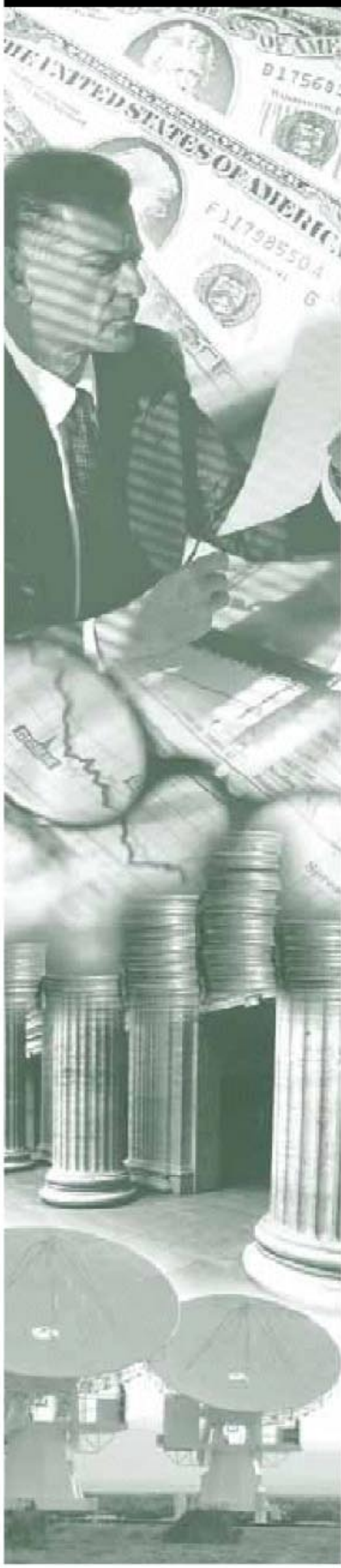
Volume 8, No.5

SENIOR CONSULTANT
The Voice of the Investment Management Consultant



Professionals Succumb to the Opiate of the Common Investor: Where Can an Investor Find a True Guru to follow?

By Larry Klein

My grandfather gave me 100 shares of a mutual fund in 1964. I was hooked. From that day on, my walls were covered with stock market charts that I updated daily by hand. While other kids were learning the Bible on Sundays, I had my own Bible Joe Granville s, New Strategy of Daily Stock Market Timing for Maximum Profits.

There I was, fourteen years old reading the Wall Street Journal while other kids read superman comics. I was certain I had a future in beating the market and that the more I learned, the more successful I would be.

Famished to learn more, I felt ready for the big leagues technical analysis and I attacked Martin Pring s book, Technical Analysis Explained. I poured over the patterns, certain that this would be my new Torah finding patterns in stock movements that would help me buy low and sell high. However, the more I studied, the more a background concern turned into a full-blown worry. My confidence started to erode; I could not always see the pattern that Pring saw in a stock chart. Pring was able to predict future stock movements from a chart pattern that to him was as clear as day. But to me, I had as much trouble discerning these consistent patterns as I did the outline of a bear in a passing cloud formation. If I couldn t see the pattern emerging, how would I ever make a killing in the market?

I came to realize that Pring, having the benefit of hindsight, would choose a chart, explain what the formation meant and then show how it all worked out profitably in the end. Then, I realized a similar pattern among other gurus. They would point to a historical pattern, create a model to explain the predictive power of that pattern, and then claim that they had discovered the secret to the market. They would then use this predictive model, be intermittently correct in their forecasts and move into the esteemed hall of stock market guru fame, to be worshipped by the masses of investors desperate to make sense out of the market s wild ride.

> **THE MARKET IS NOT DEPENDENT ON ONE VARIABLE AS EVERY GURU WILL ANNOUNCE. THESE REGRESSIONS TO THE SIMPLISTIC IS THE ONLY WAY THE HUMAN MIND CAN SATISFY ITSELF FOR PREDICTIBILITY, ADMIST CHAOS.**

When I become a financial advisor, my conclusions about gurus matured further:The gurus were guys who were either perpetual bears or bulls and then when the market went in their direction would proclaim, see, I was right! During my grandfather s retirement years, he subscribed to Howard Ruff s newsletter which consistently predicted the global meltdown of everything and the only safe investment to be gold. There were bear markets during these years when Ruff, I am sure, seemed like a genius to my grandfather. These few accurate predictions of Ruff were sufficient to have my grandfather continually renew his subscription.

The better gurus have a compelling model, not merely an opinion or a position. They have fibonacci series of numbers (Prechter) which show that we are about to enter a bear supercycle. Like my experience with Pring s charts, when I look at Prechter s charts, I often see a line that looks to me as the third leg of the pattern yet he sees as the fifth leg. How could this be taken as a serious system when the interpretation of market movements is in

the eye of the beholder? (In fact, when he forecasted a bear market in 1995 only to be embarrassed by four raging years of the bull, he admitted to having misinterpreted the charts).

Another guru bases his predictions on growth in the baby boomer population (Dent). Never matter that by now, his model shows that we should be over 15,000 on the Dow and climbing toward 41,000 by 2008. As the bull market he predicts seems further and further off, he issues further justifications and reasons why that is. If you do not agree with his insistence that demographics are the sole determinant of stock movements, you must be intellectually handicapped.

Or maybe you want to subscribe to an intuitively obvious on-balance-volume model (Granville) to explain market movements. Yes, that s the same Joe Granville who has been right on many occasions (as have all gurus) and who told investors to sell everything in 1982, just before the birth of the greatest bull market in US history.

Of course, these models are sometimes right on, enabling the sale of many newsletter subscriptions, lucrative sale of books and large speaking fees to a population starved for explanation of how the market really works. But folks, isn t it time we faced the truth:

1. The market is not dependent on one variable as every guru will announce (e.g. baby-boomer demographics, interest rates, fibonacci series, skirt lengths, football scores, etc). These reductions to the simplistic are the only way the human mind can satisfy itself for predictability, for certainty amidst chaos.

2. The market is affected by thousands of variables beyond the simultaneous comprehension of the human mind. And a computer model will not help because the relationship between the variables is not constant. For example, sometimes the market falls during periods of rising interest rates and sometimes rises. So the elaborate mathematical models will fail you (let us all remember Long Term Capital Management, the company founded by arguably the best mathematical mind in the investment industry that went up in flames after risking the entire global financial market with heavily leveraged positions).

DENT WAS ADAMANT IN HIS POSITION THAT BABY BOOM DEMOGRAPHICS IS THE SOLE DETERMINANT OF ASSET PRICES...BUT THE CENSUS BUREAU DOESN'T AGREE, PEOPLE ARE GETTING MARRIED LESS AND LATER CONTRARY TO HISTORICAL PRECEDENT.

3. Winning in the market is not about finding a guru or model that will clam your uncertainty. It s the disappointing, unglamorous solution of having discipline to pick an investment methodology that suits you and stick to it.

The most frightening part of this is that many professionals have not realized this simple truth. Or they have realized it and for pecuniary gain, continue to tell the public that the models and the gurus will save them. For example, I recently attended a talk where Harry Dent was a keynote speaker. It did not surprise me that the event sponsors would have him as a speaker since he has very good PR people, he wrote a book, and he is adamant in his position that baby boomer demographics is the sole determinant of assets prices (make a note its quite okay to be wrong, just be adamant if you want speaking gigs).

After the talk, I mentioned to my peers that his forecast was terribly lacking. That even his assumption that people have children at the same age during each generation was wrong. My comrades, devoted Dent fans, immediately rose to his defense. No they protested, It may be your professional friends that are marrying and having children much later, but the Homer Simpsons of the world are doing the same as they always have making Dent s use of past data valid. (So I checked the US Census Bureau which reported: People are getting married less and later. Between 1960 and 1993, marriage rates for 15- to 44-year-old women dropped by 41 percent. The average age for a woman at her first marriage rose from 20 in 1960 to 25 in 1993. Most of the increase occurred after 1970 and has continued through the most recent year. Young men, too, married later. The average age for first-time grooms rose from 24 in 1975 to 27 in 1992.) Such data would be inconvenient for the baby-boomer demographics determine everything model so that data is simply omitted.

Large investment firms, mutual funds (there s a Harry Dent fund) and teachers of investment professionals latch on to a guru s predictions. You might think that professionals would not need a religious savior, that they would be above their need for an opiate for the masses, yet they too succumb to the burning desire to make sense of the chaotic market beast.

About the Author

LARRY KLEIN CPA/PFS, CFP¤, Certified Retirement Financial Advisor“ , Harvard MBA is president of NF Communications, Inc. Over 14,000 financial professionals use his marketing system to obtain more and better clients, increase money under management, increase commissions and earn more while working less. His programs are in use by brokers at most major securities firm, many NASD firms, and by hundreds of independent insurance agents and captive agents with large, well-known insurance companies. Details on his winning marketing systems and his complete book on Marketing Financial Services to Seniors are available at http://www.nfcom.com.

Notes