

The More Things Change

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I don't know about you, but I am beginning to wonder about the common investment thinking of the day, that is, the idea that we should all be buy and hold for the long-term investors. The timber of our time, the Zeitgeist, is to invest for the long-term and forget the short-term fluctuations. Do not even mention the idea of market timing anymore for fear of appearing as a buffoon. One has to be in and stay in always is the paradigm.

But it is the nature of the markets to change, to confound the crowd that has fully accepted and completely acted upon principles that are appearing with hindsight to be so right, and so must needs be right hereafter.

The mantra of the time, what has been working the past few years, is buy and hold, but it was not always this way. In the Seventies, market timing was the vogue. Benjamin Graham, the father of value investing, counseled Warren Buffett to sell whenever the Dow Industrials reached 1,000. Mr. Buffett, to his credit and foreshadowing his continuous out-of-style approach to investing, eschewed the advice. Joe Granville, the popular guru of the time, had thousands and thousands of subscribers. His bullish and bearish timing recommendations could move the markets.

The last loud hurrah for timers was ironically the Crash of 1987.

As its relatively quick recovery to the other Crash became another footnote to the market's ability to confound the crowd, the Nineties witnessed faster bear market declines and quicker recoveries to new highs. The bear was more like a whelping cub, becoming shallow and weak, painless affairs really, to be treated as mere buying opportunities rather than respected as beasts that have and could wipe out years of accumulated capital wealth. On an annual accounting basis, bear markets were not even showing up, having the losses quickly erased by the rallies within the year.

The market timer fell from vogue, replaced first by the hushed tones of asset allocators, and then by the full-bodied buy and hold mentality. The ups and downs, capture the swings thinking gave way to the up and always up trend, buy the dips and hold mentality.

Would that what has worked so well would continue to work hereafter forever. Of course, that is what Mr. Granville was thinking a few years after his heyday, as was the same for Robert Prechter after the ensuing rally recovered the losses from the Crash. I suspect too that is what the Japanese have been thinking 12 years after their market peaked in 1989. It is still down 50%. The buy and hold strategy that worked so well during their Eighties has failed miserably in their Nineties. It doesn't always stay the same.

Now, one may say, 'in the long-term that market will recover to new highs, thus proving the buy and hold strategy'. Perhaps so, but aside from the fact of losing money while the market is going down, there is also the opportunity cost and dead money concepts to address. Additionally, there has been a terrible recession in Japan. I doubt

many investors could continue to buy and hold since 1989.

No, the markets change, that is the problem investors face. What has been working so well in hindsight is by no means an assurance of what will work well in the future. Indeed, investment history is replete with examples of the tried and true becoming the failed and false.

Like with the Crash of '87, which marked the timers peak, perhaps the bubblish, manic run in 1999 will stand to mark the end of the buy and hold strategy.

So, if the paradigm indeed is changing, how does one make money going forward? Like with women's hemlines, there are only so many possibilities, but we do want to be in style. Next month, I will suggest some strategies.