



Forbes Magazine's Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher says we should spend less time worrying about perceived stockmarket truisms – that are actually anything but – and get on with the business of finding promising stocks

Much ado about nothing

I don't care who you are – oil prices don't move the stockmarket. Statistically this is trivial to prove, which should lend comfort in a world where most investors see oil as causal and scary.

As often as not, when you read a media claim that X causes Y, it's easy to disprove. It's amazing how rarely people check and yet there are an abundance of statistical tests of validity.

Most readers will know how to calculate a correlation coefficient but, if you don't, you should learn. This renders a number where high correlations, positive or negative, yield results close to one (100% correlation) or negative one. Low correlations come in close to zero.

The first half of this year has a daily result for oil versus the S&P 500 of -0.09, meaning no correlation. Any other major index has a similar result. High correlation can be mere coincidence but low correlation proves a lack of causality.

So why do we hear so often that "The market fell today because oil rose"? It's called confirmation bias. Behaviouralists have learned that our brains tend to see instances that confirm our prior biases and "common sense" but be blind to those contradictory ones. So, new instances reinforce our past biases and we stay "stuck".

If you ram contradictory statistics at someone who suffers confirmation bias they "shift frameworks". Maybe they claim some other time frame counts – for example, weekly or monthly – or that it has to be a move over a certain percentage to count. But those are all easy to test too and oil price movements don't influence stockmarket direction. Investors have to get over it.

Try this with anything that happens regularly. Create four categories – count how often X rises and Y does, ver-

sus falls, and how often X falls and Y does, versus rises. The closer these four are to 25% each, the more you know it is purely random. If two of the four dominate the others, maybe there is causality. A schoolkid can do it.

Believe it or not, other widely believed myths that provably don't predict stockmarket direction include the market's price/earnings ratio (I've done near infinite work on this globally), the S&P 500 volatility index (symbol: VIX), gold, trade deficits, the dollar's direction or sterling's, sentiment as measured by the "Investors Intelligence" data or consumer sentiment.

Life's better without fretting about these non-events and instead you should focus on promising stocks such as these four.

Canada's **Agrium** is a leader in all three

primary fertilizers – nitrogen, potash and phosphates – and also sells agricultural products through 200 North American stores. With moderate growth, good profitability, steady incremental improvements and moderate strategic acquisitions, this £1.6bn revenue-sized fundamental firm is simply too cheap at one times revenue and 10 times 2005 earnings.

Don't feel ready to buy a Hummer? Then think Polaris – as in **Polaris Industries** in the US, which produces all-terrain vehicles, snowmobiles, personal watercraft and the like. Take a ride in the firm's Ranger and you might decide Hummers are for road wimps. The US can't get enough of this stuff – no matter what happens to oil prices. To help finance it, buy the stock at only 16 times 2005 earnings and 1.3 times its £1bn of revenue.

Do you still fear residential real estate? Then what about commercial? Across the US it's flat on its replacement cost, there is no new construction and a purchase generates a bond-like yield. A hedged approach might include **CB Richard Ellis Group**, which does brokerage, mortgage brokerage, leasing and valuation and building management services across the US. As commercial real estate picks up, which it will, this stock will move with it. It sells at 1.3 times revenue and 20 times 2005 earnings.

As my June column detailed, stocks compete with bonds and 20 times trailing earnings isn't too much in a 6% corporate bond world for a growing company. A good one is Denmark's **Novo-Nordisk**, the world's leader in diabetes treatment. Great management, profit margins, huge research staff, an array of new biotech products and real substance justify putting this one away for a long time.

