Equities

Fool Me Twice, Shame On Me

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Financial Advisor

Many Wall Street strategists called the stock market “undervalued” in 2002, based largely on how far and fast it had fallen over the previous two years, and the contemporary prospects for economic recovery. In this 2002 article, the author contends that the truth was very different.

The fact that stocks could have fallen so much since March 2000 and still be so expensive in 2002 was a statement about how silly investors got in 1999 and 2000 and about the disingenuousness or error of those who did not sound the alarm then and, with some notable exceptions, were generally not doing so when the article was published. The author contends that it was not a statement that stocks are cheap at the time. After 1999–2000, investors might, with some justification, feel they were duped into buying into a bubble. However, the author writes, if the bubble re-inflates much further, and investors are fooled again, they will have no one to blame but themselves.

The reoccurring rush back into (and then out of) the mania stocks that led the 1999–2000 bubble on any evidence of economic recovery, despite the incredible valuations still given these stocks, argues against broad rational acceptance of low stock returns going forward. Rather, it tells of an investing public either terrified of falling behind benchmarks they know to be overpriced, or still looking for the next winning lottery ticket.

To be blunt, despite widespread brainwashing to the contrary, if investors really do understand that the ubiquitously quoted 1926 to 2001 stock market experience no longer applies going forward at today’s prices, but are calmly and soberly buying stocks (and tech-bubble stocks in particular) anyway to get their 0% to 2% per year over bonds, then I missed it.

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