

December 2008

Recent market behavior may best be described as dysfunctional. Some readers will remember the acronym out of World War II—SNAFU: Situation Normal and Fouled Up. Dysfunction, then, is normal in the current circumstances, which include the second market decline of approximately 50% in less than 8 years. Professional and individual investors are shell-shocked, a reasonable response. Where are we, then, and what is my plan for making the money back? You may want to know and I need to tell you.

Begin with this: We do not have to be out of the recession for the markets to begin recovering. Things just have to stop getting worse. In my estimation, that's where we are now. Last week's disaster at Citicorp and the implosion of the big three US auto manufacturers may mark the bottom of this market. My focus is on US markets because they will lead all other markets toward recovery. I am moving money into the broad indexes and away from sector funds in order to reduce the overall risk but also because I know that in previous recoveries the S&P 500 has outperformed 75-80% of all funds. I have chosen to use an Exchange Traded Fund based on the S&P 500 (but with double the return) as the primary investment for now. When recovery comes, this investment should give us the best chance of recouping our losses.

That's the step we're taking then, you and I. You may want to ask, What are the odds for success? My answer is, I don't know. No other course appears to be more reasonable. I take it with optimism, guarded but genuine, and here's why. The pain right now is acute because we're suffering it, but it's by no means historically unique. The recovery we will strive for is also not unprecedented. One school of thought has it that free markets will “naturally” experience such wrenching periods and will as “naturally” hit bottom and rise again. We may be right to be angry—at the risk-takers and their recklessness, at the regulators and referees who were supposed to keep the game from going wild. Those of us who believe in the ideal of a free marketplace, however, suspect that if the disaster hadn't come in one way, it would have come in another.

So it is with the recovery. One way or another, it will come. Our president-elect is making all the right moves, it seems to me, given the basic dysfunction we're experiencing. He has access to the best possible advice, and we may be confident that he will sort it out and, in the end, contribute to a solution rather than make the crisis worse. That's really about all we should expect of him and of the “brain trust” he has assembled. Meanwhile, if it seems too much to ask that we all should enter this holiday period with a jaunty step and a Ho Ho Ho . . . if we don't, quite yet, see this as a season to be jolly . . . we can nevertheless practice Peace and Good Will . . . practice, practice, practice.