

December 2001

Solon, Farewell, Auf Wiedersehen to 2001

Herodotus tells of Solon, who laid the foundation for the prosperity of ancient Greece, visiting Croesus, the wealthiest man in the world. Proud of his riches, Croesus asks Solon who is the happiest person in the world. Solon suggests several answers, each relatively unknown, relatively poor and deceased. A miffed Croesus, who thought himself the obvious response to the question, challenges Solon to defend his choices. Solon replied that he only considered people who had died happy. Every day is different, and much in life is subject to chance. Many fortunate or well-positioned people meet ruin later in life. Before you die, you may be lucky, but nobody can conclude your life as a whole is happy.

***"It ain't over 'til it's over.
-- Yogi Berra***

If we met Croesus today, we would show him the chart on the next page, which gives a century's worth of context for our financial markets. Each point on the chart represents the average annual return on the Standard & Poor's 500 index for the previous 10 years. Over the last 100 years, many people were lucky enough to invest through one of the three super-bull markets shown on the chart, while others were unlucky enough to invest in the troughs in between. With a full cycle occurring about every 30 years or so, almost everyone should be planning to invest through both lucky and unlucky periods. You don't necessarily die when predicted by the actuarial table, and Willard Scott says hello on television to some centenarians every morning.

The chart also demonstrates that an average is made up of periods both above and below the average. The hubris induced by the big bull market starting in 1974 led many to forget this obvious but important fact. When you want to use the money you have been investing, the only thing that matters is the period you actually live through -- the "average" ceases to be important. If you run out of money, the thought that your grandchildren may have great returns and bring the line back to the average is of cold comfort.

The entirety of most investor's experience today is encompassed by a period in which the market has essentially gone straight up. The chart doesn't predict the long bull market is over. It does suggest, however, that the returns of the last 25 years should not automatically be extrapolated into our future. While people have made a lot of money in the bull market, perhaps they should consider themselves more lucky than intelligent or gifted. Investors at the tops in 1929 and the 1960's considered themselves to be gifted, at least in an investment sense. They lived in periods in which it was generally thought that the Federal Reserve had permanently tamed the business cycle and that wonderful new technologies (radio and autos in the 1920's, computers in the 1960's) had brought us to a new plateau of prosperity. They were lucky to be living when they did, but luck and

talent are different commodities. Marketing departments rush to claim genius based on short term trailing investment returns, but the chart and the lessons of Herodotus suggest that all putative geniuses should wait at least until the completion of a long secular cycle before trumpeting results.

Croesus also demonstrated the dangers of following the advice of those who pretend to tell the future. Considering whether or not to go to war with the Persians, he asked the advice of the Oracle at Delphi and received the answer that a war would result in the destruction of a great empire. Heartened by the prophecy, Croesus attacked and ruined his own great empire. We have read many market opinions by those on Wall Street who have mastered the Oracle's techniques.

Bad times may not occur with metronomic regularity, but they do occur. As the chart shows, however, we recover. Long-run pessimism is not an answer to any question regarding our economy or financial markets. Despite the stock market declines of the past two years and the upheavals in the world, the holiday season and end of the year is a good time to reflect on how fortunate we are to live when we do, where we do.

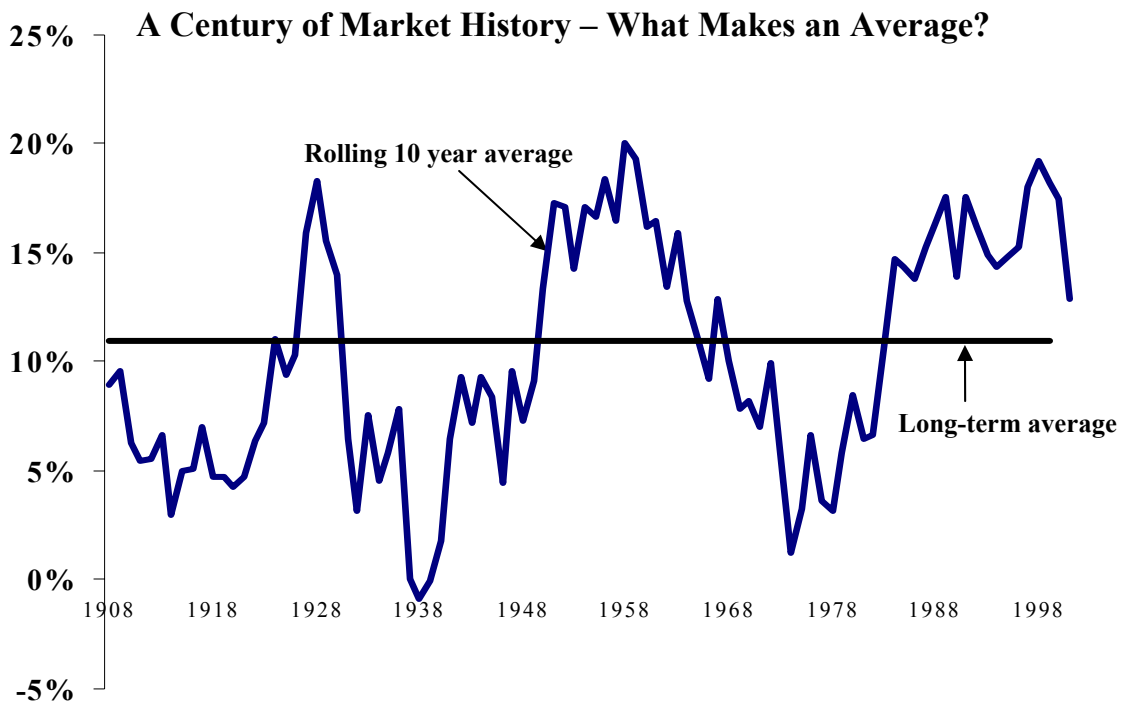


Chart: Sigma Investment Management Company. Data Source: Global Financial Data and Morningstar.