Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and **Fisher Investments** chief executive KEN FISHER says remembering that stocks can only move in one of four directions is a good guide for investors trying to establish what course of action to take

Only four ways to go

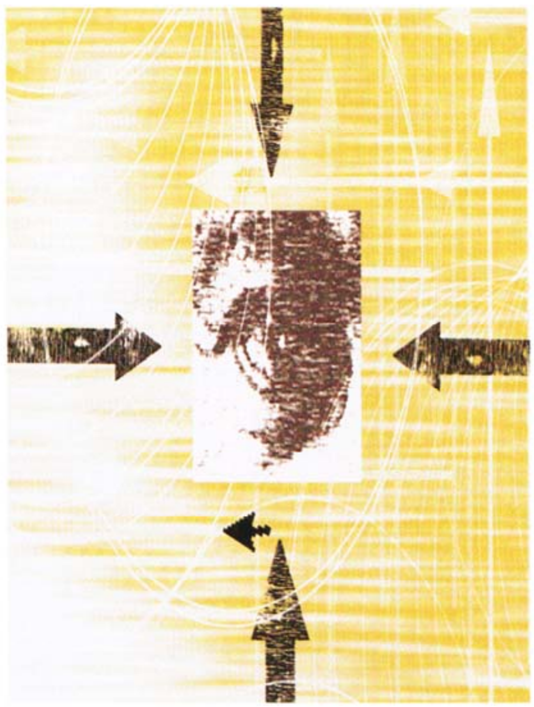
Wrong again! Just months ago, following a brief run up in long-term interest rates, a huge consensus emerged that they would have to rise further and mightily. Instead they dropped back close to where they were before all the noise began.

As September began, agreement formed that September and October are the two worst months to own stocks and that stocks were ahead of themselves and would have to retreat. If you believed the former, we're past all that and you can relax and enjoy life. If you believe the latter, rethink it. Stocks aren't all that much higher than in June so why are they so far ahead of themselves?

Stocks can only do one of four things: Go up a lot, go up a little, go down a little or go down a lot. That's it. No other choices! Remembering this is a good guide to what to do. Suppose the market were to go up a lot. You should want to own stocks. If the market goes up a little, stocks aren't bad either with interest rates and other alternatives providing such low returns.

Suppose stocks fall a little. My advice would be to remain fully invested because the transaction costs of in-and-outing are too high to make it pay for a small down move. The only time to really want defensiveness and incur those transaction costs is when you face the market about to be down a lot. Another way to say this is that the only time you don't want stocks is when you expect down a lot.

Of the four conditions, the first two and the fourth should be obvious as to your goal. It is the third condition, down a little, that confuses people. This is like what happens with normal volatility and a minor correction in a bull market.



Short, sharp, wicked and over before you know it. Trying anything other than riding that out is nearly impossible because it is pure short-term sentiment with no underlying fundamental basis.

Down 11% in two months followed by up 13% in the next two. In history this happens regularly but there is no curriculum with any efficacy at predicting or remedying it. As I detailed in June and July, equities are just a lot more volatile than any of us really feel in our bones and these kinds of down-a-little moves are normal parts of equity life. It is like the bumps in the road.

But is there a basis now for expecting the market to be down a lot, thereby justifying being defensive? For the life of me, and after 31 years in this business, I can't see it. Three terrible years from 2000 to 2003 caused everyone to look for problems. Those we haven't sniffed out by now can't be that big.

> **The only time you don't want stocks is when you expect down a lot**

The rational basis for being a bear, always, is that you see big bad things that others haven't already priced into securities. But it is hard to see what those are right now. Nor, as discussed in prior columns, do the basic economy, politics, Iraq, terrorism or valuations count as big bad things.

The buzz on them is all just noise. The most bearish thing I see is that others don't seem to notice is how heavily and consistently the Bush administration is pro-regulation on almost everything. But otherwise life is going pretty well right now.

So, without expecting down-a-lot, I would want to own the following stocks. Taiwanese semiconductor maker Macronix is cheap enough to be taken over. If you don't make money off the stock bouncing you will make money the other way.

Auto parts stocks as a group look like they've shaken off the recession. Consumer spending is running strong and will ripple here. Some such US stocks to include are Advance Auto Parts, Asbury Automotive Group and Genuine Parts.

Finally, for fun and profit, take a bet on Churchill Downs. It owns the US's best horse-racing facilities. It will become more popular in better times with growing consumer spending. For the same reasons try Dick's Sporting Goods, one of the US's best run, small and growing retailers of sports gear. Or, a vertical step backwards, Callaway Golf, a leader in high-end golf clubs. BM

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