Sather Financial Group, Inc.
Registered Investment Advisor

August 20, 1999 Commentary

It seems that the past few years the stock market has displayed increasingly manic behavior—maybe this year the culprit is the solar eclipse or Friday the 13th. I really don't know.

What I do know is that since November of 1998 long term interest rates have increased from 4.75% to 6.25% (better than a 30% increase in rates). Typically, this increases borrowing costs to corporate America which in turn decreases profits. What I don't understand is why the stock market as a whole declines rather dramatically because we receive one report that wages as a whole are increasing. This revelation dropped the S&P 500 index 10% from its peak and the NASDAQ index fell more than 13%.

Ten days later we received the Producer Price Index which indicated that maybe inflation is not as threatening as once thought. All of the sudden the skies are blue again and the markets take a substantial upturn. Follow this up a few days later with disappointing news about the trade deficit and the value of the dollar and the market is sliding again.

I suppose these individual statistics are interesting to some people. However, they have very little to do with long term business fundamentals. Pizza Hut selling pizza all over the world in a profitable manner has everything to do with business fundamentals.

It is important to note that stocks have declined 10% or more on 55 occasions this century. Furthermore, on 15 of these 55 occasions, stocks have dropped 25% or more. Understanding these numbers it is easy to see that the market experiences substantial drops on a regular basis. These corrections can be uncomfortable at a minimum. People lose confidence in the economy, the market and their portfolios. It is much like a storm that rolls in and blackens the sky as fear sets in.

Hindsight is always 20/20. However, it is educational to examine the 1000 point drop in the Dow Jones Industrial Average between August and October of 1987. While this drop was scary to say the least, most people forget the 1000 point increase in the Dow in the eleven months that preceeded the drop. If we had all been Rip Vanwinkle and had slept through the year we would have looked at 1987 thinking the market was flat for the year and nobody would have panicked.

Knowing these things it is paramount that we focus on the long term fundamentals of businesses.

Sincerely yours,

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