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## The Buying Opportunity of a Lifetime!

*(Editor's note – this mysteriously appeared in our offices while we were struggling with a topic for this month's letter. While we are confused by the date, we decided to just distribute this and resume with our normal newsletter next month.)*

In this moment of stock market despair, few investors seem to realize that they are now presented with investment opportunities that can assure their financial security within the next several years. As we have written many times over the past 13-plus years that we have distributed this newsletter, the primary determinant of investing success is not the performance of the particular investments you choose but your behavior. Now is the time to examine your behavior and to put aside your fears, which are influenced primarily by the stock market experience over the last ten years.

***What we forgot in the late 1990's  
(and by "we," we really mean you)  
was that perceptions count as much  
as reality in the stock market.***

As a start, let us review how we have come to our current condition. Ten years ago in the last years of the 20<sup>th</sup> century, the financial markets were in the late stages of a bull market similar to those of the 1960's and the 1920's. Like all investment booms, much of this "super bull" market was based upon reality. The huge "baby boomer" population realized they needed to start investing for their retirement. There was a tremendous wave of innovation spurred on by ever-faster generations of microprocessors and biotechnology advances. The greatest fears of investors over the preceding generation, inflation (remember that?) and the budget deficit appeared to be conquered by purposeful government action, seemingly putting the lie to Peter Drucker's claim that the only things governments do successfully are wage war and debase the currency. The U.S. financial markets had a long period of almost unbroken prosperity, including a record-breaking *seven* years without even a 10 percent correction in the Dow Jones Industrial Average.

What we had forgotten (and by "we," we really mean you) was that it is not just reality but also the perception of reality that dictates stock market moves. A decade ago, the U.S. stock market was as richly priced as any time previously in the 20<sup>th</sup> century. While it was certainly a benign environment, the good news had been fully discounted by the forward-looking market. The market was priced for perfection, and it should have been no surprise to any realistic observer of the human condition that we did not ultimately achieve perfection.

As we have written many times, market valuation is bad as a short or intermediate term timing indicator, but it is an excellent predictor of long term performance. In our July 1996 newsletter *Does Value Matter?*, we presented a

study which indicated that the 10 year average annual total return from stocks following a period in which the market is “expensive” relative to earnings, dividends and book value was about half the long term average, or around 5 to 6 percent. It’s hard to remember now (this was even back before people even knew of the health benefits of cheeseburgers and heavy caffeine intake), but that sounded paltry in the late 1990’s when the market seemed to be perpetually advancing 20 or 30 percent a year.

***Remember, the previous super bull market ended in a period before we knew of the health benefits of cheeseburgers and caffeine.***

The average annual total return from the market in the past ten years is remarkably close to that prediction. Despite the several terrifying declines in the past decade, stock market performance has not been the disaster everyone now seems to think it has been. Why the gloom? In the long bull market of the 1980’s and 1990’s, investors actually achieved only about 40 percent of the returns earned by the instruments in which they invested, due to emotions and bad market timing. In the much more difficult markets since then, it is no surprise that the investors have captured even less (if any) of the smaller gains. While stocks have had a positive total return and have returned (slightly) more than bonds, you non-clients are justifiably upset that you could not stay the course and hold onto your stocks in a reasonable, diversified investment program. Investor sentiment always seems to trail reality. As late as 1992, only about eight percent of 401(k) contributions were being invested in equity mutual funds – the stock market euphoria in the late 1990’s we now struggle to remember occurred only after the bulk of the stock market gains had been realized. The current mood of despair is likely to continue until excellent gains have been earned in a new bull market.

We have been repeatedly criticized for our optimism over the past few months, but market valuations are currently inexpensive relative to earnings, dividends and book value. In the past, this has been followed by significantly higher-than-average stock market returns over the subsequent 10 years. Just as it was emotionally easy to invest in the expensive but ultimately unrewarding market of a decade ago, we realize it is emotionally very hard to invest in the current value-laden market. Despite what we perceive as hard times, the U.S. remains one of the world’s great economic powers. Despite the deflation and “creative destruction” it caused, technology has given us a lifestyle we could only dream of 10 years ago (although we are *still* waiting for those picture phones we saw 46 years ago at the 1962 Seattle World’s Fair).

Now is the time to step up, put your emotions aside, and buy all the stocks you can stand. While existing market values do not mean the next super bull market will start next month or even next year, they tell us long term, rational investing will be amply rewarded. The new bull market should allow Sigma to afford a new look -- we are finally using up that “great buy” on stationery our founder made 16 years ago in 1992. If you want help capitalizing on the values out there, contact us.