



## The Great Recession

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### Naming the Beast

We at FFA have struggled to adopt a name for this economic moment in history. Some refer to this period as the Great Depression 2. Having relatives, clients, and friends of the Great Depression era has taught us too much respect for the pain they (or their parents) suffered. Our respect for them and the severity of that period is far too profound to latch onto GD2.

So Great Recession it is, until something better comes along. (Our 2<sup>nd</sup> place vote went to “Not-So-Great Recession”.) Perhaps not-so-great is a more apt descriptor.

### The Bear’s Teeth Sink Deeper

You don’t need us to tell you it ain’t pretty out there. For those who don’t follow so closely anymore, let us get you up-to-date. Year-to-date, the Dow Jones Industrial Average (DJIA) is down over 2,100 points or -25%. Over the same period, the S&P 500 is down -24% and the Russell 2000 (small stocks) is down -30%. Oh, and that is the good news.

The more sobering numbers are found in the “peak to current” period: the time between October of 2007 when the markets peaked and today where they again hit bear market lows. From peak to current, the DJIA is down-53%, the S&P 500 is down -56%, and the R2000 is down -59%. These are truly staggering drops and have left even professional investment managers shaking their collective heads. (We simply bang them against what is left of our walls.)

So, the Great Recession has clearly stirred the bear into a tizzy and the results are horrific. Seemingly daily, we see news that seems surreal; seeing Citibank become a penny stock was one of this week’s moments. Next week will surely bring more headlines that will make our heads shake.

### When Does it End?

No one, including President Obama, Ben Bernanke, Warren Buffet, and FFA has a clue when things will turn. Trying to guess the unknowable perhaps feels good as it is taking action; the reality is each moment doing so is a wasted moment.

There is a fact on Wall Street: the markets will finally turn positive only with the confluence of two critical items: time and price. When will the market start climbing again? Well, it will happen when the time is right and the price is right.

Today, emotions rule the day and the fundamentals of investing have been suspended. Trying to make rational investment decisions in an irrational marketplace is a fool's errand. When emotion rules the day, fueled by an all-too negative media, all bets are off short term.

### **Markings of Bears Gone By**

While each bear market has its own distinct nuances, many follow similar patterns. The technical patterns are too lengthy to capture here; however, the emotional stages are a less complex process to explain.

In bear markets, investors slide through emotional stages. As stock values drop, investors feel anxiety, then denial, then fear, then desperation and panic; at this time, investors capitulate and believe that the "world is ending." These stages have been seen in each and every bear market we have studied and/or lived through.

It is at this time of capitulation that no amount of common sense seems to help. It is at this time that clients hear our words intellectually but cannot grasp them emotionally. It is at this time investors are consumed with the daily movements of markets. And it is at this time where investors have a choice to make: trust history and those who have lived it or believe that this time it is different and history does not matter.

We continue to believe that this market is truly a once-in-a-lifetime buying opportunity for those who have the tenacity to swim against the market tidal wave. Stocks, so loved by all not so long ago, have become the ugly stepchild, banished to the woodshed not to be discussed. Everyone it seems, from the hairdresser to the chiropractor, has an opinion and none of those opinions are positive. This is human emotion at its purest, the fight or flight syndrome. Americans by and large have chosen to flee. It is these times where the smart money takes action.

For those who don't have time on their side but have lots of holdings with lots of losses, we urge patience. It is these situations where households implode their financial futures by throwing in the towel and selling their stocks at significant losses.

To give up now and sell only guarantees one thing: the creation of real losses vs. paper losses. Stocks are meant for the long haul and there can be no doubt we are in the midst of a long haul. Eagerly buying stocks at \$80 a share, then wanting to sell at \$20 with no reason other than emotion guiding you is a guarantee of one thing: financial failure.

Most of us own shares of investments that have dropped significantly, some more than -60%. To sell now, wait for the market to “turn around”, then get back in when “times are better” sounds so eloquent and simple. However, it is anything but. Trying to time the market has failed professional investors for all time; why should these times be different? If you own the shares and your faith (or FFA’s) in the investment’s fundamental soundness remains strong, then don’t sell. Turn off the news, stop checking the daily prices, and go back to what stock investing was meant to be: a long-term proposition.

### **History in the Making**

It is no small task trying to find positives when a bully has you on the ground thumping you. However, we urge you to try to do so anyways. We have no idea when this storm will pass but that doesn’t stop us from appreciating the power of the storm. These times, these moments are history in the making and we are all part of it. We can choose to admire the power or let the power destroy us. We choose the former. Together, we must all take a collective deep breath and realize that this too, eventually, shall pass.

In closing, we remain grateful for your trust and confidence. Thank you.

Best Regards,

Berthann & Craig