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**The forgetfulness of economic and market commentators:  
Why it will cost you money when you hold on to sensational views**

**[Based on “Markets Never Forget, But People Do” by Ken Fisher]**

**Compiled by Daniel R Wessels**

*The four most expensive words in the English language are: “This time it’s different.”*

- *Sir John Templeton (1912-2008)*

Do you remember the news headlines and market comments in the wake of the 2007-2008 financial crisis? More importantly, do you remember how this sensationalist reporting affected your investment psyche? I would not be surprised if some investors at the time swore to never trust any investment product or any financial institution. Also, what did you do regarding your investment allocations? Most likely, one would have moved your equity-linked investments to pure cash or money market holdings while the “end of the world” was steamrolling to its final conclusion.

Yet, did that happen? Surely not. Yes, some of the major role-players before the advent of the financial crisis went into obscurity and were replaced by others. That is normal. Stock markets at the time took a huge beating even before it became obvious that the real economy would suffer a major recession. But surprise, surprise those same markets recovered at the speed of light long before it became obvious that the end of the world is not nigh and in fact economies (except those heavily-indebted economies in Europe) are truly on the recovery path. Again, that is normal.

What would have prevented one to make some silly investment mistakes at the height of the financial crisis? Simply some knowledge about the history of financial markets - in fact, in February 2008 I wrote in [The Commonalities of Credit Crises](#) about a research report, authored by Kenneth Rogoff and Carmen Reinhart, how credit crises around the world played out before and how it affected the stock markets and housing markets. Needless to say, the same patterns were (are) repeating itself – the stock markets fell quick and hard, but recovered quite rapidly while the housing market took (are taking) much longer to turn the corner.

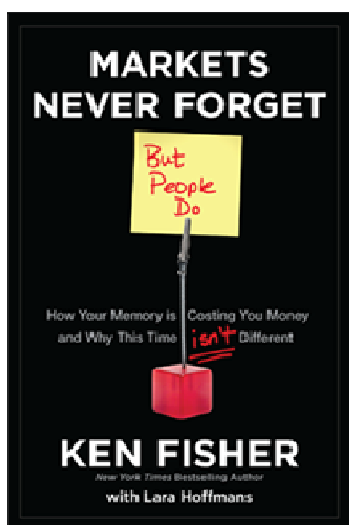
Ken Fisher <sup>1</sup> – one of the world’s most respected investors – recently wrote about how investors' memories frequently play tricks on them - and how those tricks are often costly. A bit of knowledge about the history of financial markets will go a long way to improve one’s investment success rate, i.e. armed with knowledge about the history of markets will combat one’s tendency to forget how similar events played out in the past. This isn't to say history

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<sup>1</sup> **Ken Fisher** is the founder, Chairman and CEO of Fisher Investments, an independent global money management firm managing tens of billions for individuals and institutions globally. Fisher is ranked #252 on the 2010 Forbes 400 list of richest Americans, and #736 on the 2011 Forbes global billionaires list. In 2010, Investment Advisor magazine named him among the 30 most influential individuals of the last three decades. Fisher’s 27-year tenure of the prestigious "Portfolio Strategy" column in Forbes magazine makes him the fourth longest-running columnist in Forbes's 90-plus year history. In addition, Fisher has authored numerous professional and scholarly articles, including the award-winning "Cognitive Biases in Market Forecasting." He has also published seven previous books, including *New York Times* and *Wall Street Journal* bestsellers, *The Only Three Questions That Count*, *The Ten Roads to Riches*, *How to Smell a Rat* and *Debunkery*, all published by Wiley.

repeats perfectly, nor that it predicts the future. But while history may not repeat, a recession is still a recession; a credit crisis is still a credit crisis. Bear markets aren't new - nor are bull markets. Some of these events are vastly bigger than others - but investors have lived through them all before. And understanding how investors have reacted to past similar events can help guide you in shaping better forward-looking expectations. The past never predicts the future, but it can reduce guesswork about what's ahead.

The following is based on an excerpt of the book that encapsulates the essence of Fisher's views: <sup>2</sup>



# MARKETS NEVER FORGET

## But People Do

How Your Memory is Costing You Money  
and Why This Time isn't Different

*"The four most expensive words in the English language are, 'This time it's different.'" So saith Sir John Templeton (1912–2008), forever and ever, amen. Of course, he was only talking about investing. Or maybe spirituality—or maybe both.*

*To say Sir John is legendary is an injustice to the word legendary. He was a mutual fund pioneer—founded and built one of the first big firms. He was a global investing pioneer, too—doing global for clients before anyone did. Sir John had ice water in his veins and really lived the idea: Don't follow the herd. He knew to be greedy when others were fearful and vice versa before Buffett made that his. He never believed in chart voodoo, no matter how trendy it was. He was firmly grounded in fundamentals. He believed in what he called bargains. To me, he was personal. He was also humble, understated, unflappable, softspoken, courtly, civil and*

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<sup>2</sup> The full excerpt is available at:  
[http://media.wiley.com/product\\_data/excerpt/4X/11180915/111809154X-32.pdf](http://media.wiley.com/product_data/excerpt/4X/11180915/111809154X-32.pdf)

*gentlemanly in all circumstances. He was and is an ideal role model for almost anyone—don't care who you are.*

*Sir John was simply an all-around great guy. He gave heavily to charitable foundations, among other things the world's largest financial prize, the Templeton Prize in Religion. He was thrifty—preferred driving junky used cars instead of being chauffeured in a limousine. He flew coach. He was knighted (through no fault of his own) but down-to-earth. He played a mean game of poker—put himself through Yale on his winnings. He, like me, thought the US government was a lousy steward of his, yours and his employees' money, so he bolted for the Bahamas. He also built an ongoing business interest, which itself helped launched many thousands of good careers in a well-paying industry—lots of smart folks learned the business at Sir John's knee—not to mention the countless numbers of investors who got wealthier investing with him. It was his success that first made me envision building a big investment firm.*

*But to my mind, one of his greatest contributions was that admirably short admonition. That if you think, "This time it's different," you're in all likelihood dead wrong and almost surely about to cost yourself dearly.*

***This isn't to say history repeats perfectly. It doesn't—not exactly. That's not what Sir John meant. But a recession is a recession. Some are worse than others—but we've lived through them before. Credit crises aren't new, nor are bear markets—or bull markets. Geopolitical tension is as old as mankind, as are war and even terror attacks. Natural disasters aren't new! And this idea that natural disasters are bigger, badder and more frequent now simply isn't true. Only human arrogance allows us to believe we're living in some new, unique age. Sure, we are—just like every previous generation did. And in that sense, Sir John understood the great value of studying and remembering history. Without that history anchor, you have no context to understand the here-and-now or any way to determine what's reasonable to expect in the future. Sir John was a historian in a world in which most market practitioners' sense of history is largely limited to their career span.***

***Sir John also knew then what every good investor should know now (but they don't because they forget): Humans don't evolve fast. We don't! The same things that freaked us out during the early Mesopotamian market days are the types of things freaking us out in the twenty-first century. And because human nature is a slowly evolving beast, the scenery can change, but we still have the same basic reactions to things.***

*We have the same reactions because we don't remember very well at all. My line on this subject is that societally, we're like chattering chimpanzees with no memories. We chatter about whatever without any sense of history, data or analysis. Sir John was exquisite with all three and knew we falsely believe every recession that hits is more agonizingly painful than the last. Every credit crisis we live through we think beats all the rest. (Anyone who thinks the 2008 credit crisis was history's worst knows zero about nineteenth-century history. Zippo!) Behaviourally, this is evolution's gift to humanity so we don't give up in despair.*

***And that's why Sir John's admonition that it's never different this time is so eternally useful. No matter how big and scary something seems, we've almost always been through something similar before. And if you can remember that and find those times and learn the lessons from them, you can know better how to react—or not react.***

***What's also not different this time is how resilient economies and capital markets are—particularly in more developed countries. People forget that. Sir John never would. There's this nonsense notion about secular bear markets lurking around every corner. But if that's true and if capital markets aren't remarkably resilient, how can it be the value of all publicly traded stocks globally keeps rising over time—currently \$54 trillion? Global economic output is now at \$63 trillion! It was \$31 trillion in 2000. (For all the 2000s being frequently referred to as a “lost decade,” somehow the global economy doubled). It was \$19 trillion in 1990. It will be higher still in 2020 and 2050 and 2083 and 3754. Exactly how much? I don't have a clue. Neither would Sir John, were he still alive. But I only heard him say about 40 times over the decades it would be much higher and at about the same growth rates as we've seen before—maybe a little more or a little less. Almost no one ever believed him on that—particularly not when he said it in the midst of a bear market or recession. Yet he was always right.***

*Side note: One reason folks fall prey to the notion of long-term stagnancy now, I believe, is the death of journalism. Blame the Internet, blame cable, blame whatever you want. Doesn't much matter! Traditional media is bleeding money. Maybe there are just a few staff writers. Maybe those staff writers weren't there five years ago. They let all the grizzled guys go a long time ago to hire cheap guys and often kids who write for pennies. Or maybe for free! Online blog sites get tons of free contributors—they'll print any nonsense folks write. But most of the folks writing news today haven't been around the block. Maybe 2007 to 2009 really was the biggest thing they'd ever seen. Maybe they were in college during the last recession and bear market or (eek!) high school. Maybe they weren't even born for the one before that! They have no context. To them, the world really is ending and they can't fathom how we get past this bad time (whenever it is) because they've never seen that happen before—not as an adult.*

***Compounded by no-memory no-context journalism, it's harder to pause, take a deep breath and ask, "What am I forgetting? Has this happened before? Have I seen this or something like this before?" Because, except for the truly young pups reading this, you probably have. Believing "this time it's different"—when it isn't—is more than just seeing the world wrong. It can lead to serious investing errors. In my world, people make bets—bets with their own or frequently with other people's money—based on their world views. The idea isn't to be perfect. No one is. To do well at money management—whether for yourself or others—means being right more than wrong over long periods. That means you will still be wrong a lot and frequently in clumpy patches of wrongness. But being right more than wrong is easier if you see the world more correctly.***

*It matters because seeing the world right and remembering it's never truly different this time could have saved people from making huge errors in 2009 and 2010. And it could save you big when the next big panic, super bull market or gotta-have-it investing fad hits. The good news is that it's easy to spot the "this time it's different" mentality. It often masquerades as:*

- *The "new normal" or "a new era" or sometimes a "new economy." Just because people think, "This time it's different," doesn't mean they think all is terrible! Sometimes they are overly, dangerously bullish. Sometimes bearish.*
- *The "jobless recovery." Except every recovery is jobless—until it isn't anymore. No one remembers this.*
- *Fears about a "double dip"—which is always talked about but rarely seen.*

*Starting early 2009, the term new normal (a same-but-different way of saying, "This time it's different") started ping-ponging through the media. The new normal was specifically the idea that the bad problems newly emerged or envisioned in the recent recession were insurmountable—resulting in a new era of below-average economic growth, poor market returns, maybe even a double dip.*

*The basis for the new normal was a litany of ills—some real, some vastly overstated: A housing crash that hadn't recovered, too much US federal debt, too much consumer debt. Many believed greedy bankers had pushed our financial system beyond the brink and it was irrevocably broken. The economy couldn't recover because banks wouldn't lend. And tapped-out consumers couldn't spend!*

*Except there's nothing so new about the new normal. We get some concept like it every cycle. Following are just a few historic examples from the media:*

December 13, 2003—“The Industry is starting to settle on a new normal where growth is more muted but sustainable.”

April 30, 2003—“Welcome to the New Normal”—“slightly awkward, slightly odd place where corporate profitability is more challenging”. (Except when this was published, a recession had ended about a year and a half earlier, and a massive bull market run-up from the recent bear had started a month before).

November 2, 1987—“After a wild week on Wall Street, the world is different (And no, it wasn't different. The world recovered from the October 1987 crash and subsequent bear to finish the decade strongly.)

January 7, 1978—“The ‘new normal’ is here and now.”

June 15, 1959—“We could expect the country to return to the New Normal of the depressed Nineteen Thirties.” (Annual GDP growth was 7.2% in 1959, 2.5% in 1960, 2.1% in 1961 and 4.4% in 1963. Normal, fine economic growth. A bit volatile, but normal normal, not new normal).

October 20, 1939—“Present conditions must be regarded as ‘normal’—a ‘new normal.’” (Sure, if new normal meant GDP annualized 8.1%, 8.8%, 17.1%, 18.5% then 16.4% as it did in 1939, 1940, 1941, 1942 and 1943).

*This isn't to say every period following widespread use of new normal had fine (sometimes great) GDP growth. It's just the phrase tends to pop up most around the end of recessions and in the few years of recovery thereafter—when people are bleakest but the actual future is brightest. Regardless, it's never a very novel concept—or very prescient.*

### *2009 and the New Normal*

*The latest new normal round doesn't appear to be very different at all. The latest cycle kicked into high gear in May 2009 when [Bloomberg](#), [Reuters](#), [MarketWatch](#) and [BusinessWeek](#) all featured new normal headlines or stories or both. From there, it exploded.*

*More damaging if you'd acted on new normal fears: The stock market bottomed in March 2009, before the economy. Then stocks boomed—world stocks were up 44.1% three months off the bottom, and US stocks 40.2%.<sup>16</sup> Twelve months later, world stocks were up 74.3%, US stocks 72.3%<sup>17</sup>—the biggest initial 3-and12-month bounce since 1932. From the market bottom through year-end 2010, world stocks surged 93.3% and US stocks 93.1%.*

If you believed this time was different—an era of eternal stagnation rather than the normal normal that follows every bear market—you missed that market surge. A surge that, for those who remained invested and well diversified, likely quickly erased a major chunk of previous bear market losses much faster than most everyone then thought possible.

***This isn't unusual, either. It's normal—normal normal—how it almost always happens. Stocks typically fall before a recession officially begins, pricing in glum times ahead. Then when most folks envision only the worst possible outcomes, the market knows (we forget, the market doesn't) that things aren't ridiculously rosy, but it isn't Armageddon. Stocks start moving sharply higher on that disconnect between reality and perception, bottoming before the economy does.***

***Table 1.1 shows this phenomenon. Bear markets and recessions don't always overlap, but they usually do. Stocks at the major bull and bear market magnitudes are a leading indicator. Stocks fall into a bear market before the economy falls into recession and start rallying gangbusters before the economy turns up into recovery. For those common bear markets that do overlap recessions in the traditional way, stocks almost always rise first—and by a lot. It is the normal normal. History is clear—you want to be invested before the recession ends. Stock returns average 27.5% from the date a bull begins and a recession officially ends—because stocks start pricing in the coming recovery before growth is even thought of.***

Table 1.1 Recession Ends and Stock Returns

Start of Bear	Start of Bull	Recession End Date	Return From Bull Market Start to Recession's End	Total Bull Market Return
09/07/1929	06/01/1932	03/31/1933	32.57%	323.71%
05/29/1946	06/13/1949	10/31/1949	18.36%	267.10%
08/02/1956	10/22/1957	04/30/1958	11.44%	86.35%
11/29/1968	05/26/1970	11/30/1970	25.85%	73.53%
01/11/1973	10/03/1974	03/31/1975	33.85%	125.63%
11/28/1980	08/12/1982	11/30/1982	35.27%	228.81%
07/16/1990	10/11/1990	03/31/1991	27.00%	416.98%
10/09/2007	03/09/2009	06/30/2009	35.89%	???
		Average return	27.5%	
		Median return	29.8%	

Sources: Global Financial Data, Inc., S&P 500 price level returns, Thomson Reuters, National Bureau of Economic Research.



*Throughout 2009, good fundamentals started cropping up. They weren't outrageously great, just better—and much better than expected. Corporate profits were hugely above too-dour expectations—which is good! But people said, "Yeah, but that's because they fell so much." Fair enough! GDP was better than expected. "Yeah, but it's going to crater again." Everyone had a "Yeah, but." They refused to see anything positive. If they did see it, it was wrong or soon to morph to bad.*

*This, too, you see after every recession and bear market I can find. And if you start seeing it in droves, as you did in 2009, a bear market bottom is likely either immediately ahead, or you may have just missed it. Either way, bad days can't last forever (they never do). And as Sir John and Mr. Buffett know, when the world is as gloomy as can be, that might be a great time to be greedy.*

*I knew the pessimism in 2009 and 2010 was wrong—not just because stocks had rebounded so strongly (though stocks are the ultimate leading economic indicator). But because I'd seen it all before. By November 2010—a full year and a half since the global stock market bottomed and over a year since the world returned to growth—headlines still warned of impending doom. That month, I included the following in my monthly Forbes column ("Don't Be Distracted by Monkey Business," Forbes, November 4, 2010):*

*Supporting most bears right now is a bunch of bull: namely, the notion that too much debt will bite us in the butt. Since last fall the guts underlying gloom- and doom market forecasts have been disproven one by one. Excessive debt is the main argument the bears still hug. Which is one reason the bull market has a long way to run—the bears are basing their case on a wrong argument.*

*Debt doomers come in varying styles. There is the banking- crisis style and the real estate implosion style—often linked, as in "falling real estate prices will bankrupt the banks, which will cause chaos." Then, too, are those noting the "tapped-out consumer" who can't or won't borrow, thereby causing an anaemic recovery or no recovery, or finally, the pseudo-sophisticate's favourite—the double-dip recession.*

*Except, I didn't write those words in November 2010. I lifted that passage straight from my August 5, 1991, Forbes column "Dumb Bears." But they read like I wrote them that November morning, almost 20 years later!*

*People were still fretting the same things—debt, a credit crisis, housing weakness, bad banks, tapped- out consumers—they fretted in 1991! All over again! Chattering chimpanzees with no memories or historical sense! And what didn't happen after I first wrote those words in 1991?*

- *Armageddon, though it was widely expected.*
- *A US implosion.*
- *The end of the world.*
- *The S&P 500 falling to zero.*

*What did happen?*

- *A nearly uninterrupted decade of global economic vibrance.*
- *A historically massive bull market.*
- *Both led by the US, mostly.*

*I wrote those words in 1991 because being in this business myself since 1974 in varying degrees and witnessing my father in the business for decades before that, I had seen the same things happen repeatedly. And being a fan and scholar of market and economic history, I knew there was no new phenomenon here: When all the world thinks things can only be bleak going forward, that doesn't make it so. In fact, that probably (but not certainly) means the reverse is (soon or already) true.*

*So no, I didn't necessarily know the 1990s would be historically tremendous. But I did know what everyone was fearing was unlikely to happen—and almost certainly already priced into markets. That is, after all, what markets are supposed to do—price in now all widely known and discussed fears and hopes so only the unexpected has power to move markets big in the future.*

***People in 2009 and 2010 forgot we'd been through recession, credit crises and periods of big debt before. Many times! Forever, since the dawn of time, recession comes. People feel bad. They think the world can never get better. Yet it does—and growth surpasses previous peaks and keeps going. Then, at some point in the future, recession again. Repeat, repeat, repeat... with periods of expansions frequently longer than people predict, and always hitting fresh output highs at irregular intervals.***

***People who believe "this time" is truly different must have a dim view of humanity I don't share. For this time to be different, on a global scale, it means humanity is no longer motivated by profits. Profit motive is a good and wonderful thing. It leads to fabulous things like life-saving medicine and medical devices but also increasingly tiny and ever more powerful computers, must-have tech toys like smartphones and tablets, better housing, safer cars, even mundane stuff like increasingly better yet cheaper sneakers. Profit motive is what drives financial innovations that let more people buy homes, borrow money to go to college, buy cars and so on. I don't think that ever stops—human ingenuity is nearly boundless.***

*Sir John talked about that nearly endlessly for decades. When we run into barriers (slow growth, regulation, disease, dumb legislation), eventually we innovate a way around it. But people who think this time is different evidently have decided it's time to pack it in and expect a dismal future.*

*But despite the endless headlines over time that “this time it's different” and we're in a new normal, all we get is the plain old normal of a return to growth—growth that is variable but typically stronger than what anyone was predicting. If folks stopped forgetting, they wouldn't be so surprised. And if they remembered, they might make fewer costly errors—like sitting on the market's sidelines during a historic market surge.*

***Some may read this and misunderstand, thinking I'm a knee-jerk Pollyanna who doesn't believe recessions are bad or bear markets happen. Wrong conclusion. They do. Most assuredly! But they're normal, not a new normal. Just a part of life. They hurt. But for some reason, people can't get in their bones that expansions and bull markets happen, too. They follow those recessions and are part of the normal ebb and flow. The expansionary periods are almost always longer and stronger than the downturns. If you go through life seeing only the bad times and cowering in fear, you likely miss out on the vastly more frequent, longer and stronger times when economies cook along and capital markets hit new highs and keep going.***

***I don't know when the next recession will be. I can't predict that with certainty. But I can near-guarantee that after it hits—when the stock market is maybe already bottoming and bouncing back strongly, and the recession is almost over (or maybe already over but people don't know it, see it, feel it or believe it yet)—you will hear some variation of the new normal concept again. And that likely goes on for another one to three years, even well past the point at which the recession is officially acknowledged to be over. That's the way it works—almost always....***