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The New Normal

I love Wall Street research, and I especially love the descriptors they come up with to differentiate various situations. The most famous, often-used, and erroneous phrase is, "This time it's different." Time and again, here comes this mantra to justify pricing bubbles in stocks, bonds, gold, what-have-you, and it is a sure sign something is wrong because it's almost never different. The current favorite is "The New Normal," chosen, for example, by the folks at Pacific Management to describe our economic paralysis: very low growth prospects together with high unemployment and low interest rates.

No need to argue with that description . . . it's a summary of reality. Labeling it "normal," however, has overtones of permanence and inevitability I can't accept. I bristle at the notion that this is all we can or should expect. These scenarios arrive, evolve over time, and go, more like seasons than a serious shift in climate. What's true is that "normal" must not equal "static." Let's acknowledge that we are moving forward, if haltingly, and the prospect of a double-dip recession is receding.

Consider the month just past. I was bold enough to suggest that September might be a better month for investing than it has been historically, and that's how it turned out, the best September in seven decades, in fact. The fear and anxiety people have had about investing in stocks has begun to dissipate. Bit by bit, investors are showing themselves willing to stick their toe back in the water, producing a somewhat different atmosphere on Wall Street, where prices have been either relatively stable or actually rising over the last 30 days.

This current "normal" presents some interesting investment choices. A number of companies with household names like Kraft, DuPont, Procter & Gamble and its British counterpart Unilever are selling at reasonable prices. These are large companies, stable companies with admirable management teams. They're paying dividends ranging from 2.5% - 4% at present prices, reasonable and attractive values, and I've been adding them to portfolios over the last month.

Another interesting investment area just now arises from the status of interest rates . . . very low and being kept low by the Federal Reserve. Low rates usually foster borrowing and greater consumer activity by individuals and corporations. "This time it's different," yes, because everybody has a wait-and-see attitude. Caution is a virtue, but the effect just now is to slow an already sluggish economic acceleration. Interest rates will go up as the economy recovers because there will be more demand for loans from individuals and corporations. If we don't have that demand, we will not be experiencing a recovery. But when that happens, pain follows, localized in bond funds: as rates increase, the value of bond funds decreases. Convinced that this increase is inevitable, I have sold some bond funds recently.

The condition our nation is in, beyond the marketplace, is not good but neither is it insurmountable. The first step is to start taking responsibility for what we have and have not done. We have spent money we don't have. Our dependency on foreign oil is crippling. The size of our war machine is obscene. Insert your own Halloween horror here, perhaps the stunning problems associated with our aging population. If this defines the "new normal," hard work and hard decisions lie ahead.