



Are we Seeing the Death of Equities? **Not so Fast**

Behavioral forces can create big opportunities in all kinds of investments

Dour predictions on the demise of stocks fill the air. They remind us of one of the biggest contrarian signals of all time: a BusinessWeek cover story, “The Death of Equities” followed by a long bull market. Hearing such negative talk today should make you bullish.

The media often both reflect the times and amplify popular emotions, whether fear or euphoria. Right now, in the wake of the rising interest rates, falling stock prices, negative bond yields and ongoing unease and woes, individuals and institutions are moving away from common stocks.

Investors and journalists are almost always looking for hard-and-fast signals. However, assessing behavioral errors in the market is never scientific, and always insights about them are subject to change.

When to Buy?

Behavioral forces can create opportunities in large-capitalization stocks, mid-caps and small-caps. An undervalued stock or market can become even more undervalued.

But a downward trend doesn't mean that an undervalued stock is not a good investment. Nor does it mean that you should shy away from buying it.

Where's the bottom, which is the best point to buy? Trying to identify bottoms in the market or individual stocks is simply too speculative.

Hesitate, and the opportunity passes you by. If you take sound reasoning to heart and wait, that could be your ultimate fate.

This bearish discussion in popular culture (in the media, on Wall Street and on Main Street) offers no definitive signals. But it is a reflection of the times. The crowd, while often correct in assessing factual information, is too often prone to emotion when assessing uncertainties. To this end, the crowd is often a contrarian signal.

When to Buy?

The BusinessWeek cover story showed how the public discussion can be far removed from what follows in the market. To quote the article on the situation back then: “At least 7 million shareholders have defected from the stock market. And now institutions have been given the go ahead to shift more of their money from stocks into other investments. If the institutions who control the bulk of the nation's wealth now withdraw billions from both the stock and bond markets, the implications for the U.S. economy could not be worse.”

The piece ended by noting: “Today, the old attitude of buying solid stocks as a cornerstone for one's life savings and retirement has simply disappeared: The stock market is just not where the action's at.”

Sounds familiar doesn't it? This article, written almost 44 years ago, would not be out of place in today's dialogue concerning the stock market. But instead, It was the precursor of one of the greatest bull markets of the 20th century. The Standard & Poor's 500 stock index, starting in 1982, soared over the next two decades.

Every market environment is of course different. However, human behavior and the emotions that drive investment decision-making are fairly consistent.

I'm not sure where the market will go from here over the next month or year, but eventually it too will soar.