



DHWA Investment Update 2008

Vol. # 1

In an effort to keep you up to date and informed we are introducing Investment Updates. These periodic emails will focus on a single, current topic and they will be sent in between our regular quarterly newsletters. We hope you enjoy this increased level of communication.

This Time It's Different!?!

October 2007 marked the 5 year bull market high, and since that time most equity asset classes have retracted the full 20% or more needed to be called an official bear market. There has been no scarcity of bad news to go along with the market drop. Energy prices, weakness in housing markets, and banking/credit issues are the leading reasons for the current slump. Some are questioning whether this bear is so meaningfully different that perhaps a run-for-cover attitude is in order.

Weston Wellington is a stock market historian. He has recently shared some of his research into past bear markets, and how market and economic reporters of the past felt about what was happening in their specific bear markets. We'd like to share some quotes from earlier bear markets found in some of our country's most reputable periodicals and newspapers:

"There have been multiplying signs that the long American romance with the big car may finally be ending. . . . Economists generally are agreed that the era of readily abundant fuel has ended for good." *Time*, "The Painful Change to Thinking Small," December 31, 1973.

"Investors have been frightened of an economy that seems out of control. . . . The stock market has scarcely been so shaky since 1929." *Time*, "Seeking Relief from a Massive Migraine," September 9, 1974.

"The woes of inflation and stagnation have touched nearly every American, but while some people are only slightly bruised, others feel as if they have gone ten rounds with George Foreman and are down for the count." *Time*, "Who Is Hurting and Who Is Not," October 14, 1974.

"Chase Manhattan, the second largest US bank, is letting go 5,000 employees, or 12% of its work force, in a struggle to remain solvent. . . . The construction industry has creaked to a virtual halt after a decade of overbuilding. . . . From stock markets to supermarkets, high anxiety rules the day." *Time*, "All Shook Up," October 15, 1990.

"The worry today is that the real estate recession, which is spreading nationally, could severely weaken the banking system, pulling down many smaller banks and a few big ones as well. . . . 'Our real estate market is as bad as we've had since the 1930s,' said Leo Spang, a Boston banker and president of the Real Estate Finance Association, a trade group." *New York Times*, "Banking's Real Estate Miseries," January 13, 1991.

"Falling real estate prices and the fragile state of the banking system make this recession unlike any other and extremely difficult to forecast." *Wall Street Journal*, "First Boston's Bear, Carmine Grigoli, Refuses to Stop Growling Despite Stocks' Big Rally," February 7, 1991.

"The nation's top auditor said today that many more banks were effectively bankrupt than regulators had recognized. . . . 'The bank insurance fund is nearly insolvent, and I cannot overemphasize how important it is to restore it as quickly as possible,' Mr. Bowsher [Comptroller General] told the Senate Banking Committee." *New York Times*, "Bank Deposit Fund Nearly Insolvent, US Auditor Says," April 27, 1991.

"We're going into one of those long periods where the market does nothing except consolidate this huge move up we've had. Dow 4000 is going to be with us for a long time." *USA Today*, "Will Weary Legs End 20-Year Bull Ride?" December 6, 1994.

[Our note: the date of the above article was just months before the start of the greatest 5-year total return of the S&P 500 Index since its formation.]

"This economic convulsion is unprecedented in the post-World War II era." *Newsweek* September 7, 1998

"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?" *Fortune*, "Requiem for the Bull," September 28, 1998.

"Wall Street stocks have plunged-Merrill Lynch down 59%, Morgan Stanley down 59%, and Lehman Brothers down 67%. . . . The real problem is with the risks that are unquantifiable." *Fortune*, "Can the Brokerage Stocks Come Back?" October 26, 1998.

[Our note: all three stocks rose to new highs less than 2 years from the date of this article.]

"Investor nervousness pushed stock prices lower yesterday . . . Many companies are overloaded with debt at a time of slowing economic growth. Among the stocks leading the decline yesterday were those of companies sensitive to the business cycle. . . . A Morgan Stanley index of 30 of these stocks plunged 4.7 percent yesterday, reflecting the worry that the economy may be headed for another recession." *New York Times*, "Negative News from Some Blue Chips Takes Heavy Toll," October 10, 2002.

[Our note: The S&P 500 Index hit its bear market low on 10/9/2002 (the day this article describes), and started a new five year bull market on the exact date of this article.]

One can clearly see that many of the authors cited above believed that their particular bear market was different -- so different that the expected outcome was thought to be dissimilar to the "other" bear markets that preceded theirs. Many of the issues in these past articles were extremely similar to the economic concerns of today. Yet with hindsight, we see that not only did those markets repair themselves and ultimately thrive, but often the bottom was very close at hand when they were written.

We cannot guarantee how long the current bear market and economic weakness will continue. But we do believe that our country has been through other difficult, and in some cases surprisingly similar times. Ultimately, we believe the end result will be same as the results with each of the above bear markets - a new bull market and eventual new market highs.

Feel free to contact us regarding this or any other topic you wish to discuss.

Sincerely,

Dixon Hughes Wealth Advisors