February 10, 2005

Mark Haines, Host:

We're back. Stock futures indicating a higher open today on some telecom M and A buzz, as well as some better-than-expected numbers on the trade front. Deficit narrowing to about fifty-six billion dollars.

Today's word on the street has been bullish for the past two years, but he says oh-five may be a bump in the road to prosperity. You get real tired of this. Tired of all you guys coming in here, and saying, "Look out for the bumps in the road," but that's what they say. Say it's a love affair with stocks, or adoration phase, was short-lived, and we will hit an interim low over the next month or so.

Joining us now, Woody Dorsey, behavioral strategist and founder of Market Semiotics, what he talks to us about the, uh, seven stages of a bull market, uh, in the past.

So, which of those seven are we in now?

Woody Dorsey, Founder, Market Semiotics:

Well, we're saying that we're in the adoration phase, which really just means that people are kind of, you know, in love with the market again. I mean, nobody wanted to buy it a couple of years ago.

Haines:

Yeah?

Dorsey:

And, so, one of the things that behavioral finance tells us is that investors make mistakes—we all do—and one of those tends to be overconfidence. So, the issue now, is things are looking very, very rosy.

Haines:

Where do you get, uh, reading—

Whoa—whoa—whoa. The adoration phase is at the top, Woody.

Dorsey:

Yes.

Haines:

It's the last phase in that—

Dorsey:

That is correct.

Haines:

Oh, this is even worse than I thought. *[Laughs]*

So, you think—you think we're at a—at or near a top.

Dorsey:

Exactly. And I think the market is gonna be—is gonna be correct. But the—the—the—the basic idea is the next eight percent, or ten percent, is probably down, rather than up.

See, the problem is, is that it's like golf. It's people sitting on the tee. You're swinging the club, and all you wanna see is, "Well, is my ball on the green, or in the hole?"

Haines:
Right.

Dorsey:
Right. So, we focus on the rosy future. And, as opposed to focusing on—on where we are, positional-wise. And now, you have all this—you have high optimism, you have M and A, IPOs, you have democracy in Iraq, you have peace in the Middle East.

Haines:
Mmm.

Dorsey:
You have a lot—a lot of positives are built into financial culture.

Haines:
Well, all of that is true, but, you know, you don't see the market averages, for example, uh, blasting skywards, so I don't see—there are reasons to be optimistic, I'm not arguing that at all, but I don't see the market following through on them, so maybe things aren't as rosy as—as they might appear to you.

Dorsey:
And—and I think that's absolutely a perfect interpretation, is that this is a more complacent kind of humdrum adoration than we had, for instance, in Q one of two-thousand. So it's a different kind of adoration. Nevertheless, the market is vulnerable to negative surprises.

Haines:
I'm getting the feeling I'm not gonna be able to win this one with you, right? No matter what I say, it's gonna be bad.

Dorsey:

Well, lemme put it this way: ‘cause everybody is on the tee, and they think it’s a par two. It’s a par six. That’s what we’re facing.

Joseph Quinlan, Managing Director, Chief Market Strategist, Banc of America Capital Management:

Woody, you said—

Dorsey:

That’s the way to approach it.

Haines:

All right.

Quinlan:

Your seven stages, I mean, how—how long is this cycle? Typically? I mean—

Dorsey:

Well, this, you know, two, two-and-a-half years. I mean, the same thing happened, uh, from the lows in nineteen-ninety-eight, you had a two, two-and-a-half year rally. So the market is mature, here.

Joe Kernen, Reporter:

There could never be a par two if you’re on the tee, you’d have to be—the tee would have to be the green. So, that just cheats it right there, ‘cause that’s—you get two putts for regulation. So, that’s impossible.

Dorsey:

Right. Well, that’s what I’m saying. It’s a metaphor. It’s a metaphor that the market looks to easy to do a lot better right here, and it’s probably—

Kernen:

The tee would have to be the green.

Dorsey:

Well, a couple a—a couple of whips in there, you are.

Kernen:

[Laughs]

Haines:

Joe, that's his sacred cow. He—he thinks—

Kernen:

Well, I just heard that.

Haines:

He thinks golf is a sport.

[Laughter]

Haines:

Um…instead of a game. So, what should people do?

Dorsey:

I think that people should basically be aware that the market can disappoint, and they should raise cash.

Uh, it's what I call—it's the time period, what I call the Petrella *[phonetic]* Portfolio, which is my friend, Bob Petrella. Go to Florida, work on your tan, raise cash, play a little golf.

Rebecca Quick, Reporter:

Are you saying—

Dorsey:

And if the market backs up ten percent, buy it.

Quick:

Are you saying hide it in the mattresses?

Dorsey:

Well, I think the money market—

Quick:

Is this really what we should be doing with the money right now? There's gotta be a way to make money on this.

Dorsey:

Well, and one can be a little bit sure, but I think the basic issue is not to be completely trusting of how good things look, right here, in the near term.

Haines:

Mmm.

Dorsey:

You know, it's interesting. Even, uh, the two-year has backed up to three, three-thirty. Uh, that's a—that's a three-thirty return.

Quick:

But even as we're watching the major averages not do a whole lot, there are a lot of stocks that have seen the market capitalization double, just in six months' time, or so. Aren't there ways that you could be picking these winners?

Dorsey:

Well, one—one can, but my specialty is not saying, “Well, this—“—there’s always stocks that are gonna be great, and that’s where your individual, fundamental analyst will come in and help you.

What I’m saying is financial culture is sort of pressed up against the—the ceiling, right here. That’s my message.

Haines:
Fair enough. Fair enough. Okay.

Um, Woody, thank you very much.

Dorsey:
Thank you.

Haines:
Appreciate it.

Woody Dorsey, behavioral strategist and founder of Market Semiotics.

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