Should you sell stocks?

Adam Shell, USA Today, March 5, 2013

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Not everyone sees new highs as a reason to put more money in stocks. Here are five reasons behind the bearish call:

1. Bull is getting up in years. Just like Baby Boomers, the current bull market, which was born March 9, 2009, is nearing its Golden Years. It turns 4 years old on Saturday, and only five of the past 11 bulls have lived to celebrate their fifth birthday, according to S&P Capital IQ research firm. And the average bull since 1932 has lasted roughly 4Â½ years, says S&P Dow Jones Indices. In short, no bull lasts forever. "The bull," says James Stack, editor of InvesTech Research newsletter, "is in the latter stages of its lifespan."

2. Market milestone could spell trouble. Stock market records and big round numbers such as Dow 14,000 and Nasdaq 5000 often cause a market pause or even a downturn. The Dow closed above 14,000 only nine times in 2007 and nine days this year through Monday's close. Similarly, the Nasdaq composite, which peaked at 5048.62 in March 2000, closed above 5000 only twice before crashing.

What's more, the Dow crossed 1000 for the first time on Jan. 18, 1966, stayed there for just that one day and didn't close above that milestone again until November 1972. It didn't stay above the 1000 milestone for good until 1982. "Those big milestones always cause investors to say, 'Oh, if it is at these levels, I might want to sell a little,' " says Andy Brooks, head trader at mutual fund giant T. Rowe Price.

3. Budget battles looming. Sure, Wall Street breathed a sigh of relief when the "fiscal cliff" was avoided and the debt-ceiling debate was pushed out to the future, but budget battles in Washington are far from over and fears about what could and will happen might rattle investors. "We are moving into a period of budget trench warfare," Jason Trennert, founder of Strategas Research Partners, warned clients recently. On March 1, the first phase of $1.2 trillion in across-the-board federal cuts on defense and discretionary spending, known as the sequester, kicked in after lawmakers couldn't agree on more specific and less-draconian cuts. It's unclear whether lawmakers can get a deal done soon to soften the economic blow as the cuts start to take effect. Later in March, the continuing resolution authorizing FY2013 spending expires, which could result in a government shutdown.

4. Popularity kills bulls. If the market keeps going up and people think it is invincible, it could suffer from the so-called Apple effect. The PC and device maker was white-hot and emerged as the No. 1 stock in the world only to suffer from being overloved, eventually enduring a more than 35%-plus drop from its record high. "Popularity kills," warned Ned Davis Research's senior investment strategist Ned Davis. "By the time a stock is No. 1 in the market, nearly everyone owns it, and the story is well known. And, generally, what everyone knows in the market is not worth knowing, because the positives are already discounted in the price."

5. Calls for a correction grow louder. The stock market has now gone 519 calendar days without a 10% decline, ranking it the 10th-longest spell without what market watchers define as a correction, according to Bespoke Investment Group. But what goes up must eventually come down.

And that's a reason why many Wall Street pros say the market is due for a downturn. Sam Subramanian, editor of AlphaProfit Sector Investors' Newsletter, says a 5% to 7% drop is possible, citing an "overbought" market, policy risk in the U.S. and rising political uncertainty in debt-strapped eurozone countries, such as Spain and Italy. The talk on Wall Street for a while now has been that a 3% to 5% correction is coming. In a research note titled "Too Far, Too Fast," Mark Luschini, chief investment strategist at Janney Montgomery Scott, said the market is entering a "danger zone" and questioned whether the pace of the market rally is sustainable. "We suggest it is not likely," he said.

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