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# The Death of Equities, Revisited

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A recent article appearing in the *Financial Times* caught our eye—or perhaps we should say ear. At first glance it was unremarkable—just one among dozens of recent think pieces suggesting that investors were losing interest in stocks as markets around the world continued to stagnate.

But the tone of the article sounded remarkably familiar. We dug out our copy of the "Death of Equities" article appearing in *BusinessWeek* on August 13, 1979, to have a fresh look. Similar? You be the judge:

***BusinessWeek*, 1979:**
"This 'death of equity' can no longer be seen as something a stock market rally—however strong—will check. It has persisted for more than ten years through market rallies, business cycles, recession, recoveries, and booms."
***Financial Times*, 2012:**
"Stocks have not been so far out of favor for half a century. Many declare the 'cult of the equity' dead."

***BusinessWeek*, 1979:**
"Individuals who are not gobbling up hard assets are flocking to money market funds to nail down high rates, or into municipal bonds to escape heavy taxes on inflated incomes."
***Financial Times*, 2012:**
"The pressure to cut equity exposure is being felt across the savings industry. … In the US, inflows to bond funds have exceeded equity inflows every year since 2007, with outright net redemptions from equity funds in each of the past five years."

***BusinessWeek*, 1979:**
"Few corporations can find buyers for their stocks, forcing them to add debt to a point where balance sheets seem permanently out of whack."
***Financial Times*, 2012:**
"With equity financing expensive, many companies are opting to raise debt instead, or to retire equity."

***BusinessWeek*, 1979:**
"We have entered a new financial age. The old rules no longer apply." —Quotation attributed to Alan B. Coleman, dean of business school, Southern Methodist University
***Financial Times*, 2012:**
"The rules of the game have changed." —Quotation attributed to Andreas Utermann, Allianz Insurance

***BusinessWeek*, 1979:**
"Today, the old attitude of buying solid stocks as a cornerstone for one's life savings and retirement has simply disappeared."
***Financial Times*, 2012:**
"Few people doubt, however, that the old cult of the equity—which steered long-term savers into loading their portfolios with shares—has died."

When the first "Death of Equities" article appeared, the S&P 500 had underperformed one-month Treasury bills on a total return basis for the fourteen-year period ending July 31, 1979 (107.0% vs. 119.6%, respectively). Was buying stocks in August 1979 a smart contrarian strategy? Yes, but only if one had the patience to stick it out for years. Imagine the frustration of an investor who had been counseled to "stay the course" in response to the "Death of Equities" article appearing in August 1979. Stocks did well for a while, jumping over 27% from August 13, 1979, to March 25, 1981, when the S&P 500 hit an all-time high of 137.11. But by July 31, 1982, stocks had given back all their gains, and the S&P 500 was almost exactly where it had been nearly three years earlier. As of July 31, the S&P 500 had extended its underperformance relative to one-month Treasury bills to seventeen years (total return of 150.5% vs. 213.6%).

Imagine this same investor arriving at her financial advisor's office on Friday, August 13, 1982, with a three-year-old copy of *BusinessWeek* under her arm. Stocks had drifted lower in the preceding weeks, and the S&P 500 had closed the previous day at 102.42. "You told me three years ago to stay the course, and I did," she might have remarked to her advisor. "It hasn't worked. Obviously, the world has changed, and it's time I changed too. Enough is enough."

We suspect even the most capable advisor would have faced a big challenge in seeking to persuade this investor to maintain a significant equity allocation. For many investors, seventeen years is not the long term, it's an eternity.

Superstitions aside, stocks rose that day, with the S&P 500 advancing 1.4%. It wasn't obvious at the time, but August 13, 1982, marked the first day of what would turn out to be one of the longest and strongest bull markets in US history. The S&P 500 was 16% higher by the end of the month and went on to quadruple over the subsequent decade. The table below shows data for the S&P 500 on a price-only basis. With dividends reinvested, the return would be materially enhanced.

| "Death of Equities" Anniversary | | |
|---|---|---|
| 1st Anniversary | August 12, 1983 | 58.3% |
| 5th Anniversary | August 12, 1987 | 224.5% |
| 10th Anniversary | August 12, 1992 | 307.9% |
| 20th Anniversary | August 12, 2002 | 782.4% |
| (Almost) 30th Anniversary | June 19, 2012 | 1,225.9% |

One of the authors of the *FT* article, John Authers, is familiar with the *BusinessWeek* article and wary of making pronouncements that might look equally foolish ten or twenty years hence. In a follow-up article appearing several days after the first, he appealed for divine assistance in his forecasting effort: "O Lord, save me from becoming a contrarian indicator." Nevertheless, after revisiting his arguments he remained persuaded that the climate for equities was too hostile to be appealing.

We should not use this discussion to make an argument that stocks are sure to provide investors with appealing returns if they just wait long enough. If stocks are genuinely risky (which certainly seems to be the case) there is no time period—even measured in decades—over which we can be assured of receiving a positive result. Nor should we seize on every pundit's forecast as a reliable contrarian indicator. With dozens of self-appointed experts making predictions, some of them are going to be right. Perhaps even John Authers.

The notion that risk and return are related is so simple and so widely acknowledged that it hardly seems worth arguing about. But these articles (and others of their ilk) offer compelling evidence that applying this principle year-in and year-out is a challenge that few investors can meet, and explains why so many fail to achieve all the returns that markets have to offer.

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**References**

"The Death of Equities," *BusinessWeek*, August 13, 1979.

John Authers and Kate Burgess, "Out of Stock," *Financial Times*, May 24, 2012.

John Authers, "The Cult of Equities Is Dead. Long Live Equities," *Financial Times*, May 27, 2012.

S&P data are provided by Standard & Poor's Index Services Group.

*Stocks, Bonds, Bills, and Inflation Yearbook*. Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).