2. [Insights on Using the 4% Withdrawal Rule From Its Creator](#)
 3. [Closed-End Bond Funds Versus Individual Bonds: A Case Study](#)
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The Week Ahead

We'll enter the heart of earnings season with 84 members of the S&P 500 scheduled to report earnings. Included in this group are nine Dow components: Johnson & Johnson (**JNJ**), Procter & Gamble Co. (**PG**), Travelers Companies Inc. (**TRV**) and Verizon Communications Inc. (**VZ**) on Tuesday; United Technologies Corp. (**UTX**) and General Electric Co. (**GE**) on Wednesday; Caterpillar Inc. (**CAT**), Intel Corp. (**INTC**) and 3M Co. (**MMM**) on Thursday.

The week's first economic reports will be the January PMI Composite Flash and December existing home sales, released on Wednesday. Thursday will feature December international trade and December new home sales. The December durable goods orders and the first estimate of fourth-quarter GDP will be released on Friday.

One Federal Reserve official will make a public appearance this week: Chicago president Charles Evans will speak on Tuesday.

The Treasury Department will auction \$26 billion of two-year notes on Tuesday, \$15 billion of two-year floating rate notes (FRNs) and \$34 billion of five-year notes on Wednesday and \$28 billion of seven-year notes on Thursday.

Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AAI members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)