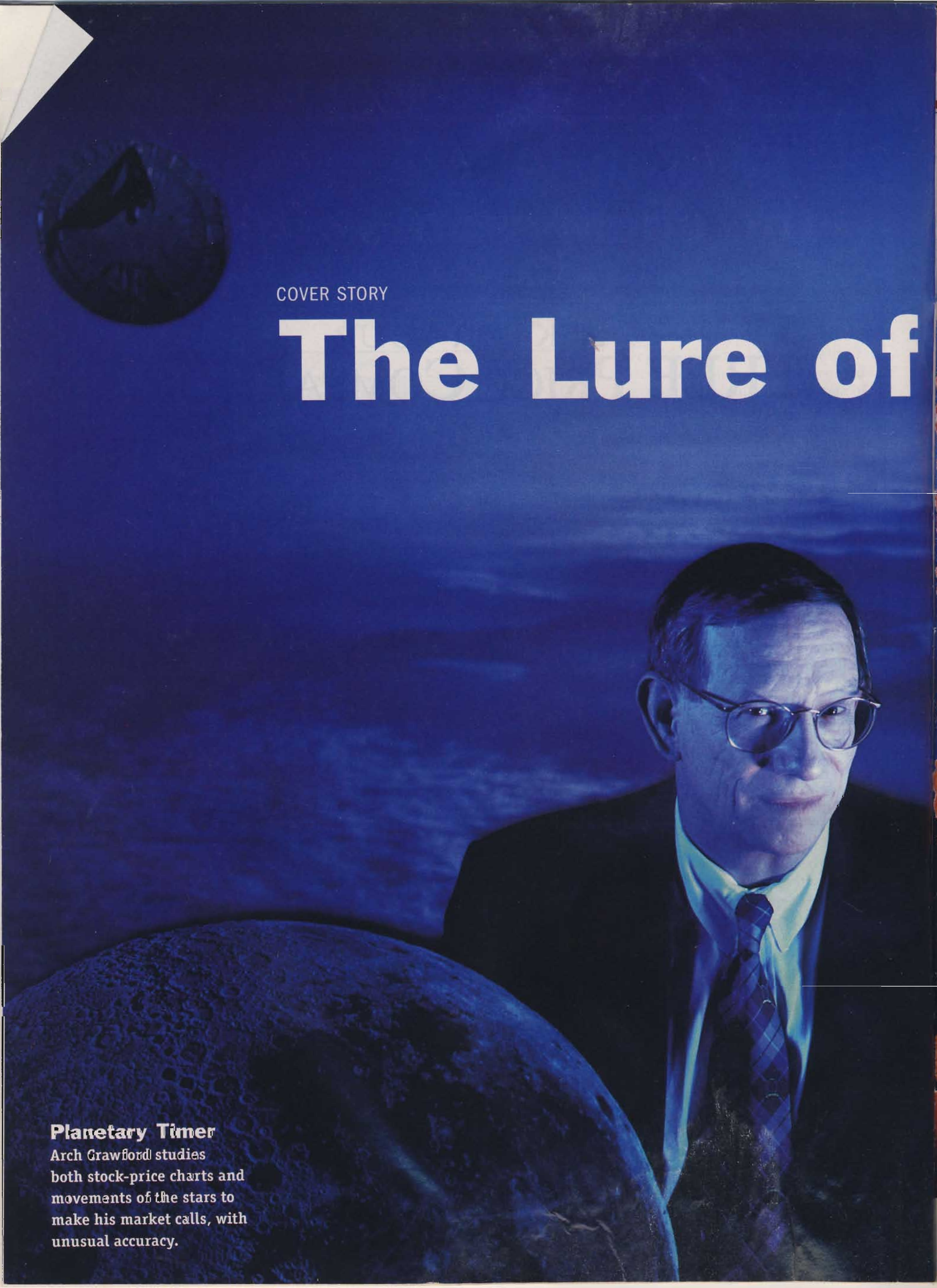
COVER STORY

The Lure of



Planetary Timer
Arch Crawford studies both stock-price charts and movements of the stars to make his market calls, with unusual accuracy.

Market Timing

The dream is as old as the market itself: All you have to do is bail out for most of the downturns and jump back in for most of the upturns. Yeah, right.

By Manuel Schiffres
Photographs by Josef Astor

Every Friday after the market closes, Donald Bell hunches over his 166-megahertz Pentium computer and, in effect, asks it the question that has bedeviled investors for as long as stocks have been traded: Which way is the market going? Bell, a retired engineer in his 60s, is actually beseeching his computer for guidance on whether he should have nearly all of his seven-figure portfolio invested in stocks or in cash. Bell is a market timer, and on this day in April, his signals are flashing red. He stays in cash.

Perhaps it isn't entirely serendipity that Bell lives in Las Vegas, where his bet-the-ranch style is as at home as a slot machine in a diner. Bell was a buy-and-hold investor until his portfolio was crushed in the crash of 1987. Vowing he'd "never let that happen again," he turned to timing. His simple timing scheme involves watching moves in the Dow Jones utility average and Standard & Poor's 500-stock index. When the system talks, Bell listens. It got him out of stocks before the bear market of 1990, and he's confident it will save his skin in the future. "It's given me peace of mind," he says.

Peace of mind is what's missing these days for a lot of his fellow investors. The stock market, now nearly seven years into an upswing that's one of the longest on record, is increasingly volatile. The Dow Jones industrial average recently suffered its first 10% correction since the bear market of October 1990. Then prices recovered in May, setting new all-time records. Emerging-growth stocks fared even worse: They had been mired in their own private bear market since last summer.

Where does that leave an investor who wants the benefits of a rising market but is frightened of losing money in a down market? To such people, the lure of timing the market—reaping most of the rewards while sidestepping much of the grief—is powerful indeed.

WHO IS AND WHO ISN'T A TIMER?

Market timing comes in so many shades and hues that it's possible to call almost everyone a timer. But the term is most aptly applied to people who use market-timing principles intentionally and wholeheartedly. They are usually either 100% in stocks or 100% out of stocks. For many timers, the goal is to determine whether the market is in a major up or down trend and to detect a change of direction quickly.

The tools they use are those of technical analysis: price and volume charts that display moving averages, exhaustion gaps, oscillators and other arcane measures that mystify the uninitiated. But technical analysis is not witchcraft. When you hear on the *NBC Nightly News* that advancing stocks outnumbered declining issues two to one in trading today, you are listening to one corollary of technical analysis that is used to measure the breadth of a stock-market move. Another example: the Dow Theory, one of the oldest methods of identifying trends in the stock market, which was postulated by Charles Dow more than 100 years ago. It holds that there is no dominant movement in stocks unless the Dow Jones industrial and transportation averages confirm each other's advance or decline. (According to the Dow Theory, the market's primary trend remained bullish as of mid May.)

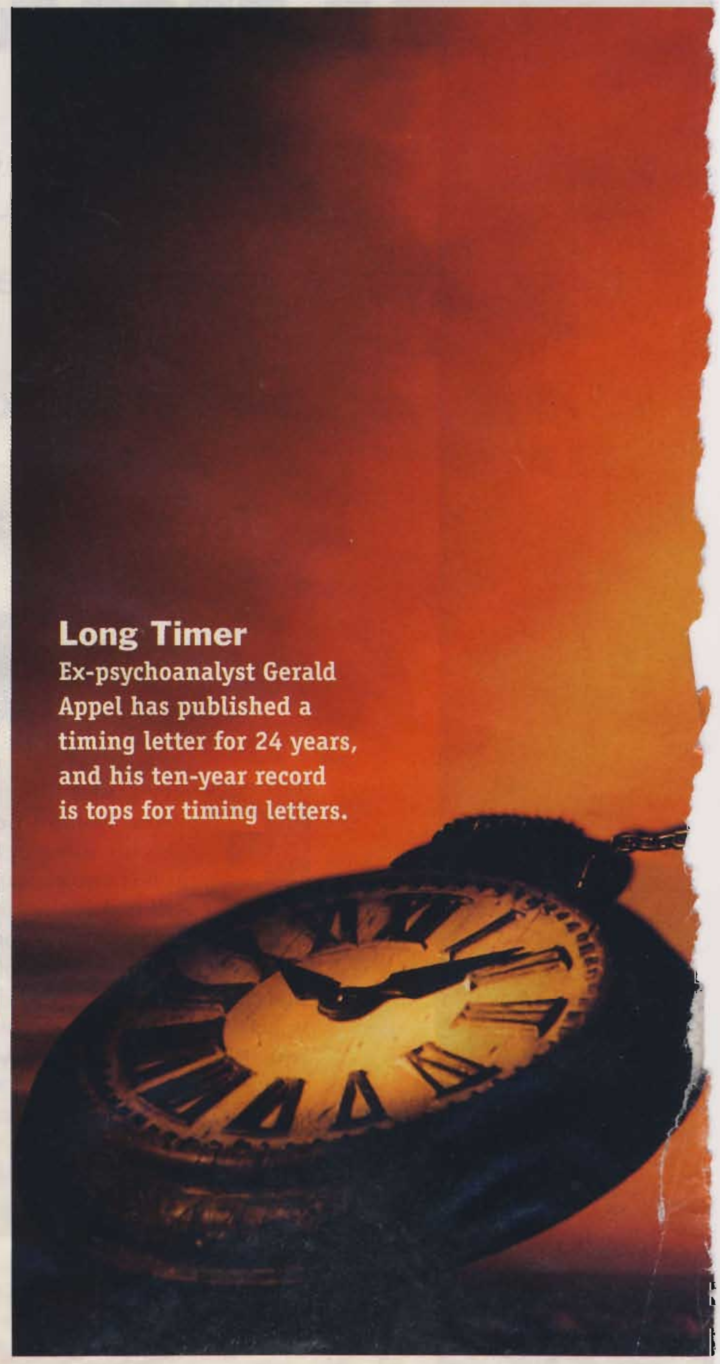
But market timing and its disciples can't get no respect these days. One obvious reason: Since 1990 there has been little to time. Whenever there's a decline big enough to shoot off the timers' "sell" signals, *whoosh!* there goes the market again, up to new highs. The timers are left to buy back the stocks they just sold, but at higher prices. In fact, over the past five years, the timing advice of only one market-timing newsletter among several dozen timers tracked by *Hulbert Financial Digest* has outpaced the simple strategy of buying and holding the Vanguard Index 500 fund, which mimics the S&P 500. The big claim to fame of that letter, *Crawford Perspectives,* and its editor, Arch Crawford, is having called the crash of 1987 with total precision. Crawford also forecast the start of the 1997 correction—February 18—to the day.

But Crawford is unlikely to attract a following because his letter mixes technical analysis with a heavy dose of astrology. He said the market would come crashing down in late 1987 because of a "five-planet conjunction (the tightest one in at least a century)" that would cause a harmonic convergence. And his forecast of the 1997 pullback was based on the coincidence that "Mars opposes Saturn" on February 17 and "Saturn trines Pluto" on the 19th. Lest you be converted, note that Crawford forecast more gloom and doom when the market bottomed on April 11 and was on the sidelines when the market shot up to new highs. In mid May, Crawford was out of the market.

The fact is, no one has ever been able to time the stock market well enough and consistently enough to make the effort worthwhile. Says John Markese, president of the American Association of Individual Investors: "Good timing can't be beat." The problem is, he adds, "it just can't be done."

Timers say they aren't trying to beat the market, especially a frantic bull market. Their goal: good returns with less risk than investors who are fully invested in the stock market. Timer and money manager John Sosnowy of Cameron, Tex., says the goal of timing should be to capture 80% of a bull market's gains and avoid 80% of a bear market's losses.

A more compelling argument by timers is that the mettle of buy-and-hold investors hasn't really been tested by a



Long Timer
Ex-psychoanalyst Gerald Appel has published a timing letter for 24 years, and his ten-year record is tops for timing letters.