We Are All Triskaidekaphobes Now

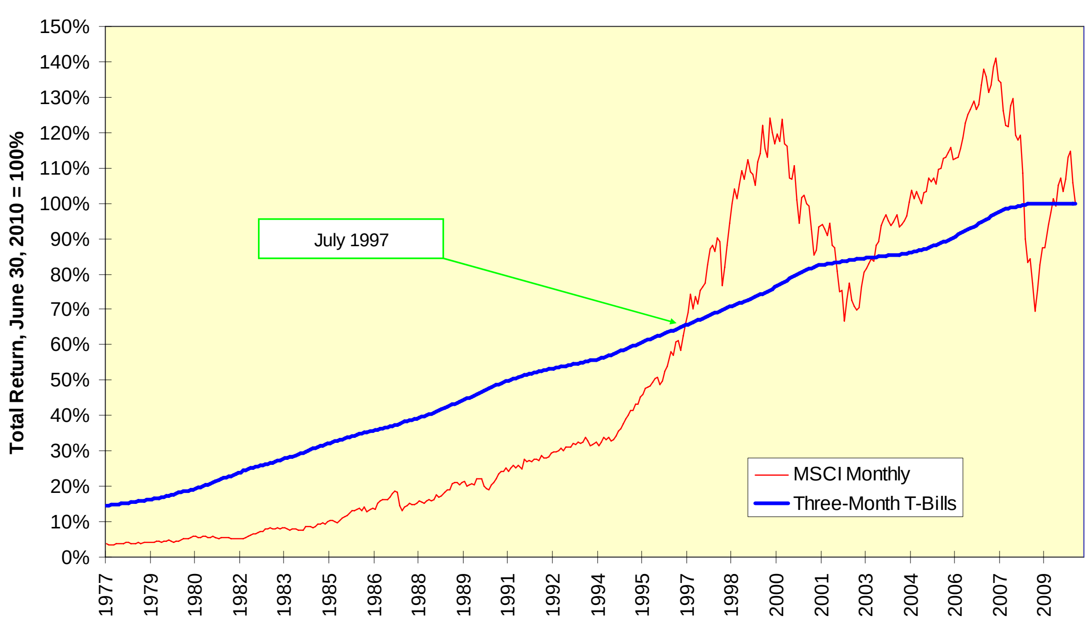
Japan has proved a Lost Decade can last for more than twenty years, so why shouldn't we here in the good old U.S. of A show the world's superstitious the number thirteen, as in stocks have been unable to outperform three-month Treasury bills for thirteen years, really has no magical power over either people or markets?

One of those truths we were supposed to be holding to be self-evident this past week is while all men are created equal, all investors who take a little more risk are supposed to be rewarded with a little more return. If this were only the case once we compare the long-term total returns for the Merrill Lynch three-month Treasury bill index to the MSCI-Barra monthly index for the U.S. and the S&P 500 daily index.

Actually, this is the Bank of America-Merrill Lynch index; one of the hardest parts of being an analyst is keeping with the obituaries for things such as the Dow Jones-AIG index (now Dow Jones-UBS) for commodities or Lehman Aggregate (now Barclay's) for bonds.

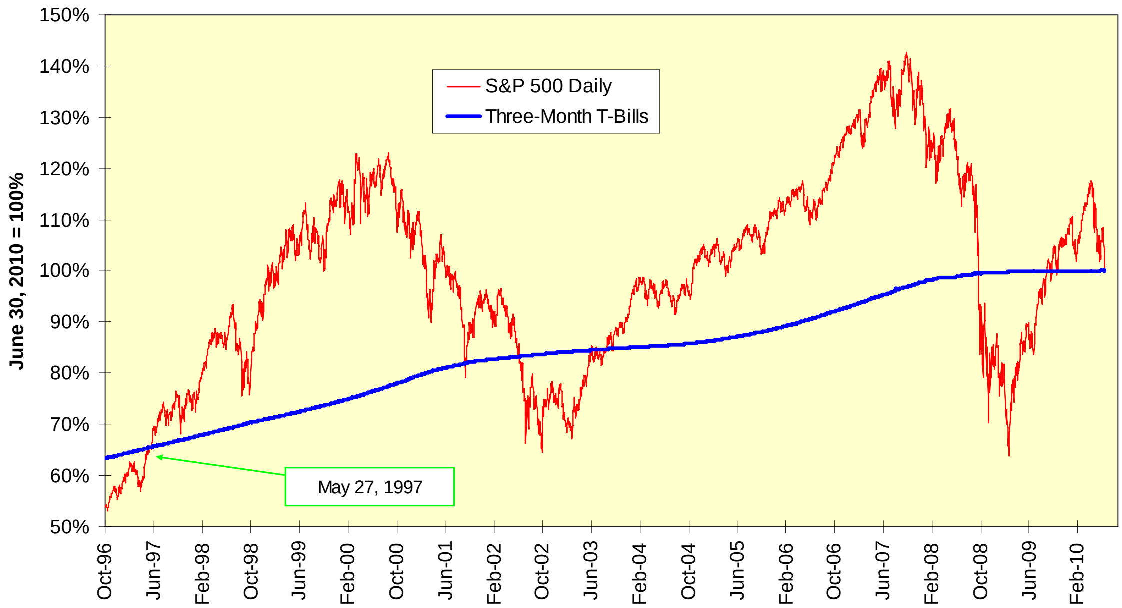
If we re-index the total return streams to June 30, 2010 and map them going backward in time, we can see at what point the stock indices first crossed over the T-bill index. On a monthly basis, stocks first outperformed T-bills at the end of July 1997 on the backward-looking basis. They went significantly higher during the two bubbles and lower again during the two bear markets since that time. But an investor who put identical amounts of money into stocks and T-bills during July 1997 earned an identical amount by June 2010 before taxes, fees and all of the rest.

Aesop Was Right About The Tortoise And The Hare



If we now shift to the daily basis and use the S&P 500, the date shifts to May 27, 1997, the first trading day after the Memorial Day holiday. This was more than a month before the Thai baht crisis triggered off a global round of fun and games culminating in the collapse of Long Term Capital Management, Russia's default and eventually the devaluation of the Brazilian real.

Remember Memorial Day, 1997?



If we were inclined to rub salt in the wound, we could point out the T-bill tortoise doing a victory lap around the hare has been dead for the past twenty months. Almost: The average monthly return on three-month T-bills since October 2008 has been 0.023%. This is scarcely worth the paper it is printed on, which is saying something considering the rate at which paper has been printed on since the financial crisis began. Stocks essentially have been in a race against themselves…and they have been losing.

Of course, this will not always be the case; I recall hearing in 1980 T-bills had outperformed stocks since 1960, and all you had to do is wait another two years before the 1982-2000 bull market began. In addition, those results were biased as the Federal Reserve never pushed interest rates toward 0%; no, the chronic complaint was T-bill rates were so high they were drawing money away from risky assets.

But the lesson is or should be clear: All that taking more risk in search of return can get you for sure is a riskier position.