

# Message Of Hope For 2009

By Leo Abel

Based on the countless conversations I have had with clients, colleagues, family and friends over the last several months, I know I am not alone in welcoming a new year. Clearly 2008 will be remembered for quite some time as one of the toughest eras in financial history. In making this statement I am not saying this period of financial and economic weakness is behind us. Certainly startling headlines detailing the continuation of rising unemployment figures and falling GDP, along with other distressing facts, will continue to dominate the media. **However, I am convinced it is a time for us all to look optimistically forward while shutting the door (as best we can) on the pain of last year.**

*Given the savage selloff in markets over the last fourteen or fifteen months, one could argue effectively that many prices defy reason.*

Not since 1958 has the dividend yield on the S&P 500 been higher than the yield on the ten year treasury note. Further, we are hearing reports of companies which are now priced in the market at less than the cash on their balance sheets. In essence, plant and equipment, leases, patents, future cash flows and economic good will are all being "given away." These are a couple of the many examples of public investors coming to what appears to be a consensus that the cycle of growth has been permanently broken.

This past quarter I had several conversations with clients who were convinced every publically traded company was going out of business. In most instances those fears were somewhat eased when we drilled deeper into their accounts.

Companies such as Entergy, which brings power to our building, Exxon, which provided the fuel they used to get to my office and Wal-Mart, which many had been to within days of our meeting, were among the holdings. Michael Lewis, author of many books including *Liar's Poker* and editor of the book of essays: *The Story of Modern Financial Insanity* is quoted, "**How many times does the end of the world as we know it need to arrive before we realize that it's not the end of the world as we know it?**"

Putting or leaving capital at risk during times such as the one we are now going through is scary in many ways. Namely, *it runs counter to the human need for certainty* and it clearly goes against the tide of current sentiment - which is dreadful. While the details of this crisis may be different and perhaps even more tragic than those which have preceded it, I remain convicted that from the chaos of the present moment a new period of growth and prosperity will emerge for great companies throughout the world. As to when the crisis will end, anyone's guess is as good as mine. But with the unprecedented cooperation among governments globally, it may be sooner than many of us now imagine.

***Historically, what has been the response of legendary investors to environments similar to today's?***

When I think about how master investors have operated throughout history, several quotes come to mind.

During the Battle of Waterloo where Napoleon was defeated by Wellington, **Baron Rothschild** bought stocks on the London Stock Exchange while the overwhelming majority of people were convinced Wellington would lose to the French. On that day he made more money than anyone before or since (adjusted for currency translation and inflation) and is quoted as saying, "You buy when there is blood in the streets."

Legendary investor **Sir John Templeton** was quoted as saying, "Bull markets are born on pessimism, they grow on skepticism, they mature on optimism and they die on euphoria." Templeton made a fortune investing in Japanese companies in the aftermath of WWII when they were unloved by the public and very inexpensive. Further, he was totally out of those businesses prior to the bursting of the Japanese bubble in the late 1980's.

Most of us have heard the **Warren Buffet** quote to which he attributes more than anything his success; which is, "Be fearful when others are greedy. Be greedy when others are fearful." Buffet goes on further to say this about pessimism, "We like do business in environments like these; not

because we like pessimism, but because we like the prices it produces." Buffett continues to put his money where his mouth is by investing billions of capital over the last several quarters; all done during a period of time where his personal net worth has been estimated to have gone down by as much as Ten Billion Dollars.

Finally, legendary investor, **Shelby Cullum Davis** is quoted as saying, "You make most of your money in a bear market, you just don't know it at the time."

***What are some things over which we have control?***

Is it that these masters are clairvoyant? Do they possess super human powers not known to mere mortals? Clearly not. Why is it in hindsight that these great investors' moves seem so obvious?

I think it is their amazing capacities to know, without a shadow of a doubt, that when markets price various asset classes for Armageddon, it has always paid handsomely to take actions to capture that value and to then patiently wait it out. In the short term, these people were not constantly looking for affirmation from the stock market that their decisions to invest were correct. In fact, to the extent that they were not through with buying, declines were viewed as big Sales. While none of us is a Baron Rothschild or a Sir John Templeton, we can all take lessons from the way they and other virtuosos have behaved in various market environments.

**The common instinct in each appears to be NOT allowing emotions to play a role in their investment strategies. Each made decisions based on sound business logic rather than emotional decisions based on fear or euphoria, irrespective of current sentiment, trends or themes.**

Right now is a perfect opportunity for all of us to look at our highest financial priorities, the plans we have created for the realization of those objectives and to help ensure that our strategies are solid.

I have been in consistent contact with those clients who are now drawing on their capital to fund retirement. In some instances it made sense to reduce the amount upon which they are living. Other clients who are within their working years have pushed back the dates at which retirement will commence. Families who are in the middle of their working lives have decided to forego some of the luxuries in life in order to pump more capital into wealth accumulation programs. (**Remember the Davis quote, "You make most of your money in a bear market, you just don't know it at the time."**). All of these decisions and so many more have been very difficult for clients to make and many of the conversations I have had with them have been tough.

The great financial author, Nick Murray writes, "Nobody ever said equity investing was easy. Were it easy, everyone would be rich."

Happy New Year to all and thank you for the privilege of working with you.

Truly,

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