The View From Princeton

Market Commentary ♦ November 2011

DD: Formerly for Double Dip; Now for Disappearing Distractions

There is a timeworn aphorism once prevalent among professional investors to the effect that the stock market never discounts (or capitalizes) the same occurrence (or phenomenon) more than once. The usefulness in applications seems to have slipped away, for many times the chimerical double-dip recession (DD) has cast its shadow upon markets, and the Greece situation has been made into a vacillating marathon pageant. The combined effects thereof are not picayune, having provided deep dives (DD) in stock markets everywhere during the erstwhile, and hoped for, quiet summer months. A lasting jaundice followed which is disappearing slowly. The most effective of antidotes for spirits, of course, is a rising stock market, the animus of which staged a show of physical strength in October as reminder of its robust physique, though still lacking for needed care from a neurologist.

As always, it would be imprudent to disregard any of the ways in which expectations can be upset, or the freedom all matters have to go awry. Contemporary susceptibilities still add caution. It is finance and politics from which danger and discord emanate, not the commercial world; and surely not in the aspirations and resourcefulness innate in humans everywhere that derive innovations and growth throughout the world. It is time to look beyond the distractions and harassments of months past that focused upon discontent and dangers. The DD of double-dip is transforming itself into the DD of disappearing distractions.

Or, take another version of DD, the NYSE symbol for DuPont, whose breadth of product lines allow the revenues of DuPont to be taken as a virtual proxy of commercial activity. Major well-run international companies (in the US and matched closely in some other nations) report for the tenth consecutive quarter impressive gains in revenues, earnings, and self-regenerative well-being. IBM, Caterpillar, Pfizer, GE, Boeing, Bunge, Verizon, Intel, to name a few among the large majority thereof, tell us what has recently been taking place, and what managements expect. A large number of managements guided lower growth expectations, seemingly conditioned by the prevalence of double-dip attitudes, while their decisions are geared to higher accomplishments. Take your cue from these — not from the talking heads of television.

It would seem to be better guidance for investors to lift their gaze from DD (depressing disturbances) now that it is giving way to DD (disappearing distractions) as current sources of encouragement. The growing relief from fear that the economy will again falter is a supporting element in its own right. The Greece affair will not have a pervasive depressing effect forever.

It is not about Greece, really; it is about the banking systems (which can not be allowed to fail) and activities of some large trading funds. Greece needs a fix, to be sure, but of itself it is too small to be a major threat to others. Trading activity based on Greek credit is another matter, and a threat that requires stern decisions from supervisory and other interested bodies, European and international. Very little progress has been made since the 2008 fiasco in restoring safety and sanity to banks and to very large trading funds wherever resident. It was as long ago as 1995, after the peso had been savaged by currency traders, that the President of Mexico remarked that Mexico was just the first of small nations to be devastated by the "modern" capital market. No corrective measures followed, nor were any restrictions placed upon traders after the havoc caused from shorting the ringgit of Malaysia and the baht of Thailand rearranged the financial order in the southern rim of Asia. As one knotty aspect of the Greek affair, the banks seem to have been more profligate than the Greek nation. And another concern after Greece: there could be an ongoing yet-another small nation sovereign debt playground for predatory financial fun, as Mexico advised in 1995.

So, as we look beyond the DD's (disturbing dangers) to a world finding its way ahead, we pose several residual questions and considerations for equity investing.

1) Would you prefer (as happening) a slowing of economies, especially in America and Europe, which induces very low interest rates to a more rapid growth rate and much higher interest rates? Do not the extremely low rates, now enforced by central banks, set a proclivity of preference among investors to move from bonds or from cash toward shares of robust enterprises?
2) Can investors recall times (other than those few brief moments of extreme market stress) since 1948-49 when so many shares were so attractively priced relative to alternative securities?
3) Was there ever a time when major American corporations held so much cash, enabling many options for deployment — from purchasing their own shares, to strategic acquisitions, or capital expenditures for expansion?
4) As mergers and acquisitions were a major driving force to the stock market uptrend in the latter 1990's, will the huge acquisitions and combinations of this year, already and prospectively, have similar effect, in combination with other supportive factors (cheap money noteworthily among such)?
5) Is the October rally merely a correction to the over-sold September low points, or another spurt of strength along an enduring uptrend? This is the larger and most primary of questions, to which a positive answer comes in from worldwide circumstances.

Our answers to all five questions are supportive to expectations for shares of most strong enterprises; especially those fortified with cash and supported by assured high dividend yields.

Contemporary circumstances seem to provide a never-before-experienced precept: No matter the fears and expectations — positive or negative — this is the first time in the long career of the writer that bulls and bears would enjoy the same diet. Think about this. It is true. The conservative and the fearful are better served by the shares of many providers of communication services and of electric energy. Their dividend yields obviate rational choice of cash at so little interest yields, or of high quality bonds whose yields (also unduly low) will probably be surpassed by declining prices of principle beginning probably before 2012 moves into history. Also for the optimist, the solid attractiveness of secure dividend yields from enterprises that also provide growth (albeit at pedestrian pace) qualifies such shares for a large platform portion of a diversified investment position. So, the bull and the bear may well inhabit the same quarters, as never before — and much before "the lion and the lamb might lie down and eat straw together". We are not waiting for eternity. We mean now.

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