Was Getting The Call Right in 2008 A Good Thing?

Having been a portfolio manager for almost four decades I was impressed that many, if not most, investors got the call right in 2008. They got out of the stock market. Also, I was equally impressed that many financial advisors made the recommendation to their clients to get out. It is not often when the consensus gets it so right. On the surface it appeared to be a great call amidst the whirlwind of uncertainty and extreme market volatility. Finally, out of the market and getting a good night's sleep.

As a serious student of the market and at heart a contrarian, I have been conditioned to take particular notice when I see the vast majority of investors moving in the same direction. Prior to 2008, the most notable example was during the height of the infamous tech bubble in late 1999. During 1998 and 1999 investors were pouring money into tech stocks. The largest monthly fund inflows driven by technology mutual funds took place in February of 2000, a month before the tech bubble burst. The similarity of investors' behavior in 2000 and 2008 is that in both situations they moved with strong conviction in grand scale. What was strikingly different were their attitudes a year later. Obviously, the tech buyers of 1999 were not a happy lot. But the stock sellers of 2008 were not only extremely pleased with their "sell" decision but elated. They sensed something was wrong and got out, and the market continued lower. They got it right…….or did they?

As I mentioned, I have been in the business of managing portfolios for a long time. What I have learned is there is not just one aspect to an investment decision. There is a second aspect which is the validation of the decision. To explain further, the validation of a "sell" decision to get out of the market is then the corresponding "buy" decision. If an investor sold in 2008, the validation comes with reentry into the market. Recent data indicates as many as 70% of individual investors still have not moved back into the market in a meaningful way. Now to complicate things more is the psychological issue these investors have to deal with of having gotten the call right in 2008. This gave them an artificial sense of competency. The dilemma most faced is they never validated their decision to get out of the stock market by buying back in. Subsequently, the market has not only completely recovered but has moved substantially higher.

Another thing I have learned about investing is one's ego can be the worst enemy. There are times we all must admit we are wrong and cut our losses. The seasoned professional understands this and will not hesitate to make a very difficult decision knowing validation comes with the territory. The non-professional is inclined to hold a losing investment too long because of having to admit he was wrong. I have to admit if I got out of the market every time I felt uncertainty I would not be in much. The market does seem to climb a wall of worry.

Now for the big question: is it too late to get back into the market? It is not, but think globally. The investing world has changed within an evolving global economy so one should not focus solely on the U.S. There is a global demographic phenomenon taking place right before our eyes which is creating opportunities beyond our shores. India and China now have 2.6 billion people compared with 313 million in the U.S. They are a big part of a global middle class expected to grow from 1.9 billion to 4.9 billion people over the next 15 years. These and other emerging countries have tasted a better life and want more of it which is breeding a powerful consumer class. This certainly creates great opportunity for U.S. companies but also companies all over the world. Participating by investing in this global phenomenon has real long term potential.

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