Investment U

This Contrarian Indicator is Ringing Like a Fire Alarm

by Alexander Green, *Investment U's* Chief Investment Strategist
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In his new book, *The Great Crash Ahead*, self-styled "economic futurist" Harry Dent warns equity investors to cup their groins.

Stocks, he declares, will "crash to between 3,300 and 5,600 on the Dow by the end of 2013, or 2014 at the latest… Hold onto your life jacket and climb into the lifeboat. The next few years and the next decade will be the most challenging you have ever seen or will see in your lifetime."

This is great news for stock investors. Terrific, really. Let me explain why.

History shows that Dent has a gift for getting the big macro picture completely backwards. I've written about Dent's failed market predictions before. But let me bring you up to date.

In 1999, near the tail end of the longest and most powerful bull market in U.S. history, Dent brought out his book *The Roaring 2000s Investor*, confidently predicting that the Dow would hit 44,000 by 2008. He was off by 35,000 points or so.

Dent also argued forcefully at the time for Nasdaq stocks – the worst investment you could make in the New Era bubble – and predicted "the technology revolution will favor internet-oriented companies."

Within three years, the Nasdaq lost three quarters of its value and the leading index of internet stocks plummeted 89 percent.

Ouch.

In retrospect, it's obvious just how wrong Dent was. But during the internet mania, plenty of brokers and investors agreed with him. He sold thousands of books and raked in big bucks as an adviser to top Wall Street firms, including Morgan Stanley.

Bloodied but unbroken, five years later, using his same "demographic trends theory," Dent published *The Next Great Bubble Boom: How to Profit from the Greatest Boom in History: 2006-2010.*

Well, no. That period encapsulated a full-blown financial crisis and the biggest stock market bust since the Great Depression. In the book, he argued again that the Dow would hit 40,000, this time by 2009. The benchmark plummeted to less than 6,500 in the spring of that year instead.

With a track record like this, you might imagine Mr. Dent would get out of the economic prognostication game and think about, say, flipping pancakes or running a daycare center. But no, near the market bottom two years ago, he unleashed *The Great Depression Ahead*.

Within weeks of the book's publication, the financial crisis began to ebb, the economy moved out of recession and the Dow began one of its most powerful rallies of the last 100 years. Corporate profits hit an all-time record. And within two years, the S&P 500, with dividends reinvested, doubled.

Alexander Green, Chief Investment Strategist

Alexander Green is the Chief Investment Strategist of *Investment U*. A Wall Street veteran, he has more than 20 years of experience as a research analyst, investment advisor, financial writer and portfolio manager.

Mr. Green has been featured on The O'Reilly Factor, and has been profiled by The Wall Street Journal, BusinessWeek, Forbes, Kiplinger's Personal Finance, C-SPAN and CNBC among others. ***Learn More...***

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The Greater Depression? It's still M.I.A.

You have to admire Dent's pluck, if not his luck. This is a man with a penchant for getting the big picture spectacularly wrong. And – giving hope and comfort to equity investors everywhere – he now predicts a stock market crash is dead ahead.

Is this truly good news or am I just having fun? Well, both.

In 1995, two finance academics, Campbell Harvey and John Graham, looked at the performance of 236 strategies from 132 investment newsletters. Their discovery? Fewer than 35 percent of the investment letters achieved long-term returns that matched the return of simply buying and holding the S&P 500.

There was one extraordinary finding, however. The performance of some gurus was absolutely horrid, lagging the market by 10 percent to 40 percent *per year*.

Harvey and Graham concluded that the worst market forecasters are so miserable that their performance could not be attributed to chance! (In other words, it didn't seem possible to get it *that wrong*.) They pointed out that you could prosper mightily by doing the *opposite* of what these gurus recommend.

So a sophisticated investor might note Harry Dent's new take-no-prisoners forecast… and immediately go long stocks.

There are plenty of contrary indicators…

- The put/call ratio.
- Short interest.
- Mutual fund flows.
- Investor sentiment.
- Consumer confidence.
- The odd-lot indicator.
- And so on…

But Mr. Dent appears to occupy a special place on Mt. Olympus… or at least Mt. Rushmore.

Yes, yes. I know. Even a blind squirrel can pick up an acorn sometimes.

Still… I thought you deserved to know.

Good investing,

Alexander Green

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