What a Difference a Decade Makes

Third Quarter 2009

When the DOW first broke 10,000 in 1999, we were all thinking of the next milestone that it would pass. Would the DOW pass 15,000? There was even a popular book called *DOW 35,000*. Clients were discussing how much more high tech stocks like Microsoft they should be adding to their investment portfolios. No matter how many times I pointed out that another tenfold increase in a stock was impossible (at that time Microsoft was worth $500 billion) clients found it difficult to believe that a $5 trillion dollar company was unlikely. Many still wanted to own more Microsoft. Euphoria was so strong that the reality of a correction seemed a fool's errand.

Since 1999, we have seen the meltdown of the tech stocks, September 11, the bear market of 2000 through 2002, and a recovery peaking in November 2007 with the DOW and the S&P setting new highs. And thus we started to believe again despite clear signs of issues on the horizon. Since the beginning of 2006 questions were being raised about the ease of getting mortgages, and people started to believe that the housing market was moving like the stock market in the late 90's. We should have learned, but "This time it's different" was one of the most frightening sentences we could ever hear.

Nothing moves upward in a straight line. Last summer saw the start of the great meltdown. Bear Sterns failed, September came and Lehman brothers went down to start the cascade. I do not need to repeat all of the details, but during this time we saw oil hit an all time high, gold go flying, and the stock market crashing along with the biggest housing bust we have ever experienced. Fear replaced euphoria as markets fell from the summer of 2008 to March of this year and many saw ten years of investment returns disappear. In March the question that I heard repeatedly was "when should we take all of our money out of the market and go to cash?"

Since March (when things were so bad that you could have gone into a McDonald's and bought a share of Citibank from the dollar menu), we have seen the biggest governmental intervention in corporate America. Starting last fall we have there have been billion dollar investments in AIG, Citi, Bank of America and finally, the rescue of GM and Chrysler. Did you ever think that GM would have failed?

Yet here we are now in October. Those who were willing to bear it out have seen quite a bounce in the markets. From DOW 6500 in March 2008 to current times, we have seen a nearly 50% correction from the bottom. Those of us that have held in there have seen a strong recovery. (We started by talking about where we think that the next move is going to be.) In 1999 there was no question that it was DOW 15,000. Now we can still see many people looking over their shoulders, avoiding cracks on the sidewalk and spitting three times if someone even mentions where the next move will be.

At the end of each report I talk about what we have learned and how we might profit from the current information. Here is what we know: inflation seems low but should start to rise. Interest rates are very low now, but we know that is artificial and they will rise again. We are in a global world, as Thomas Friedman so clearly stated in his book of the same title, The World Is Flat. All of this means that how we build portfolios today must take into consideration the new global realities.

Please expect a market correction. Do not be surprised if the markets fall 10 to 15% from where they are now. That is natural and a buying opportunity, not the beginning of the end of the world. And finally if we do see a correction and at the end of the year the DOW is again above 10,000, I will be very satisfied with the first year after the worst bear market since the Great Depression.

Michael D. Kresh CFP