Sather Financial Group, Inc.
Registered Investment Advisor

Third Quarter 1999 Commentary

Difficult is probably the best way of summarizing the most recent quarter of U.S. stock market history. The period of June 30th through September 30th left most people shaking their heads. Over 60% of the stocks traded on the New York Stock Exchange have fallen more than 20% from their highs and over 80% of the stocks traded on the NASDAQ have fallen more than 20% from their peaks. To further emphasize the weakness in the overall markets all you have to do is look at year-to-date figures. More than half of the companies traded on the NASDAQ, American Exchange and New York Exchange have a negative return for the year.

If things are so bad, then why is the S&P 500 Index up 4.35% for the year? In order to properly answer this question you must recall that the S&P 500 is a market weighted index. This means that while there are 500 companies represented in this index they are not evenly weighted. Microsoft and General Electric are the two largest companies in this index and represent about 9% of the total performance of this index. Given this, Microsoft and General Electric could be up and all other 498 stocks could have dropped and yet the index would show positive performance. Obviously though, most stocks would be experiencing poor performance. In 1999 about five large stocks have resulted in the good performance of the S&P 500 Index while the others have trailed behind.

Fixed income assets had a difficult quarter too. Long term U.S. Treasury Bonds, corporate bonds and muncipal bonds are all showing losses year-to-date. This has been due to interest rates on the thirty year U.S. Treasury Bond increasing to as much as 6.5%.

Many of the difficulties this year have been attributed to the Federal Reserve raising short term interest rates twice during the most recent quarter, weakness in the U.S. dollar (relative to other currencies) and a record trade deficit. To further intensify matters the President of Microsoft, Steven Ballmer, publicly stated that he felt technology stocks were grossly overvalued. Additionally, we have had all sorts of financial “experts” hype the latest Gross Domestic Product, Producer Price and Consumer Price Index figures.

At times such as these it is paramount to remember a few key business tenets:

1. A stock is not a piece of paper. A stock is a company. When you buy a stock behave as if you have purchased the entire company and wish to hang on to it for ten years or more.
2. The broad stock markets do on a regular basis lose money over shorter periods of time.
3. It is equally important to focus on the fact that over long periods of time large stocks go up approximately 10% per year (but never in a straight line).
4. In ten years no one will care that the Producer Price Index was higher than expected in the third quarter of 1999. Things such as the PPI, CPI, GDP or any other set of initials people can think up will have a miniscule, at most, effect upon an individual company over the long term.

Most people are curious to know when the markets will turn around. I really don’t know. However, I suspect that things will be jittery throughout the remainder of the year. Whether we are or are not Year 2000 prepared is irrelevant simply because until January of 2000 rolls around there will continue to be indecision. On October 5th the Federal Reserve decided to leave short term interest rates unchanged, but has modified their bias towards that of tightening. All this means is that the Fed is not doing anything now, but is leaning towards raising rates. The remainder of the year should be interesting.

Please don’t hesitate to call or e-mail (sather@viptx.net) with questions.

Sincerely yours,

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