CLIENT'S CORNER

Have You Ever Known Everybody To Be Right?

"I buy when blood is running in the streets of Paris" —an early Rothschild

On the day of my birth—Monday, October 11th, 1943—General Eisenhower and Field Marshall Montgomery, meeting in Carthage, made a bet. Ike offered to bet Monty five pounds sterling that the war in Europe would be over by Christmas 1944; the skeptical Englishman took the wager. (Ike loathed Monty to such a degree that, even though it had long been clear that he had lost, he didn't pay Monty the five pounds until that Christmas Eve. But I digress).

Also on that day, the broad equity market in the United States, as denominated in the Standard & Poor's stock index, closed at 11.7. As I write, less than a month before my 68th birthday, it's around 1170.

There's a certain lovely symmetry in that juxtaposition—stock values, in the aggregate, up a hundred times in my lifetime (while consumer prices are only up about fifteen times)—and I impart this information to you not so much as ancient history as a confession of my bias: all my life experience instructs me to be bullish on the earnings, cash flows, dividends and market values of the great companies in America (and, increasingly, the world) ***in the long run.***

This rise of equity values by a factor of a hundred in my lifetime has been punctuated by thirteen "bear markets"—declines in stock prices averaging about 30%. (Ask your financial advisor for a table of them. I think you'll find it highly instructive.) For what it may be worth, I've been an investment professional through nine of those thirteen episodes, and I can testify from vivid memory that they were all presented to the public by apocalyptic headlines in the financial media as the incipient end of the world. I note as a matter of historical record that the world did not end on any of those thirteen occasions, and that after each of them the long-term uptrend resumed.

This experience—which I hasten to add is not predictive in any scientific or mathematical way—may bring some perspective to the current situation, in which the media are once again trumpeting the end of economic life on the planet as we have known it, due to the stagnation of the U.S. economy and the financial unraveling of the eurozone. And it's clear that many if not most investors have taken this doomsday scenario to heart, as the flight out of equities and into havens like Treasury bills and gold attests.

Again, though, there is implicit in the paragraph above a fact which always sets off an alarm in my grizzled head. More accurately, it's a juxtaposition of two facts, one of which is just a statement of my experience. (1) Most people seem to be quite terrified by current events, and are fleeing equities in droves. (2) I have never—not once, not ever in my 45 years as an investment professional—known most people to be right for very long. To the contrary, all my experience indicates that huge and very emotional public consensus—bullish and bearish—turns out relatively soon to be wrong.

But my experience, I hasten to repeat, is not predictive. It does, however, tend to bear out the wisdom of something that the late Sir John Templeton, the father of international investing, was fond of saying: ***"Among the four most dangerous words in investing are 'It's different this time'. "***

In closing, even I can respect that my own experiences, based on nearly seven decades on the planet, may be just a bit more information than my reader finds practical or useful. Perhaps, then, we might just look back thirty years, if for no other reason than that that's probably going to be the average length of a two-person baby-boomer retirement.

In October 1981, we were right in the middle of one of those bear markets. The country was still in the grip of stagflation: unemployment was about eight percent, and inflation was still ten percent, if you can even believe that. And I daresay the bearishness of the mainstream media was every bit as hysterical then as it is now.

That bear market ended, as they all have. But in the intervening thirty years there would be five more, including the deepest (2007–2009) of the postwar era. Now, my birthday in 1981 was a Sunday, so we have to look at the next day to see where we were then, and how far we've come.

On Monday, October 12, 1981—thirty years and six bear markets ago—the S&P 500 closed at 121.21. That's right: it's about ten times higher today. No, that doesn't prove anything about the future. (For the record, nothing proves anything about the future.) But it may very well suggest a useful perspective. And you may want to give this some thought before your next conversation with your financial advisor.