



Client Bulletin

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November 24, 2008

PERCEPTION LAGS REALITY

S&P 500 returns in the Bear Market of 1973 and 1974 were minus 14.66% and minus 26.47%. Recovery returns in 1975 and 1976 were plus 37.20% and plus 23.84%. Those positive recovery years made up for the 1973-74 S&P 500 losses plus some. After the 1987 crash, in which the DJIA dropped more than 22% in one day, the 1988 return was plus 23.65% and the 1989 return was plus 24.16%. I point this out not as a prediction but as examples of strong recoveries from famous collapses that have occurred in the past 35 years.

Perception lags reality. Perception leading up to the recent global credit crisis and meltdown in stocks was that things were going along OK. Reality was that the system had been flooded worldwide with defective securities. Reality was that bank loans were made to unregulated hedge funds, at the tune of \$30-\$40 loans collateralized by \$1 of junk mortgage debt. Reality overtook perception and here we are in one of the worst financial market messes in 100 years.

Investment portfolios around the world have been hammered. As I write this, the most conservative balanced mutual funds (combo of bonds and stocks) and asset allocation funds (diversified funds of funds) are minus 35% year-to-date. From there it gets a lot worse with the indices being down about minus 50% year-to-date.

Perception now is laced with fear. When will this all end? Will our investments ever recover? It is not a fun time watching portfolio values erode daily and monthly. Reality however is a bit better. Fundamental stock valuations here are generally excellent to superb! That does not mean prices may not erode further. It does mean that at some point, as credit eases, and mindless selling slows down, a corner will be turned and we'll see money moving out of money markets and treasuries and back into stocks. Demand will take over!

There are no guarantees but, *perception lags reality*, and I reiterate that reality is that stock and market valuations here are in bargain territory. Reality is looking a whole lot better than it did in September and October. And as the examples in the first paragraph suggest, markets go up and down and up. They are cyclical.

Our team continually works every day to be the best in our industry in terms of growing and protecting our clients' assets. This is not an easy period from an investment psychology viewpoint. However opportunities are plentiful right now, so long as we're willing to look beyond this short-term turbulence. We need to see better leadership and a government-industry game plan that instills confidence. Hopefully that will happen sooner than later.

We wish you a very Happy Thanksgiving!

