September 2010 *MoneyMinute* – Darkness Before Dawn?

By Bob Veres

If you're feeling a bit gloomy about the economy and the markets, you have a lot of company these days. Despite U.S. stocks getting off to a positive start in the scary month of September, the news seems to be all about the possibility of a double-dip recession. One economist, David Rosenberg of Gluskin Sheff, has suggested that the recession never ended despite positive economic growth in the first half of 2010. Meanwhile, the put-call ratio, which compares the number of put and call options being bought and sold in the market, stands at an unusually bearish 1.28, according to the investment web site EquityClock.com. That means many more professional investors are betting against a market rise than for one.

All of this gloominess is leading investors to search for alternatives to corporate stocks – including gold and cash equivalents like CDs and Treasury bills. One online blog is titled "Nine Adult Entertainment Stocks to Weather the Recession;" it recommends Playboy and several providers of "mature entertainment" in hotel rooms.

There's only one problem with following the herd down this gloomy path, or stuffing your portfolio with gold and smut. In the past, people have been least optimistic about stocks and the economy right before the economy recovered and the markets produced higher-than-average returns. Business Week published its famous cover article entitled "The Death of Equities" in August of 1979, after the stock market had sustained serious losses and the long-term health of the U.S. economy was in doubt. The article noted a massive flight of investors from the market – right before one of the longest and most powerful bull runs the market has ever seen, which would take the S&P 500 index from just over 95 in 1979 to more than 1469 over the next 21 years.

And that gloomy put-call ratio? According to the investment encyclopedia Investopedia: "Many traders will consider a large ratio a sign of a buying opportunity."

If you want an extreme view of gloom and doom, then consider this quote from Time Magazine: *"In a normal rebound, Americans would be witnessing a flurry of hiring, new investment and lending, and buoyant growth. But the U.S. economy remains almost comatose a full year and a half after the recession officially ended. Unemployment is still high; real wages are declining... The current slump already ranks as the longest period of sustained weakness since the Great Depression."*

Sounds pretty awful, right? Except that this is a quote from Time's **Sept. 28, 1992** issue, talking about the gloomy prospects for the economy coming out of the 1990-91 recession. It reflected the mood of economists and the country at large – and, with the generous benefit of hindsight, we now know that this severe downer of an article was followed by a 16-year economic boom in the U.S. economy, without a single down year until 2008. The S&P 500 ended calendar 1992 at just over 435, and climbed, with more ups than downs, to just over 1576 at the peak in 2007.

richc@feesonly.com, julies@feesonly.com, jenniferc@feeonly.com

There are good reasons to be cautious in today's economy and investment markets. We don't know what the markets are going to do tomorrow or next year. But the good news is that nobody else does either.

Bob Veres is the publisher of Inside Information, an information service for financial planners. Bob is a journalist who covers the financial planning profession and a keen observer of the financial services industry for more than 20 years.

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Phone: 866-966-9291
Fax: 650-472-8924
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