Sather Financial Group, Inc.
Registered Investment Advisor

First Quarter 2001 Commentary

One Year Ago Greed & Irrationality Masked High Risk—Today Despair & Depression Mask Long Term Opportunity

I'll spare everyone the long drawn out explanation of how poorly the stock market performed in the past quarter as well as the past twelve months. The Readers Digest version is that the technology heavy NASDAQ has continued its plunge—down 25% for the quarter and 64% over the past year. This tech drop is nothing unexpected. Unfortunately, the broader market has been pulled down with it—but not nearly to the same magnitude. In the end the NASDAQ and S&P 500 are in a "Bear" market (down 20% or more from its peak) and the Dow came quite close to hitting the same mark.

What exactly does a Bear Market designation mean to investors and the economy as a whole? The S&P 500 has experienced ten bear markets between 1950 and 2000 (one every five years on average). Although bear markets are not unusual, the S&P 500 had not seen one since 1987. The post World War II bear markets have averaged a 29% decline from the peak to the bottom. In this respect, the current bear market is fairly average. In terms of duration, we are now twelve months removed from the S&P 500's peak which is also close to the average length of post 1950 bear markets (15 months).

In evaluating our economy a couple of points should be made. Unlike the 1970's we do not have double digit inflation, an oil crisis or the Vietnam war. Additionally, we do not have Japan's hobbled financial system mired in bad debts left over from an overblown real estate spending spree. What we do have is an economy which produced a positive one percent gain in GDP in the fourth quarter of 2000 and, despite a slowdown in 2001, the *economy should still avoid a recession and produce a small, yet positive gain in GDP*. To enhance economic output the Federal Reserve has already lowered short term interest rates by 1.5 percentage points. It is anticipated that the Fed will lower rates at least another one half percentage point in an effort to spur the overall economy. While the Fed's interest rate cuts are stimulative to the economy we must not forget that these moves are not typically felt for at least nine months. In analyzing the economic slowdown it is interesting to note that stocks tend to bottom out halfway through an economic slowdown. As such, we may see more slowdown in Gross Domestic Product, but the stock market may begin its recovery when things appear at their worst.

From the bottom of the last ten bear markets, it took nineteen months, on average, for the S&P 500 to recoup its bear market related losses. As I have always stressed, the stock market is a long term commitment of ten years or more. Patience is certainly an investing virtue. Given this, **investors should see the current decline as an opportunity to buy quality companies at decent prices**. Currently, our economy is faced with slowing growth in corporate profits. (Please remember back to previous discussions that the value of any business is the compilation of its earnings over time). Naturally, this earnings slowdown would cause one to be concerned about the value of stock market prices. However, I do not think that people will stop consuming food, electricity or housing—not to mention necessities such as cable television, beer and cigarettes. Consumers will continue to buy pharmaceuticals, health care products and personal hygiene items. Companies selling these products and services and many others will continue to sell them at profitable levels. In its entirety, the stock market is probably close to being fairly priced, but definitely not of bargain status. While there are pockets of good value, it is equally pertinent to point out that there are still many companies, which are quite overvalued. Given this, it is imperative that investors remain ever vigilant in their search for companies that consistently earn greater profits on a regular basis over time. Companies of this quality are out there, the investor must be patient and knowledgeable however. Do not be disappointed, though, if one year from now the stock market as a whole is in a very similar place. These situations take time to correct and as stated before patience will be quite beneficial.

Given all that has occurred in the past quarter and year now is an excellent time to review your investing Goals and Objectives. Furthermore, it is a good time to review your Estate plan, Retirement plan, Insurance coverage and Tax issues. While the stock market is quite interesting I encourage everyone to continue to develop, implement and enhance a well rounded financial plan. ***My job is to help you coordinate these activities and implement solutions that will make your life better.*** If you have any questions or comments please drop by or give us a call.

Sincerely yours,

Dave Sather, President
Certified Financial Planner

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