

# Abandon All Hope, Ye Who Invest In Stocks?

For reasons that should be self-evident, the recent bear market led us to reread Dante's *Inferno*. We paused when we reached the portrayal of the famous "abandon all hope" inscription at the gates; it seems an apt description of investor sentiment after the renewed stock market decline in early 2009. Anticipation and optimism about the prospects of a new year and a new political scene have faded and given way to despair. Hope has indeed been abandoned.

In Dante's magnum opus, the Roman poet Virgil leads Dante through nine descending circles in the *Inferno* – the higher the number, the lower you are and the worse the sin of the souls that reside in the circle. While the fourth circle houses the souls of the avaricious and profligate, it is in the eighth circle, the next to worst, where we likely would meet denizens of Wall Street and others connected to the markets. Here are the panderers and seducers (stockbrokers), the soothsayers (market strategists), the grafters (politicians), the evil advisers (hedge fund managers), the falsifiers (accountants), the alchemists (creators of derivatives) and the thieves (Bernie Madoff, allegedly).

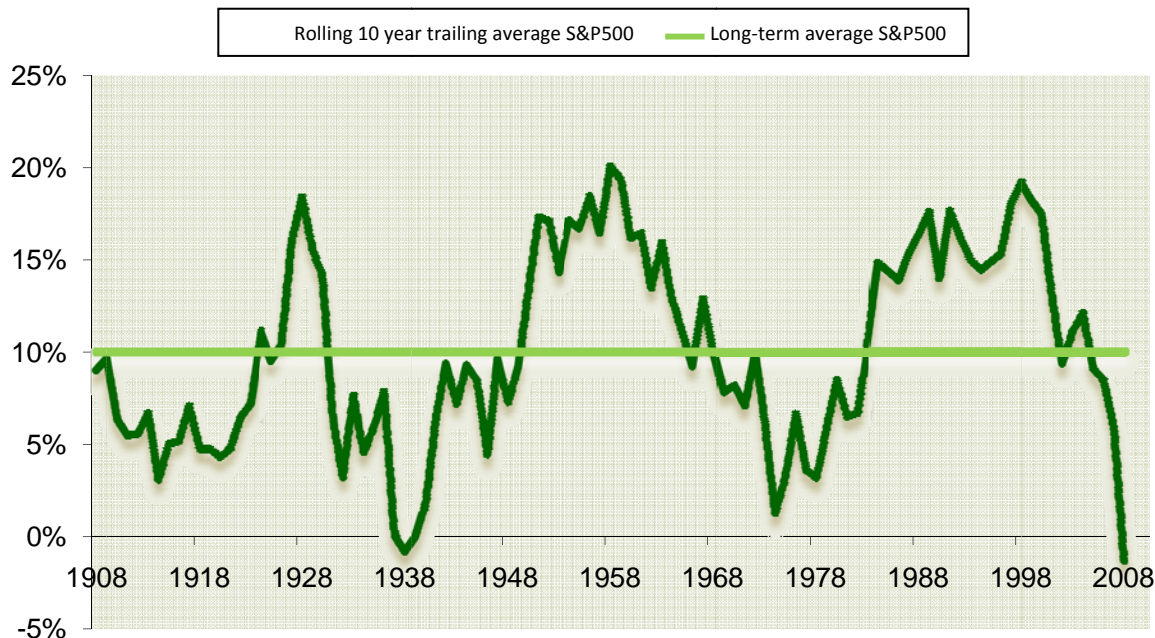
To understand the current desperation of investor sentiment, though, we need to go back to the gate at the beginning of Dante's journey. Just inside that gate is a crowd of souls rushing back and forth under a shifting banner – those who refused to take an objective stand, unconnected to a bedrock core of principles, changing positions continually. This describes many investors, chasing performance, constantly throwing money at whatever investment has done best recently – technology last decade, real estate and financials earlier this decade, and Treasury bonds or mattresses now. They consequently are consigned to be greedy at market tops and fearful at market bottoms. It is fitting that this group wallows in the darkness of the woefully inscribed gate since, by only thinking short-term, constantly swayed by the recent past, they truly have no hope of ultimate success.

The Standard & Poor's 500 index of large U.S. stocks recently fell more than 50 percent from its high – if this isn't the market equivalent of the *Inferno*, it'll do until the *Inferno* gets here.

Market pundits and participants tend to describe this as unprecedented, unforeseeable, beyond all imagination. To believe that nobody has known the trouble we've seen, however, is vanity, pure and simple. The chart below shows the broad sweep of the stock market over the last century, each point on the chart reflecting the average annual return of the Standard & Poor's 500 index over the previous 10 years. Times change, technology advances, but human nature remains the same, and human nature ultimately is what dictates stock prices. Like a generational metronome, waves of greed and fear drive stock prices up and down, and it was ever thus. Do you really believe investors in the Great Depression or the grim 1970s would not understand the current pessimism? Yet both of those times were great times to buy stocks. At the market top circa 1999, could no one foresee we would be where we are today? Certainly, back then, in the glamour of the Internet-driven new era nirvana, people did not want to believe it possible that we would approach the bottom of the chart again. Now, after the dismal tide of recent events, the credit crisis driven nightmare of the market crash, it may be hard to imagine that within a decade we likely will again be moving back towards the top. We may not be at the low, and the market may not recover this year or next, but would you bet against the next decade's returns based on the pattern in the chart? And is the time horizon for your investments really less than a decade?

The immutability of human nature is depressing but self-evident. We were given the Ten Commandments millennia ago, but we still struggle to comply. It is this immutability, however, that allows us to learn from history. While there is no guarantee that history will repeat, the chart tells us that when virtually everyone in the financial markets is driven by the same emotion, as everyone seems to be dominated by fear and depression now, they are likely to be wrong. If you would like financial advice from a firm that dedicates itself to gleaning the lessons of history, contact us at [www.sigmainvestment.com](http://www.sigmainvestment.com) or at (503) 419-3938. Just say Virgil sent you.

## A Century of Market History



Data sources: Global Financial Data and Morningstar  
Past performance is no guarantee of future results