

Let History Be Your Guide

By: Brian Puckett, JD, CPA/PFS
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It seems like just yesterday that I wrote the following note to our clients following the Sept. 11th attacks on the World Trade Center:

*“In the first week of trading since the terrorist attack on America closed the stock exchanges for four days, the uncertainty and fear about the economy and the prospect for war weighed heavily on investor’s minds. Stocks fell on all five days and the aggregate market values of U.S. stocks declined by \$1.4 trillion last week. The Dow Jones Industrial Average declined by 1,370 points and, by the end of the week, was down to 8,235.**

In percentage terms, last week’s 14.2% decline was the worst week for the DOW since July 22, 1933, in the midst of the Great Depression. It reminds me of Franklin D. Roosevelt’s powerful inaugural address speech on March 4, 1933, when he famously said, “The only thing we have to fear is fear itself.” FDR’s words are worth repeating today, when America’s investors are obviously gripped with acute fear of the unknown.

One of the lessons of history is that nothing is often a good thing to do and always a clever thing to say.

Will Durant

There’s an old saying that if you live long enough, you’ll see almost everything. Think of the events that have happened over the last 75 years. 1929 – the stock market crashes; 1933 - U.S. banks close, Great Depression; 1939 - World War II begins; 1941 - Japan bombs Pearl Harbor; 1950 - The Korean War begins; 1963 - President Kennedy was assassinated; 1973 - The OPEC oil embargo; 1974 - Nixon resigns; 1980 - inflation rises to 14%; 1989 - the Savings and Loan crisis leads to a \$500 billion bail-out; 1990 - Persian Gulf War; 1995 – Oklahoma City Bombing; 1997 - Asian Financial crisis; 1999 - Clinton Impeachment Hearing; 2001 – the World Trade Center and Pentagon are attacked by terrorists.”

Ironically, if any of us possessed the ability to foresee calamities, we would have undoubtedly been too terrified to have been an owner of American equities over that period of time. However, **that’s exactly where we should have been**, because the markets have done very well over that period. In fact, an investment of \$100 in the S&P 500 at the beginning of 1926 grew to roughly \$238,000 by the end of 2003 according to Ibbotson & Associates research.

The reason I write about this now (in early June) is that the markets finally produced good results in 2003, but 2004 has seen a market that can’t make up its mind. Undoubtedly we still have situations that we are trying to put behind us and there will be more challenges to face in the future. We continue to have a crisis of confidence in corporate America that is rocking Wall Street and the threat of terrorism still looms in the background. Oil is at an all time high and interest rates are sure to rise. On the bright side, our economy is very resilient, we have

unbelievable economic growth, productivity is soaring and the economy is finally adding jobs. The lesson to be learned from all this is that while we will continue to face hurdles, we will work toward overcoming them. It is important to maintain a well-diversified portfolio based on your personal goals and objectives, not what's going on at any given moment. History says it has been ever thus.

*The Dow Industrial Average is an unmanaged index and cannot be invested into directly. Past performance is no guarantee of future results. Investing in small cap stocks involves specific risks such as greater volatility and potential illiquidity.

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