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Conservatism Kills

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I am reminded of the old curse, "may you live in interesting times". 1999 did not disappoint. The numbers shook out like this: NASDAQ up 85.5%, Dow Jones Industrial Average up 25.22%, S&P 500 up 19.53%, the average value stock fund up 7.5%. Notice the trend here; it is relevant. The deeper and wider you stray from the technology darlings the lower the returns.

How about bonds. Investment grade corporate bonds *fell* 1.89%. Municipal bonds *dropped*, on average, 6.34%. Long term treasury bonds *plummeted* 15.13% for the year. These returns (or lack thereof) <u>include</u> the interest that was paid last year.

What is going on you say. Aren't bonds supposed to be the last refuge for safety? How could someone lose money on a bond that is guaranteed by the taxing powers of the federal government or municipalities? Answers: Yes. Supply and demand (read: greed).

There is a fundamental shift taking place from asset allocation to investment concentration. Individual investors (and I do mean individuals) are abandoning long held strategies of conservative, well diversified holdings to chase the dream. The internet has brought stock trading to the family room. Feedback is instantaneous; gratification immediate. I listened to a fund manager on TV this week take a call from a disgruntled investor who had held a stock for two months. It hadn't moved and he was growing impatient and wanted to sell. The stunning part was that the manager agreed. Long term is now apparently defined as two months.

Bond holders, no longer content to sit and be paid 5-6% on their money, are rolling out of bonds as they mature, not into new bonds, but into stocks.

America Online, a stock priced at 200 times its earnings per share, uses its stock to buy media mogul Time Warner. Who needs cash when you have *equity*.

How will it all end? The way it always does. In the words of an old stock market adage; bulls make money and bears make money, but pigs get slaughtered. Bring on the bacon.