

Save Our Stocks

The last 2 1/2 years have been the most difficult in the equities market since the back-to-back declines of 1973 and 1974. The bursting of the technology bubble, terrorism, and big business scams from the likes of Enron, Global Crossing, and WorldCom have combined to hammer the prices of nearly all stocks, both the good and the bad. Corporate shenanigans emanating from the highest corner offices have eroded trust in accounting firms, investment bankers and boards of directors.

The sad part of these most recent events is that there are many positives that are being totally ignored. We have an economy that grew at a 6% rate in the first quarter, and the Q2 forecast is for 3% real GDP growth. Inflation is well in check with interest rates at a forty-year low. Homeowner's are refinancing mortgages, and much of the savings is being spent on home improvements, autos, and consumer goods. The restocking of depleted inventories has resulted in a stabilizing manufacturing sector, and productivity gains continue from the use of developing technologies.

Yet, despite these positive factors, the markets as measured by the major indices are in a decline comparable to that of 1973 and 1974. During those dismal years, we suffered through the impeachment and resignation of Richard Nixon, the Vietnam War, oil prices of \$45 per barrel, double-digit inflation and 18% interest rates. In summary, the economic background then was measurably different from the current state of the United States economy. The stock market eventually recovered from these dreadful conditions, and went on to set new highs.

Ultimately, we too will weather this storm. Economic growth will result in higher profits for those companies with sound business practices. The major issue now is restoring credibility in our free enterprise system, and it appears that decisive action from both the public and private sector is gaining traction. Isn't it ironic that 3 years ago many investors, and the media, thought there was no end to up? Now, many of those same people are now saying there is no end to the current decline. This too shall pass!

Here is the market scoreboard for the first half of 2002:

DJIA:	-7.77%
NASDAQ	-24.89%
S&P 500	-13.78%

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