

Ignore the folks who say "It's Different This Time"

It's never different, though there are times when some of us are tempted to believe there are good reasons to think that dramatic changes taking place demand a new mindset.

Remember the New Economy of 1999-2000. Those were the good old days when things like profit and loss statements and balance sheets no longer mattered. Concepts were in. Sensible analysis was out. It was a time when we as advisers ended up in most uncomfortable situations. Clients wanted to own whatever hot issues they had heard about, regardless of the underlying fundamentals. Whether or not companies were making any money was of no importance. It was the ideas that counted.

For those of us who kept our heads screwed on right, our efforts to maintain some semblance of sanity by focusing on time-tested themes such as consistent growth of profits and strong financials often fell on deaf ears. Why buy the Steady Eddies when "investors" wanted whatever they thought was likely to be up 10-fold in the next few weeks?

Fast forward a couple of years and those same people found themselves looking at a graveyard of story stocks whose last chapters had already been written. Their market quotes, if any, were often pennies, not hundreds of dollars per share. Which is a good part of the reason why the first decade of the new millennium was little more than marking time for the major market averages.

So here we are again with an increasing number of Wall Street sages saying there's more to come while others are becoming more concerned that this nonstop climb upward needs a breather. As before, some of the better-known gurus have begun to raise their targets for the year rather than being in the awkward position of having targets that are below the current levels. May I respectfully remind them that the market goes up . . . and down. Indeed, in most years, there's a correction of at least 10% over the course of the year.

There's every reason to think that the market's near-term path of least resistance is down. Several interest rate hikes are likely before yearend. North Korean missile tests continue as does the lengthy battle in Iraq. And you can bet that there will be geopolitical developments none of us can imagine.

What's more, legislative struggles in Washington are beginning to heat up and the realities of what the new administration has brought to town are coming into focus. Although there seems to be little question that the logjam in the Beltway needs to be broken, one has to wonder whether what has taken place during the honeymoon period brings promise of better or worse ahead. Stay tuned.

The critical issue is what always bugs investors: uncertainty. As prices move higher, the bet is increasingly on the best possible outcome. The problem is that sensible investing thinks in terms of the most likely outcome, largely shaped by historical patterns and understanding of metrics that do not require the assistance of IBM's Watson. From this vantage point, a note of caution appears to be worth considering.