

Sather Financial Group, Inc.
Comprehensive Wealth Managers

Don't Follow The Lemmings

I am sure by now we are way beyond the point of sounding like a broken record. However, the current situation is one of emotion and manipulation. In the process, our financial markets have become completely disconnected from the fundamental valuations associated with the earnings of a company. It reminds us of Warren Buffett's advice to "not follow the lemmings".

Lemmings are odd creatures, which operate in a pack mentality. With regularity one of the lemmings decides it would be a great idea to run off the edge of a cliff, inadvertently committing suicide. The other lemmings, who can't think for themselves, follow the lead lemming and the whole crew goes flying off the cliff to an untimely demise. Many who invest (or rather trade) in today's markets are financial lemmings.

Therefore, we see people with one of two choices. Option 1: Follow the lemmings off the cliff or Option 2: Think independently and assess the economy or a business for what it is, what it does and what it earns. To do so, maybe it would help if we looked at the root of the issue: bad mortgages.

1. Currently, 94% of all mortgages are being paid in full. This is not a complete system meltdown. If 6% of mortgages are non-current, and we have a \$15 trillion mortgage market, then the full value of all delinquent mortgages is only \$900 billion.
2. If ALL sub-prime mortgages went to zero (which is completely improbable) it would only reduce the face value of those mortgages by \$2 trillion.
3. The loss in stock market value is now more than \$6 trillion--far more than all sub-prime mortgages combined. Obviously this has been a tremendous overreaction to the mortgage problems.
4. So far the US Government has pumped more than \$700 billion into our financial system.
5. We have not seen this many companies trading for below hard book value since the Bear Market of 1973-74.
6. Despite the market being down, financials are up today, as are many of the homebuilders. This is a positive sign to us.
7. We are NOT in a depression and do not believe we are headed for a depression.
8. Goods and capital are still flowing freely and banking is still being allowed to occur. For those banks that cannot handle their affairs, the FDIC is doing a tremendous job of coordinating the transition of banking deposits to strong banking institutions. As such, depositors have not lost a penny due to banking failures.
9. During the 1930's the government was steadily raising taxes. Taxes are currently low and very stimulative.
10. During the 1930's we had an agrarian economy. Today our economy is extremely well diversified.
11. During the 1930's we had 25% unemployment. Currently, we only have 6% unemployment.
12. Non-financial companies today have more cash on their balance sheets than any other time in the past 15 years. This provides flexibility to weather the storms as well as expand their operations and improve profitability.
13. If now is not the point of maximum pessimism, we are close.
14. Now is the time to think reasonably and rationally. The person who reacts emotionally will be nothing more than a lemming.

Call with questions.

Sincerely,

Dave Sather, President
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