



## **The Economic Herd**

**September 2010**

In a prior article titled, “Investor Behavior...One of the Real Risks,” (the May/June 2010 issue) I had referenced a chart that was following the monies of investors either adding to equity funds each year since 1997 or pulling it out. As it plainly reveals- some would say painfully- investors tend to pour money into the equity markets before it pulls back and rush out before a recovery. This demonstrates a classic buy high/sell low or behavior investing at its worst. You may be assuming that investors have learned from their past mistakes and have seen the “investment light,”...well, think again.

Like the animal kingdom, human behavior can be somewhat primitive. My view is that we instinctually feel more comfortable inside a group or herd during times of uncertainty-whether it be euphoric market tops or panic bottoms- because the alternative of thinking independently or making decisions that differ with the rest of the public may get investors eaten by the lions. At least this is what many investors fear will happen, which can be further reinforced by the financial media. Just take a look at either the December 1999 cover of Time magazine with Amazon.coms Jeff Bezos as “Person of the Year” (dot.com bubble) or June 2005 cover titled “Home \$weet Home”(Housing bubble). And finally, the October 18<sup>th</sup>, 2008 cover “The New Hard Times,” which depicts the Great Depression food lines (in my opinion, this may have been the closest thing to a buying signal you could have gotten other than an actual bell ringing). This leads us to the most recent emotional movement of investors’ monies.

According to the Investment Company Institute- in 2009 investors poured a record 375 Billion Dollars into bond funds while pulling close to 10 Billion out of stock funds and as a result, many investors missed the markets 26 percent return, according to the S & P 500 index in 2009. Once again, human nature has continued to play on the emotions of investors with bad decisions as a result. Where investors are moving their monies can be a signal of the temporary mood in the economy and I believe you don’t need to be an economist to get a general prediction to the short term economic moves. In addition, according to a recent article in the Wall Street Journal dated, August 18, 2010, Wharton School Professor of Finance Jeremy Siegel points out the similarities of the 1999 technology bubble and the current bond market (we all know what happened after that bubble burst).

So understanding the pattern of investor money movement and looking at the recent average returns of long term bonds, one may come to the belief that this will not last- if history is any guide. Or with interest rates as low as they are, in my view they only have one probable direction they can move and that is up. Is this a market call on my part? I have been in this industry long enough to understand that nobody has consistently been able to predict where the markets will go, even though many will claim to know. My point is simple, look at the past emotional behavior of investors and adjust your portfolio accordingly with the help of your financial advisor. And with that said, if you think this time it is different, I will address this concern in next month's article.

Disclosures:

Past performance is no guarantee of future results.

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