

Is There Trouble in Paradise?

April 11, 2005

Richard Russell, Dow Theory Advocate, is one of the great investment minds in this country. We subscribe to his newsletter, along with other time and tested business cycle watchers, as a check on our own views. Knowing who to listen to in this business is almost as important as which economic model one follows. We would dare say that the 30% figure applies not only to investment managers, but also investment newsletters (30% is the approximate percentage of investment managers who are as good as they say they are.) Russell in his 4/8/05 comments reported the following:

"Yesterday, after finishing the site, I took a walk down to the "Wind'n Sea" beach, which is about a third of a mile from my house (I bought my house in 1974). While sitting in the sand and looking out at the ocean, I had this thought. The US's biggest manufacturer, General Motors, down 70 percent from its high. Our largest publisher, Time, down from a high of 95 in 1999 to under 18 today. Our biggest drug company, Pfizer selling at 26; it sold at over 40 in 1999. Our largest insurance company, AIG, down from 100 in late-2000 and selling at 53 today. Our biggest tech company, Microsoft, selling at above 54 in late-1999, now selling for 25. And now the US and world's largest retailer, Wal-Mart, which sold at 70 in December 1999, now selling at just over 48."

What does all this mean? In our opinion it means that trouble is approaching and most seem not to have a clue. The trouble is probably two-fold.

1. The economy is close to a top.
2. The stock market is still suffering from an elevated P/E ratio, which will not allow one to achieve good investment returns from common stocks.

Since June of 2000, when we suggested to our stock clients that they switch to our Bison Bond I program, we have been pleased with the results to date (please note the table below). The key for all of us remains when should we reallocate some of our money back into stocks? The answer lies with the P/E ratio. Anything above 15 (it's now 20) is simply not worth the risk.

5 Year Total Returns Ended 12/31/04	
S&P 500	-2.3%
Lehman Brothers Aggregate Bond	7.7%
Bison Bond I	10.9%