

# Shoeshine boys won't help you



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**L**egend has it that Joe Kennedy, JFK's father, a wealthy businessman in his day, exited the stock market in timely fashion in 1929 after a shoeshine boy gave him some stock tips. He figured that when shoeshine boys have tips, the market is too popular for its own good.

Ever since, shoeshine boys (and taxi drivers and waiters, etc) giving stock market advice has become a Wall Street metaphor for archetypal behaviour at the peak of financial bubbles; the signal for "time to get out", marking the end of a mania phase in which everyone, even the shoeshine boy, wants in.

When we look back at the period pre-financial crisis, we can all probably point to one or two events which marked the peak. The shoeshine boy moment for me was in October 2008. I read a newspaper report that a man flew his helicopter to get a set of keys cut and "parked" it at a multi-storey car park in Athlone. As a sell signal, it would have proved extremely fortuitous; alas apathy on my part proved costly on this occasion.

The shoeshine boy moments are easy to spot in retrospect but are more difficult to define in real time. It would be nice to think that there is some reliable



When shoeshine boys start giving stock market tips it's time to sell, according to Wall Street, but it's the timing that is the key

signal we can point to as a harbinger of impending doom, giving us the chance to time a market exit to perfection. However, as the proverb goes, nobody rings a bell at the market top or bottom.

The truth is, if we look back there were lots of apparent shoeshine boy moments along the way, most of which provided a false sell signal. The minds' default tendency is to believe, and innate scepticism is rare, but when it comes to market timing tools or forecasts, I'd urge caution.

This is very apt today. In recent months the question about a bubble in bond markets (and indeed some equity

markets also) is arising with unusual frequency. As time passes and the ranks of the bond bears swells, it's like being on a car journey with kids and the cacophony of "are we there yet" seems to be getting ever louder.

Zero interest rate policy together with quantitative easing has supercharged a 30-year-old bull market in bonds and cut yields to levels thought unimaginable a few years ago. Quantitative easing has become such a household term that there's even an eponymously named Irish racehorse. And yes, there have been a few potential sell signals along the way; Switzerland

managing to sell 10-year debt at a negative yield recently. Mexico issued a 100-year euro-denominated sovereign bond and Ireland managed to sell 30-year debt in March at a yield of just 2%.

It screams sell.

I'd have to agree that bonds look increasingly vulnerable at current levels, sparking widespread concern that there is a bubble. The only thing that has made me waiver in my conviction in relation to this is the extent to which people agree with me. We have reached the point where it seems a majority are of the view that there is a bubble in the bond market. Where

financial markets are concerned, consensus around a certain viewpoint is usually a good sign to wager against it (not bet on it).

The truth is you could have made a bearish case for bonds last year or the year before and even beyond. Going back as far as 2009 Warren Buffett highlighted the bond mania when he said: "When the financial history of this decade is written, it will surely speak of the internet bubble of the late 1990s and the housing bubble of the early 2000s. But the US Treasury bond bubble of late 2008 may be regarded as almost equally extraordinary." Buffett would be the first to

admit timing markets is not his thing and, as far as I'm aware, he didn't bet on a bond market collapse. No Berkshire Hathaway skin was put in the game. Incentives certainly have a role to play in this, but alas, it's a topic for another day.

In financial markets, being too early with a market call is indistinguishable from being wrong. The broken clock will tell you the correct time every 720 minutes, but being right eventually is not a high enough standard on Wall Street. Although for some feted commentators in this country who screamed property bubble as early as 1999, the standards for forecasting are clearly considerably lower.

The notion that market timing is important ranks up there with the "cheque is in the post". You don't need to rely on forecasts or market timing tools. As Howard Marks says, "You can't predict, but you can prepare". The risks in bond markets are plain for all to see.

Bond yields could stay lower for longer than many anticipate, something which probably has greater implications for other assets. Equally if bond markets do go through a tumultuous period, there are ways of preparing for this also. Just beware the soothsayer with no skin in the game, that has it all figured out.

The metaphorical ringing bell at the market top remains elusive. I'll content myself with an inability to time markets. If I ever see another helicopter at a multi-storey car park I'll know it's time to possibly take a cold shower but I won't reach for the sell button. And when markets inevitably do reverse, hopefully I'll have enough dry powder and wit to take advantage of it.

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