# Reflections on Reaching the Market's Pre-Crash High

By James B. Cloonan

Moments after the Dow Jones industrials closed above its pre-crash high, the telephone began ringing. It was the press: Should investors who got out after the crash now feel confident to get back in? Should those who stuck it out quit now while they're ahead? Has the individual investor been largely out of the market? Will that bring a new high and then another large correction?

While my answers to most of these questions are not the stuff that headlines are made of, the basic truths of investing stay the same. I believe strongly that stock investors must have a long-term view. They can switch the stock in their portfolios based on relative values and adjust the portfolio percentages in stocks based on substantial changes in economic conditions such as tax law changes or longer-term trends in interest rates, but they shouldn't attempt short-term market timing.

I was very happy to see from our research, and very happy to tell the press, that AAII members did not sell stock after the crash. That, of course, is an average. Some members did sell, but this was largely offset by other members who bought additional shares. To the extent there was any overall reduction in stock holdings, it was probably due to the increase in the capital gains tax.

The behavior pattern of our members seems to indicate they are long-term portfolio holders and not very much into short-term market timing. I got some glee over the news stories showing that the few timers who predicted a down market prior to the crash and got out of equities didn't get back in and wound up with lower long-term results than those who held right through the crash. When the long-term results are in for mutual funds or investment newsletters, the top performers are never timers.

My negative feelings about market timing led me to react with a rather loud exclamation of a nasty word when I got to Chapter 23 of "Wealth Without Risk" by Charles J. Givens. I must confess I was prompted to read the book only after reading that he had signed a multimillion dollar contract for his next book. I was curious about what would make an investment book sell so well. While the financial planning parts are helpful, the critical parts of the investment portion are pipe dreams.

The high-yield promises hinted at early in the book depend on two investment strategies. The first involves distressed real estate investment, which is possible but, like selling encyclopedias, most people simply couldn't do it. The second depends on stock market timing. The appeal of the book must be in the simplicity of the decision model. Money is moved based on prime rate changes and levels. Most timers have complex models, and researchers with large-scale computers have tested virtually every single and complex set of timing rules imaginable. It staggers the imagination to think that anyone would believe such a simple model worked without everyone using it for the past 50 years. While the simulation method and exact figures are not given, it appears that with a reasonable allowance for transaction costs the strategy doesn't outperform a buy and hold strategy.

There is no indication of a real portfolio that followed the rules. Any MBA student can devise a decision system that would yield 50% a year for any past period. You are, after all, applying the model to the period used to construct it.

The only good thing about Givens' approach is that no one is likely to lose much money following it. It will probably yield an average of the yields of money market instruments, bonds, and stocks with average risk.

Well there's the phone. Another reporter wanting to know if we're at a market top.

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