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Sounds good . . . too bad it doesn't work.

Here are two complicated-looking pictures. "Complicated," of course, usually means "incomprehensible" . . . but sometimes such pictures are worth just a little time, because they're telling us something, well, profound. The Cliff's Notes? Thick green arrow is the stock market from 1954 to 2024 . . . in two pieces to make it easier. And that crowd of red arrows—up, down, up, down, up, down, etc.—is the direction of interest rates through those years (10-year rates and 3-month rates.)

Exhibit 2: Rates Don't Dictate Stocks' Direction (1984 – 2024)

What are the long, rising green lines and the frantic red arrows telling us? The answer isn't complicated at all. ***<u>For the past 70 years, the endless twists and turns in interest rates have not mattered at all to the stock market.</u>*** They have not mattered in the long run—obviously—and they also have not mattered in the short run. (To back up that last assertion we have to scrutinize these pictures closely enough to see the many 1 – 4 years periods when the market rose while the red arrows (rates) were rising . . . and rose while the red arrows were falling. Trust us: that's what happened most of the time.)

So 70 years of facts tell us that the market simply doesn't dance to the tune of rising or falling interest rates.

Here comes the "profound" part. An overwhelming chunk of the investment world thinks otherwise. The market's zillion daily bettors; economists; prestigious brokerage houses and their market forecasters; the media; and the whole of the academic world—finding people in those groups willing to say, "Interest rates do not determine stock prices!" would be at least as tough as finding that one small child in Hans Christian Anderson's huge crowd, who piped up and said, "But . . . but . . . but the Emperor isn't wearing <u>any</u> clothes!"

Of course the main reason is because we don't think very clearly—or at all—when we're part of big crowds. If we're aware that our giant crowd has the impression something is true, pretty often we doubt ourselves when a voice in the back of our heads whispers, "But that's nuts!" That's especially our tendency when the people telling us to believe something "nuts" seem to be very smart, or very famous or prestigious. Yup, we're back to college professors. Over most of those 70 years, the professors have been informing us that the only correct way to value common stocks (and the market as a whole) is to "discount their future cash flows with today's interest rate." The math required to do that isn't hard . . . but it does look impressive, and at first glance, that notion of "the present value of all the cash rewards we'll get in the future" seems like it makes sense.

But there are a lot of things which seem to make sense, in this wide world . . . until we look hard at them: yup, until we look at their whole pictures, instead of the corner someone's showing us today. Those two pictures above are trying to do just that, aren't they? And their message is, "Discounting future cash flows with today's interest rates sounds good, when it comes to figuring out when stocks will go up or down. Too bad it doesn't work." It doesn't work because there is so much more to the whole picture, for the market and for individual common stocks: things like human invention and determination and the absolute certainty that those two miracles will always be the engines running the show, and will always nicely surprise us, eventually, on the subject of just how high our companies can climb, and just how much cash and profits they can earn.

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