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Is There Ever A Bad Time To Buy Stocks?

February 8, 2008

Since the beginning of this year, I have been on the road telling people that what I warned them about last year at this time is coming to fruition – the U.S. economy has most likely entered a recession. Because it is such a pain to get online when traveling, I often have to rely on the financial news television networks for my market information. Typically, I mute the sound on these stations when I am watching. But what I have noticed over the years is that in those random moments when the sound is on, the preponderance of hosts and guests are telling the viewing audience that *now*, regardless of when “now” happens to be, is a great time to buy stocks.

Chart 1 shows the compound annualized rate of increase of the monthly average level of the S&P 500 stock market index over 10-year (120-month) periods. The data series starts in January 1921 and ends January 2008. In the post-WWII era, with only a few exceptions, the S&P 500 does post increases over 10-year periods. In the post-WWII era, recessions (shaded areas in the chart) do not seem to be a controlling factor with regard to 10-year increases or decreases in the S&P 500 index. That is, over numerous recessions, the S&P 500 index posts increases. Over 30-year spans, the S&P 500 index has *always* posted positive compound annual growth from January 1921 through January 2008 (see Chart 2). I am aware that the stocks that make up the S&P 500 index are not constant through time, so these gains overstate the actual gains. Nevertheless, if one’s holding-period investment time horizon is 10 years, one can *usually* expect a positive return (not including dividend reinvestment) by purchasing the S&P 500 index. If one’s holding-period investment time horizon is 30 years, one can *always* expect a positive return by purchasing the S&P 500, at least based on 88 years of history. So, *with a sufficiently long holding-period investment time horizon*, it could be said that it always is a good time to purchase the S&P 500 index in that you will usually achieve a gain.

Chart 1

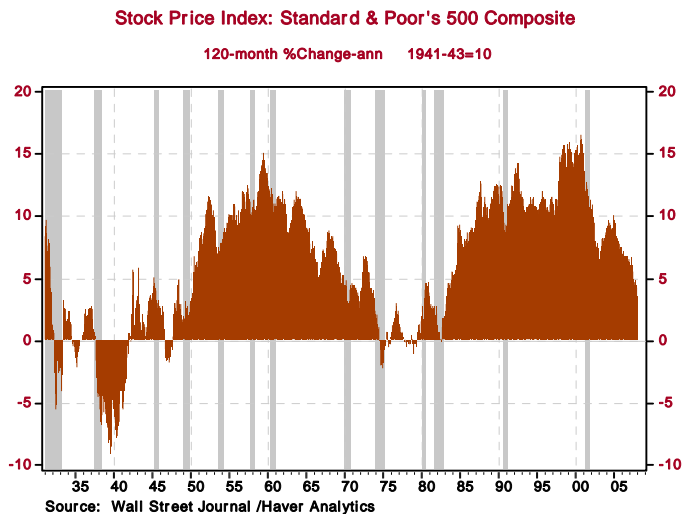
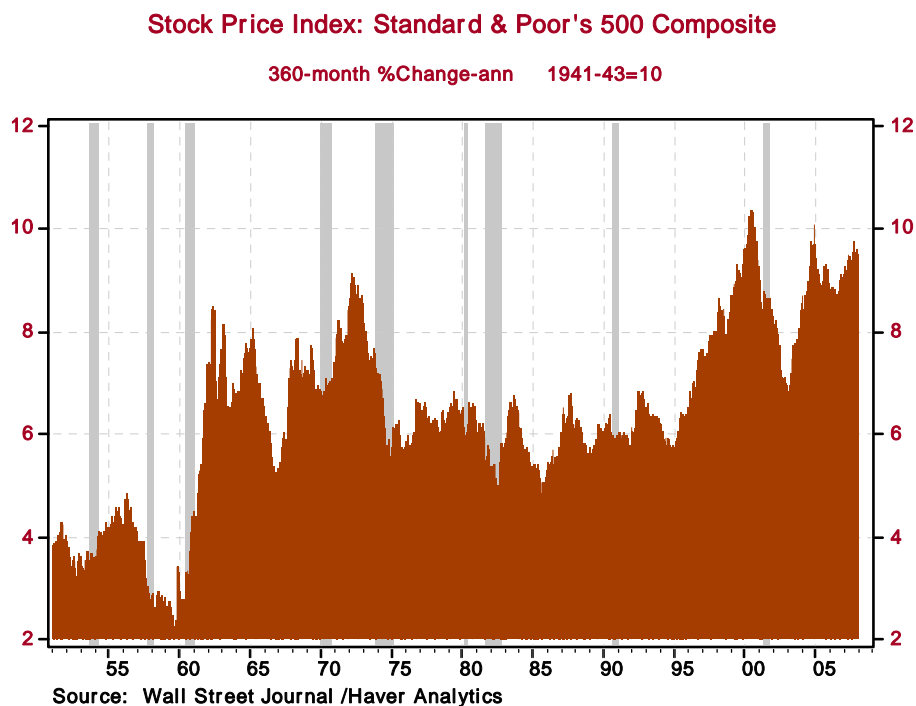


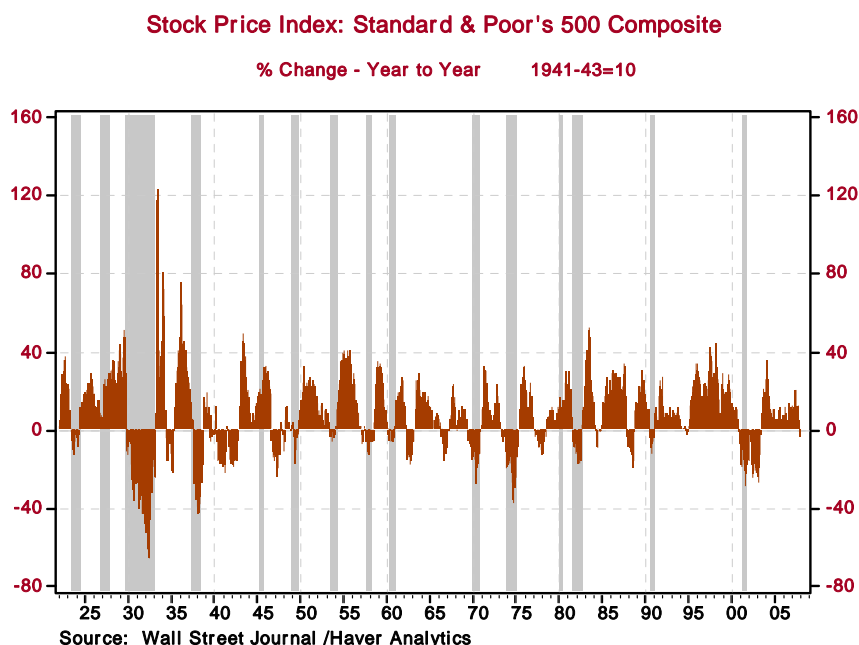
Chart 2



Notice, however, that on a year-over-year basis, there often are declines in the S&P 500 index (see Chart 3). More often than not, these year-over-year declines in the S&P 500 index are associated with recessions. In fact, in only two recessions, 1926 and 1945, did the S&P 500 index *not* post a year-over-year decline. So, if one is a short-term investor, there clearly are better and worse times to buy the S&P 500 index. It is better to buy *after* the economy has entered a recession and it is better to sell *before* the economy has entered a recession. My beef is not with those who are telling you to buy now, given that, in all likelihood, the economy *has* entered a recession. But I would like to rewind the tape to see whether these same “buy now” experts also were *urging you to sell last October*.

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Chart 3



If touts are always telling you *now* is a good time to buy common stocks, they must be referring to relatively long holding-period investment time horizons. If you are investor with a relatively long holding-period investment time horizon, you don't need the advice of these touts. Your time would be better spent watching Seinfeld reruns rather than watching the financial news networks. If you are a short-term investor, and touts are *always* telling you that *now* is a good time to buy stocks, the advice of these touts is incorrect. Your time would be better spent doing your own research on market timing or subscribing to a service that has a track record of accurate market timing (if you can recommend any to me, I would appreciate it) rather than watching the financial news networks. In sum, other than for receiving financial market data and/or for entertainment value, tuning in to the financial news networks is almost always a waste of your time.

Paul Kasriel is the recipient of the 2006 Lawrence R. Klein Award for Blue Chip Forecasting Accuracy

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