

THE WAVE OR THE DREAM?

A mathematician has tracked histories of the economies of the western world for hundreds of years and discovered an ominous pattern: every fifty or sixty years, an economic collapse occurs. The last began around 1929 and continued for more than a decade--the Great Depression.

This many-centuries-old pattern, the Kondratieff Wave--named for the mathematician--suggests that we are currently overdue for a humdinger of an economic decline. Based on this idea, and whatever contemporary supporting data could be gathered, several doomsday books have appeared in recent years. The most extreme suggest a wise man will pay off all debt and convert securities and cash to land, tools, seed, canned goods and weapons.

Many experts insist that such a catastrophe could not happen in modern times. Believers in The Wave, however, point out that people of 1929 were in their modern times, too, and that a similar false sense of security caused them to run the American stock market to all-time highs before its ultimate crash--a crash of scope and magnitude unlike anything we have experienced since, including the most recent two-year, mild by comparison, stock market downturn.

The non-believers' quick retort is that preventive government controls exist today that were not in place seventy years ago. The Wavers laugh. Holding back the natural order of things, they say, only delays the inevitable. Pressure will build, and when The Wave finally comes, it will be all the more severe and lengthy.

The fact is, nobody knows what the world economy will do, certainly not when--however loudly they may profess to. Likewise with the stock market, American or any other. In the long run, some experts will be wrong for a season and some right, and then they will switch places for the next. That is the natural order of things.

So, if the experts are full of hooey, how does one make decisions? Consider a case in point. In Shreveport this year, a sixty-year old man, nearing his planned retirement, liquidated eighty percent of his million dollar holdings in the stock market and placed them in fixed and indexed annuities. Not because of the Kondratieff Wave principle--quite the opposite. In fact, he observed that he expected the stock market to recover by ten percent before the end of 2002. His comment as he sold was that the market is probably going up--but that it might fall by another twenty-five to fifty percent. He was not willing to take that risk with the bulk of his old-age nest egg.

His was not an investment decision; it was a retirement planning one. It was based upon well-defined goals, clear time horizons and awareness, both intellectual and emotional, of his own risk propensity. Like the rest of us, he can only guess at the future: for the economy, for the markets, for himself. But with regard to himself, he at least has a clear vision. He is the world's sole expert on his personal dream. About it, he is always right.