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THE AGE OF THE 'NO OTHER ALTERNATIVE' BUBBLE

Every bubble must pop, but when?

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In my opinion, U.S. Federal Reserve chair Janet Yellen might make an excellent Oil of Olay model. While I admit I am not so sure about the quality of her complexion, I am sure that she "keeps them guessing" when it comes to the Fed's date to actually, really and genuinely tighten. But for real, this time.

The market liked the Fed's recent lack of decision — again. The market cheered the Fed's no-do plan — obviously thinking it was the wise thing to do. Never mind that the Fed doesn't always make the right moves — as illustrated by the Fed-orchestrated real estate and stock bubbles of the early 2000s. We know how that ended in 2008. Now the Fed has orchestrated a "new and improved" bubble in stocks and real estate.

Every bubble has a name:

- The American Growth bubble of the 1920s
- The Nifty Fifty bubble of the 1970s
- The Dot-Com bubble of the 1990s
- The Sub-prime & Oil bubble of the early 2000s

Now, it's the "NOA" (No Other Alternative) bubble. Markets rise because there is No Other Alternative (i.e.- no safe investments paying a reasonable rate of return).

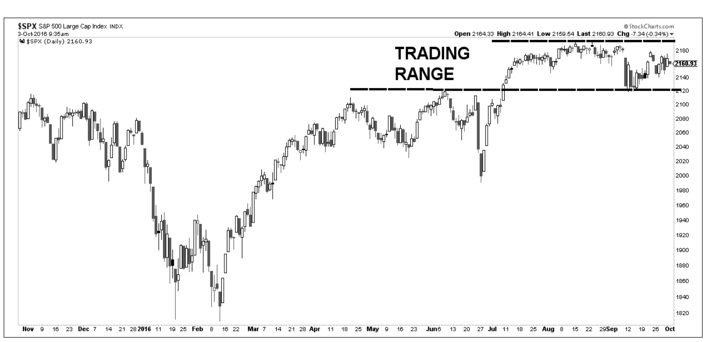
This is thin ground for a bull market to continue. Markets need to rise on a strengthening economy and rising corporate profitability. Despite my belief in the long-term secular bull market, I am wary of the intermediate-term outlook.

Who knows when it will end? Whatever the specific circumstances, like the last Fed-orchestrated bubble, when it ends, it ain't gonna be pretty.

Don't get me wrong. As noted above, I am a long-term secular bull, but I am wary of the midtermed (one year or so) outlook.

For the time being, we can only look at the near-term trends. I don't know when this bubble will pop. I only know that it will — and I know that, because they always do. As Howard Marks of Oaktree Capital, my favourite investment writer, says, "You can't predict. You can prepare." So, let's prepare for the inevitable, but let's also play along with Janet and see if we can't make some money along the way.

Recent trading action on markets brought the S&P 500 to the top of its prior near-term trading range — which sits around 2,170 or so. This level may present a bit of technical resistance in the short run — meaning that stocks may waffle a bit as that key level is reached.



On the downside, the market seems to sell off to a pretty defined floor lately. The support level continues to be 2,130 for the S&P 500.

The weekly chart shows intermediate-term momentum indicator deterioration, suggesting we may see more volatility —perhaps even a selloff that brings us below the 2,130 floor on the S&P 500 we're currently experiencing before markets begin a true bullish trend. You may want to start preparing a shopping list of stocks that you'd like to acquire as, if, and when any chop appears on your trading screen.

Our current allocation in the portfolio is representative of our positive view of technology, energy, and financials. We think these sectors are amongst the most favourable for the coming winter, especially the technology space.

In that sector, we own Google parent **Alphabet Inc.** (GOOG-NASDAQ, US$801.23) and **Microsoft Corp.** (MSFT-NASDAQ, US$57.64) We're also keeping an eye on the rest of the FANG stocks as shopping candidates. For those not familiar with this term, FANG stands for **Facebook Inc.** (FB-NASDAQ, US$128.47), **Amazon.com Inc.** (AMZN-NASDAQ, US$844.36), **Netflix Inc.** (NFLX-NASDAQ, $106.28) and Google.

As noted above, we own Google from that group. Of the remaining stocks, the only member of the FANG's that is not enjoying an upward trend is Netflix. Netflix has been consolidating in a rather sideways range since early 2015.

Given that, I'd probably favour the other three members of this popular club until Netflix begins to rally through about US$100 a share. Buying a high-quality growth stock such as Google, Amazon or Facebook in an upward trend on a temporary dip can be a winning strategy.

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