



Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive **KEN FISHER** argues that the hype and hysteria surrounding mutual fund "market timing" is merely a form of false depression and will eventually have a positive effect on equities

Bears will lift the markets

All the media hype and scandal hysterics associated with mutual fund "market timing" is actually bullish, not bearish. It represents a false depression that will lift and with that will come higher equity prices.

The long bear market that began in 2000 was logically depressing and a normal aftermath is to hold onto depression as we seek people to blame for what were really our own follies. Behaviouralists define this as shunning regret – or blaming scapegoats – and see it as a major market factor driving how we think.

First we attacked perceived crooked corporate CEOs. Starting with Martha Stewart mania, by late-2002 many folks generally believed most CEOs were rotten. But time slowly convinces that out of fully 20,000 global public stocks we could actually only pin provable evil acts on, at most, a few dozen – a minuscule proportion. A few dodgy molehills. No mountains. Few scapegoats.

So we turn to Wall Streeters next, seeking devils to blame. But the very week Frank Quattrone's infamous court lynching flames out in a mistrial, we find new potential for shunning regret in the mutual fund "market timing" scandals. Here, funds supposedly let a privileged few "pay to play", capturing spreads between moves in one market and another via short-term trades in mutual funds. A supposed sure thing.

An outraged lynch mob mentality formed almost overnight. Across the US public pensions quickly fired fund firms who allowed this, all in indignation. But the dirty little secret those leading the legal charge don't want you to know (and maybe don't know themselves) is that there is no there, there.

On balance it is certain these people lost money, not made money. I know it. First, almost all this was done through the big fund families and there are few of them and even fewer lawyers who



represent them – a mere handful. I sampled those lawyers, some of whom I've known for many years. They know. The accounting on all this is completed and the players lost money massively.

Some did it with small-cap mutual funds and there they virtually all lost money. More did it trading US funds against European and Asian funds. When

markets would be up big in the US they bought foreign funds at the US close hoping for an overnight hop.

But, counter-intuitive though it may be, there is nothing in finance theory or historical statistics to indicate that if you know where the markets close on one side of the pond it will help you predict what stocks will do on the other side the next day. It is long proven but little heeded.

Common sense says you could do it but common sense is wrong. Betting on it is a loser's game, worse than Las Vegas, and so they lost on balance. Sure, some made money. If you line up 1,000 coin-tossers, some will gyrate head after head through pure luck. The prosecutors will focus on those few who made money and lynch them, keeping us believing the "scandal".

Those sorry few are victims with high IQs. But they are still fools. So, nobody will really care as they get lynched. It will take three years to work fully through the courts on this. But a year or two from now it will have come to no more, in fact far less, than 2002's CEO hysteria. That folks focus pessimistically on a false fear factor is bullish in disguise. Hence, as this depressing hysteria lifts, it will help lift equities.

Meanwhile, to lift your spirits, buy some beat-up equities in chemical firms that will rise as the continent's economy does, including Germany's Celanese and Bayer AG and Switzerland's Ciba Chemical Specialties. Canada's chemical-maker Nova Chemical should also do well in this bounce. All these stocks remain beat-up and cheap.

Leading US small-cap vendors to the money management industry have lagged of late but should catch up in 2004, including Advent Software, which is very dominant in US portfolio management software, and Barra, which is the top quantitative analysis firm. **BM**

ken@fisherinvestments.co.uk