January 2001

I've Fallen And I Can't Get Up

I was re-reading my newsletter from last January and had two thoughts: (1) I'd better take a writing class, and (2) I wish I'd been wrong (for those interested, you can find a copy of the letter on our web page www.access-advisors.com in the newsletter section - article titled "Conservatism Kills").

The year end numbers read like the scorecards from Tiger Woods last five tournaments: Dow Jones Industrial Average –6.18%, S&P 500 –10.14%, Russell 2000 Small Company Index –4.20% Dow Jones World Index –17.36% and the Nasdaq Composite –39.29%.

Bonds, however, had their revenge this year. The Merrill Lynch Corporate Bond Index was up 9.09% in 2000.

To add to the madness, the "professional" analysts that had been touting technology stocks at their all time highs, now have hold or sell recommendations on these same stocks - even though their shares are half or a third of their prices just months ago. The pressure from customers for short-term performance has turned even some of the more distinguished analysts into momentum players rather than patient long-term value seekers.

Is the stock market dead? Of course not. Will technology stocks ever recover? Of course (that is, companies with real earnings and market dominance will). Should we put all our money in bonds as the new sages have been spouting? Not on your life.

When stocks increase in price the way they did in 1999, (Nasdaq up 85.5%) without a corresponding growth in profits, something has to give – and it did. It doesn't, however, necessarily portend anything more dire than that. People were willing to spend money on outrageously priced stocks and now they're not. It really is as simple as that. These companies (the real ones that is) need some time for their earnings to catch up to the hype. Now that prices have come down, catching up will be quicker.

Remember, the real villains here are taxes and inflation. Bonds and CD's provide stability, but not much else in the long run. After a 40% tax rate and our current modest 3.5% inflation, a long-term bond return of 7% is really only .7%. Not much margin for error if inflation heats up.

Risk cannot be avoided only managed. Even "riskless" investments like T-Bills create risk of their own – the risk that the money won't be worth as much when you eventually need it. The key to investing, much like in life, is balance. The balance point for everyone is different. To gain stability you give up return, and vice versa. Our directive is to help you find your balance and keep you from hitting the pavement.