

*Sather Financial Group*  
*Comprehensive Wealth Managers*

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**End of July 2008 Commentary**  
**What Matters To You: Value or Emotion?**

For quite some time we have rambled on about the importance of not making emotional decisions and instead focusing on the earnings (value) of a business. Furthermore, we have warned against making short term decisions motivated by the media, panic or your friends at the coffee shop. The last two months helped us to make our point rather well.

Consider the short term pricing of US Bancorp, Wells Fargo and Bank of America from May 31 through July 15, 2008.

	<u>US Bancorp</u>	<u>Wells Fargo</u>	<u>Bank of America</u>
May 31 <sup>st</sup> Price	\$33.19	\$27.57	\$34.01
July 15 <sup>th</sup> Price	\$22.70	\$20.51	\$18.52
Price Drop	(32%)	(26%)	(46%)

I don't care who you are, that is one heck of a drop for these large diversified banks in a mere six weeks. Unfortunately, *the emotional stock market decided to price these companies as if they would never make a loan again, no one would ever pay their mortgage again and no one would ever keep money in a bank again.* And of course the media jumped all over this drop sensationalizing it as much as was possible.

**If you listened to the media and the supposed experts you would have sold everything on July 15<sup>th</sup> and buried your money in your back yard.**

What a difference two weeks makes. After July 15<sup>th</sup> and the supposed "end of the world" we all collectively took a step back, took a deep breath and reassessed things. And the following is what happened:

	<u>US Bancorp</u>	<u>Wells Fargo</u>	<u>Bank of America</u>
July 15 <sup>th</sup> Price	\$22.70	\$20.51	\$18.52
July 31 <sup>st</sup> Price	\$30.61	\$30.27	\$32.86
Price Increase	+35%	+48%	+77%

On average, these three stocks increased 53% in only two weeks. Essentially, we ended the two month period where we started plus we received very handsome dividends in the process. More importantly is the FACT that a businesses value is still based upon its earnings. Additionally, *there is NO conceivable way that the true value of these businesses should in any rational world drop so much and then increase so much.* During the entire time period these banks did the exact same things each and every day: make loans and keep deposits.

The bottom line is this: Short term the stock market is nothing but a fickle beauty contest (which makes little or no sense). Long term, the true value of a business is measured by the compilation of its earnings.

If you attempt to trade stocks on a short term basis you are almost guaranteed of losing. No one has ever proven the ability to successfully trade stocks over short time frames. *If you focus on the long term fundamentals of a business it is much easier to make logical and rewarding decisions.*

If you have any questions or comments please give us a call or stop by the office.

Sincerely,

Dave Sather, President  
CERTIFIED FINANCIAL PLANNER™

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