



## Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive KEN FISHER assumes an uncharacteristically bullish stance and suggests it is time for the bears to take a backseat as the economy shows signs of recovery

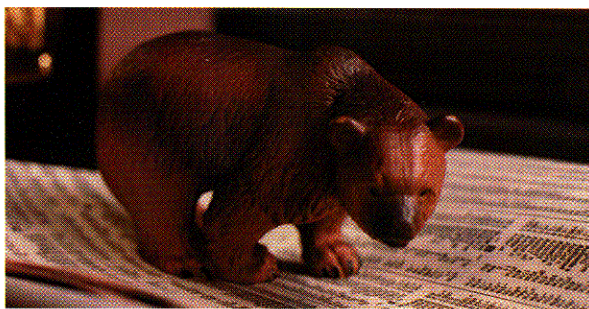
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# Recovery signals keep the bears at bay

It is time to buy – at least temporarily. I think investors have dug their heels into pessimism too far for stocks not to have a nice pop upwards. This may surprise this magazine's readership as you've basically only seen me be bearish. But bear markets only last so long.

There are several basic rules to being bearish. Foremost, because the market is a discounter of all known information you must see bad things others don't see. A year ago, even six months ago, I could – just look at my previous columns. But now I can't. What's so bad now? The global economy is no longer deteriorating. Lay-offs have laid off. There have been lots of corporate scandals and we all know there will be more so that already must be discounted into pricing. And we all know the terrorists will be terrible. Even the US government, which finds it self-serving to do so has said so, even guaranteed it – so that will have little market impact. We all know the market isn't cheap statistically, so valuations won't impact prices. What will? Something basic and fundamental.

Stock prices are always and everywhere a function of nothing but supply and demand for stocks. We have a hard time thinking supply and demand because the way our brains process information was structured tens of thousands of years ago and none of us wake up daily gleefully contemplating supply and demand. We think of every other darned thing but we won't think about supply and demand, and particularly not for securities.



In the short term, supply is constricted because of the regulatory processes associated with its creation. In the long term, supply is unrestrained and hence vastly more powerful than demand in setting long-term price – but that is for another column. In the short term, since supply is constricted, demand fluctuations are pricing's prime determinant. Demand fluctuates solely within the bandwidth of our human emotion. Like all our emotions it can only get so gleeful or dour. If we get too extreme for too long we will regress toward the mean of our emotional bandwidth.

The current state of capital markets technology has no exact way to measure demand. But it can be approximated by well-constructed sentiment measures (the most well-known of which won't work since by their familiarity they are discounted into pricing along with everything else – see one of my proprietary measures in my April 2001 column). And sentiment for stocks, as I measure it various ways, has got too low to stay this low. So demand will rise, and with it stock prices. How long? How far?

I'm not certain, but there is a growing

feeling stocks can't have a major up move and hence they will rise at least until that feeling dissipates. I think the rally starts soon. Meanwhile, buy some stocks, make some money.

To get fully invested fast use tracker stocks. Appealing single stocks include: Australia's Telstra (£9.30, down from £20, in 1999, [www.telstra.com.au](http://www.telstra.com.au)), sells at a 4.3% dividend yield and 70% of annual revenue. Having double-bottomed last fall and this spring at £8.25, this is one of the best telecoms – from currently one of the world's strongest countries. Another similar telecom, TDC Corp (£9.40, down from £34 in 1999, [www.teledanmark.dk](http://www.teledanmark.dk)), has a 3.2% dividend yield and sells for its annual revenue and 12 times earnings and only five times cashflow.

The financials are too cheap now. Buy Dutch-based insurer and asset manager Aegon (£15, down from £44 in 1999, [www.aegon.com](http://www.aegon.com)). It sells at 13 times earnings with a 4.8% dividend yield. Also, Credit Suisse Group (£25, down from £44 in 1999, [www.credit-suisse.com](http://www.credit-suisse.com)), sells at 70% of annual revenue, 12 times trailing earnings and 3.4% yield. Finally, Ford Motor (£12, down from £28 in 1999, [www.ford.com](http://www.ford.com)) is a steal at 1.5 times cashflow, 20% of annual revenue and a 3.4% dividend yield. In the UK, try Six Continents, the brewer, gaming firm, and global hotel chain. Earnings are down but cashflow is strong and it yields 4.3%. **BM**

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