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DARE TO BE DULL

Shock and awe — stock market style

As I write this column, the stock market is down roughly 35 percent for the year. Of course, the market has been so volatile that this number may be materially wrong before I finish writing this sentence, and positively obsolete before you finish reading it.

How does this market compare to history?

It's pretty common knowledge that the market can be volatile in the short-run, and to illustrate this I'll show clients a chart that includes the worst annual performance of the stock market during a 200-year history. According to



ALLAN ROTH

Jeremy Siegel, in his book "Stocks for the Long Run," the worst single year in the stock market was a real return of minus 38.6 percent.

Although 2008 is not yet finished, this could be the year that the record is in danger of falling.

I've always been a bit skeptical about annual reports from publicly held companies. It's way too easy to get creative with accounting statements, as did Enron and WorldCom. But I must admit, until lately I saw these as occasional misstatements.

Today, however, we are dealing with a whole industry — financial services.

Take Lehman Brothers as an example.

During 2007, it was named the most admired securities firm by Fortune magazine. In its 2007 annual report released during 2008, Lehman showed a record profit of \$4.2 billion and noted its "vigilance on risk."

During just the first half of 2008, Lehman Brothers increased its long-term capital to \$154.5 billion from \$145.6 billion six months earlier. Yet just a few months after the release of this report, Lehman's turned its impressive position and vigilance on risk into a bankruptcy filing that rendered its common stock worthless.

And by worthless I mean just that — zero,

worth not even a penny.

This is bad enough for a single company but it seems that the entire financial industry was doing the same thing. Look at AIG, Wachovia, Washington Mutual, Merrill Lynch, and Bear Stearns. And don't forget those that have so far survived, thanks to us taxpayers, like Citigroup and Bank of America that are now worth a small fraction of their value a year ago.

So while the Enron's and WorldCom's were fairly common earlier this decade, this year it's the financial services companies with annual reports that just plain ignored the ton of sub-prime debt during a time of declining real estate prices.

Investors are dazed

I've always known we could be in for a black swan, but 200 years of history gave me a degree of confidence on the down side of the market. Got to admit though, I'm one of those investors walking around with a bit of shell shock.

Following the market has gone from being stressful to out and out painful and, when I come home, let's just say my wife and son say I'm rather joyless.

And apparently wordless, as a recent KRDO TV interview demonstrated.

At the moment that Eric Singer was asking me what investors should do with their 401(k)'s and pensions, my brain decided to go as blank as a chalkboard, which left me no other alternative than to start blathering something totally lacking in insight.

Like the SNL skit lampooning Sarah Palin's interview with Katie Couric, I found myself wanting to ask Eric for a lifeline or to call a friend. "Hello? Mike Boyd? HELP!!"

But this crisis is not all bad

My wife has suggested that I refrain from talking doom and gloom, so I'd like to conclude with some good things about this financial crisis.

1. Stocks are now having a 40 percent offsale.

If you have been kicking yourself when you didn't get into the stock market in 2002, when it had a 50 percent off sale, this is your chance. Consider dollar cost averaging in.

2. The rest of the world subsidized our debacle. While sub-prime lending was primarily a U.S.-based phenomenon, the rest of the world bought more than its fair share. During the past, we have helped many foreign governments and now they are returning the favor.

3. We can afford to fill up at the gas pumps. Oil is down more than 60 percent and gasoline is becoming relatively affordable. So much for the gurus that said lower oil would lead the stock market to new highs.

4. The dollar has roared back. Between 2002 and earlier in 2008, the U.S. dollar plunged against the euro from each dollar buying 1.16 euros to only 0.63. Today, our dollar is worth 0.80 euros, a 27 percent increase in less than four months. As bad as the U.S. financial system is, the world still believes there is safety in the dollar.

What am I doing?

I'm taking some of this good news and not abandoning my view that capitalism will continue past this crisis. Some might just say I'm in denial, and I've been called stubborn more times than I'd like to admit.

I have no clue when the market will bottom and the volatility will lessen. There are, however two things I can promise are correct:

The market is a better value today than it was last year.

It's better to buy low and sell high than to do the reverse.

Uncertainty is here to stay. My advice is to embrace it.

Allan Roth is a CPA and Certified Financial Planner. He is the founder of Wealth Logic LLC, an hourly based financial planning and licensed investment advisory firm, and is an adjunct finance faculty member at the University of Colorado at Colorado Springs. He can be reached at 955-1001 or at ar@DareToBeDull.com.