The Generals Are Being Shot

Investors who felt beleaguered by calendar year 2000 results took no solace from the stock market's first quarter performance. The correction that started over a year ago and slammed the technology stocks, finally spread to the "generals", the old economy leaders that had held up well during the NASDAQ implosion. This correction is the worst we have seen since 1973, and is a new experience for many investors. An old Wall Street adage, (and they have one for every situation) says that in any meaningful pullback, there is no place to hide short of total portfolio liquidation.

And there is no shortage of scapegoats to blame for the market's condition. The primary target, Alan Greenspan, brought out the boo birds in force. Too little and too late, they say, about the Federal Reserve Board's interest rate reductions that started in early January. Another convenient target is the corporate executives who failed to adjust production schedules to reality, and ended up with bloated inventories they couldn't move. And then there are the Wall Street analysts, whose enthusiasm about the merits of the "new economy", knew no bounds. These cherubs, having never witnessed a correction more severe than a 5% "buying opportunity", are now in the process of doing a backpedaling act that hasn't been seen since the great Holland tulip bubble of the 1600's.

Investing, among other things, is an exercise in discipline. At the end of the business day, revenue and earnings count; they always have and they always will. Instead of blaming others for the collapse of the Internet bubble, perhaps speculators should look at themselves and ask, "On what premise did I buy stock in this company?" The answer could well be sobering.

At Abbot Financial Management, we are investors, not speculators. No one knows just when the corrective process will end, or how deep it will be. There are now two powerful forces in play that we feel will sooner or later exert a positive influence on the market. The first is fiscal policy, which appears to be on a path toward income tax rate reductions. The second is monetary policy, and our belief is that further significant interest rate cuts are in the offing. As investors, we will stay fully invested in the quality companies that we believe offer above average potential for appreciation when the markets starts a new advance.

Quarterly Scoreboard Q1-2001	
Dow Jones Industrials	-8.4%
S & P 500	-12.1%
NASDAQ Composite	-25.5%

Bill Novelline   Andrew Novelline   Bob McLemore

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