

# It's Different This Time

September 2008

That seems to be what the "headline news" is telling us these days. Oil, although retreating recently, has traded at nearly \$150 a barrel within the past quarter, real estate values have taken a beating, the dollar has weakened substantially against many of the world's major currencies, credit markets are behaving badly, the venerable Wall Street firm Lehman Brothers files for bankruptcy protection, and Merrill Lynch is absorbed into Bank of America. Lending stalwarts Fannie Mae and Freddie Mac have come under government control. Inflation is rising and consumer confidence is falling. Many areas of the world are politically unstable; wars and regional conflicts threaten. Investors, fearing the potential damage of market collapse, have crowded the exits and are selling shares of companies around the world in favor of less risky assets.

Consider the following quote from Fortune magazine: "This time it is different. This time the market won't be so quick to bounce back . . . Who can look at the world right now and not conclude that things have changed dramatically?" Now, consider that the article containing this quote, written by Joseph Nocera, was published in the September 28, 1998 issue of Fortune.

These are scary times, no doubt. And it's true, it is different this time. The circumstances in play right now are unique. We've never experienced this exact combination of factors before.

Throughout capital market history, events and circumstances have provided an unending stream of reasons for investors to question the wisdom of owning equities. Recent decades are no exception. "In the moment", all these situations had frightening implications.

We've enclosed a chart identifying some of the more significant political and economic events of the past five decades. Many of you experienced all of these, some only the more recent. Regardless, as an investor, you'll no doubt recall the anxiety they created at the time. With the perspective time provides, they may seem a little less threatening and, from a market perspective, more like "non-events."

The point is that the world has always been, and continues to be, an uncertain place. Risks abound, and at any given point in time, factors are in play that argue for "now" not being a good time to own equities.

But the evidence shows that over the past 80 years, where we have very good data on the performance of different asset classes, equities markets have rewarded investors with an after-inflation return nearly three times that of bonds for putting up with the uncertainty of

equities markets. In our enclosed chart, the ending value of \$1 invested in the S&P 500 in 1961 was just shy of \$110 at the end of June 2008. That same dollar, invested in 90-day T-Bills, was worth just under \$13; inflation had eaten away well over \$7 from the purchasing power of each.

The implications of this difference shouldn't be lost on those of us who need to be long-term investors. Over time, we need a potent offsetting force to the erosive power of inflation. For most of us, that means owning equities.

So, back to our original thought . . . . Is it different this time?

Yes, it is. The particular combination of circumstances in play today are unique. But that was also true of every single event listed on our chart. In each of those instances, the set of circumstances in play at the time was different than it had ever been before. And each, at the time, was very scary – just like today.

So, while the “particulars” have changed, the basic premise has not. Equities markets are volatile – that's their nature and that's why we expect to be compensated with a return premium for investing our capital there. Over the long haul, their volatility (both positive and negative) tends to cancel itself out. But the return premium remains.

We can't find a basis, given the current set of circumstances, that leads us to believe that capital markets are going to function differently going forward than they have in the past. For that reason, we believe the best course of action at this point for most long-term investors is to remain fully invested.

For our clients specifically, your allocation was developed with the knowledge that this kind of volatility was not only possible, but likely. Your Investment Policy Statement illustrates this in the pages showing historical best-and-worst returns. Your allocation was also chosen specifically to fit your circumstances, so the probability is very high that, although this is an uncomfortable time for most investors, your portfolio remains very suitable to your circumstances.

If you'd like to discuss this with us, we'd welcome the chance to visit with you. Part of our role is to bring objectivity in times where that commodity is in short supply. Please give us a call or come in and see us if we can be of help or encouragement to you. We look forward to hearing from you soon.

Sincerely,

Foster Group

# S&P 500 and Major Global Events

## January 1961 to June 2008

