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DOW 36,000, Glassman predicted it after all!

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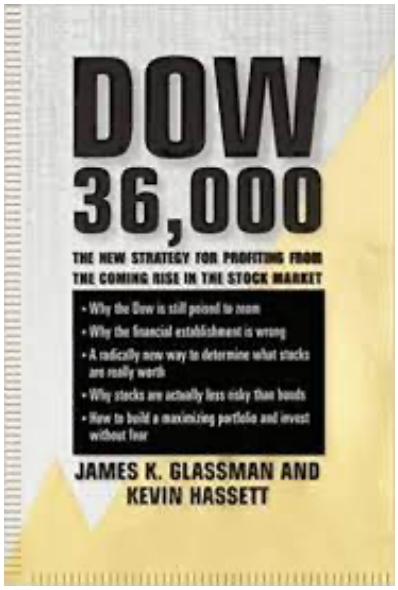

"I was ridiculed for predicting the Dow Jones Industrial Average would reach 36,000. It just did. Here's why I was right."

With these words, James K. Glassman takes a victory lap on the cover of *Commentary*'s December 2021 issue. His article[1] in the magazine adds that the prediction he and coauthor Kevin Hassett made in their 1999 book Dow 36,000 was "widely mocked." They have gotten the last laugh, by Glassman's account; the DJIA hit the magic number in early trading on November 1, 2021.

Readers who continue to paragraph 15 of the article learn an important detail of Glassman and Hassett's triumph. When a flash of insight told them that stocks were grossly undervalued due

[1] James K. Glassman, "If You Bet on the American Economy, You Win," *Commentary* (December 2021), pp. 17-20.

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to an elementary logical error on the part of investors, they wrote that the market would reach the level they deemed more appropriate "someday soon." As it turned out, however, the Dow took 22 years to hit the 36,000 target. Glassman now concedes that it was "an act of hubris" to second-guess investors' judgment.

On its October 1, 1999 publication date, nobody would have been foolish enough to ridicule the notion that the index would someday rise by 250%—vindicating the book's title—from that day's close of 10,273. If Glassman and Hassett had qualified their prediction by writing that it might take 22 years to be fulfilled, then any pundits who mocked them would have made themselves ridiculous. There were no fewer than twenty-seven 22-year periods before 1999 in which the Dow increased by 250% or more, hardly a rarity for an index that had been in existence for 103 years at that point.

In short, it is normal, rather than extraordinary, for an investment in the stock market to multiply severalfold, given sufficient time. That is the extremely valuable message conveyed in Glassman's *Commentary* article. As he writes, "[R]eturns are volatile in the short term but remarkably stable over long periods."

Because the value of stocks in aggregate reliably increases over time, Glassman explains that the key to building wealth is to stick with the market through thick and thin. Since the publication of Dow 36,000, he points out, the markets have rebounded from the Great Recession of 2008-2009 (which was associated with a decline of more than 50%) and a one-month plunge of 10,000 points in reaction to the COVID-19 pandemic.

Glassman could have highlighted the market's resilience as well in the aftermath of the 1998 Russian default, the bursting of the Dotcom bubble in March 2000, and the loss of confidence that resulted from a series of accounting scandals in 2002. Those shocks triggered peak-to-trough DJIA moves of -16.4% to -31.5%. *En route* to a 7.9% annualized total return between Dow 36,000's publication and the fulfillment of the book's thesis, the markets also weathered the 2001 recession, the September 11 terrorist attacks, and the 2013 Taper Tantrum.

The worst response investors could have made to these events would have been to go to all-cash. Just as investors can be pretty sure of prospering over the long run by staying invested, they are all but certain to fail to call the bottom of a bear market. Missing out on a big chunk of the rebound is a time-proven formula for penalizing one's wealth accumulation. Notwithstanding some celebrated one-off calls on market direction, no forecaster has compiled a long-term record of consistently pinpointing the peaks and troughs.

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Bank of America Vice Chairman Keith Banks identified the key to investment success in a March 31, 2020, appearance on CNBC's "Squawk Box" program: "*The reality is, it's time in the market, not timing the market*."

Just as investors who seek growth can fall prey to emotion as the financial markets undergo their inevitable ups and downs, so can those who primarily seek income. It is easy to notice that one's portfolio has dropped in value and miss that it is continuing to pump out just as much cash as previously. Readers should not take this as an endorsement of total passivity. It makes sense, for example, to de-risk as a means of avoiding dividend omissions and cutbacks on closed-end fund distributions. Whether in fixed income or equity, a paramount concern must be protection against permanent capital losses, the sort that a general market bounce-back will not repair.

Let us give James K. Glassman, who feels vindicated at long last, the final word. Today, just as when Dow 36,000 was published, investors can put faith in American financial assets for the long haul because of the country's economic performance record. "The ultimate reason that U.S. stocks are such a good investment," he writes, "is that the U.S. is such a good investment."

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