

### ***Some Things Never Change***

In late 1961, nobody saw a bear market coming. The economy was growing, the stock market was rising, and the throngs of holiday shoppers crowding the stores were in high spirits. In the midst of such optimism, *BusinessWeek* magazine reported that “Wall Street analysts are freely predicting that the bull market will continue, with new highs registered in stock prices during 1962.” By mid-December, the Dow had reached a new record of 741, and Dow 800 seemed like a sure bet for 1962.

But for reasons that were not at all clear at the time, stocks drifted lower in the winter of '62, and the announcement of a 3.5% price increase by U.S Steel on April 10 was all that was needed to throw the markets into reverse. President Kennedy, determined to maintain price stability in the economy, was furious with U.S. Steel, and he responded by accusing the company of “utter contempt for the interests of 185 million Americans.” Negotiations between U.S. Steel and the federal government followed, and on Friday, April 13, U.S. Steel backed down.

Suddenly, everything had changed. If U.S. companies were no longer free to raise prices and boost their bottom lines, then what justification could there be for increasing stock valuations? According to *Fortune* magazine, “not long afterward thousands of panic-stricken investors were throwing their securities into the hopper without even asking how much the shares would fetch.”

As is always the case, few had imagined that a bear market might be just around the corner, but from December 1961 through June 1962, the Dow would fall 28% and record its worst one-day loss since 1929. In its June 16 issue, *BusinessWeek* reported yet another drop in the Dow to 574, and observed that brokers were expecting “prices to slide still further,” and “few [are] advising their customers to do any aggressive buying.”

What a shame. The next bull market was just getting started.

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Fast-Forward to December of 1999. As was the case in 1961, holiday shoppers were in a fine mood. The world seemed remarkably stable after having withstood the global financial crisis of 1998, inflation was virtually non-existent, employment was high, the economic indicators were remarkably good, and, best of all, the explosive growth of information technology and the Internet held the promise of a recession-proof “New Economy.” After the much-hyped Y2K crisis never materialized, it seemed as though nothing could stand in the way of another year of economic growth and rising stock prices.

Today the conventional wisdom is that investors were entirely irrational in early 2000, that stocks were obviously overvalued, and that the market was clearly due for a big sell-off. It is easy to declare with hindsight that stock prices were certain to fall from the dizzying levels reached in March of 2000, but don't kid yourself: At the time, it wasn't at all clear that stock prices were going to decline, nearly every top Wall Street analyst predicted that stocks would continue to rise for the foreseeable future, and most investors thought stocks were still a great investment – just as they had in December of 1961 and at the peak of every other bull market in our nation's history.

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What a difference a bear market makes. These days it is nearly impossible to find anyone pounding the table and urging investors to buy stocks. The world seems to be going to hell in a handbasket, the economic news is unremittingly bad, and bearish signs are piling up all around us. It seems like every day another company is issuing an ominous warning about profits for the rest of the year and beyond,

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and a growing number of economists are concluding that economic growth is fading and are lowering their estimates for the fourth quarter of this year and early next year.

Is it any wonder that so many despondent Wall Street professionals have finally come to the conclusion that perhaps the best course of action is to simply stay away from stocks until some of the uncertainty about the economy and corporate profits lifts? Consider the comments made by these market pros as stock prices plunged yet again in September:

- Keith Gersten (head of Nasdaq trading, Deutsche Bank Securities): "It doesn't look like there is anything on the horizon near-term that would be a catalyst for a rally."
- Peter Coolidge (Nasdaq trader, Brean Murray & Co.) "People are worried about the economy, and they're also worried about the Iraq situation and whether we're closer to war... So I think that's weighing heavily, putting a cap on the market in terms of upside."
- Farhan Sharaff (president, TimesSquare Capital Management, a division of Cigna): "I think we are going to stay in this environment for the rest of the year and most of next year, where the recovery will be slow and rather feeble."
- Todd Clark (head of listed trading, Wells Fargo Securities): "The longer-term problems with the economy just are coming to the forefront. You just continue to have no compelling reason why people should be aggressively buying stocks – and I don't see that going away any time soon."

What is one to make of such pessimism from those who would appear to be in the best position to evaluate the market? Before you answer, remember that earlier this year, the very same economists who are lowering their estimates today were certain that the recession was behind us and the recovery was underway, and recall that the Wall Street analysts who can find no reason for stocks to rise today were confident back then that the stock market would "catch up" with the growing economy.

If you couldn't foresee this summer's brutal market decline by listening to the optimistic views of economists and Wall Street analysts earlier this year, why would you attach any predictive powers to their pessimistic opinions today? Those warning you to avoid stocks may be convinced that they will be able to recognize when the time is right to get back in, but they weren't able to warn you about the risks in early 2000, and they did not advise you to sell before the bear market began.

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It wasn't different in 1962, it wasn't different in 2000, and it isn't different this time. As a group, economists and professional market forecasters never get it right. Huge surprises drive big gains (and big losses) in the stock market, and the consensus opinion of the experts is, by definition, never a surprise.

A few months can seem like an eternity near a market bottom, and it is certainly possible that stocks will continue to fall in the weeks and perhaps even months ahead. But rather than seeking shelter from the market storm among those who have always been able to find perfectly rational reasons to be wrong, we suggest that you instead remember the lessons learned (but somehow always forgotten) from previous market tops and bottoms: in the short run, anything can happen, but in the long run, some things never change.

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