Is Pension Money Keeping the Rally Alive?

Everyone says that the stock market is overpriced but it keeps going up. One reason is that earnings are pretty strong for the market leaders and **nothing seems to scare investors** when earnings are good. But there is more to the story. When there is a lot of money to invest it tends to go into the market. *Market Watch* makes the point that **money managers are being forced to buy stocks** as pension contributions pour in.

Their point is that while many factors drive the market, forced buying is a real driver when huge pension fund contributions roll in, usually on a quarterly basis.

Downside Risk in Offshore Tech

Reuters writes about a similar problem in **tech companies in emerging markets**.

> *The boom in emerging market technology stocks is becoming a problem for fund managers of all stripes.*
>
> *The soaring market capitalization of a handful of companies such as China's Alibaba (BABA.N) and Tencent (0700.HK) is steadily lifting their weighting in the MSCI emerging equities index .MSCIEF.*
>
> *This means investors in funds that track indexes (exchange traded funds or ETFs) – who want exposure to a range of companies for a lower fund management fee – are finding themselves increasingly exposed to a single sector.*
>
> *Meanwhile, active fund managers, who justify charging higher fees for their individual stock-picking expertise, are under pressure to buy those tech stocks to ensure their funds keep up with the index's gains.*
>
> *And with both sets of investor chasing the same thing, the risk of dramatic outflows increases if the sector falters.*

The increasing values in the tech sectors both at home and abroad are a problem. Add to this a lot of money such as from pension funds pouring in and there is a risk of excess. In general when someone has made handsome profits from a stock run up they may take some money out of that winner and put it into something solid and safe. But if the solid and safe stocks are not making any money the temptation is to leave money in the winners, until they crash!

Active versus Passive Investing

We wrote recently about **passive versus active investing**.

> *The longest bull market since World War II has been driven by these big cap stocks: Facebook, Apple, Amazon, Microsoft, Google and Johnson & Johnson. When the time comes for a correction involving these market leaders investors will look elsewhere for profits and that will be the work of active investing and use of fundamental analysis of individual stocks. Active investing is more work than passive but when passive investing loses money active is your only choice.*

While simply buying a tech ETF has been profitable for years that situation will probably not last forever or perhaps even through the rest of 2017. Smart investors track their investments using the principle of **intrinsic stock value**. The main factor is projected earnings but also this calculation requires that your compare the intrinsic value with the current price. When intrinsic value consistently lags market price, the market price will eventually correct. Even if pension fund money is keeping the rally alive for now you can think ahead and adjust your portfolio in advance of a market correction.

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