



Unbounded Wealth: John's Take 10-24-24 What "Cash on the Sidelines???"

One of life's great mysteries is "cash on the sidelines."

For years, I've heard about "cash on the sidelines" as a reason why markets won't suffer declines.

Cash doesn't magically appear out of thin air.

Unless you're the government...

But for us common folk, cash comes from *somewhere*. You sell one asset, generate cash, and then use that cash to purchase a new asset.

We know the average American is stretched to begin with. All the COVID-19 relief money has been blown. It took only a year for the bottom 40% of households to rip through that dough.

Within a couple of years...POOF...all gone regardless of what quintile of household income one measures.

If we look at it from an investing perspective, cash levels are historically low.

U.S. households own a record amount of equities.

Exhibit 10: US household financial assets allocation

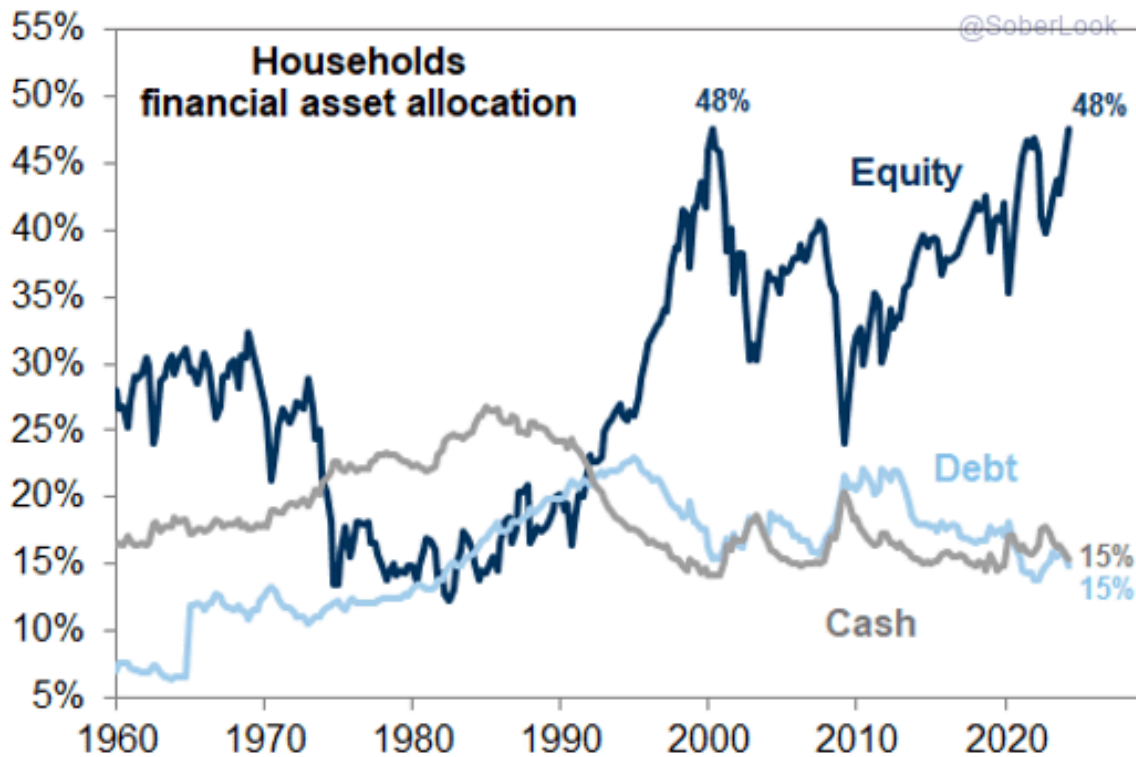
allocations as of 4Q23; asset pricing as of March 20, 2024

Posted on

The Daily Shot

02-Apr-2024

@SoberLook



Source: Federal Reserve, Goldman Sachs Global Investment Research

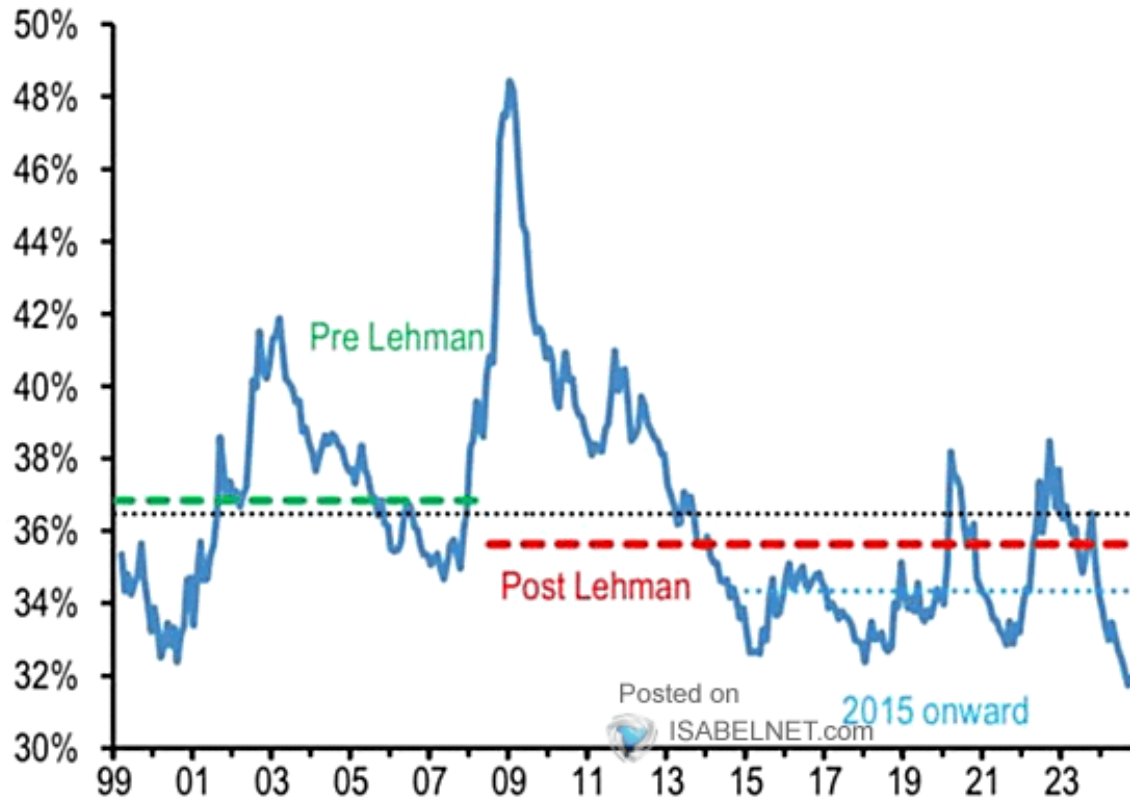
This is a *contrarian* indicator.

We want to be aggressive in stocks when everyone else is fearful. We are from that.

Meanwhile, investor cash has been depleted, which provides a basis for supporting markets through new buying.

Figure 1: Implied cash allocation by non-bank investors globally

Global cash held by non-bank investors as % total holdings of equities/bonds/M2 by non-bank investors. Dotted lines are averages.



Source: Bloomberg Finance L.P., J.P. Morgan

Obviously, the Lehman debacle scared a lot of folks. This presented a generational buying opportunity in the stock market. The lowest individual allocation to stock occurred in March 2009 at the *exact* market low for this cycle.

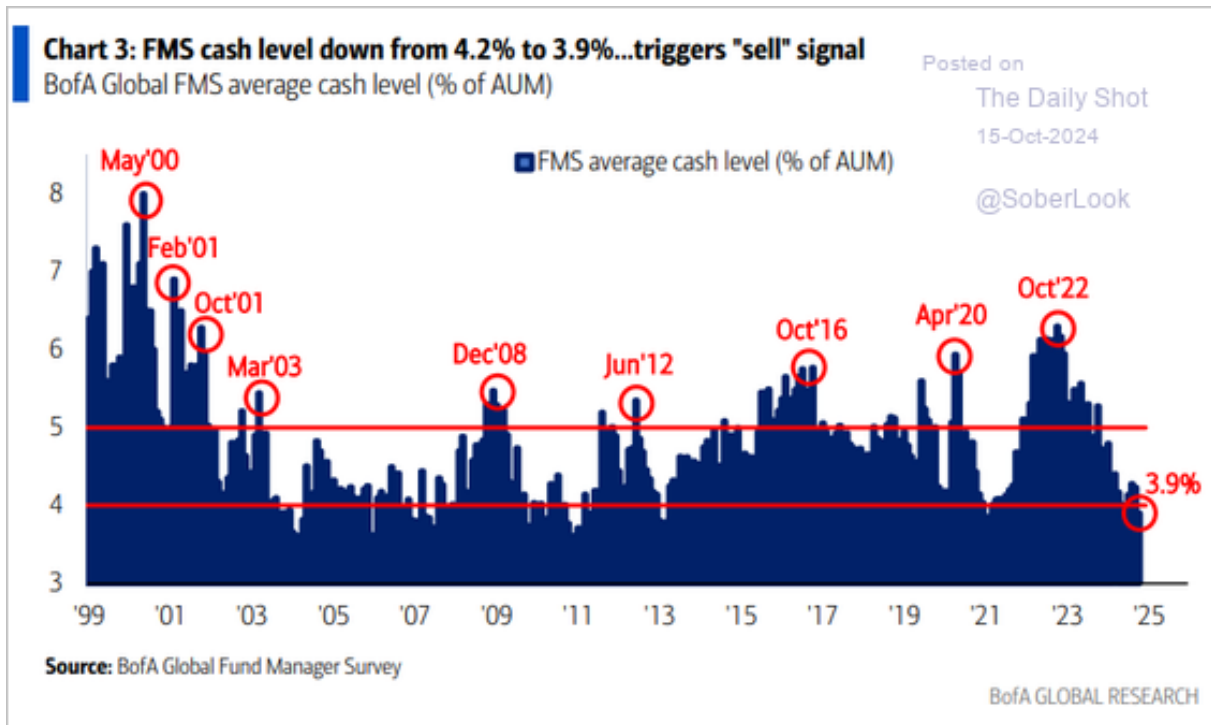
Again, we are far away from that situation today!

Then, we have professional investors. They've depleted cash, too.

Based on the *Fund Manager Survey*, cash levels are below the historical threshold this century, which has led to "sell" signals.

The last "sell" signal was in 2021, leading to a tough year in many stocks in 2022.

The "sell" signal doesn't mean to "get out now and sell with reckless abandon," but it should be ignored at your own peril.



The “sell” signal *does* mean to respect risk more than you might under most conditions.

The “sell” signal *does* mean paying close attention to market trend changes.

The “sell” signal *does* mean to tighten stops on winning positions.

Let the winners run but keep them from turning to losses. Trend reversals and losses become significant losses as the market swings the other way.

How low can it go?

Next week, I will show some data to provide perspective on what we are dealing with here.

I received a lot of good feedback on my *F.A.S.T. Profits* model. For those of you who expressed interest, expect something very soon.

I enjoy hearing from readers. Several people were pleasantly surprised to learn that I respond to emails. When I say I'm going to do something...I do it. I respond to every email.

If you have comments or questions, feel free to reach out. The only thing I don't do is give personalized financial advice. Everything else is fair game: the markets, the weather, the Green Bay Packers—it doesn't matter.

I also welcome content suggestions. If something is on your mind, chances are it's on the minds of thousands of other people!

I can be reached at jd@unboundedwealth.com

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