

Boca West; February 28, 2002

STOCK MARKET TALK: DICK DAVIS

Good Evening:

Thank you Kathy and thank you all for coming. My goal tonight is to try and make your time here this evening worthwhile. I would not have this opportunity without the support of Jay DiPietro and Leonard Dopkins. I hope to justify their confidence in approving this first ever Boca West stock market program. I also want to thank Kathy Kohlhepp and the very competent staff of the Activities Department for their help with the marketing and logistics. Kathy does a very professional job and Boca West is lucky to have her.

The subject tonight is a serious one. When you're talking about people's money, you're talking heavy stuff. But not everybody thinks so. In fact, there are some who discuss money in a much lighter vein. Milton Berle says, "Money isn't everything, but it sure keeps you in touch with your kids." Henny Youngman says, "The best way to make a million dollars in the stock market? Start with \$2 million." Woody Allen: "I've never been in a situation where having money made it worse." And Alan King, discussing the uncle he has on Wall Street says, "He used to have a corner on the market. Now he has a market on the corner."

It would be presumptuous of me to appear in front of an educated audience like this one and pretend to be an "expert" on the stock market. We all know there are no experts. The stock market is not a subject that lends itself to a "This is what to do," "This is how you do it" and "This is what will happen" approach. No one knows the answers – and certainly not with consistency. For every conclusion about the market there is a qualification; for every rule there is an exception; for every professional opinion there is a directly opposite viewpoint by someone equally knowledgeable.

Not only are there always conflicting opinions, but there are times when no-one is right. No-one, for example, correctly forecast how unbelievably high the stock market would go, both Nasdaq and the Dow, before the long, powerful bull market finally peaked in early 2000. Alan Greenspan referred to the market's "irrational exuberance" on December 5, 1996. The Dow Jones Industrial Average almost doubled after he made that remark, the Nasdaq quadrupled. The market always goes to extremes – but no-one anticipated such an extreme extreme.

In like manner when the bubble of the '90's finally burst, the bear market that followed came as no surprise. But no-one anticipated the degree of punishment – a Nasdaq crumbling from 5100 to 1400 or a Cisco collapsing from 82 to 14, a CMGI from 163 to 60¢ and on and on ad nauseum. And more recently, no-one, and I mean no-one correctly forecast that within 8 weeks after the worst terrorist attack in U.S. history, all 3 major stock market averages – the Dow, Nasdaq and S&P would be trading at levels higher than they were the day before the attack – just as if it never happened. And which group led the vigorous, straight up recovery? The much maligned, beaten down technology stocks that were supposed to be dormant and out-of-favor after their collapse – their resurgence coming despite poor earnings and absurdly high multiples. Go figure!

If indeed, the market is unpredictable, then trying to predict the unpredictable has to be the ultimate exercise in futility. Yet we are inundated by market prognosticators wherever we turn. Most pervasive is television where we have saturation exposure to a barrage of opinions on the market, on stocks and on the economy 24 hours a day. We also get advice from security firms, individual brokers, the internet, newspapers, books, magazines, newsletters, radio and of course, always available, stock market advice from family and friends, mostly unsolicited.

If we know that everyone who gives a market opinion does so with his fingers crossed, if we know that there are market experts only when the market lets them be experts and that the market itself is the final arbiter, and if we know that the very best in the advice business are wrong almost half the time (or so says Fidelity's Peter Lynch), if we know all this, why is the stock advice business such a thriving industry? Why does the media surround us with an unending parade of gurus pontificating about the unknowable?

The reason is rooted in one of the most dependable qualities of human nature: the natural urge to improve our financial situation. We all want to make money. We want to make as much as we can in good times and protect it in bad times. There is an unending search for the best way to do this – the best strategy, the best vehicle, the best advisor, the best fund. In the eternal quest for performance, investors are attracted to strong, confident, unhedged opinions. Even though the perverse nature of the stock market precludes definitive, unconditional advice, investors want something conclusive to hang their hat on. Television accommodates big time. We are deluged with non-stop, unhesitating, self-assured, no-hedge, enthusiastic opinions. Investors want to hear advisors with conviction because confidence breeds confidence. Humility is the last thing they want. Ironically, there is no subject where understatement is more apropos and less visible than the stock market.

Essayist Roger Rosenblatt says, "older people are as close to perfection as human beings get." As we get older and move closer to perfection, the appeal of stock market advice begins to fade. Frustration from repeated cycles of boom and bust, euphoria and depression wears us down and makes us skeptical of definitive opinions and those that make them. We come to realize through disappointing, sometimes painful experience that the pros can be erudite, confident, convincing – and dead wrong. So most of us come to the conclusion that we can do just as well, maybe better, using our own advice, or we decide to use a professional manager or mutual fund with a good track record, leave everything to them and keep our fingers crossed, or we decide, especially if there are big losses, to get out of the market completely, perhaps retaining bonds for income.

If I had to sum up how the members of this audience feel about the stock market, a composite viewpoint, my guess would be this: "Nobody can predict the stock market. Everybody has an opinion; some will be right, most will be wrong and no-one will be right again and again. Some advisors and mutual funds have better records than others. It's probably worth a fee to let them do the research and have the aggravation, and just hope that on the very day we start to use them, their stellar track record doesn't come to an abrupt end. If we go it on our own, the best thing is to buy good quality stocks – the GE's, IBM's and Pfizer's of the world at reasonable prices and hold on to them. No-one can time the market so the long-term approach is the only one that makes sense."

If indeed, this is how most of you feel about the stock market, I think you're right on target. I also believe your thinking is not typical of a more diversified group. I believe this audience is more aware, more sophisticated, more in tune with how difficult it is to make money in the market and keep it. And I believe this audience has more realistic expectations than a group that is less mature, less experienced and less affluent. That being the case, if you're as smart as I know you are, and if I agree with your skepticism toward stock market advice, what can I add to your awareness that will make your time here this evening worthwhile? Perhaps not that much, perhaps a lot – but it's a challenge I've accepted and take seriously.

There are two realities I have to deal with in selecting my material. The first is that most of you are at a stage in your life where your investment decisions are either being made by someone else or, by yourself with a focus more on safety and income than on buying and selling. The second reality is that the questions most everyone would like answered – what's the market going to do over the next year? and what stocks can I buy now to make money? – both these questions I can answer with a confident “I don't know.”

The closest I can come to a definitive, confident opinion about the direction of the market is to observe that for the past 100 years, the stock market has had an upward bias and I expect that long term trend to continue with interruptions along the way. Not exactly going out on the limb. As for what stock to buy, the closest I can come is to confide that my favorite group has always been the drugs, or pharmaceutical or health care stocks. The first stock I bought 40 years ago for my kids' education was a drug stock and the last stock I bought 2 months ago for my grandkids was a drug stock. The one thing I've always found interesting about the drugs is that in terms of quality there are more Standard and Poor A+ rated stocks in the group than any other. The best time to buy them is when they have problems and are out of favor, a period that could last a long time. This is not a recommendation to go out and buy drug stocks. Other groups will undoubtedly do better. It's just a personal preference based on my conservative nature and a need for quality to satisfy my comfort level.

That's about as far out on the limb as I'll go regarding the future of the market and individual stocks. Any other recommendations would be no more than educated guesses. Instead, I'm going to focus tonight, not on guesses, but deep convictions. It's what I feel strongly about after a lifetime of reporting and writing about the market. It's the type of advice I wrote to my own son, a letter that was featured in Forbes magazine; advice that has been updated, but with the same purpose – to help till the investment odds in your favor. That's the very best you can do in the market – position yourself so that you increase the odds of good things happening. If you use others to manage your investments, what follows will help you to better judge their performance.