



THE CASE FOR THE GREATEST BULL MARKET IN HISTORY

Investing can be a very dry business, so please forgive my penchant for sensational titles. My hope is that the titles of my research pieces will intrigue the reader enough to carry them through to the end, although that may be wishful thinking. Though it is hard to say how strong a bull market will be in relation to others throughout history, I will try to support my case using as many specific pieces of data as I can find. With that said, just because the case can be made does not mean a bull market *will* occur just because it *should* occur, or that it will occur *when* I think it should. I can at least point to my recent piece entitled, ["The Case for \\$20 per Barrel Oil"](#) as some incentive to read on, as that title, although sensational to be sure, turned-out to be fairly accurate, at least so far, with oil closing below \$60 per barrel yesterday.

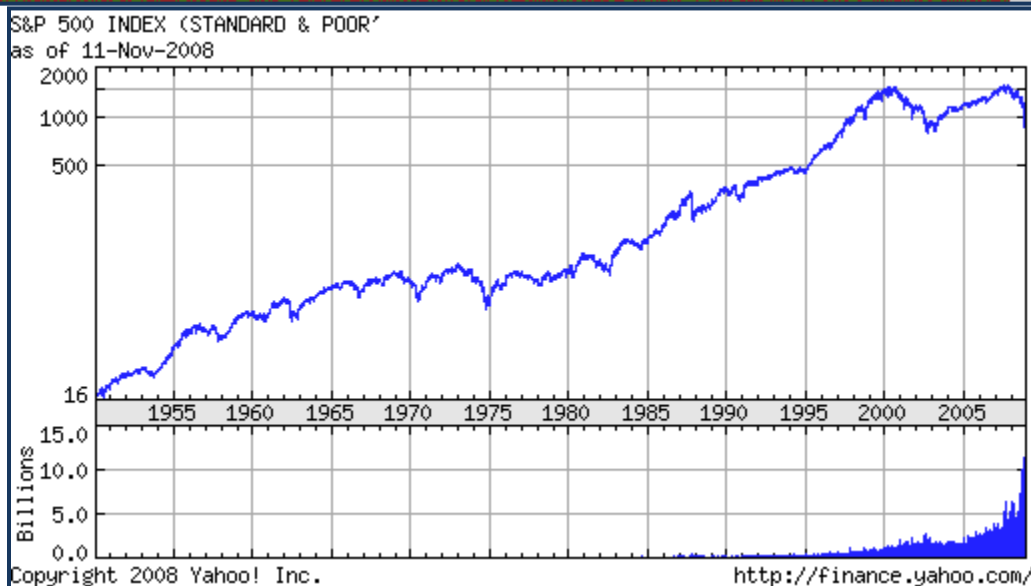
In this paper, I will discuss a variety of historical economic and stock market comparisons and statistics, which I believe point to the strong possibility of a bull market to come, of a magnitude we have perhaps never seen in history. While no one can ever be certain of anything with the stock market, or with just about anything in life, I feel that, just as an attorney uses specific facts, like building blocks, to make his case, if you put all of the information I present in this paper together and consider it collectively, my case for a strong bull market to come is compelling.

Interest rates

I would like to make two key points about where rates are today, and relate the current interest rate environment back to other points in time, which directly preceded bull markets. Let us first look at the level of short-term rates. Today, after two rate cuts in October, and nine rate cuts from the recent high of 5.25% in June 2006, the Fed Funds rate is at 1%. This is the same level that Greenspan took us down to in June of 2003. Not coincidentally, early 2003 was the end of the bottoming process after the tech bubble burst, (the S&P 500 bottomed at 782 in October of 2002, rallied, and then hit its final bottom in March of 2003).

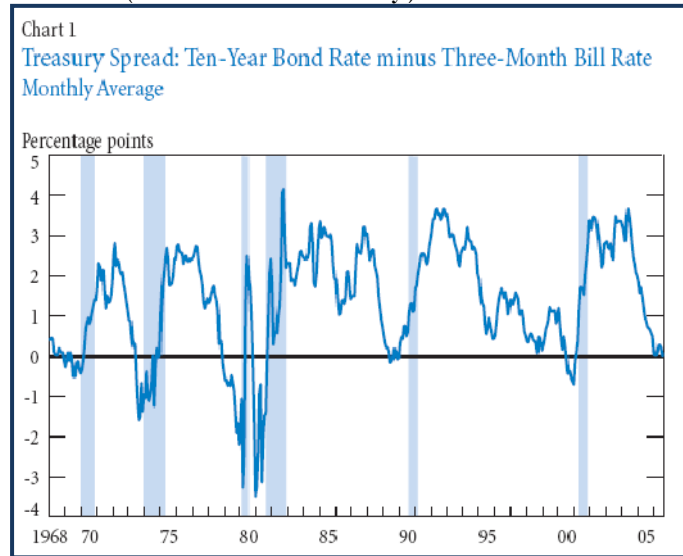
The first chart below is of the S&P 500, and is for a 10-year time-frame. The second, also the S&P 500, goes back to roughly 1950. In the first chart, you can see the bottom we hit in 2003, and also the long (over three year) process of decline and bottoming, before we embarked on one of the strongest bull market rallies ever (from 782 to 1,576, or a touch more than 100% from early 2003 through October of 2007).

The second chart clearly shows the long-term, positive trend, covering almost sixty years. Although there are several dips, indicating bear markets, from a long-term perspective, they appear as mere hiccups in a very strong uptrend. If you take away the timeline across the bottom, and imagine that this chart was of an individual stock over say a two-year period, you would likely not be too concerned with those few minor pull-backs, and would be very happy had you owned it over that two-year period. Closing at 852 today, I believe the S&P 500, (and stocks in general), represents a compelling opportunity, the like of which we have rarely seen throughout history. (More on the S&P 500 later.)

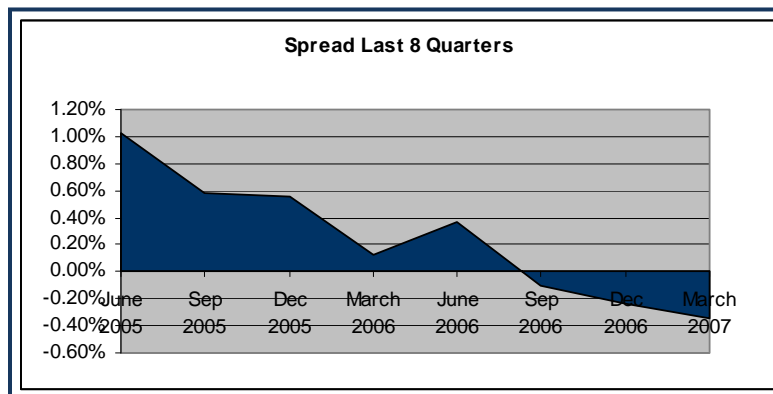


The second point I would like to make regarding interest rates concerns the yield curve. In a research piece entitled, [“Where are we now?”](#) I wrote a detailed analysis of the historical correlation between changes in the shape of the yield curve, and the changes in the economy that followed. I invite the reader to follow the link above and read the analysis. I will summarize here. In my experience, and through analysis, changes to the shape of the yield curve have been the most accurate predictor of economic changes. Typically what happens is that, when the treasury yield curve

goes inverted (three-month T-bill rates are higher than ten-year treasury rates), the economy will go into recession, or at least a significant slowdown, within the following four to six quarters. When the yield curve becomes very steep (the ten-year is yielding much higher than the three-month T-bill), the economy moves into a recovery within four quarters or so¹. In the chart below, you can clearly see that when the spread between the ten-year and the three-month falls dramatically, and especially when it dips below zero, a recession follows soon after (the gray areas of the chart are recessions). Also, you can clearly see the spike in the spread at the trailing end of the recessionary periods, indicating that the yield curve became very steep, just as we exited the recession (went into a recovery).

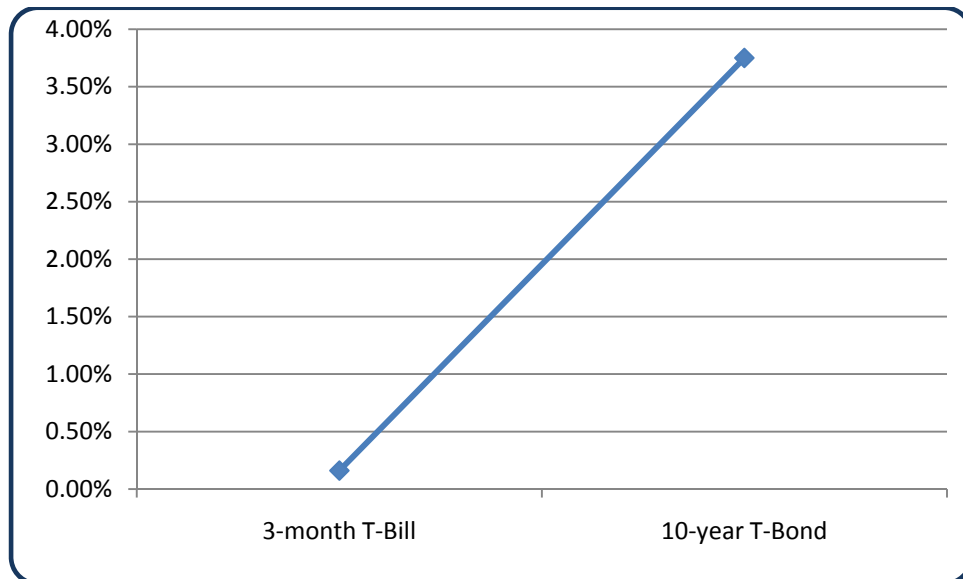


I wrote “Where are we now?” at the beginning of April 2007. The following chart shows the trailing eight quarters yield spread between the ten and the 3-month T-bill, leading up to the beginning of April 2007. You can see how the spread clearly moved into negative territory from the third quarter of 2006 through first quarter 2007. As you know all too well, we are in a recession right now.



¹ Investing is not an exact science, so I try not to get caught-up in trying to identify the exact timing of indicators. What is important is being prepared and positioned properly. If it takes a few quarters longer than expected, so be it.

The chart below shows the current yield curve, with the three-month T-bill to the ten-year treasury. As you can clearly see, the spread is large and very positive (the three-month T-Bill is at 0.17%, and the ten-year treasury is at 3.75%). So, we have moved from an inverted yield curve in early to mid 2007, to a very positively-sloped yield curve right now. This would indicate that we should see the recession end relatively soon (probably within the next few quarters).



S&P 500 level and valuations

Returning to the S&P 500, I would like to look again at where we are trading in relation to the past two lows, and at the economic conditions at the time of those lows. First, let's look back at the problems that led to the market correction of the late 1990s.

The Asian contagion

The Asia crisis of 1997 started in Thailand with the financial collapse of the Thai baht caused by the decision of the Thai government to float the baht, cutting its peg to the U.S. dollar, after exhaustive efforts to support it in the face of a severe financial overextension that was in part real estate driven. At the time, Thailand had acquired a burden of foreign debt that made the country effectively bankrupt even before the collapse of its currency. As the crisis spread, most of Southeast Asia and Japan saw slumping currencies, devalued stock markets and other asset prices, and a precipitous rise in private debt.

Though there has been general agreement on the existence of a crisis and its consequences, what is less clear were the causes of the crisis, as well as its scope and

resolution. Indonesia, South Korea, and Thailand were the countries most affected by the crisis. Hong Kong, Malaysia, Laos and the Philippines were also hurt by the slump. The People's Republic of China, India, Taiwan, Singapore, Brunei and Vietnam were less affected, although all suffered from a loss of demand and confidence throughout the region.

Foreign debt-to-GDP ratios rose from 100% to 167% in the four large ASEAN economies in 1993-96, then shot up beyond 180% during the worst of the crisis. In Korea, the ratios rose from 13-21% and then as high as 40%, while the other Northern NICs (Newly Industrialized Countries) fared much better. Only in Thailand and Korea did debt service-to-exports ratios rise.

Although most of the governments of Asia had seemingly sound fiscal policies, the International Monetary Fund (IMF) stepped in to initiate a \$40 billion program to stabilize the currencies of South Korea, Thailand, and Indonesia, economies particularly hard hit by the crisis. The efforts to stem a global economic crisis did little to stabilize the domestic situation in Indonesia, however. After 30 years in power, President Suharto was forced to step down in May 1998 in the wake of widespread rioting that followed sharp price increases caused by a drastic devaluation of the rupiah. The effects of the crisis lingered through 1998. In the Philippines growth dropped to virtually zero in 1998. Only Singapore and Taiwan proved relatively insulated from the shock, but both suffered serious hits in passing, the former more so due to its size and geographical location between Malaysia and Indonesia. By 1999, however, analysts saw signs that the economies of Asia were beginning to recover.

Nobel laureates make mistakes too!

Long-Term Capital Management (LTCM) was a U.S. hedge fund which used trading strategies such as fixed income arbitrage, statistical arbitrage, and pairs trading, combined with high leverage. It failed spectacularly in the late 1990s, leading to a massive bailout by other major banks and investment houses, which was supervised by the Federal Reserve.

LTCM was founded in 1994 by John Meriwether, the former vice-chairman and head of bond trading at Salomon Brothers. Board of directors members included Myron Scholes and Robert C. Merton, who shared the 1997 Nobel Memorial Prize in Economic Sciences. Initially enormously successful with annualized returns of over 40% (after fees) in its first years, in 1998 it lost \$4.6 billion in less than four months following the Russian financial crisis and became a prominent example of the risk potential in the hedge fund industry. The fund folded in early 2000, victims (or perpetrators) of what author Nassim Taleb calls a Black Swan.

Although the U.S. did not go into recession as a result of the above-referenced problems, the stock market did react, pushing the S&P 500 down about 12% or so

from April of 1998 to July of 1998. With what we've been going through lately, a 12% decline seems minor, but at the time it was significant, especially since the stock market had been on a strong run, really with no major pull-backs, since mid-1990.

The S&P 500 pulled-back to about 1,000 roughly, in mid-1998. So let's take a look at some valuation measures for the S&P 500, and also at GDP for that time-period.

In the table below, I have organized the information discussed in the paragraphs above, as well as some additional data. Like many things in economics and investing, there is no clear-cut pattern one can point to and state unequivocally that the current recession will be short-lived, or more specifically when, exactly the recession will end. But, there are some interesting observations contained within the data.

First, I have organized each low or high for the S&P 500 in color-coded sections for easier viewing. In the first colored section, you can see the data for the 1998 low, set after the 12% decline in the S&P 500. One can see that the P/E ratio for the S&P 500 had a range between 26X and 33.5X. This correction in the market was interesting because it was not accompanied by a recession. S&P 500 earnings remained fairly stable, around \$44. The rise in P/E ratio occurred because, after the 12% correction, the S&P 500 rallied into late 1998 / early 1999, pushing the P/E ratio up to 33.5X.

One can also see that GDP in 1998 was \$8.66 trillion, and that unemployment, which had hit its peak early during the expansion, in 1992 at 7.5%, fell all the way down to 4% at the end of the expansion phase.

The blue section contains the data for the peak of the tech bubble, when the S&P 500 rallied to a high around 1,500. One can see that the P/E ratio for the S&P 500 stood at about 30X at the high, and then fell to around 25.5X in the first quarter of 2001, around the time the recession started. One can also see that S&P 500 earnings actually rose from about \$52 at the peak to about \$56 at the onset of the recession, which helps to account for the drop in the P/E ratio, although the index value declined as well. By the fourth quarter of 2001, the P/E ratio had risen to a high of 46.5X, following the September 11, 2001 terrorist attacks.

GDP had risen to \$9.63 trillion or by about 11% from the period in 1998 when the market low occurred. Unemployment rose from a low of 4% in 2000, a level not seen since 1969, to 6% at the bottom of the recession in 2003. Additionally, S&P 500 earnings had fallen from \$56 to \$42 by the end of 2001.

In the green section, I examined the market low of 2003. At the low on the S&P 500 of around 800 in the first quarter of 2003, the P/E ratio of the S&P 500 was 28X and earnings were about \$46. GDP had risen to \$10.71 trillion, up 11% from 2000, and up about 24% from 1998. From the market bottom in 2003, S&P 500 earnings jumped from \$46 to almost \$82 in the third quarter of 2006, a 78% increase.

	Market low - 1998*	Low P/E surrounding 1998 low	High P/E surrounding 1998 low	Market peak - 2000	Low P/E surrounding 2000 peak	High P/E surrounding 2000 peak	Market low - 2003	Low P/E surrounding 2003 low	High P/E surrounding 2003 low	Market peak - 2007	Market low - today?
S&P 500 P/E	29X	26X	33.5X	30X	25.5X	46.5X	28X	17X	32X	22X	12X
When	2Q98	3Q98	1Q99	1Q00	1Q01	4Q01	1Q03	3Q06	4Q02	4Q07	3Q08
S&P 500 Earnings	\$44.37	\$44.67	\$44.27	\$51.68	\$56.13	\$42.02	\$46.04	\$81.73	\$44.04	\$89.31	\$69.73
GDP (\$ trillions)	\$8.66			\$9.63			\$10.71			\$14.03	
Economic peak (start of recession)	no recession			Mar-01			3Q08			3Q08	
End of recession (start of recovery)	no recession			Dec-03**			Dec-03**			?	
Unemployment low	4.0% in 2000			4% in 2000			4.6% in 2006/7			4.6% in 2006/7	
Unemployment peak	7.5% in 1992			6% in 2003			6% in 2003			8% (my estimate)	

* There was no recession in the U.S. associated with the Asian contagion or the LTCM blowup. The U.S. economy was in an expansion phase for exactly ten years, from March of 1991 to March of 2001.

** Although the technical definition of a recession is two or more consecutive quarters with negative GDP growth, most economists would agree that the combination of the tech bubble bursting and the 9/11 attacks led to an economic slowdown lasting through the end of 2003.

The P/E ratio of the S&P 500 fell as low as 17X in the third quarter of 2006, precisely because of the huge jump in earnings, and despite the fact that the index had risen to around 1,300, or about 63% higher.

The rally following the 2003 low lasted until October of 2007, with a peak value for the S&P 500 of 1,576. From the low to the high, the rally produced a gain of right at 100%. S&P 500 earnings grew to almost \$90 at the peak in late 2007, but have fallen with the slowing economy to about \$70 through the second quarter of 2008. The estimate for 2009 is for \$75, although that number may be revised downward, depending on the severity of the recession.

Using that \$75 estimate, we are currently at a 12X P/E. This is far lower than (a 29% discount to) the 17X P/E we saw at the last bottom in 2003. If we can get back to a P/E around 22X, which was the P/E at the peak of the market last year, at the all-time high, we could see the S&P 500 trade up to 1,650. If we were to see a P/E of 30X, which is where we were at the peak in 2000, we would see the S&P trade as high as 2,250, a 43% premium to last year's all-time high of 1,576, and 165% higher from current levels.

The key take-away from this data is that we are trading right now, at a steep discount to any valuations we saw in any of the previous market bottoms we have seen in the past ten years. The NASDAQ closed today below 1,500 for the first time since the bottom of 2003, after the tech bubble burst. Stocks appear very inexpensive, based on a variety of valuation measure, including GDP, as we will see in the next section.

GDP

I have already written a bit about GDP, but in this section I want to address the long-term trend of GDP, and the fact that, since 1949, we have not had a single year-over-year decline in GDP. The single most significant thing I can point to as justification for new, all-time highs on the stock market, is the growth in GDP. The stock market is a direct reflection of the economy, and as the economy grows, so too grows the value of the companies that make-up the economy. During the expansion from 1991 through 2001, GDP grew by 75%, from \$5.8 trillion to \$10.1 trillion. S&P 500 earnings grew during that same time-period from \$22.65 to \$56, or by almost 150%. The S&P 500 rallied from 375 to 1,500, or by 300% through its peak in early 2000. Even after it fell all the way to the low in 2003 to around 800, it was still ahead by 113% from where it started in 1991.

GDP is expected to be around \$15 trillion next year, up more than 50% from where it was in 2000, when the S&P 500 hit its peak in the tech bubble. As GDP continues to expand, the potential for ever higher levels for the stock market also increases.

Year	S&P 500 market cap	GDP
1991	\$2.20	\$6
1998	\$8.60	\$8.75
2000	\$11.60	\$9.80
2001	\$10.40	\$10.10
2002	\$7.60	\$10.50
2003	\$7.75	\$11.00
2004	\$10.60	\$11.70
2005	\$11.30	\$12.40
2006	\$12.70	\$13.20
2007	\$13.50	\$13.80
2008	\$7.50	\$14.40
2009	?	\$15

One can see in the table above that the S&P 500 market capitalization, (the total market value of all 500 stocks within the index) actually exceeded GDP in 2000 (S&P 500 market-cap of \$11.6 trillion to GDP of \$9.8 trillion). A year later, they were about equal, and the year after that, the S&P 500 market-cap had fallen to \$7.6 trillion; about 72% of the total GDP that year. In 2003, the S&P 500 market-cap grew slightly as did GDP, but starting in 2004, the S&P 500 market-cap jumped by almost \$3 trillion, to \$10.6 trillion, or about 90% of the value of GDP for that year of \$11.7 trillion. As one can see, by 2007, when the S&P 500 hit its all-time high, both its value and the value of GDP had grown to above \$13 trillion (\$13.5 trillion for the S&P 500, and \$13.8 trillion for GDP). At present, the S&P 500 is about half the value of GDP. As one can clearly see, the value of the S&P 500, though volatile, grows along with GDP; the larger GDP gets, the larger the value of the S&P 500 (when it rallies to highs).

If the S&P 500 rallies back up to roughly the size of GDP, we would have a double in the S&P 500 from current levels, which would put it up around 1,700 or so. If it takes two to three years, which is what I expect, and GDP continues to grow, we could see the S&P 500 grow to well over 2,000 at its next peak, which would provide substantial profits for anyone who buys at or near current levels.

Cash

With all of the selling we have seen in recent months, it is easy to understand that the amount of cash sitting on the sidelines, both from corporations and individuals in the U.S., in addition to foreigners moving money into dollars (more on the dollar shortly) is enormous. Estimates put the total cash in U.S. hands at about \$5 trillion, which at the current level of the S&P 500, is close to 70% of the total value of the S&P 500, and is a third of the total value of U.S. GDP (on next year's estimate of \$15 trillion).

The extreme fear and uncertainty we are experiencing, has caused many to seek shelter from the storm. But, as history has shown us time and time again, fear can turn to greed in an instant. When that happens, the amount of cash flowing into stocks will be unprecedented, just as the downside we have experienced has been. Certainly not all of the cash will go into stocks. But for those investors who need growth in their portfolios, there is no realistic alternative to stocks; they simply must invest in stocks or face a situation where the market leaves them behind.

The dollar

Along the same lines as the section on cash above, the dollar has been strengthening markedly against other currencies, despite the Fed Funds rate being slashed to 1%, and despite all of our obvious economic woes. The reason is twofold: First, other countries are having the same (or worse) problems as we are having. And second, foreign investors are moving cash into dollars en mass, because the U.S. is still the safest and most attractive economy to invest in. The U.S. should lead all other economies out of this global slowdown, and foreign investors know this, and want to participate. They, like U.S. investors, are still uncertain about the depth of the recession, or of when the stock market will bottom, and are therefore waiting. At some point, once fear turns to greed, they, along with the U.S. investor, will move into stocks.

Here is a one-year chart of the dollar index:



TARP, the Fed, and the Treasury

Through the TARP (Troubled Asset Recovery Plan) and other actions, the Fed and Treasury have injected hundreds of billions of dollars into the world economy. Through swap agreements, the Fed has provided hundreds of billions to foreign banks, while the Treasury, through the TARP, has purchased preferred equity in banks, (so far), in the amount of \$250 billion, and counting. Paulson just announced

today that he will expand the TARP and offer cash to consumer credit companies, student loan companies, auto loan companies, and others, to include the automakers (most likely). Companies are lining-up to get a piece of the pie. While I totally disagree with what is being done (the TARP was sold to us and Congress as a pool of money to buy troubled assets, namely mortgage-backed securities, hence the name TARP), the fact is that money is getting into the economy, loans are being made, and the credit markets are starting to function again.

Mortgage modifications

Fannie Mae and Freddie Mac, along with Citigroup and other banks, have just announced mortgage modification programs designed to prevent homeowners from losing their homes in foreclosure. Once again, I disagree with this, (gamblers should not be bailed-out), but the overall result will be that the housing market will stabilize sooner than it would have, and prices will find support. Fewer foreclosures means less inventory, and therefore less pressure on prices.

A bottom in housing is essential for the economy to recover. The Fannie / Freddie plan includes lowering rates to 3% (Citi said they will offer 1% to 2%), paying the servicers \$800 per mortgage to modify (so servicers have a financial incentive to do it), an extension of the length of mortgages to 40 years, and allowing mortgage holders to qualify with as high as 38% mortgage payment to income ratios. Locking borrowers into fixed-rate mortgages that they can afford will allow at least some at-risk homeowners to remain in their homes.

While no one has announced write-downs of the principal amount of mortgages, I believe that will come soon. Lower rates, fixed rate mortgages in place of variables, and eventually reductions in mortgage balances, will all act to speed the bottoming process in housing, which in turn will help the economy find its bottom and recover sooner.

Where else but stocks?

I have already mentioned my belief that stocks are the only place to find returns for long-term growth investors, but I wanted to add some detail. Let's look at the alternatives:

Real estate is in the midst of a serious bubble-bursting cycle, with at least another year before we will see prices fully bottom (in my opinion). Inventories are still incredibly high, both for existing and new houses. In addition, despite all of the efforts of the government and banks, many homeowners will still go into foreclosure. There are far too many speculators who own multiple houses, and cannot afford them. Also, the mortgage modifications, all of them, are only available for homeowners who are occupying their home (not to multiple homeowner / speculators).

We need to go through this process to get prices down enough so that they become affordable again, and so that enough buyers can qualify for loans to reduce the inventories. It took fifteen years to get here, from the bottom set after the last real estate debacle. It is not going to resolve itself overnight. So, real estate will not be a viable investment vehicle for many years.

Commodities: I probably don't need to say much here... commodities have never been a true investment asset class, but have been a tool for speculation. Even so, should anyone consider them an investment alternative, I do not expect to see much upside potential in commodities in the foreseeable future. Although there will likely be a few more price spikes, especially with energy, due to political uncertainty or supply disruptions, in the longer-term, commodities, like real estate, are still in a bubble, and that bubble is deflating. I expect commodity prices to continue to decline well into 2009.

Bonds: While there are some pockets of opportunity within the overall bond segment, in general, bonds are very expensive, especially treasuries. Tax-frees and some corporates look attractive, as their spreads to the treasury curve are still larger than they probably should be, but those spreads are contracting quickly, and the upside potential is just not there over the longer-term. When the stock market starts to rally, money will flow out of bonds across the board, and especially out of treasuries, making these investments perform very poorly indeed. Prices will fall, and yields will rise, especially on the long end of the curve.

So, when you look across the spectrum at all possibilities, if you are a long-term growth investor, stocks appear to be the only viable option.

Gasoline

A barrel of oil contains forty-two gallons. A barrel of oil refined, can produce roughly nineteen gallons of gasoline (plus additional products we won't concern ourselves with here). Each day in the U.S. we consume about 882 million gallons of oil (about 21 million barrels) and drivers consume roughly 400 million gallons of gasoline (nearly half of the total). With prices falling more than \$2 per gallon from the peak a few months ago, consumers are saving, on average, about \$800 million per day. In a thirty day month, that's a savings of \$24 billion; in six months its roughly \$144 billion; and in a year the savings would be almost \$300 billion.

Keep in mind that the last stimulus package was for \$150 billion, and the one being proposed by members of Congress right now is for \$300 billion. The gasoline savings, if prices remain low (or go lower) is like a huge tax cut or stimulus package, putting disposable dollars into the pockets of consumers. This helps alleviate the effects of the slowing economy and falling home prices (somewhat). It is also especially important because we are heading into the Christmas season, where many retailers garner the



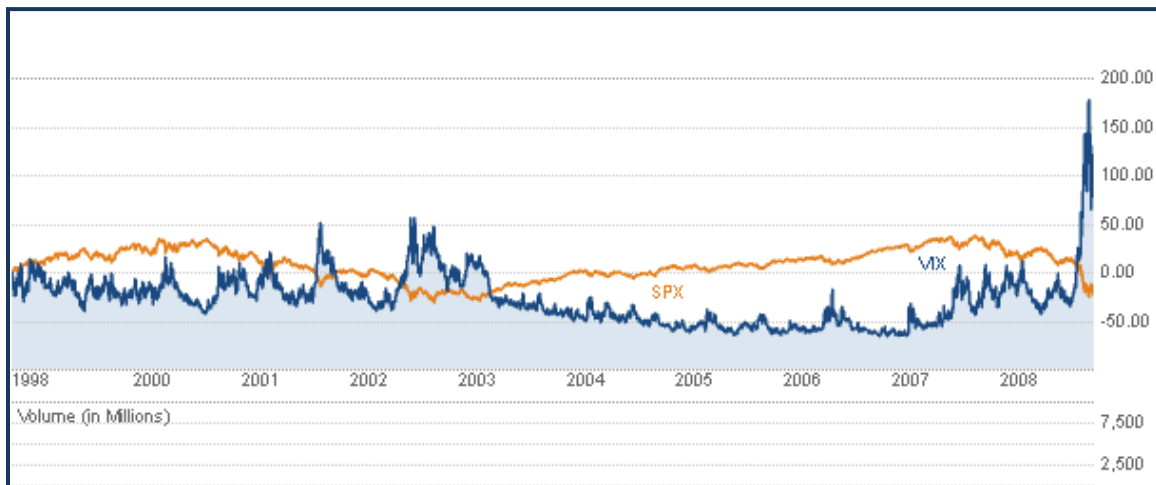
bulk of their sales for the year. Lower fuel costs are a major positive, and will help hasten the recovery in the economy. A recovering economy is great for stock performance

Low commodity prices are good for the economy

I already wrote about my belief that commodities are still in a bubble, but prices have fallen considerably in recent months, and this is very positive for the majority of companies, which use commodities as raw materials to produce other finished products. If prices stay low, the cost structures for these companies will be reduced, allowing them to make larger profits on products sold, or to lower prices and still make the same profit margins, while being more competitive. Higher profits and more competitiveness are good the economy, and are good for stock prices.

Fear and Greed

The two motivators for investors are fear and greed. Right now, fear is winning the battle, handily. The best measure of fear is the VIX (volatility index). Recently, the VIX shot-up to record levels, above 84. Just for comparison, after the bursting of the tech bubble, at the lows in 2002 and 2003, the VIX ran-up to 50 or so, which, at the time, was a very high level. One can see in the chart below that the S&P 500 made its low just as the VIX was making its highs. If we look at the extreme right-hand side of the chart, we can see the massive spike that has occurred over the past several weeks, and the accompanying drop in the S&P 500 (hopefully a bottom forming).



The VIX declined recently to around 44, but has moved back up as stocks have moved back down, and now stands at about 66.5, still well above the peak hit back in 2002. A spike in the VIX has been a very good indicator of a bottom in the stock market, and right now, it is predicting a bottom for stocks. We don't know, however, how long the bottoming process will last.

Warren to the rescue

I saved the anecdotal for last. Warren Buffett, who I don't always agree with, has been one of the most successful investors (real, long-term investors) in history. He makes mistakes, but no one could argue with his track record. He has been sitting on billions of dollars in cash for the past six years. That is, until a few weeks ago, when he started moving aggressively to put that cash to work, buying stakes in four companies within one week. At the moment, all four are down from what he paid, but he would be the first to say that he doesn't care, and he would mean it. He rarely sells anything, and when he buys something, he plans to own it for many years, if not forever. Ten years from now (or twenty), he probably won't be alive, but these investments that he just made will very likely be worth significantly more than he paid for them. (Keep in mind also that he bought preferred shares with 10% dividend rates, and received warrens to buy common shares at specified prices).

Right now, we need to think like Warren Buffett, buy quality U.S. large-cap companies, and hold onto them for the next few years. Just so you know bear markets hurt everyone, even Warren Buffett, here's a two-year chart of Berkshire Hathaway (he's down about 40% from the highs last year):



Conclusions

While one could certainly take issue with any one of these points, or even several of them together, my hope is that, if you consider all of this information collectively, you will come to the same conclusion I have, which is that we very well could have the greatest bull market in history over the next few years, or if not the greatest, at least one of the best.

I have made a lot of mistakes over the past year, or more accurately, a lot of miscalculations, the most significant of which was my straying from my previous belief that the collective investor never changes. What I hope to do now is to not fall prey to what I see as a very pervasive human fault, which is to make one mistake, and then exacerbate the situation by making an even bigger one trying to mitigate the impact of the first. Since I expect the stock market to produce some of the best returns in history over the coming few years, I do not want to make the mistake of being short-term minded, and miss this unique and unprecedented opportunity by being out of the market.

As I stated at the beginning, one can never be certain of anything in life, especially with regard to the stock market. But, given the collective weight of the information contained in this paper, I believe the greater risk is in being out of the market rather than being invested in it. As those of you who receive my commentaries know, I have recently written a bit about Nassim Taleb, the author of *The Black Swan*. Taleb's underlying premise, which is the foundation of everything he writes about, is his belief that just about everything is random, especially the direction of the stock market. I am sure, were he to read this paper, he would conclude that I had no better chance of being right about the possibility of a bull market occurring over the next few years than if I simply flipped a coin and guessed (heads for a bull market; tails for a bear market).

If I end-up being right, he would likely say that it was survivorship bias² that explains why I was still around to make my next prediction. Maybe he is right. I have thought a lot about this idea of randomness, and if it is possible to use historical information to make better investment decisions. My conclusion is that markets are driven by human beings making decisions collectively. And, since investors have always been, and always will be, motivated by the same emotions, namely fear and greed, it is possible to make informed decisions that can improve performance. This is my mission. As painful as the day-to-day fluctuations feel, I truly believe that stocks offer some of the best buying opportunities we have seen and will see, in our lifetimes, and that we are on the cusp of one of the greatest bull markets in history.

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² Survivorship bias is the idea that everything is random, and those lucky few who guess right repeatedly survive to be recognized as experts, even though to him their correct guesses were nothing more than random occurrences.