

## Trying Times

When applied to the stock market, the title of this piece is an understatement at best. The financial markets continue to be roiled by a series of events, all stemming from a persistently weak housing market. The enormous decline in home values, along with collateral damage to other markets, has been widely reported in all mediums of the media. There is no lack of commentary about the situation. It seems that every pundit, maven, or commentator, whether qualified or not, has weighed in with causes, effects, and potential cures for the state of our economy. We deem it of questionable value to our clients adding further discourse to that, which has already been offered.

Rather, we prefer to take a view of the situation from 30,000 feet. Abbot Financial Management celebrated their 25<sup>th</sup> year of operation last summer. These 25 years saw the Dow Jones Industrial Average rise from 1233 on the last trading day of September 1983 to 10,851 on the same day in September in 2008, an annualized gain of 9.1%. Looking at this another way, excluding taxes, \$100,000 invested then would be worth \$950,000 today. If an investor never opened a newspaper or listened to the radio or TV, the journey to Dow 11,000 might seem uneventful. Not so, let us look a little further at a couple of major market events that occurred along the way.

October 19, 1987 saw one of the most sickening plunges in the averages since the crash of 1929. In one day the Dow Industrials shed 508 points, closing at 1739, a loss of over 20%. Many investors fled the market after suffering large losses, while those more disciplined buckled up and looked for opportunities. Less than 1 year later, on the last day of September 1988, the Dow had recovered to 2085, a gain of 20% off the panic low. The big losers turned out to be those that sold out and "waited for the market to look a little better".

While the 1990's were free from major market disruptions, forces were hard at work setting the stage for the next downturn in the stock market. Despite Fed Chairman Alan Greenspan's irrational exuberance speech in December 1996, the major indices didn't top out until early 2000 as the dot-com bubble burst and many technology stocks, some with no revenue or earnings, evaporated into thin air. The terrorist attacks of 9/11 further damaged the economy, and this one-two combination pushed the US into a 2-year recession. The Dow fell from a closing high of 11,723 in January 2000 to a low of 7,286 in October 2002, a fall of nearly 38%. Once again, many

investors dumped stocks amid widespread pessimism about recovery prospects. But, by the end of 2003, the Dow had recovered smartly, posting a 43% gain off the bear market low set just 15 months prior. Once again, the big losers were those that abandoned their long-term investment goals and sold at or near the bottom.

2008 finds us once again in a “trying” situation. Investors have lost some of their wealth and are being bombarded by opinions about what to do now. The timing of a recovery is far from certain, it never is. What we do know is that a government sponsored recapitalization is being implemented that will add support to the housing market. Many of the highly leveraged Wall Street firms no longer exist, and those left standing will have much less aggressive business models. This suggests to us that companies will focus even more on building a solid business for the future measured in years, not just next quarter’s earnings report. Warren Buffet has recently committed billions of dollars of capital to firms he views as having just these attributes.

If history repeats itself, and we strongly believe that it will, this is no time to abandon investment programs. In fact, as Mr. Buffet’s actions show, it may be time to add to one’s stock portfolio if at all possible. We are in this for the long haul, not today’s sound bite. As always, if you have any questions or concerns, call anytime.

#### Scoreboard thru Q3 2008

Dow Jones: - 18.2%

S&P 500: - 20.7%

NASDAQ: - 21.5%