

Bad news a boon for investors

The time to buy is when everyone else is too fearful to do so, writes **Warren Buffett**.

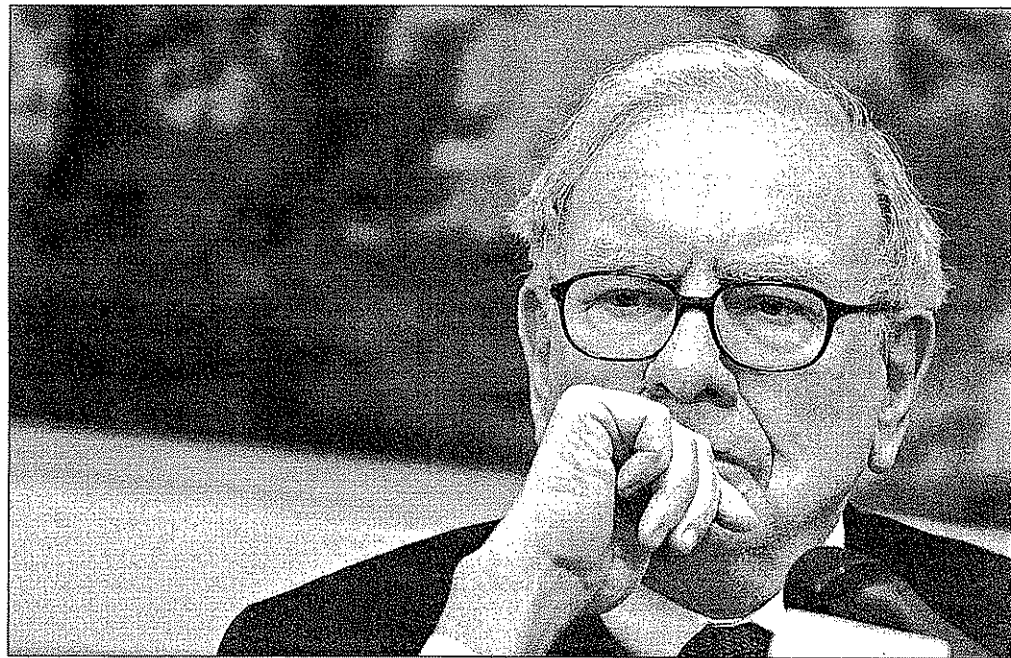
The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So... I've been buying US stocks. This is my personal account I'm talking about, in which I previously owned nothing but US government bonds. (This description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy.) If prices keep looking attractive, my non-Berkshire net worth will soon be 100 per cent in US equities. Why?

A simple rule dictates my buying: be fearful when others are greedy, and be greedy when others are fearful. And most certainly fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records five, 10 and 20 years from now.

Let me be clear on one point: I can't predict the short-term movements of the stockmarket. I haven't the faintest idea as to whether stocks will be higher or lower a month or a year from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.

A little history here: during the Depression, the Dow Jones hit its



'If you wait for the robins, spring will be over'... Warren Buffett says you can now get a slice of the future.

Photo: BLOOMBERG

low, 41, on July 8, 1932. But economic conditions kept deteriorating until Franklin Delano Roosevelt took office in March 1933. By that time, the market had already advanced 30 per cent. Or think back to the early days of World War II, when things were going badly for the US in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.

Over the long term, the stockmarket news will be good. In the 20th century, the US endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so

recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy.

Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value. Indeed, the policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it. In waiting for the comfort of good news, they are ignoring ice-hockey legend Wayne Gretzky's advice: I skate to where the puck is going to be, not to where it has been.

I don't like to opine on the stockmarket, and again I emphasise that I have no idea what the market will do in the short term. Still, I'll follow the lead of a restaurant that opened in an empty bank building and advertised: "Put your mouth where your money was." Today my money and my mouth say equities.

■ Warren Buffett is the chief executive of Berkshire Hathaway.

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