December 31, 2002

2002 has come and gone, leaving equity investors with their third consecutive calendar year of negative returns. Which begs the question: do stocks still make sense for the long-term investor? Historical perspective reveals that the answer remains a resounding yes. Remember that the primary tent of stock market investing is that the stock market is completely unpredictable over short periods of time. All of the world's most successful investors (Warren Buffet, Peter Lynch, Sir John Templeton, etc.) freely admit as much. But they also freely admit that over long periods of time, stocks have always delivered consistent positive returns. However, the only way to capture those returns is to remain committed to equities through thick and thin.

Consider the following scenario: Suppose an investor put 100% of his money into the stocks of the S&P 500 index on January 1993 and did absolutely nothing for the next 10 years. During this time, the Untied States would go from having a liberal Democratic President (Clinton) to a conservative Republican President (Bush), experience two severe recessions (1994 and 2000-2002), have an amazing productivity run (1995-2000), launch two wars (Iraq and Afghanistan), and be attacked on its own soil for the first time since World War II (Usama Bin Laden).

Let's assume that our investor friend somehow managed to ignore CNBC, CNN, economists, market gurus, Alan Greenspan, and everything else that tends to cause investors to make painful and costly mistakes with their portfolios. He simply made a long-term commitment to stocks and then went about his everyday life. Throughout the decade, our friend would certainly have been chided by his "active investor" friends who attempted to time the market, change advisors, and move their money into and out of various hot investments of the day. But, despite their advice, our content friend stayed true to his disciplined investment plan by committing all of his long-term savings to common stocks.

On January 1st, 2003 even after experiencing the worst three-year stretch for equities since the Great Depression, our investor friend realizes he has achieved a gain of 132% on his money. Conversely, after a decade of disappointment, the "active investors" undoubtedly continue their search for yet another place for their money. Speculators (not investors) like these fail to comprehend that inactivity is prudent when following a sound investment plan.

Remember that the bear markets do nothing but return shares to their rightful owners. While others see doom and gloom, we recognize the current market as a once in a generation opportunity to accumulate shares at attractive prices. The next 10%-20% move in the stock market may very well be either up or down. But we can guarantee you that the next 100%, 200%, 500%, 1000% and 10,000% moves will all be up. Those of us who (at worst) maintain or (at best) add to their equity positions during these times will reap the most rewards as the market resumes the inevitable upward path it started over 200 years ago.