Market Timing Also Stumps Many Pros

YOUR MONEY MATTERS

By Joan R. Domnan
Staff Reporter of THE WALL STREET JOURNAL

Individual investors often imagine that the Wall Street pros must know how to start
between stocks, bonds and cash — in other
words, how to time the markets so they profit
when prices soar and hang on to gains when
prices dive.

Don't bet on it.

For 10 years now, The Wall Street Journal — with help from Whistler Associates of Saloma, Call, and Capen
er Analysis Services of Hanover, N.J.— has
studied the asset-allocation advice of strategists at the nation's largest brokerage
houses. Asset allocation is the art of
dividing an investment portfolio among stocks, bonds, cash and other alterna-
tives.

A decade of results throws cold water on the notion that the strategists exhibit any special ability to time the markets. According to Robert Capen, president of Capen Analysis, the strategists' average annual gain from market timing is a mere 0.8%. That's the extra return
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Strategists at six of the eight firms agree the robot over the 10-year period, but not
for a good deal. Large, they did do not by market timing but by habitually
recommending more stocks than the robot does.

Today, the people who have done best in the study, for various time periods —
B. Smith of Prudential, the team of
Damian and Abby Cohen at Gold
man, Sachs & Co., and Jeffrey Applegate of
Lehman Brothers Inc., a unit of Lehman
Brothers Holdings Inc. — have remarkably
similar outlooks. They all say that stocks
should provide a return of 10% to 12% in
1997. They all derive that return by figur-
ing on two percentage points from divi-
dends, plus capital appreciation that mir-
rors an expected 8% to 10% rise in corpo-
rate profits.

Mr. Smith of Prudential is the 10-year
leader, with an estimated return of 25%.
His stocks thrusts in the red-hot stock market of the late 1980s paid off, even
though he was recommending a 90-10 stock position at the time of the 1987 crash.

"It's not like I'm always in love with stocks," Mr. Smith says. "But most of the
time I am, and so far I've been right."

Today, Mr. Smith's 90% stock position
is the largest in the crowd. He thinks it's
important to remember that most major
U.S. corporations are multinational these
Days. "As long as they can continue to penetrate other economies, especially de-
veloping economies, they can produce 10%
profit growth even if the U.S. economy grows 3.5%," he says.

The five-year leader is Goldman Sachs, where Mr. Einhorn and Mr. Cohen are a
two-person strategy team. Goldman rec-
commended only a 30% stock position dur-
ing the bear market of 1990, but it has
invested a heavy weighting of stocks
since mid-1993. Currently, it urges inves-
tors to hold 60%-65% in stocks, 25%-30% in bonds, 7% in cash and 5% in commodities.

Mr. Einhorn notes that 1996 was the
fifth consecutive year that corporate
profits have grown. Such a streak has
occurred only one other time since World
War II, in 1946-47. "If we're correct," he
says, "1997 will be the sixth consecutive
year of rising profits, unprecedented in
the postwar period."

The leader for 1996, for the fourth
quarter, was Mr. Applegate of Lehman. On
Jan. 22, Mr. Applegate trimmed his stock
almost 30%, but ended the year with a
nearly 30% rise in capital. -

Who Has the Best Blend?

Performance of asset-allocation blends recommended by 14 major brokerage houses in
periods ended Dec. 31, 1996. Figures do not include transaction costs. Houses are ranked
by 12-month performance. Also shown is the mix each house now recommends.

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Lehman predicted an 11% stock-market return in 1987. For a while, Mr. Applegate says, it looked as if that return might be "achieved in the first three weeks of the year." Lately, the tide has gone out.

But Mr. Applegate says, "We still have the view for the year that stocks will beat bonds and both will beat cash."

One reason for his optimism is that he sees the Federal Reserve as being "on hold" for the year. With the economy likely to grow at only a 2% clip, he says, there is no need for the Fed to raise interest rates — a step he says would badly trip both the stock and bond markets.

Though the "past leaders are all bullish, several others are more cautious. At Travelers Group's Smith Barney Inc., William Hamman is recommending only 50% in stocks. At Salomon Inc.'s Salomon Brothers, David Shulman suggests only 40%. And at Merrill Lynch & Co., the biggest brokerage house of all, Charles Cough recommends only 60%, consisting of about 20% U.S. stocks and 14% foreign stocks.

"We're the first to admit we've been wrong. We got off the bull market too early," says Mr. Cough. Still, at this point, he thinks a slim commitment to stocks and a lot in bonds is the right way to go. "The underlying support [for stocks], which has been earnings," is enough to sustain, Mr. Cough says. "We're looking for a few more years in the U.S. stock market this year, from plus 5% to minus 3%," Investors should look abroad, he says. "Hong Kong is our favorite." South Korea and Thailand have been bargains, but profits potential in Brazil and "we are starting to fight back" in Mexico."