Dan Ferris

Dan Ferris thinks everything changed in the market. And investors need to know where they stand.

He told the story of how the wise old fish asks two little fish “How’s the water boys?” One of the little fish answers “What’s water.” The point is that many investors have been living in an environment that they’re unaware of.

According to Dan, there’s been three big market trends over the past forty years that shaped the investment environment.

The first is interest rates steadily trending lower since 1981 – when the epic bond bull market started.

Interest rates determine how we value things. It’s the benchmark for assets. Interest rates constantly falling equals constantly rising asset prices. In other words, lower interest rates equals higher asset value.

The second trend is the belief in “too big to fail.” It started in 1998 with the bailout of Long-Term Capital Management. It kicked off the “too big to fail” cycle - the belief that the Fed has our backs and will bail us out when there’s a problem. It became known as the “Fed Put.”

Declining interest rates and the Fed Put helped lead to the third trend - the passive investing craze – the mindless algorithm that if you receive a $1 of capital, you buy a $1 dollar of equity no matter what. Passive investing became the biggest algorithm in the market.

These trends led to all types of speculative excess – like the meme stock craze. To the point that we saw all kind of craziness – like “Apes” buying meme stocks like AMC. Apes bought the worst stocks and treated them like Berkshire Hathaway.

But now that’s all changing… Bonds topped out in 2020. And they’ve been three-year bear market since.

Risky stocks topped out in 2021. And the better stocks topped out in 2022.

Over the past 40 years, investors had it beat in their brains to buy the dip.

But everything in the market has changed now. Dan says we’ve already seen signs of it in recent sell offs. And if the passive algorithm goes in reverse things can get ugly fast.

Now that investors can earn 5% sitting in bond and money market funds it changes the equation. It means investors once again must assess risk and reward to make sure they can outperform the 5% rate. Investing is back…

Dan thinks the endless bailouts are over. And investors are going to have to learn how to construct portfolios again. That means wealth preservation first, and then speculating for capital return as opportunities present themselves.

Dan gave several examples of basic portfolio set-ups such as the permanent portfolio – with 25% allocations to each of cash, bonds, gold, and stocks – rebalanced each year.

And how old European families preserved their wealth for 300 years by allocating between one-third cash, one-third land, and one-third art.

Dan also discussed other portfolio options looking to take advantage of global macro, commodity trends and active long volatility (call option strategies).

Dan thinks interest rates are never going down to previous historically low levels. So going forward investing is going to be more difficult than before.

Meanwhile, bonds have already sold off and stock prices are close to all-time highs.

Essentially, the bond market is saying there’s huge risk and the stock market doesn’t see risk. The stock market hasn’t caught up (meaning gone down) - like the bond market has.

So Dan thinks it’s an excellent moment to look at other asset classes – keeping in mind that wealth preservation is investor’s #1 priority going forward.

Dan doesn’t expect a return to a bull market. He thinks we’re likely to see a sideways grinding market going forward.

It’s different this time…