

October 2002

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It's Different This Time

Spring is sooner recognized by plants than by men – Chinese Proverb

The title of this newsletter is credited to Sir John Templeton, one of the greatest investors of our time. He used to say that the words "it's different this time" comprised the world's most dangerous phrase. He may be right. In 1987 I heard many investment prophets prattle on about how "the old metrics don't apply to stock valuations anymore". Guess what, they did. In the late 90's and into 2000 they said it again and in fact came up with a nifty ratio – the PEG ratio (price/earnings ratio divided by the 5 year *projected* growth rate) - to justify the outrageous prices some were willing to pay for techno junk. And it happened again.

It's not surprising then to see many of the same people, who said the good times would never end now wringing their hands about the demise of the economy and the stock market.

Let's look at some history. We have had **seven** ugly bear markets since 1929. These bear markets took stock prices down between 42% and 55% from the previous market highs. We are hovering around a 50% drop from market highs right now. **Following the previous bear markets came substantial 12 month gains, ranging anywhere from 30-60% (the average in the 50% range).** But, it's different this time. Really?

The Threat of War. World Wars I and II, The Korean War, Vietnam and Desert Storm did not hold the market or commerce back.

The Economy. Corporate operating income is rising (this is income before interest, depreciation, taxes and *non-recurring items* – read; write offs). Companies have shed the fat, written off the losses, and are much more efficient than they were two years ago. Just as they were as they came out of previous downturns.

The Instability in the World (read; Middle East). *Stability* in the Middle East would be news.

It's tempting to think that our time is unique. That technology has changed the world so dramatically that the old rules don't apply. I'm sure people felt that way when the Cotton Gin was invented, or the vacuum tube. There has always been technology (starting with the wheel), war, terrorism, recession, and uncertainty. But through it all, the pendulum that is life continues to swing - to and fro.