



Boom like never before: Expect new investment deal making records to be set

June 10, 2013 - Long Island

I would never want to come across as a cheerleader for investing in the stock market. Sometimes I am downbeat and sometimes I am upbeat about investing in stocks. In previous articles, I've shared with you my specific strategies for investing in individual stocks; increasing and decreasing equity positions based on rolling price movements, earnings growth, qualitative reasons, industry stats, macro stats, diversification, and unique catalysts. It is contrarian since most purchases are preset, executed on declines and most sales are preset, executed when advances start to reverse. It enables my clients to potentially reduce volatility, lower cost basis, and ride winners for long stretches of time. Bull or bear market, I stick to the strategy because it is designed to make room for all markets. But this is a story for another day.

I would also never fault someone for not wanting to invest in stocks. My attitude, I must admit, has come about with age. Not everyone wants to risk losing money. Knocking someone like this would be the height of arrogance. If stocks aren't for you, fine. It's really not anyone else's business. And a lot fewer people are stock market investors these days. We went from 65% of Americans owning stocks to 52% in the last 5 years (<http://www.gallup.com/poll/162353/stock-ownership-stays-record-low.aspx>). Granted, many had to sell stocks because in the brutal recession we had; putting food on the table trumped investing. We do get that; me and many of my very hard working and honorable Wall Street buddies.

So, if stock market investing really isn't for you, you can stop reading this right now.

If you are someone who feels like you are underinvested or if you got out of stocks and would like to get back in but you just can't quite pull the trigger, then let's be sure we understand each other. Allow me to paraphrase what you've collectively told me. Because I have something compelling to share with you when I conclude.

1. You don't like the reason given for the stock market advance over the past 4 years, because you think it's ALL due to the Fed's QE and ZIRP (Zero Interest Rate Policy).
2. You can't internalize the stock market enthusiasm because your personal economics haven't changed much for the better.
3. You suffer from post-traumatic syndrome due to the Great Recession and all of its horrible lingering effects.
4. You're listening to the wrong people, those who make the smart sounding analytical argument that things are bad and getting worse. Worse yet, these are people who prey on the fearful in order to sell them shares in small gold mining companies, non-traded REITS, unsuitable insurance products, or leveraged bonds funds.
5. You are shocked by the rate of speed in which stocks not only recovered, but advanced to new all-time highs.

Well, we all at some point have been failed by our belief system; the above 5 items are the beliefs I hear most that have kept investors on the sideline. Won't be the last time either, I'm sure. Then again, you've seen the economic stats; housing, automobile manufacturing, employment, energy production, corporate earnings, retail sales, consumer confidence; more than enough firepower to push up stocks. There is often a fine line that separates beliefs from facts. Whether or not you want to believe in the bull case is all well and good, but the case has already been decided; witness the recent string of all-time highs in Dow Jones Industrial Average and the S&P 500. Yeah baby, better than 1999 and 2007!

But the really big statistic that I believe could push stocks higher still is what I see as the upcoming BOOM in mergers and acquisitions activity. What accompanies every new stock market high is a new high in M&A activity, from the number of deals to the sheer size of them. So, this time is not different. I expect new deal making records to be set. And no company is immune, including large caps and mega caps. With cheap money, elevated stock prices, record high corporate earnings, obscenely cash rich balance sheets, and a desire to grow earnings in a low to no revenue growth environment, doing deals is the ticket.

Where do I see the obvious takeover targets? In the mid-sized companies with market caps between \$5 and \$25 billion, primarily in consumer-brands. If you look at something like an H.J. Heinz, which is near closing its acquisition by Warren Buffett's Berkshire Hathaway and a group of investors, this gives you a clue of the respected and well-known brand name companies I see as potential targets. Another way to potentially benefit is to invest in the financial services companies that handle these transactions.

In fact, in the 09/2012 to 03/2013 time frame, there has been a wave of 5,985 mergers and acquisition's totaling a whopping \$656 billion, according to Dealogic (<http://money.cnn.com/2013/05/01/investing/bull-market-mergers.money.com/index.html>)

Year to date, in the U.S., dealmaking is up 33% (<http://www.cnbc.com/id/100746544>). In a longer standing trend, when the number of IPO's goes up, as is the case this year, so does the volume of M&A (<http://www.statista.com/statistics/153735/volume-of-mergers-and-acquisitions-worldwide/>, <http://www.statista.com/statistics/198574/number-of-ipos-worldwide-since-1996/>). The overlap isn't exactly 1:1, but the trend over time is observable. This has historically been a given whenever the stock market goes into bull territory.

M&A shrinks the amount of investable companies' available, increases corporate earnings, and most importantly, increases shareholder value. Of course, this trend may never come to pass. And just because every bull market in history has ushered in a new and bigger wave of M&A activity, investors' hopes may be dashed. Then again, I believe that history is actually the greatest fortune teller and I'm betting on it again. If you're looking for a reason to move a little more into stocks, providing you have the means and desire to do so, make this belief your own.

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