Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive KEN FISHER says that while he doesn't have the figures to prove it yet, 2002 will turn out to be a more positive year for equities than the one just passed

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I may be bearish but I'm not a perma-bear

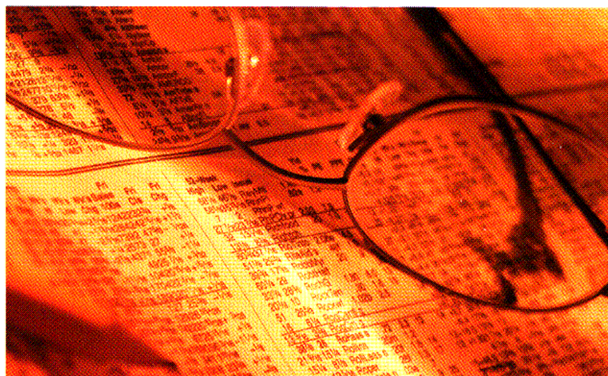
Next month I'll detail why the stockmarket should have a positive 2002 yet probably a negative first quarter. But I don't have my forecasts actually completed and won't until next month.

I detailed my forecasting methodology for you in my April 2001 column. Using my approach it is several weeks too early to complete this year's numbers. In the meantime, stay focused on the fact that bear markets normally make people more pessimistic and you shouldn't allow the power of this most recent bear market, the second longest and biggest globally since the Second World War, to bias you too negatively.

I've been bearish all 2001. But I'm not a perma-bear. And I still think there is one more good down-leg to this bear market. But the time to make good money off stocks on a sustained basis is not far off and you shouldn't let your bearishness harden.

No, don't fear stocks' ability to rise because the market's price/earnings ratio (P/E) and other valuations are too high. Note, people usually think of this as the market's bottom. The market's P/E is basically useless for forecasting. While little understood, neither finance theory nor 130 years of history indicate P/E alone should predict anything.

There is also much else to indicate it shouldn't. For every time in history a high or low P/E market, however measured, did well or badly over periods of a year or two, there is a comparable instance of the reverse. For documentation on this you can look up the scholarly piece I co-authored in the Autumn 2000 issue of the *Journal of Portfolio Management* with Meir Statman of Santa Clara University. For forecasting, P/Es are a blind alley.



Nor should you become more pessimistic because of the impacts of future terrorism. While horrific emotionally, it is perfectly clear that market impact here is small. Note, global markets are on average a bit higher than before the 11 September attack. Then, too, everyone has contemplated more terrorism and hence it must be priced reasonably well into even partially efficient markets.

As the Taliban has been swept further south into ever-smaller turf south of Kabul it should be obvious by now that Osama bin Laden and the Taliban have no sophisticated nuclear, chemical or biological facilities. If they had them we would have found some trace of them. What they had were knives, box-cutters and guys with guns on horses and some crude labs less sophisticated than most western high schools possess. The mass total effect of a few suicide bombers will always be brutally ugly but miniscule economically compared to our $20 trillion global economy. Finance theory dictates this, but the post-11 September price action has also confirmed it for you.

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Nor should you fear the growing cries of those who believe we are in a long and sustained 10 or 15-year period where equity prices should disappoint. They might end up correct, but I assure you there is no way under the sun to make long-term market forecasts with efficacy. In every new decade that was preceded by a good one for stocks, folks have always said the next one can't be as good as the last. They said it as the 1990s began.

But it can – although, of course, it may not. That will derive solely from what happens to the new supply of stocks five to 10 years from now, and that can't be forecast now. Securities pricing is always a function of supply and demand, solely. Our brains don't think well this way. In the long term, supply is more powerful than demand in setting pricing because the potential to create or not create new supply is very elastic in the long term and tied to raw capital costs.

Yet there is no right way to forecast how much supply will be created years from now, hence no right way to forecast prices then. So, don't worry about the long-term now. If we take care of one year at a time we will also take care of the long-term quite nicely.

So, start getting ready to shift back to stocks sometime early in 2002. BM