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DARE TO BE DULL

Debunking my favorite flawed investment analysis

I always enjoy reading the expert analysis of why the stock market does what it does.

The explanations seem so logical and predictive of the market. Well, they do until you delve deeper and examine what passes for evidentiary support.

Here are some of my recent favorites.

■ Stock markets are plummeting from the skyrocketing price of oil.

Perfectly logical assertion, right?

If gasoline is at \$4 a gallon and we're all feeling the pinch at the pumps, it would seem likely that the economy is going to slow down. But it's not the logic that's flawed here, it's the actual facts.

First, let's start at the 2000-02 bear market, during which nearly half the stock market value was wiped out. From the peak of the stock market during March 2000 to the bottom of the market during October 2002, the price of oil actually declined by about 4 percent.

Yet during the raging bull market of 2003-07, oil actually increased by a whopping 318 percent. Sure 2008 has brought another bear market, but the fact that oil is up another 25 percent is not the entire reason.

In fact, 2008 appears to be the first year this decade that the market has actually declined while oil prices increase. So, the next time you read a headline that says "Stocks Jump on Falling Oil," take it with a grain of salt.

■ It's impossible to have a sustained rally unless the U.S. dollar can show some strength.

You'll get no argument from me that the U.S. dollar has taken a beating, but it's not a mystery as to why. Spending more money than we are taking in is a lousy policy and makes the value of our dollar fall compared to other world currencies.

Again, though, we have to look at the facts.

The dollar was virtually flat during the 2000-02 bear market, then went on to lose a full third of its value during the raging 2002-07 bull market.

Yes, in spite of the fact that the U.S. market nearly doubled and international market tripled, the U.S. dollar got slammed. Interestingly enough, the dollar happens to be virtually flat again during our current bear market of 2008.

I'm certainly not advocating that we should continue to print



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more money or pretend that tax rebate checks are really free. I'm just pointing out that betting on the market because you think you know how the U.S. dollar is going to do is foolish behavior.

■ Commodities are the safe place to be now.

With the stock market down and real estate values plummeting, we're all looking for a good place to stash our money. To aid us in our search for that good place, you can bet that the experts will always tell us to invest in whatever has most recently done the best.

During March of this year, gold passed the \$1,000 an ounce mark and showed no signs of letting up. Coincidentally, or not, that's the time the investment pros begin preaching the virtues of gold.

If you bought into this expert advice, you have lost about 20 percent of your money now. Not exactly a great stashing place.

■ What this means to your money.

You may not get the same entertainment value as I do from these expert commentaries, but I offer the following advice when you listen to one of these talking heads: Always remember that no one actually holds them, or their brilliant analysis, accountable. In the grand scheme of things, it doesn't matter whether they're right, wrong or indifferent.

Their recipe is to take recent patterns, apply a pinch of logic and mix it all together with some sexy, smart-sounding language. The dish might look appealing, but it is the metaphorical equivalent of cotton candy.

Looking at those same patterns over the long-term to see if they actually hold any water is irrelevant.

While these experts combine recent hindsight with psychobabble to explain things, none of them actually predicted the latest bear market. The next time you hear an expert talk about where the smart money is going, and no matter how logical their explanation sounds, don't be fooled into believing them. They might not know there is a difference between being a talking head and being a market expert, but hopefully now you do.

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