



January 2009 – Recovery: How Do We Achieve It?

2008 was a miserable year for our economy and for equities. For years far too many people have lived way beyond their means by underestimating risk, by not saving and by consuming more than they could afford. This was facilitated by easy credit made available through inflated real estate values and through credit cards. Now “the piper has to be paid.”

But who will pay the piper’s bill? Unfortunately the person who will pay the most is you. You lived responsibly by not spending more than you could afford, by saving and by being conservative about financial risk. Now your savings are being eroded. Retirees cannot earn a decent interest rate without assuming a level of risk that makes them uncomfortable, and we all know that the deficit spending being done is cheapening our currency and the threat of higher inflation is very real.

Those who work may see their benefits cut and, quite possibly, their pay or even their jobs as well. Few people are happy about their current state of financial affairs.

What to do?

In May of 1932, after the stock market had fallen 85% from its high (Hopefully it won’t get that bad, but we are down over 40% since October 9, 2007). Dean Witter wrote in a memorandum to his clients the following:

There are only two premises which are tenable as to the future. Either we are going to have chaos or else recover. The former theory is foolish. If chaos ensues nothing will maintain value; neither bonds nor stocks nor bank deposits nor gold will remain valuable. Real estate will be a worthless asset because titles will be insecure. No policy can be based upon this impossible contingency. Policy must therefore be predicated upon the theory of recovery.

He went on to say this was not the first really bad economic period nor would it be the last. We have many similarities today, and we believe, as Mr. Witter did in 1932, that we will recover. The timing of such recovery is very difficult to predict, but it will happen. Monetary and fiscal policies are being activated in an historic way to return the economy to more normal conditions.

Our job is to watch, but not stop, our spending and to continue to save by paying down debt and by investing in great companies at good prices. We must be mindful of the risks our financial assets face. We must also stay politically active because in my opinion there is no question that our elected officials have performed poorly and irresponsibly through earmarks and congressional oversight being subservient to political objectives.



Investment banking and many bankers have acted for years in a manner that can best be described as amoral. We must stop such wrong behavior as: (1) lying to buy a house one cannot afford, (2) lending money to the liar, (3) rating the loan credit as being investment grade, and (4) selling off the over-valued loan asset at an artificially high price. All this is fraud, and we are all victims.

Even today, many advisors are trying to get people to invest in inappropriate financial products that promise high returns with little or no risk. Such products do not exist and are being sold only to benefit the promoter and the seller.

Having said all this I believe in our great companies, our great country and its capitalistic economy. Entrepreneurism is not dead and the clearing away of the excesses of the past few years will create the foundation for greater prosperity in the years ahead. In spite of many bad actors, I believe that the managers of most of our companies are smart and hardworking stewards, who grow, preserve and enhance the capital of their companies and their shareholders. During the early 1980's you could build a portfolio of high quality, high-interest rate, taxable and non-taxable bonds and lock them in for thirty to thirty-five years. It was an investment opportunity of a generation. I believe such an opportunity exists now but in equities not bonds in Johnson and Johnson and Proctor and Gamble, in IBM and Microsoft, in Exxon and General Electric, in Pfizer and Intel and on and on. We may not be at the bottom but we sure aren't at the top. The trip back will have unexpected twists and dangers, but we will see happy times again.

Thank you for your confidence in us through these tough times. May we all have a Happy and Prosperous New Year!