

Third Quarter, 2010 Commentary

Q: Why Won't The Market Go Down Like It's Supposed To?

I recently saw an illuminating chart comparing the stock markets latest performance with that of the 1930's. The author draws the conclusion that there's far too much similarity today to expect markets to do anything from this point but to go south – for a long time.

At the root of his prediction is, of course, the laundry list of problems with which we're all too familiar; runaway government spending, huge budget deficits, chronic unemployment, tepid housing demand, and a consumer that's gone into hiding and refuses to spend a nickel to get things moving again. Doom and gloom are selling cheap.

And yet, against all reason and logic, the investment markets refuse to crater. Indeed, in recent weeks, the markets have demonstrated a stubborn tendency to want to rise. In the words of the great portfolio manager Martin Zweig, the markets –as they always do – seem to have figured out a way to disappoint the largest possible number of people.

Things are never what they seem. Only 11 short years ago, the world was working itself into frenzy over the apocalypse of Y2K. It was clear to everyone that at midnight on 12/31/99, computers would either roll over to the year 1900 or freeze up and melt down, taking your checking account, investments, and pictures of the grandkids with them. It turned out to be the biggest non-event of the Millennium.

More recently, we all prepared to march to the White House with pitchforks and torches to protest a \$700 billion bailout called TARP, the poster child of government run amok. Today, the Treasury Department announced that the actual total cost to taxpayers *including the AIG bailout* will be closer to \$30 billion when it's all said and done. *(The TARP legislation was passed only two short years ago, and the full \$700 billion authorized was never spent.)

What's my point? It's simple. **History is always most painful when you're living through it.** Please note that none of this is a political statement, much less an economic or market forecast. I don't in any way minimize the terrible levels of our national debt, the irresponsible behavior of our elected officials, or the real problems many American families are struggling with in this recovery. These are very real challenges. My only point is to try and bring some perspective to the discussion. Things rarely turn out to be as bad as they are portrayed by the media. Ask anybody who stayed home two years ago to avoid the swine flu that was forecast to kill millions... and didn't.

So, for your friends who may be hiding their investment dollars in money market accounts, gold bullion, or mayonnaise jars buried in the backyard, please share the following. There are only two possible explanations for the markets refusal to go to zero tomorrow:

- A. The markets are wrong (or, the markets have somehow failed to take note of the firestorm bearing down on them).
- B. Your friends are wrong. Like Y2K, the swine flu, and TARP – nothing is ever what it first seems. The media is an indiscriminate foghorn, blaring whatever apocalyptic headline attracts ears and eyeballs. And most people (bless their hearts) take it as gospel time after time after time. And it never ends well for them when they do. By contrast, the markets have historically been pretty efficient at reflecting future expectations. But most folks prefer to ignore this and get their advice from shows named “Squawk Box”, “Fast Money”, or any network news show you choose to pick.

For those friends of yours who still need a little more perspective, share this with them. Here’s a rather graphic cover headline of *Time* magazine crying, “That Monster Deficit: America’s Economic Black Hole”



Before your friend gets a headache from nodding in boisterous agreement that this accurately reflects our problem, please share with them that this *Time* cover appeared on March 5th, 1984, a day on which the Dow Jones Average (which stands at 10,800 today) closed at 1165. Here are some more personal favorites from *Time*:

“Unemployment: The Biggest Worry” – February 8, 1982 – Dow Jones = 833.

“High Anxiety: Looming Recession, Government Paralysis, and the Threat of War” – October 5, 1990 – Dow = 2,545.

“The Recession: How Bad Is It?” – January 13, 1992 – Dow = 3,185.

(To have more fun, simply Google “*Time* magazine covers”. There are lots more of them.)

Finally, tell your friend that it has always been wrong – every single time – the bet the ranch on Armageddon in the long run. If the last three years have taught us nothing else, I hope we’ve at least learned that.

See you next quarter,

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* Yahoo Finance, Daniel Gross, “*Treasury’s TARP, AIG Bailout Costs Fall to \$30 Billion*”, Tuesday, October 5, 2010