The Great Migration

Scott Finlay

March 27, 2013

The March march continues. Many investment professionals are witnessing a migration of cash from the sidelines into the stock market, and combined with two other emerging trends, we have the making of what I like to refer to as "The Trifecta": Cash moving into the market, improvement in the housing market (which makes people feel more wealthy and confident, prompting increased spending), and ultimately, money moving from the bond market. Phase one and two are in process, and the third is simply a matter of time.

I speak often of money flows and the three primary investment buckets: stocks, bonds, and real estate (I don't consider cash an investment, especially at 0%). Money will typically flow where returns are greatest or where risk is the lowest in a post sell-off environment. My belief is that we are still in the early stages of the migration to stocks. Cash positions remain high, housing is just beginning to recover, and the bond bubble is not yet showing signs of selling pressure which, in my opinion, is almost an inevitability. To put things in perspective, in my last letter, I spoke of the $10 trillion dollars in cash, an ample supply that could fuel the market for some time. The bond market dwarfs the cash supply at almost $80 trillion dollars. Investors who have ridden the 30-year bond market rally need to be vigilant when rates begin to rise due to a recovering economy, and individual bonds and bond funds begin to sell off. Where do you think the money will go?

Bond buyers who seek income will likely focus on dividend-paying stocks. Keep demographics in mind: 10,000 baby boomers are retiring per day, each of whom needs income to fund their retirement, and this will continue for the next 16 years. It feels like a trend that may be with us for a while.

As a final note, I'm encouraging everyone to revisit the subject of risk. Is risk simply defined as volatility, or could it also be defined as earning nothing on cash, CDs, and other "safe" options, requiring that one spend principal to live? It may be time to accept a higher level of volatility and focus on long-term real returns that have, over time, proven to be the best course in building long-term wealth.

Best regards,

Scott S. Finlay
Managing Director-Investments
The Finlay Group of Wells Fargo Advisors