

Stocks Bite the Big One

By [The Mogambo Guru](#)

02/07/05 Is a secular bull market inevitable? Mogambo wants to know. He looks at the last bear market in stocks and concludes: if you bought stocks in 1969, you'd still not have made your money back. Sounds unlikely? It's not...

I see cycles in everything...

Invisible FBI guys riding around my house on their invisible bicycles – which is not exactly the same thing – and I can also see invisible government helicopters hovering over my house, and over YOUR house too, but don't tell them I tipped you off.

But, Jeff Ferguson defines a short-term cycle as something that lasts two to four years, as opposed to a secular (30 to 40 year) cycle, in his essay, "Is a Secular Bear Market Inevitable?"

He writes, "Contrary to a common belief, equities didn't simply move sideways through the 1970's before moving to new highs with the great bull market starting in 1982. This illusion is caused by the inflation, which plagued the period. Deflating the S&P 500 with the CPI reveals that the market peaked in 1969, not 1973, before falling 64% over the subsequent 13 years, ultimately bottoming in 1982."

I will pause there to let the significance of that seep into our brains, as I am not sure that I comprehend the full significance, although there are several rude audience members who can't restrain themselves, and who blurt out that I am such an idiot that I can't comprehend the significance of a twist-off bottle cap, which is probably true, but beside the point.

Social Security Privatization : Adjusting For Inflation

But if they had privatized Social Security in 1969, how would you feel if your retirement had lost 64% in buying power, as you got poorer and poorer, until 1982? In effect, you can afford to buy slightly more than a THIRD of the basket of stuff you could have bought in 1969!

But it gets worse than that! He goes on to say, still adjusting things for inflation, "Stock prices failed to exceed the 1969 peak until 1993, 24 years later, and didn't move convincingly through the 1969 level until 1995." That's 26 freaking years in a row that you failed to break even in the stock market, i.e. before the 1969 level was reached. And how long will it be before the guys who bought at the exact bottom actually make a profit? Don't ask.

I know what you are thinking: "Wow! The Mogambo was right! When adjusted for inflation, stocks bite the big one (BTBO) from time to time, like all the other investments BTBO from time to time!"

If you were really thinking, and not sitting there on the couch sucking down another beer, you might even say, "Hmmm! Let me see! The Mogambo was right that there are long periods of time when stock are NOT going to increase your actual, inflation-adjusted wealth! And right now the stock market is still waaayyyYYYYyyyy higher than it has been, and is very, very expensive, and so is this really the best place to be putting my money right now?"

But can it get worse than that? Yes. I close my big blue Mogambo eyes (BBME) and I concentrate, concentrate, concentrate, and I am tapping into your brain, probing your subconscious, and I can tell that you are asking yourself, "How can it get worse than that?"

Social Security Privatization : It Can Get Worse

Well, for instance, I could come over there and try to borrow your barbeque grill, and then keep getting in your face until you just give me the damn thing just to get rid of me. I am sure you agree that would be worse!

But the authors were probably not referring to that. And sure enough, they go on to say, "At this point the weary, and rather aged, investor still faced capital gains taxes on a phantom 300% gain wholly due to inflation. Covering this tax liability likely extended the true recovery period to within shouting distance of the bear market in stocks beginning in 2000, the most recent peak in equity markets."

So, net of inflation, and net of taxes, the investing dudes and dudettes in 1969 NEVER actually showed a profit from their investing in the stock market! And the two authors did not even mention the fees and commissions and costs that their hypothetical investor would have had to pay to the greedy, grubby financial services industry all these years, nickel-and-diming you to death, including "inactivity fees" which you have to pay because you don't do enough trading to suit the guys who charge you fees for that trading.

And, depending where you live, they neglected to deduct state taxes on the gains, and/or the value of the holdings! What a racket! And they call this "investing" Hahahaha!

And now we are talking about putting Social Security money into privatization? The Mogambo tilts his head back and roars, which sounded a lot like "hahahahaha!" only with more spittle and an unmistakable undertone of contempt.

But of course the privatization of Social Security, or some tamer variant, will be passed, or they will simply increase taxes, or reduce benefits, or all three, as there is no other way. We are here with a gigantic, bankrupt system, strictly attributable to the stupidity of Congressional boneheads, which not only ratified FDR's New Deal idiocies in the 30's, but kept expanding them, year after year after year, letting more and more people gobble money from the Social Security fund, and increasing-increasing-increasing benefits for current beneficiaries.

And when that predictably caused shortfalls, they increased the Social Security tax, adding the Medicare surtax, and then spending spending spending the resultant Social Security Trust Fund surpluses. And now here we are again.

The Congress that we have now is more stupid, arrogant and corrupt than any other in the history of Congress, the Leftist morons on the Supreme Court have destroyed the Constitution by letting them do it, and a brain-damaged Federal Reserve has provided every dime of financing for the whole enchilada and destroyed the dollar for their efforts. Since nothing has changed, except to get worse, I am sure that taxes are going to be increased. Again. And again. And again. Ugh.

The Mogambo Sez: Too many forces are in play, and like any system with too many variables, unintended consequences will erupt. And it will be bad news all around.

Regards,

The Mogambo Guru
for The Daily Reckoning
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