6 reasons I'm calling a bottom and a new bull

ARROYO GRANDE, Calif. (MarketWatch) -- OK, so you're one of millions of investors impatiently waiting on the sidelines, sitting with $2.5 trillion cash under your mattress, waiting for the right moment, that signal screaming: "Bottom's in, start buying!" Yes, it'll go down again, but the bottom's in, thanks to a great March, possibly the third best month since 1950, so it's time to jump back in and buy, buy, buy!

You heard me, I'm calling the bottom, beating Dr. Doom to the punch again (yes, again). Last time we were predicting the recession. This time we're calling the market bottom and a new bull.

Dr. Doom? Of course I'm referring to you-know-who, Nouriel Roubini, the notorious "party-boy economist," as Portfolio magazine calls him, the ubiquitous New York University professor with his well-oiled PR hype machine (and bon vivant lifestyle) that's made him the "go-to" media darling with endless economic predictions.

Portfolio pinpoints Roubini's claim to fame in his February 2008 blog, "The Rising Risk of Systemic Financial Meltdown: The 12 Steps," where he announced the recession actually started in December 2007. We also covered it as a 12-act Shakespearean tragedy.

But today Roubini's got a huge problem, one that'll hurt his fans, investors and credibility. Last December, Newsweek reported Roubini was predicting "the recession will last until the end of 2009," about nine more months. He also boasted that "eventually, when we get out of this crisis, I'll be the first one to call the recovery ... Then maybe I'll be called Dr. Boom." He made the same boast in Portfolio.

Roubini is a great showman. A century ago he would have outdone P.T. Barnum with his incredible boast, a prediction rivaling historic ones made by other well-known New Yorkers: Babe Ruth's famous home run in the 1932 World Series after pointing his bat into the center field bleachers and Joe Namath's prediction of an upset win over the heavily favored Colts in the 1969 Super Bowl.

Warning: Here are 6 reasons why Roubini can never fulfill his promise ... why he may go down in history, as Portfolio suggests, as the designated "one-hit wonder" ... but worse, any investor waiting for a Roubini "call" is playing Russian roulette, a loser's game ... you will miss the market's real turning point:

1. The stock market turns before the economy bottoms

Regardless of what Dr. Doom or any economist boasts, the stock market has a mind of its own, it's a leading indicator. Stocks historically kick into action earlier than the economy recovers, often six months ahead of the economy's bottom. Witness March.

So while economists' predictions pinpointing a recession may appear earlier than bear market predictions by the notoriously optimistic Wall Street pundits, the cycles work the other way in a recovery: A stock market bottom and new bull may occur six months before the economists call the
ending of a recession and an economic recovery. So Dr. Doom's "call" will naturally come months after the stock market in fact turns.

2. Stocks make big money fast then go to sleep

Back in January, Wall Street Journal columnist Jason Zweig reported on some fascinating research: "History shows that the vast majority of the time, the stock market does next to nothing. Then, when no one expects it, the market delivers a giant gain or loss -- and promptly lapses back into its usual stupor."

And the numbers back it up: "Javier Estrada, a finance professor at IESE Business School in Barcelona, Spain, has studied the daily returns of the Dow Jones Industrial Average back to 1900." He "found that if you took away the 10 best days, two-thirds of the cumulative gains produced by the Dow over the past 109 years would disappear. Conversely, had you sidestepped the market's 10 worst days, you would have tripled the actual return of the Dow."

3. No one can predict the next big move

Unfortunately, markets are notoriously unpredictable, ruled by mobs of irrational investors who are all bad guessers. No one can predict in advance when those "10 worst" or "10 best" days will actually occur. Not on Main Street. Certainly not on Wall Street.

Why? In his classic, "Stocks for the Long Run," Wharton economics Prof. Jeremy Siegel studied all the big market moves between 1801 and 2001. Two centuries of data. Siegel concluded that 75% of the time there was no rational explanation for big moves up in stock prices or big moves down.

Lesson: Market timing is a loser's game.

4. Famous media-darling pundits inevitably flameout

A month ago Newsweek's science columnist and former Wall Street Journal legend Sharon Begley wrote a fascinating piece, "Why Pundits Get Things Wrong." Her opening: "Pointing out how often pundits' predictions are not only wrong but egregiously wrong -- a 36,000 Dow! euphoric Iraqis welcoming American soldiers with flowers! -- is like shooting fish in a barrel, except in this case the fish refuse to die. No matter how often they miss the mark, pundits just won't shut up."

Think of all the media darlings you know as Begley reviews the data: And "the fact that being chronically, 180-degrees wrong does not disqualify pundits is in large part the media's fault: cable news, talk radio and the blogosphere need all the punditry they can rustle up, track records be damned."

The data comes from Philip Tetlock, a research psychologist at Stanford University: "Tetlock's ongoing study of 82,361 predictions by 284 pundits" concludes that their accuracy has nothing to do with credentials such as a doctorate in economics or political science, or on "policy experience, access to classified information, or being a realist or neocon, liberal or conservative."

What matters? "The best predictor, in a backward sort of way, was fame: the more feted by the media, the worse a pundit's accuracy. ... The media's preferred pundits are forceful, confident and decisive, not tentative and balanced. ... Bold, decisive assertions make better sound bites; bombast, swagger and certainty make for better TV."

They can be totally wrong, so long as they're assertive and entertaining. "The marketplace of ideas does not punish poor punditry. Few of us even remember who got what wrong. We are instead
impressed by credentials, affiliation, fame and even looks -- traits that have no bearing on a pundit's accuracy."

5. **Even the best economists make huge errors**

Go back a decade to that classic article in BusinessWeek, "What Do You Call an Economist With a Prediction? Wrong." Four years later in "So I Was Off by a Trillion," BusinessWeek punctuated the message, reporting on Michael Boskin's classic error. Boskin, a Stanford economist and former chairman of the Council of Economic Advisers under Bush 41, "circulated a startling paper to fellow economists. In it, he argued that the future tax payments on withdrawals from tax-deferred retirement accounts ... were being drastically undercounted. That meant federal budget revenues could potentially be in for a huge, unforeseen windfall ... of almost $12 trillion."

That also meant a political boost for Bush 43: "Larger than the sum of the 75-year actuarial deficits in Social Security and Medicare plus the national debt." Later, however, Boskin checked his numbers and "concluded that he had made a serious mistake: A key term had been left out ... possibly wiping out most of the estimated $12 trillion in savings."

No surprise: Political ideologies often motivate "objective" economists.

6. **Will the real Dr. Doom please stand up?**

Roubini actually shares the Dr. Doom title with many others, including Hong Kong economist Marc Faber who publishes the "Gloom Boom Doom Report;" legendary Salomon Bros. strategist Henry Kaufman; and Houston billionaire Richard Rainwater, whom Fortune mentioned as Dr. Doom.

In addition, in one of our columns last summer, we reported on many others whose predictions of a coming recession predated Roubini's claim, though not called "Dr. Doom." They include: Pete Peterson, a Blackstone Group founder; Pimco's Bill Gross; Harvard financial historian Niall Ferguson; Warren Buffett; former SEC chairman Arthur Levitt; Jeremy Grantham whose GMO firm manages $100 billion; "Black Swan" author Nassim Nicholas Taleb; and long-time Forbes columnist, economist Gary Shilling.

Noteworthy, way back in 2004 Shilling specifically warned: "Subprime loans are probably the greatest financial problem facing the nation in the years ahead." And later in June 2007 Shilling said: "Just as the U.S. housing bubble is bursting, speculation elsewhere will come to a violent end, if history is any guide. Some astute pioneers, including Richard Bookstaber, who designed various derivative-laden strategies over the years, now fear that financial derivatives and hedge funds -- focal points of today's huge leverage -- will trigger financial meltdown." Then in a November 2007 column, "17 Reasons America needs a recession," Gross predicted a bailout of "Roosevelttian proportions" ahead.

Yes, we were warned. In fact, seems everyone knew. But our denial was too powerful, hidden under our new culture of infectious greed.

The examples go on and on ... strongly suggesting that the "Roubini Hype Machine" may well be the "one-hit wonder" Portfolio calls him. He was not ahead of the competition with his December 2007 recession call. So if you're one of America's 95 million investors waiting for Roubini to call a bottom before getting back in the market, you'll miss the real turning point.
One final, crucial warning: This next bull will be short. First, it will suck money out of the mattresses of investors who are sitting on cash. Then Wall Street will recreate the insanity of the '90's dot-coms and the recent subprime-credit mania.

But underneath it all, Wall Street's bulls will be setting the stage for yet another catastrophic bubble and meltdown. So please be careful when "Dr. Doom's PR Hype Machine" proclaims that Roubini's finally morphed into "Dr. Boom" later this year. It'll be too late.