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A Tale of Two Investors

It is the best of times, it is the worst of times. Is the glass half full or is it half empty? Pick your cliché and there's a type of investor whose perspective reflects it. Let me share some thoughts about how conservative investors and long-term investors look at this market. In the current environment, both views have validity.

The conservative investor looks to the markets as a place to preserve money. If there is a little growth, that's fine; the investor gets some income. But the primary objective is to protect the money. This investor will see today's market as a glass half empty. And why not? The arithmetic is the same for all of us: problems with the economy, the political climate, terrorists, snipers, and Iraq before you even get to corporate earnings, corporate misbehavior, disappearing jobs, and the deep dive in consumer confidence.

So, the very conservative investor rightfully asks, "Why be exposed to the market at all?" The inherent risk of owning stocks is about the same as it has always been, but sensitivity to the numerous outside influences is much greater than at any time in recent memory. For the investor who wants to see how some of this uncertainty plays out, it's fine if someone else makes the first profit. Reducing or stopping losses is a much bigger priority.

Long-term investors perceive that same glass as half full. The markets have taken a serious hit and hover near or at what may be the bottom, the worst downturn in the stock market since 1929. Yet we still go about our daily business. Some investors see opportunities here. They look at valuations and discover they can buy stocks near or below book value. Some view the current situation as potentially one of the most promising environments we have seen in 20 or 30 years. They look at the cash on the sidelines and in under-funded pension plans as money that will move into the market as soon as signs of progress begin to appear.

External forces always push or pull at the market, which means: there is always an excuse not to invest. But there are some favorable investment aspects as well right now. For starters, some positive corporate news lights up a murky economic landscape. What's more, the government is acting with restraint and a purposeful deliberation. The accounting scandals are real, but the politicians have not reacted by passing legislation that might actually worsen the situation. (The alarmist tariffs of the 30's caused more problems than they solved.)

We can regard these as the best of times; we may think of them as the worst. A very conservative investor sees undue risk nowadays and may choose to wait before committing additional money to the market. A serious long-term investor is thinking that this is a very good time to buy stocks. One more cliché? OK. Only time will tell!