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FINANCIAL MANAGEMENT



## The Cult of Equity Is Dead; Long Live Equities

Last week, I came across a piece that made me sit up and take note. The article, “The Cult of Equity Is Dead; Long Live Equities” was written by Charles Lewis Sizemore on investor website SeekingAlpha.com.

Sizemore speaks of the death of “the cult of equities,” not of equities themselves – meaning that follow-the-crowd investors no longer see equities as the best investment vehicle, yet in spite of this equities, could well deliver respectable returns.

### [August 1979: Business Week proclaims “The Death of Equities”](#)

Sizemore writes, “Whenever one hears “equities” and “dead” in the same sentence, it’s tempting to draw parallels to the oft-lampooned August 1979 Business Week cover that announced “The Death of Equities.” More than thirty years later, the unfortunate editors of Business Week have the distinction of printing what was quite possibly the greatest contrarian indicator in history.”

As background, equities significantly underperformed in the 1970s, interest rates were in the double-digits, inflation was high and the general economy was in pretty bad shape. And in an all-black cover in August 1979, Business Week announced “The Death of Equities.”

Then in September 1980, interest rates started to drop and 1980 – 1999 saw perhaps the largest sustained rally in equities. So, people often laugh at the Business Week cover which predicted the exact opposite of what followed.

### [2007 – 2009 Bear Market](#)

Sizemore goes on to note that “The colossal 2007 - 2009 bear markets wiped out more than a decade’s worth of gains for investors who faithfully bought and held throughout the 1990s and 2000s. Disgusted with the entire business, many have taken money out of the equity markets altogether and have opted for the “safety” of bonds.”

He notes that investors engage in cult-like behavior and find comfort in following the crowd. However, when that faith gets tested, they abandon stocks altogether and prices drop below

intrinsic value. Investors who are able to keep a level head through this all can find opportunities to profit.

Sizemore believes “many staid American blue chips are now priced to deliver respectable if not spectacular returns. Dividend yields on many are well in excess of bond yields. The death of the Cult of Equities is a once-in-a-generation blessing for those investors with the patience and temperament to wait for sentiment to improve.”

### [Parallels with last week’s commentary](#)

My commentary last week addressed the same issue: that investors have pulled out of equities and are pouring into bond funds; and that dividend yields are significantly higher than bond yields.

In the 1940s and 50s, coming out of the Great Depression, companies attracted investors with high dividend yields to compensate them for the risk of stock ownership.

However, in the 1960s, baby boomers drove demand, the economy picked up significantly and corporate profits grew at a rate far higher than bond yields. Investors no longer had to be lured by higher dividends and bought stocks for capital appreciation. As a result, dividend yields dropped below bond yields and stayed that way from the 1960s until the crash of 2008-2009.

Now, again, investors have lost faith in stocks and expect higher dividend yields to compensate for the risk of stock ownership. This, despite the fact that many US and European companies are poised to profit handsomely from operations in emerging economies such as Brazil, China and India – yet their stocks are trading at a discount to earnings.

As in August 1979, this too presents a profit opportunity for the dispassionate investor.

### [Summary](#)

The key here is to be patient and wait for these earnings to play out. Understand that where gains are easy to make, they are also easy to lose. Investors need to focus on intrinsic value and fundamentals, on the investing strategies of greats such as Ben Graham and Warren Buffett, and get back to what investing really is all about.