

## Is It a Jung Bear Market or Just An Old Story?

Have you noticed that there are a few movies or books that we seem to experience over and over? A man and woman meet, thrown together by circumstance. They strongly dislike each other at first, but grow to realize that they love each other as they face adversity (*When Harry Met Sally*, *Pride and Prejudice*). A misfit loser or group gets a new coach and a new inspiration, trains hard and stuns the bullying champion (*Rocky*, *The Bad News Bears*). A youngster feels powerless and bored, goes on a journey, meets a mentor or mentors, faces adversity and learns that the secret to power, happiness or both was within himself or herself all the time (*The Wizard of Oz*, *Star Wars*).

Carl Jung tried to explain this phenomenon by theorizing that our unconscious is hard-wired with archetypes of mythical stories and characters; hence the appeal when these motifs and images are presented to us in new forms. How many of these story archetypes are there? Some say thirty-six. A popular writing book says there are twenty. Some, championing a *Name That Tune* reductionism, claim that there are only two – “stranger comes to town” and “hero takes a journey.” Now, if you are like us, at this point, you will want to stop reading and start mentally classifying movies recently seen or novels recently read. Go ahead, we don’t want you to be distracted...we’ll be here when you are done.

Our point is not to number the categories of stories, but to point out that there seems to be a continuing recurrence and resonance of certain themes, including in our investing. In years past, when your broker called with a story about a stock, how many times did you hear “the next Microsoft” story? If you favor biotechnology or pharmaceuticals, “they’re about to get F.D.A. approval” may have been the archetype. In a broader sense, we seem to be hard-wired to want an explanation for whatever happens in the markets. Whether the market is up or down for that day, there is a one-phrase headline to explain why.

It is always a bullish “expert” explaining an upward move but a bearish expert explaining the market going down. Many of these experts say the same thing all the time, but we seek their opinion only when it appears to elucidate the market’s recent move. It seems to matter little how many times or for how long the expert has been wrong.

*“The world is a comedy to  
those that think;  
a tragedy to those that feel.”*

-- Horace Walpole, 1769

For the perma-bulls, it is *always* a good time to buy stocks aggressively; for perma-bears, Western civilization *always* is sliding towards the abyss (the standard overall bearish archetype). Now, with the market declining, the perma-bears have been the noisier group. They seem to favor gold as an investment, and yet when gold hit a high of about \$850 an ounce in 1980, a first-class U.S. postage stamp went for \$0.15. Gold recently hit a high of just under \$1900, while the stamp now costs \$0.44. At its recent high, gold was only approximately two and a quarter times its 1980 high. Is there any financial asset in the world that has gone up less? Even so, the gold-bugs are accorded great respect because of recent trends. Even a stopped clock is “right” twice a day.

Speaking of recurrence, last September we wrote about an interview conducted by the Associated Press (run in *The New York Times* and various other papers) of a market guru who predicted a greater than 90 percent decline in the U.S. stock market. What the story neglected to point out, however, was that the same guru had been negative on the market for the previous 23 years. The newspapers could have conducted the same interview at any time during those 23 years and the guru would have said the same thing. The “news” was not the guru’s views, but that the newspapers wanted to run the story at that moment of investor stress – right at the bottom of the 2010 stock market correction. From the day the interview was in *The New York Times* until the end of the year, the market was up more than 20 percent, and it rose 33 percent to the highs this spring. Breathless market forecasting that appeals to the sentiments of investors after a sharp move up or down is likely to be incorrect.

No regular reader of these newsletters would accuse us of being Pollyanna. We regularly have taken perma-bulls to task for interpreting all news in a way that favors the selling of investment products created by their employers. We also have been worrying since the 1970s about political gridlock, not to mention bearish charts of debt levels, shaky bank finances and consumer/government profligacy (all bearish archetype stories). Every time the market dips, though, the media exhumes the perma-bears from their crypt or wakes them from their upside-down slumber in the Bat Cave for interviews. The perma-bears *may* even be right. In the archetypical story, “The Boy Who Cried Wolf,” the wolf eventually showed up, after all. But the boy would only be interviewed then, not after a long wolf-less period in which he repeatedly was incorrect in his warnings.

None of this is a market prediction – the market is extremely volatile; on any given day either the bears or bulls will sound like geniuses. Our point is that archetypical stories influence our perceptions of the market; the stories feed our longing for an explanation rather than accurately reflect reality. Stories can be appealing, but they are not always true. Couples often meet and dislike each other even more after facing adversity; lovable losers usually continue to lose and may become less lovable; youngsters regularly go on journeys but learn nothing. In investing, at least, we are better off assessing reality as best we can, while protecting ourselves from our tendency to try to fit everything into age-old, ready-made stories. Stories may comfort us, but reality fills the bank account.