

Research Comments

Interesting Facts

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From time to time we run across information so profound that we deviate somewhat from our more traditional articles in Research Comments. Such is the case this quarter. This not only gives my brain a breather, but it also might provide you with some interesting facts. I was recently doing some research for a presentation to the University of Arkansas Honors Portfolio Management class when I came across some information that, to me at least, was truly profound. Consider for a moment the following facts:

The average mutual fund equity portfolio manager was a junior in college during the 1987 stock market crash. (1)

87% of today's mutual fund assets were committed to the market during the last 7 years. (2)

Only 15% of current brokers were in the business in 1987. (2)

Net cash flow to domestic equity funds through 9/30/97 exceeded the same nine-month total for last year. (2)

Individual investors have sharply eased contributions to global and international funds, but no major switch in allocation from equities. (2)

More than 1 million households were estimated to have been tuned in to CNBC on 10/27/97 during the latest market correction. (2)

The greatest post-war explosion in net worth has occurred during the last three years. (2)

Six of the 30 largest corporations in South Korea have filed for bankruptcy. (2)

The Korean won has dropped 18% against the dollar this year. (2)

(1) Carl E. Pellegrini – Analytics, Inc.

(2) DLJ Portfolio Manager's Weekly 12/12/97.

We might conclude several things from these observations. There are a high number of tremendously young individuals who are at the helm of the most robust stock market on the globe. These youngsters manage a huge concentration of "new money" from individuals who continue to throw ever-increasing sums at 30%+ equity returns. They may have forgotten for a moment, or longer, that long-term stock market average returns approach only 10%, with significant down-years strewn about for humility.

Further, neither the captains or passengers of this, our potential Titanic, have truly experienced a bear market: the kind of bear market that shakes your soul and causes you to question the very foundation of your policy beliefs and investment style. In short, seasoned veterans are not at the helm. However, this does not mean necessarily that we have charted the wrong course. Of more concern to me is the reaction of our passengers when we have to chart a new course and when they are informed that they may not arrive at their self-appointed destination on time. How will they react during a protracted bear market? That will be the true acid test.