

Fundamental Investing In 2009: Will it work?

The innovation that was accused of being a New Paradigm in the late 1990's in the wake of the Internet boom and subsequent bust brought amongst other things the concept of Just-In-Time management of inventory and production processes. This has introduced volatility into the cash flow and earnings generation of a large swathe of the economy. The rise of financials as a share of market capitalization of equity markets around the world in the last 10 years (2008 excepting of course), has also resulted in more volatile fundamentals. As credit default rates increase as the economy continues to deteriorate, the value of contracts will be subject to increased riskiness, order books and the value of companies will become more uncertain.

Fundamentals will be volatile. This is not a call for a recovery or continued recession. It is simply an observation that the future for the underlying value of enterprises is uncertain.

Equity and credit markets price fundamentals. At least that's the theory. Over a longer period. However, pricing is transmitted via psychology and interpretation. Pricing is therefore uncertain and volatile at its own level. If fundamentals are also volatile, however, as is the case today, what hope do equity and credit markets have of pricing in these fundamentals.

For my money, I would prefer traders over fundamental investors. At least until things change for better or for worse.