

Cash on the Sidelines

AGNOSTICINVESTING.COM

February 2024

Every time someone says, “There is a lot of cash on the sidelines,” a tiny part of my soul dies.

Cliff Asness (2014, p.25)

The Narrative of Sidelines

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A record \$6 trillion in cash on the sidelines will help the stock market in 2024, Fundstrat says

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December 24, 2023 · 2 min read



- The **stock market is poised to benefit** from a record \$5.9 trillion pile of cash in 2024, according to Fundstrat.
- The large amount of cash should mean future stock market declines will be short-lived.
- "Minor pullbacks in the weeks/months to come likely should be buyable," Fundstrat said.

Quote Lookup



TRENDING

1. Stock Bulls Turn to Europe for Cheap Alternative to Magnificent Riches
2. Trump comments show Europe must spend more on defence, Latvia says
3. Nigeria's currency has fallen to a record low as inflation surges. How did things

Screenshot of yahoo! finance (2023) from February 17, 2024. Image removed for brevity.

Narrative: Positive returns when investors deploy *Cash on the Sidelines!*

The Problem of Sidelines

How will investors deploy their \$6 trillion?

- ▶ They buy stocks from investors who currently own them...
- ▶ Buying of \$6 tn. *sideline-deploying* investors requires...
...selling of \$6 tn. *sideline-creating* investors.

A bit more theoretical

- ▶ Fundamental principle of markets: **every buyer needs a seller!**
- ▶ Transactions only re-distribute cash and securities but don't create them.
- ▶ Equilibrium: *"Add us all up and there are no sidelines."* (Asness, 2014, p.25)

More Ideas about Sidelines

IPOs and delistings

- ▶ Investors can enter stock market via IPO without someone else exiting...
- ▶ But every buyer still needs a seller!
- ▶ Cash flows from *sideline-deploying* investor to *sideline-creating* IPO owner.

Investor-specific sidelines

- ▶ Can still analyze cash-holdings of single investors or groups!
- ▶ Example: Cash allocation of fund managers in BofA Fund Manager Survey.
- ▶ Question: *Are those investors better at timing than others?*

Summary

- ▶ The narrative of *Cash on the Sidelines* is intuitive but misleading.
- ▶ The simple market-equilibrium concept destroys the narrative.
- ▶ Cash holdings of *single* investors may still be useful indicators.
- ▶ Why does it exist? Easier to think in non-equilibrium way (Kahneman, 2011)...

References

Asness, Clifford S., 2014, My Top 10 Peeves, *Financial Analysts Journal* 70, 22–30.

Kahneman, Daniel, 2011, *Thinking, Fast and Slow* (Farrar, Straus and Giroux).

yahoo! finance, 2023, A record \$6 trillion in cash on the sidelines will help the stock market in 2024, Fundstrat says, *News Article*:
<https://finance.yahoo.com/news/record-6-trillion-cash-sidelines-211101016.html>.