

STREET LIFE

Grim and Bear It

Despite the occasional upticks, this columnist believes the bull market is over. Way over.

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By Andy Serwer



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Get over it! The bull market is dead. Way dead. How do I know? It's right there roaring in your face. Sure, the market has rallied a bit lately, but that's what happens in bear markets. Stocks drift down week after week, then pop up and tantalize, then fall again some more. Don't believe me? Go look at a 2 1/2-year chart of the S&P 500.

It's true we're living in singular times, but if you strip away al Qaeda, dirty bombs, and the Middle East, what you're left with is a classic bear market. That's not even the bad news. The bad news is I think this bear is going to be growling at us for years. I know, I know. Sounds depressing as hell, but it's actually refreshing to have reality smack you upside the head. You want reality? Since peaking in early 2000, the Dow is down 17%, the S&P is off 32%, while the Nazzie is a staggering 70% lower.

Do you know the difference between so-called cyclical and secular bear markets? The former is really a bear market in the middle of a bull market, like 1990 sandwiched inside the incredible bull run that lasted from the early '80s through 2000. A secular bear market, by contrast, is where the bear is the dominant beast. Any moves to the upside are just hiccups. That's what happened in the 1970s, and, it seems, is what's happening now.

Oh, they'll tell you, "Stock prices have come down. It's time to buy." But, of course, earnings have come down too. In other words, stocks ain't cheap. Yes, the economy appears to be recovering. But even the captain of the cheerleading squad, Alan Greenspan, is calling it a pedestrian recovery. David Hilder, bank analyst with Bear Stearns, notes, "The economy is still producing \$5 billion of nonperforming commercial loans per quarter," up from less than \$2 billion a quarter two years ago. Hilder expects improvement next year, but who really knows?

In bear markets analysts tend to slice, dice, and saute numbers until they create a

bullish scenario. A recent Wall Street Journal article cites a study by Birinyi Associates noting that many, mostly smaller stocks have done quite nicely over the past 30 months. Fair enough, but who is nimble enough to dance in and out of stocks like Tweedlestick and Burritofish? (Please don't ask for tickers. They aren't real!) It's not as if they are the kind of stocks you stick in your portfolio and forget about for 20 years. They just happened to have been cheap. "Where," asked Morgan Stanley's Barton Biggs recently, "have all the growth stocks gone?" Not surprisingly, the ever bearish Biggs says they are nowhere to be found. For once, I agree with him.

In fact, Biggs' colleague Steve Galbraith points out that small-cap value stocks are already no longer cheap. "Valuation discrepancies have almost been fully reversed," he says. Galbraith concludes that we are essentially stuck between a TMT rock (as in technology, media, and telecom) and a value-stock hard place. Neither group is growing particularly fast, and neither is priced well. Sounds like a recipe for a go-nowhere market to me.

There are anecdotal signs too. My favorite is the latest book by the Gardner brothers, the self-proclaimed Motley Fool. The title is *What to Do With Your Money Now: Ten Steps to Staying Up in a Down Market*. The book's jacket modestly describes the slim volume (how appropriate) as a "witty, instructive, and indispensable survival manual for hard times." This from the court jesters of the bull market!

Of course, there are those who are saying right now, "Aha! The Fool is bearish and Serwer is bearish--must be time to buy!" Could be. And that's why this column can't lose. If I'm right, I can say I told you so. But if I'm wrong, then we'll all be fat and happy again. Trust me, I'd much rather be drinking Dom and nibbling foie gras. But, sadly, methinks we're destined for mac and cheese.

Biotech's Bumpy Ride

Like just about everything else, biotech has had a rough go of it lately. What with ImClone and some big misses by a few critical drugs, it's hardly surprising that the stocks have been sliding. The total market capitalization of biotech companies has fallen from nearly \$500 billion in early 2000 to about \$255 billion today. But unlike in other battered sectors, hope is very much alive in biotech. Says G. Steven Burrill of investment bank Burrill & Co.: "Biotech has 350-plus drugs in later-stage clinical trials. And despite all the trials and tribulations with the FDA, many of these products are destined for a bright future." The market falls in and out of love with biotech seemingly every other year, says Burrill, and that makes it a buying opportunity now.

I say go easy. Despite the stock selloff, I sense a bit too much enthusiasm. Toronto recently hosted a world biotech conference flush with lobbyists for cities vying to attract these companies. Nothing wrong with that, I suppose. Some of the companies might be winners. It's just that there are too many companies with too many dollars chasing too few breakthroughs and too few drugs.

Loose Change

Besides the gold-laden Amex, what's the only major market index up year-to-date? How about the Dow Jones transportation index, ahead by 1.3%? It's not airlines, natch. Railroads and trucks are carrying the freight. Watch Andy on CNN and CNN Headline News.