



The Bull Cycle of a Lifetime

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For investment advisors, this is the bull cycle of a lifetime. Careers will be made and names established, but only for money professionals who get it right -- a group that will certainly be in a distinct minority.

This is the antithesis of 1982-87 cycle, when massive, broad-based bull markets occurred in both bonds and stocks, and money-market yields were the highest in history. It didn't matter how an advisor allocated capital among bonds, stocks, and cash. Everybody made gobs of money. The net result: Skilled advisors found it impossible to distinguish themselves from the rabble.

Now it's the other extreme: Skill and strategy are everything. Over the next three to five years, advisors who get it right will score way above average.

It starts with capital allocation. Advisors who recognize the prospective upside in stocks and overweight them accordingly, start with a sizeable leg up on the competition. That isn't to say it's an easy sale. Investors have little enthusiasm for stocks -- not after a decade of woeful underperformance, punctuated by the worst bear market since the Great Depression.

The problem for advisors is simple to articulate: 10-year track records. With such a stark disparity between stocks (the 10-year record is abysmal) and bonds (the best decade in more than 100 years), it's no wonder investors are pouring capital into bonds and avoiding stocks. It's a disaster in the making, just as when investors poured money into stocks at the peak of the market in March 2000. Bond prices move inversely to interest rates, and because rates are artificially low, bonds don't have a prayer of replicating last decade's outperformance.

The most fascinating aspect of this cycle lies beneath the surface of the stock market itself, and it's this buried treasure that can potentially burnish the career of an advisor. Simply put, the indices are embarrassingly easy to beat. For example, my Top List for 2009 -- Part 1 and Part 2 -- published exclusively at *RealMoney*, was up 104% last year, vs. an **S&P 500** return of 28%. And, while it's far too early to render a judgment, the 2010 list is off to a healthy start, up 9% compared with an S&P decline of 2%.

Why is the market so easy to beat in this cycle? Because the carnage wrought during the mega-bear market that ended in 2009 was prolifically uneven -- some stocks got clipped by 20% or so, while others were pummeled by 80% or more.

If anything, market-beating portfolios are even easier to construct today than they were a year ago. That's because the big, stable stocks that dominate the indices have largely recovered from the price damage suffered during the bear market. There are notable exceptions, such as **General Electric** (GE) and **Bank of America** (BAC), which still have a ways to go in their recovery. But, for the most part, the bulk of the bargain bin rests in the basement, in smaller companies that have yet to stage a significant rebound.

Look at technology stalwarts **Microsoft** (MSFT) and **Intel** (INTC) -- two stocks that significantly influence the market cap-weighted indices. You'll see their current quotes are about the same as a couple of years ago, before the recession and credit crisis. Instead of buying either of these behemoths, you'll find dramatically more compelling bargains among smaller technology names, such as **NCR** (NCR) and **MEMC Electronic Materials** (WFR). Despite having bulletproof balance sheets and outsized growth prospects, NCR and MEMC trade at a fraction of where they were before the bear arrived. Each trades at about \$12-\$13 currently, and has an excellent chance of rebounding to \$25-\$30 in the next year or two.

Even an analyst armed with basic analytical skills can see that NCR's current stock price is downright silly. Adjust for pension expense -- an issue that will disappear later this year -- and the stock is selling at less than 9 times this year's depressed earnings of \$1.40. With bright growth prospects in emerging markets, and a return to normalized profit levels in a year or so, this stock should already be trading in the \$20s.

NCR illustrates how this cycle gives advisors a chance to shine. Not since the late 1970s have we witnessed anything like this, when cash and bonds are near-certain underperformers, and where it's easy to find stocks that will generate hefty returns -- returns that can trounce the broader market indices.

At time of publication, Alsin and/or ACM was long MSFT, GE, BAC, WFR and NCR, although holdings can change at any time.

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