Taking Stock: For the market, today's news is old news

by Malcolm Berko

Dear Mr. Berko: I found a good stock market program on satellite radio hosted by Neil Cavuto called "Cavuto on Business." During last week's program the panelists agreed that the recent market crash of more than 400 points was just an aberration caused by Alan Greenspan's speech to businessmen in Hong Kong that "a recession is near." However, Ben Bernanke, the current Federal Reserve Board chairman, believes the economy will continue to grow and that there is no recession in sight. The Cavuto program people also believe that profit growth and spending will continue and they are bullish on the market and recommended that this big drop in the averages is a good opportunity to buy good stocks at lower prices. My Individual Retirement Account is worth more than $260,000 and my husband's IRA is worth $205,000. That's all the money we have and because we will both retire next year we want to protect as much of the gains we have and of course grow those accounts at the same time. Our broker at Merrill Lynch tells us that his firm is bullish, still we are getting nervous about the stock market. Together we have $45,000 in cash from recently selling some IRA stocks and just got $37,000 from cashing in two life insurance policies. Our broker has suggested that we invest this ($82,000) in two mutual funds. Please help us make a decision.

R.S.

Ann Arbor, Mich.

Dear R.S.: Satellite radio has some superbly delightful and informative programs and in my opinion Fox News' "Cavuto on Business" is not one of them. I heard the program several mornings ago and it was so bad that I couldn't wait to turn my radio off. It was very difficult to understand what the program participants were saying. It reminded me of Irish donnybrook; the panelists were shouting their opinions, forcibly interrupting each other to make a point, beating dead horses to death and in the process getting sidetracked into tangents. Their consummate shrieking, screeching and caterwauling sounded like an imagined Tower of Babel. I could not find any redeeming value listening to that program.

I have a close acquaintance on the faculty of the University of Michigan who claims that the unspoken and true purpose of economics is to make astrology look good. He has a great deal of respect for Alan Greenspan's political savvy and enormous respect for Ben Bernanke's economic analysis. And in true professorspeak he tells me that there is a "40 percent degree of probability that both Greenspan and Bernanke are wrong!" I suggested that he'd make a good politician and begged that he be more forthcoming. He responded: "figure it out for yourself."

The brokerage industry will never go on record and suggest the economy may enter a recession. That's bad for their retail business and their salesmen have to make a living. I have a profound admiration for Merrill's research and that of many other brokerages. However, there are so very few occasions (and I'm being generous) that these self-appointed guardians of our wealth have ever published a "sell" recommendation. I'm reminded of Henry Bloget, Merrill's star tech analyst who was wildly bullish on tech issues while they were crashing in flames. Then adding insult to injury, he was privately negative on the tech stocks he was recommending. Morgan Stanley, Lehman Brothers, Citigroup and other venerable members of the New York "Schlock" Exchange have been equally villainous.

So I'll tell you that the market doesn't care about good news today, rather it cares about good news or bad news six months from now. And I'll tell you that the market will always do what its supposed to do but not when it's expected to. Some say that after four years of a solid bull run, the complexion of the market changed with the recent 400-point decline and that it's reminiscent of the volatility which was so frightening five, six and seven years ago. Frankly, there isn't a U.S. economy anymore. Rather the U.S. is increasingly becoming an extension of a much larger global economy that magnifies its complexity and volatility. So now when the Chinese market catches a cold, the U.S. markets catch the sniffles, but I doubt our 400-point drop can be called "sniffles."

If you folks are a year from hanging up your tools, I believe it's wise to keep your cash in reserve and perhaps sell some of your low dividend, non-dividend and high price-earnings ratio issues. You folks don't have the luxury of time on your side to benefit from a certainly long-term market uptrend nor do you have sufficient market assets to carry you through a possible short-term market correction. While my advice may be premature, you will agree that it is far better to sell too soon than too late. So tell the Merrill lad that you appreciate his recommendation but tell him your decision is "no."

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