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Have We Hit the Market Bottom? Should You Care?

Many people try to catch the bottom of the market, but virtually no one succeeds.

By BRETT ARENDS

Are we there yet? Was that the bottom? Did we miss it?

The inevitable questions about the stock market are buzzing again, from the airwaves to the dealing rooms to the bars where newly unemployed brokers are contemplating their futures.

The speculation is interesting in the way a pennant race or a hitting streak is interesting. But if you are an investor who is worried that you may "miss" a big move, you should relax.

Over many years I have never heard of anyone who made and kept a fortune by catching the bottom of the market. Rather, too many have lost a fortune by trying – and failing – to time the market.

Professional investors, the really smart ones, view trying to catch the bottom of a market the way professional poker players view drawing to an inside straight: Folly.

August 2007 looked like the bottom for a time: After the Fed stepped in to help the banks and pumped more liquidity into the system, world markets, according to data from Factset, soared 18% in two months. And a year ago last weekend, when Bear Stearns imploded, that cleared a lot of pessimism. Global markets leapt 13%. Some very smart people thought the market hit bottom in July. Many thought it hit in November. If you want to get really philosophical, you could argue the current bear market actually began in 2000 – in which case October 2002 could also be called a false bottom.

For the past six months investors have been pondering two powerful, yet conflicting facts. On the one hand, many shares are incredibly cheap. For long-term investors this period may prove, in due course, to be the buying opportunity of a lifetime. On the other hand, the economy has gone from bad to much, much worse. And that, of course, keeps shares under pressure.

It is very hard to keep one's emotions aloof from the market. The mood is obviously a little brighter than it was two weeks ago. Perhaps this rally indeed signals that the economy will begin to steady by the Fall. (Wall Street is usually thought to lead the economy by six or nine months, although this is more a rule of thumb than a truly reliable principle.) Or perhaps it's just another case of what I've called efficient market hypnosis: "The market's up 10%, things must be all right!"

But before anyone gets too carried away by the latest surge, here are some caveats. Remember the news that sparked this rally: Reassuring remarks from top bankers and administration officials. Haven't we heard that one before?

Administration officials, in particular, have a vested interest in talking up the economy now that the stimulus bill has passed. Note, too, that there is a lot of short covering going on right now. By early March speculators had placed huge bets on further falls in the stock market. Each time the market rises, more of them have to rush to buy shares to protect themselves. That drives the market still higher. It can go on for quite some time without being a new bull market.

These are certainly good times to be investing long-term risk capital. As I pointed out several times, there are lots of really cheap stocks out there. Historically, whenever that has been the case it has usually proven to be a good time to make long-term investments. But, as always, there are no guarantees that things won't get even cheaper before we are done.

Write to Brett Arends at brett.arends@wsj.com