

# So, what's "priced in"?

by Mike Keliher

The stock salesman's latest buzz phrase is, "the market has priced in" a recession. What does that mean? Value is very much a moving target. The "price" someone is willing to pay is based largely on anticipation of what future value will be.



Markets trade not on today's news, but on what tomorrow's news is anticipated to be. Thus, "buy the rumor, sell the news" (meant to describe smart investors who anticipate and buy ahead of time, and then sell to the little guys when the actual news comes out).

So what does "pricing in a recession" mean? It means that current values already reflect the economic downside of a recession.

Well, what evidence supports the stock salesman's claim that a recession is now priced in (thus, validating their "buy now or miss out" mantra)? Certainly not the popular equity indexes. If a recession was priced in, shouldn't the indexes be substantially below levels when touts claimed all is well? Below, for instance, the halcyon days before subprime problems, soaring (not plunging) home prices, \$50 (not \$108) per barrel oil, \$100 (not \$200) per cart groceries, etc.? Like, say the spring of 2006? As we went to press Tuesday March 11, Wall Street was, for the umpteenth time, celebrating a shortsighted Fed action, pressing the Dow up 415 to 12,150, the NASDAQ up 86 to 2,255 and the SP500 up 47 to 1,320. . . . And where were we on Friday, March 10, 2006? The Dow was trading at 10,950, the NASDAQ at 2,240 and the SP500 at 1,270. What does common sense tell you about how much bad news is "priced in"? Do you think stocks should, on average, be 36% higher

in 12 months, as a local shill advertises on Dallas radio? (Side Note: Do you recall two years ago any media "experts" or stock salesmen telling you bad times were dead ahead—protect your capital?)

The ugly stepsister to "bad news" being priced in is that "good news" can be priced in too. On this March 11, 2008, it appears the Wall Street bunch has more than "priced in" a snappy recovery and abundant year-end bonuses. As a result, a miracle recovery, even if it were to occur, may not substantially advance the indexes. Consider too that the foundation of any such recovery is the same government actions that have, thus far, brought rampant inflation and destitution to savings-reliant pensioners, not solutions to the credit crisis.

Reality dictates that we are at the beginning, not the end of the tough sledding. The credit problems in March 2008 are more severe and widespread than last summer. The latest government high jinks serve merely to exacerbate and delay the ultimate damage mandated by years of irresponsible use of leverage. The piper will be paid . . . and that payment is NOT priced in. +

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