

We've Already Made the Payment...

Pain and gain do not often occur at the same time. Sometimes, the pleasure comes first ~ drinking too much champagne comes to mind. On the other hand, champion athletes endure a lot of effort *before* standing on the medal stand. We believe that recent economic and financial market events exhibit both sequences of bad and good.

Our champagne example is a metaphor for the economy. Spurred by serial monetary and fiscal stimulus due to various perceived "crises" (the failure of Long Term Capital Management, the possibility of Y2K disruption, the bursting of the technology bubble and the response to September 11), we had a tremendous boom in real estate and related credit creation. Now it is morning after, the alarm clock you forgot to turn off is buzzing, your temples are throbbing, the kids are arguing with one another at the foot of the bed about who gets to fire the toy laser gun next and your mouth tastes like...well, you get the picture. On the other hand, in the stock market, we hope the pain has preceded potential gain. Our [graph on the back page](#) shows the worst bear markets since the 1920s (the 1929-32 and 1937 declines using the Dow Jones Industrial Average, the rest using the Standard and Poor's 500 index). The current bear market just tipped past a decline of 50 percent, about the level where the severe 1937-38, 1973-74 and 2000-02 bear markets ended. Only the market decline into the Great Depression was worse.

We may not be near the bottom of the bear market now, and the stock market could decline 89 percent peak to trough as in the Great Depression bear of 1929-32. Many people proclaiming economic Armageddon now, though, forget just how bad things seemed back in 1974. And how many current prophets of doom were sounding the alarm in October 2007 when the market was hitting all time highs? A few, but not many.

We do not know how long the economic or market declines will last or how low the market will go. Neither does anyone else. At times like these that try our souls, though, it is important to have perspective. In most bear markets, prices quickly bounce back after the low - those on the sidelines holding cash can miss substantial returns. In investing, you pay a very high price awaiting a cheery consensus. The important thing is to ensure that your investment plan is right for you in both bull and bear markets, rather than trying to predict or react to an unknowable future. If you would like our help, contact us at 503-419-3938 or at www.sigmainvestment.com.