

Last Big Buying Opportunity Near?

OK, let me get straight to it. There are only three things the stock market can do, and it is likely to do all three in the next few weeks.

First, it can move sideways. This is what has been happening for last couple weeks.

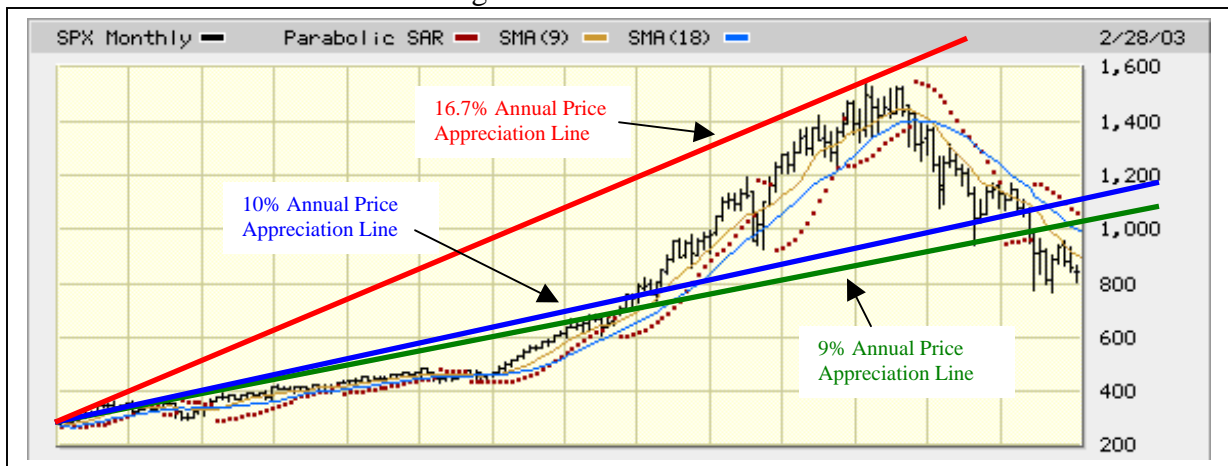
Second, it can go down. You're saying, "Duh, gee I didn't know it could do that!"

And third, it can go up. Yes, I know... three years of a bear market makes you wonder.

If I look forward a month, two months or to the end of the year, I can see a significant probability that stocks are going to head upward. Not only that, but they could do so with alacrity and altitude.

Consider the chart below:

Chart A: S&P 500 12/31/1988 through 2/28/2003



I make the assumption that mature companies generally can grow at about 9-10% per year. Add a 1.5% dividend and the S&P 500 could reasonably be expected to return 10.5% or more per year. This is supported by the fact that the S&P 500 since 1926 has been able to sustain average returns of between 10% and 11%. Only after the 1990's bull market did the average rise to over 11%.

The above chart shows the S&P 500 price chart going back to the end of 1988 through February 28, 2003. To get back to a 9% price growth rate would require a 20.3% rise by the end of 2003 from February 28. To get back to a 10% rate would require a 37.9% increase! Simply to get back to the six-month high (November, 2002) is an 11.6% upturn.

Of course, there are also downside risks. If events go poorly with Iraq or there is a significant terrorist event, the market could dive, at least on a short-term basis.

Regardless, I would expect a short-term dip just before and at the beginning of actual combat. If war is avoided, I would expect an immediate upward response.

As I pointed out in previous reports, there are some similar dynamics afoot as in 1991 and other previous market lows. In 1991, the S&P 500 rose over 20% in less than four weeks after the Gulf War began. It rose over 33% for the year.

There are three ways to play this.

- 1) If you have had an asset allocation plan and have made few changes, stick with it on the premise that the averages will work out positively over time.
- 2) If you have confidence that the stock markets should recover in the near future, consider increasing your allocation to stocks now.
- 3) If you would like to err on the side of being conservative, you can move some money from stocks into intermediate bonds or money markets and be ready to move back into stocks if the markets turn. The difficulty with this one is whether you will be able to be vigilant enough to know when to move. That is why I recommend the MetaTrends private management service, which is designed to make these moves for you. If you are interested, give me a call to discuss it.

Of course, no one knows which approach will be the best. The future is, in fact, unknown. There can be no guarantees. You must decide with which approach you are most comfortable.