John’s Take 1-9-24

Is this a Simple way to make a 100% Return in the Market?

In the past, I have discussed several trades that will likely result in big winners *when* the proper setup exists and the risk is low.

One of those trades just got better.

And it might be one of the simplest ways to double one's money from here.

That trade is the spread between value stocks and growth stocks. Value stocks have really taken it on the chin relative to growth stocks. A few stocks have dominated the market, and many others have fallen far behind.

Apple, Tesla, Amazon, and Nvidia are growth stocks that are overweight in the S&P 500 and have lifted the major indexes to new highs.

Last week, I showed that when the impact of the major stocks' effect on the market is removed, most indexes are in bear markets or downtrends.

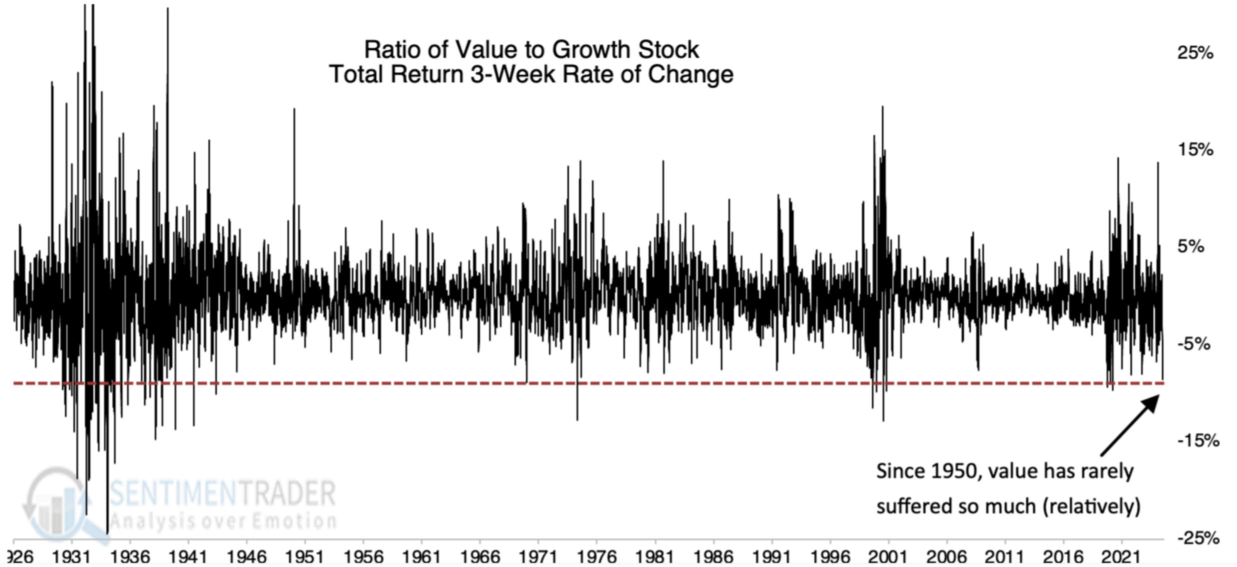
Since Donald Trump won the presidential election, the spread between value and growth have widened to historic levels.

These spreads don't last forever. When the gap closes, it can happen swiftly, and the gains can be huge.

Don’t confuse simple with *easy*. Nothing is *easy*. There’s no free lunch.

The chart below shows that the ratio of value to growth stock returns in the last three weeks is among the worst in a century.

It's been a historically bad few weeks for value vs. growth stocks



Historical extremes always catch my attention.

We can see below that the ratio is also near a 40-year low.

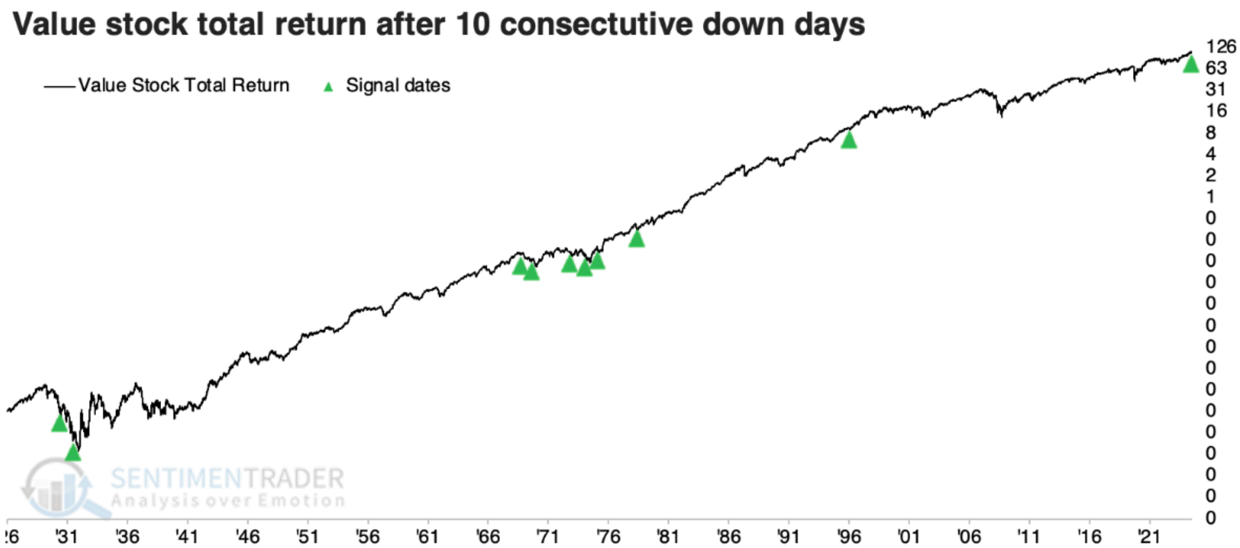
The latest string of losses has pushed the total return ratio between value and growth stocks to a 23-year low. It would only take a few more bad days for value and good ones for growth to send the ratio to its lowest level in more than 40 years.

A 40-year low is within spitting distance for value vs. growth

Source: Russell Investments, Fama French

The performance of value stocks has been so bad that there were ten consecutive down days.

That’s the only time it’s happened this *century.*



When there were 10 consecutive down days, the returns were mostly very strong 12 months later.

The best 12-month return was 87.7%

Could we get more? Could we get a double?

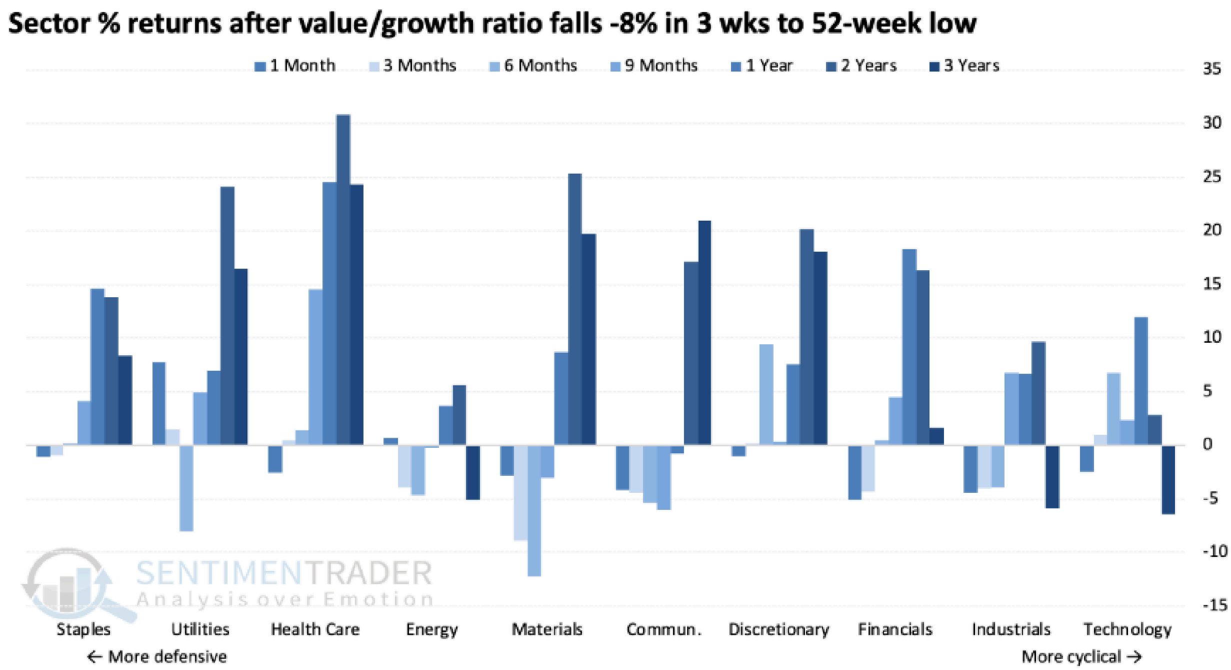
Well, we are in a stealth bear market. My free newsletter last week included charts and tables discussing the current stealth bar market.

Dates of 9 Signals	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	12 Months Later (%)
1930-11-10	10.1	15.1	5.1	-10.6	7.1	14.2	-22.5
1931-12-17	6.1	10.8	35.9	14.1	30.4	-11.0	87.7
1969-02-24	-0.6	0.6	1.8	3.3	5.7	-9.8	-14.3
1970-01-19	-1.3	-3.0	-0.8	3.0	1.1	-10.6	15.5
1973-03-21	1.2	-0.3	2.4	-9.5	-10.2	-1.1	7.6
1974-07-10	5.5	8.9	6.7	-6.3	-9.2	-6.9	35.8
1975-07-29	-2.9	-3.5	-7.6	-6.3	-3.7	18.8	40.8
1978-10-25	-4.0	-6.1	-4.5	-3.8	4.1	10.7	11.4
1996-06-19	-0.2	1.3	-3.3	1.2	3.1	11.2	35.0

One important factor is context. Not only is value underperforming badly today, but it's happening in a market that trades at historical levels of price/sales, cyclical price/earnings ratios are at nosebleed levels, and market value to GDP is in the "sell" zone.

We are in truly unique territory.

The chart below shows how various sectors perform when value tanks relative to growth. Notice that the defensive sectors perform well as the others drag down the market.



My conclusion is that we are set up for a situation in which market-cap-weighted indexes will likely generate poor returns relative to value strategies. The spread is so large now that smart money will move in to close the gap.

One clue will be if the defensive sectors gain momentum.

We may also see many stocks start to turn back up even as the Magnificent Seven that drives the market loses steam.

As that begins to happen, the value trade will make sense. Based on historical context, the 87.7% gain is not that unrealistic.

Again, simple but not easy.

In 2024, the S&P 500 was up 24.89%

The average large-growth mutual fund returned 29.0%

Were you up 39.99% or more? If so, congrats! Heck of a year.

My *FAST Profits* strategy was up 39.99% in 2024.

Would you buy a $34,691 car for $597, with no strings attached? Of course you would. That's a no-brainer and the deal of a lifetime.

Would you pay $597 for $34,691 in value to build financial independence?

Well, that’s up to you…but if you’d like to learn more, you can check it out here:

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