Apparently There Are No Old, Bold Traders

"If it wasn't for misquotes, we might have no quotes at all." – Somebody. OK; me.

Aphorisms incorrectly attributed to Churchill often are better than most real quotations. Take, "Show me a young conservative and I'll show you someone with no heart. Show me an old Liberal and I'll show you someone with no brains." It sounds like something he would say, it rings wise and true and besides, even the dimmest graduates of American public education hopefully have more of a passing acquaintance with Sir Winston than with Lady Gaga.

Did he uncork, "There are old traders and there are bold traders, but there are no old, bold traders?" No, I heard that from a long-ago student of mine, a veteran of a nuclear attack submarine and therefore a bona fide member of the so-called silent service. Who better to make words count?

Age And Confidence

While I am on record numerous times criticizing confidence surveys and sentiment readings as market indicators as they tend to be self-referential, lagging indicators of known variables or poor predictors of tradable markets, allow me to cite some Conference Board data on consumer confidence by three broad age cohorts for purposes of tracking changing attitudes.

While both young and old have their separate problems in the labor force, the one unmistakable trend since the recession ended officially in 2009:Q2 is age-related confidence has rebounded far more on an absolute basis for the Under-35 cohort than for either the 35-54 or Over-55 cohorts. The respective Under-35 and Over-55 readings in February 2009 were 36.8 and 22.1. Today they are 108.6 and 77.9.

The older cohorts' outlooks took the biggest absolute hits from the financial crisis' twin wealth shocks and had, by definition, a shorter time to recover these losses. The Over-55 cohort now contains all but the youngest five years of what is considered the Baby Boom, those born between 1946 and 1964.

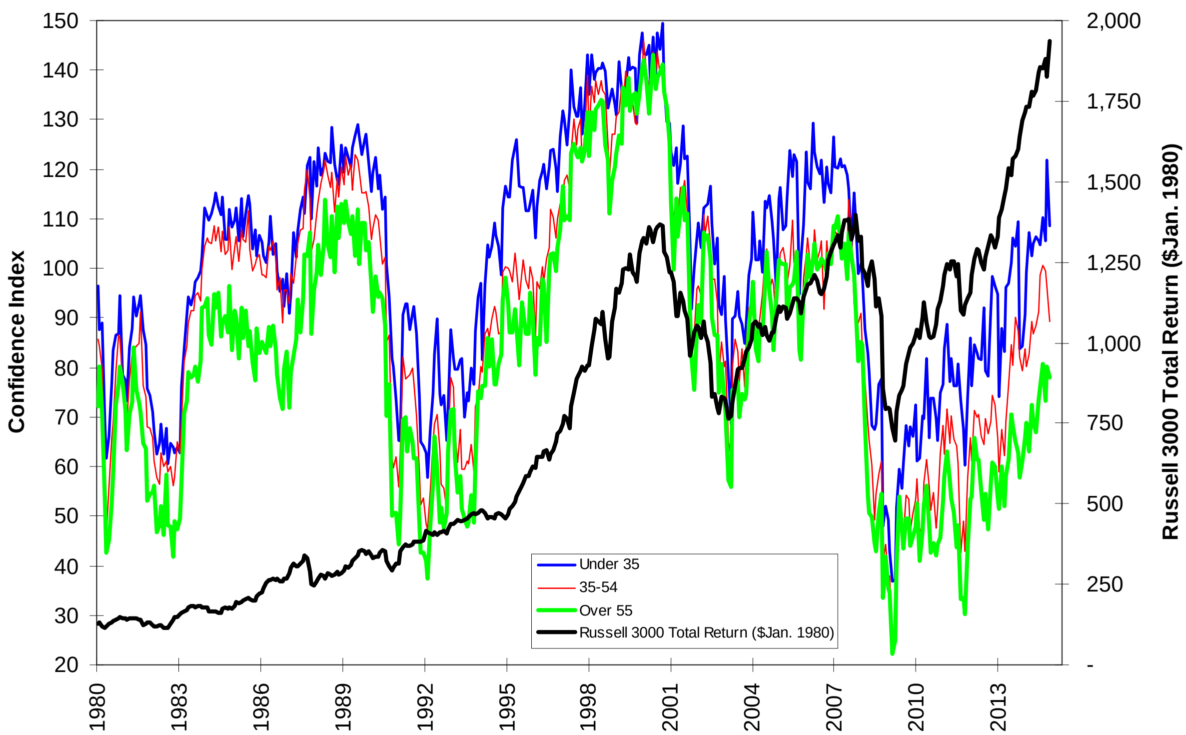
The Under-35 cohort's confidence has accelerated since the financial crisis in spite of well-publicized employment and student-debt issues. Higher confidence levels for this cohort are a near-permanent feature; they are seen in comparison to the 35-54 and Over-55 cohorts' levels in 402 and 416 out of 419 months in the sample, respectively.

What is different now is the relative confidence levels of the Over-55 cohort vis-à-vis the Under 35 cohort. In November 2006, the last November datum before the financial crisis began to unfold, this ratio was 87.7%; in November 2014 it was 71.7%. Its post-crisis low of 45.3% was reached in August 2011, the month when Operation Twist was launched.

Age-Related Confidence And Equities

A second difference is visible below in the timing relationship of real equity gains as represented by the constant January 1980-dollar total return of the Russell 3000 index compared to the age-related confidence levels.

Consumer Confidence Vs. Constant-Dollar Equity Returns



Prior to the financial crisis, real equity returns rose well after confidence levels rose. With the very significant exception of the 2008 descent into the financial crisis equity returns were not affected by downward moves in confidence. This switched after the adoption of QE in March 2009. Real equity returns now lead moves in confidence for the Under-35 cohort by one month and are contemporaneous for the older cohorts.

The quality of fit is far greater for the Over-55 cohort is the poorest by far with an r-squared or percentage of variance explained of 0.70 as compared to 0.80 and 0.87 for the Under-35 and 35-54 cohorts, respectively.

It seems confidence, at least for those in the Under-35 cohort, is being driven by their portfolios. Older people have seen the movie before. Live and learn; yes, you can quote me on that.