PRICE**VALUE**PARTNERS

Boom

"Facts do not cease to exist because they are ignored."

- Aldous Huxley.

There's a telling quotation in Howard Marks' latest memo to clients (highly recommended, as always):

> We established long-term relationships with many important strategic partners, including America Online, Yahoo !, Excite, Netscape, GeoCities, AltaVista, @Home and Prodigy.

It's from Amazon's 1997 annual report. As Marks goes on to ask,

> How many of these "important strategic partners" still exist in a meaningful way today (leaving aside the question of whether they're important or strategic) ? The answer is zero (unless you believe Yahoo ! satisfies the criteria, in which case the answer is one).

Every generation of investors has its darlings. The baby boomers had the Nifty-Fifty. Generation X had the first dotbombs. Millennials – those actually in possession of any savings in a world of QE and ZIRP – have the global mega-caps and the FANGs. But after a nine-year stock market rally that has perversely become one of the most hated in history, the tide may be starting to go out.

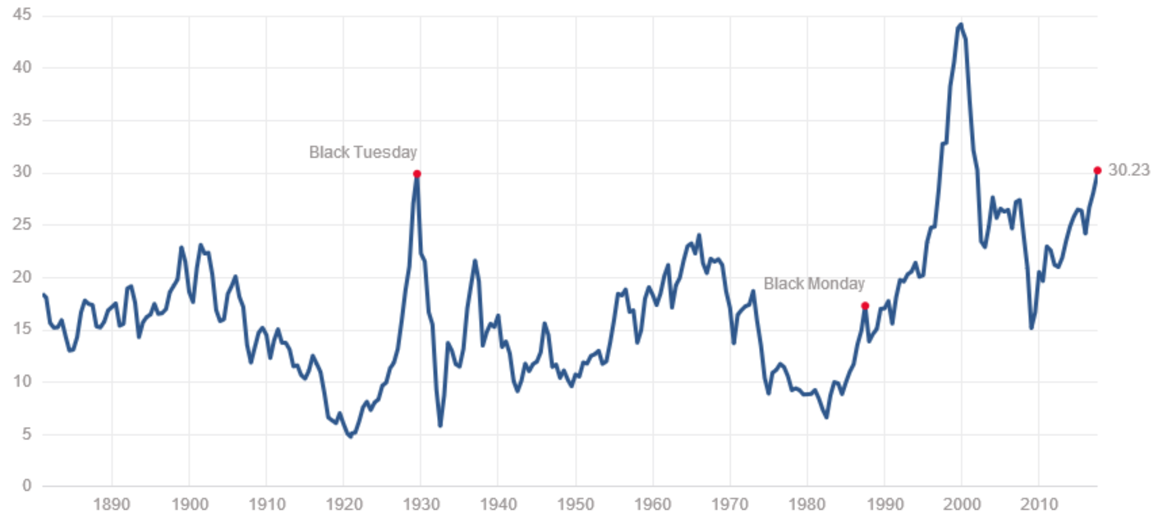
At the end of last week, the share price of FANG component Apple suffered a pretty nasty reversal. So did that of fellow FANG constituent Amazon. So did that of global mega-cap and popular income stock AstraZeneca. And so did the share prices of Imperial Brands, Altria, Philip Morris and British American Tobacco. FANG trackers masquerading as actively managed funds, and global equity income funds, are not likely to be reporting a banner July.

One sell-off admittedly doesn't make a bear market, but the air is awfully thin up here when it comes to the valuations of many popular stocks. One of our favourite lines from Benjamin Graham carries the following guidance:

> Investors do not make mistakes, or bad ones, in buying good stocks at fair prices. They make their serious mistakes by buying poor stocks, particularly the ones that are pushed for various reasons [i.e. by Wall Street]. ***And sometimes – in fact very frequently – they make mistakes by buying good stocks in the upper reaches of bull markets.*** [Emphasis ours.]

Whatever the future holds, we are plainly in the upper reaches of a bull market, at least as far as Anglo-Saxon stocks are concerned. One of our preferred metrics for the analysis of the US broad market, Robert Shiller's cyclically adjusted p/e ratio, at 30 times, now stands at exactly the same level as on Black Tuesday 1929. Its long run average is just under 17 times. Those, like ourselves, who believe in reversion to the mean, are unlikely to endorse buying a market that is priced at 80% above its long run average.

Shiller CAPE ratio for the S&P 500, 1880 - 2017



Source: http://www.multpl.com/shiller-pe/

So, with bonds and stocks now trading at close to their most expensive levels in history, it is a particularly awkward time for the *Financial Times* to be reporting, as it did over the weekend, that the Universities Superannuation Scheme, the pension fund for academics, now has a deficit in its main pension scheme of £17.5 billion – the largest on record of any British retirement fund. The FT also pointed out that the eight-member executive committee for the scheme was paid £3.9 million for 2016-17, equating to an average of £488,000 per person.

Given what John Maynard Keynes and his acolytes have done for the economy and financial system, there is a grim irony in his followers doing the same thing for their own life savings. Happily, there may be a way out of this that doesn't involve a glass of whisky and a loaded revolver. As the good folk of Levy, Harkins [point out](), Keynes made 23 times his money from the moment he started ignoring his own economic theories in 1932 and became a value investor instead. There's a lesson there, somewhere.

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