June 2002

In the stock market "These are the times that try men's (& women's) souls." As we head toward the lows made in the Dow last September, investor discouragement rises commensurately. A couple of things come to mind that I would like to pass along.

Important low points are rarely made without being tested later.

1. **1997** - This year there was in important low in the Dow when it dropped to 6971. Over the next five months it rallied more than 30% to 9200, only to drop again five months later to 7400. This was the lowest level since 1997.

2. **1987** - The Dow plummeted to 1671 in October, and within two months rallied to 2027, a gain of 24%. Over the following few weeks, it dropped again to 1734. Investor attitudes were awful, and it proved to be the low in the Dow for the last 15 years.

3. **1974** - The Dow had been dropping from a high of 1067 for almost two years and late in the year hit 570. From there, it rallied to 690, a gain of 21%. Over the next few weeks it dropped again to 567. Again investor attitudes were horrible with people wanting to get out of stocks. It was the best time to buy the Dow in the last 28 years.

4. **1929** - We have all heard this was the year of the crash, but in fact the market rallied almost 40% in 1930 only to turn and drop to a new low in 1932. It was the best time to buy the Dow for decades.

5. **2002** - In early 2000 the Dow hit a high of over 11,700. After almost a two-year tumble, it went below 8100 in September of last year. Since then we have climbed to over 10,600 in March of this year, an increase of approximately 31%. As I write this we have dropped back to around 9600. Once again, investor attitude is dismal.

My point is this: After major drops in the averages, the market has a rally that is often followed by another drop. It is this second drop that is the most punishing to investor confidence. This is when many people are consumed with an overwhelming desire to get out of stocks at precisely the wrong time.

A major reason why stock market investing is so hard is because it looks so easy. Swings in stock prices frequently wreak havoc with investors' emotions. Why did people clamber to get into NASDAQ stocks during March, 2000 when the index was over 5100, and why are they compelled to race for the exit now that is around 1500.

Consistently successful investors, such as Warren Buffet, have an innate ability to focus on their individual companies and ignore the raging emotions that always surround the market. Mr. Buffett has made huge amounts of money for people during what most would consider boring or dull periods in the stock market. Ponder something: We do not buy the "stock

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market." Instead we buy individual companies where people go to work, create useful and valuable products or services, and try to increase their customer base.

There is one other point I would wish to make. Several people with whom I have spoken over the last several months have stated that they did not expect the stock market to do well over the next year or so, because our economy is weak. I believe just the opposite. The stock market does not stay in sync with the economy. Specifically, the stock market may tend to do very well in periods of poor economies. An excellent example is the period from 1932 to 1937. As you know, these were the years of the great depression, of bread lines, and of unemployment that exceeded 30%. During that time (1932 to1937) the Dow Jones Industrial Average quietly gained over 400%.

As the market begins to improve, I am convinced it will be a very different market than the one we experienced in 1998 and 1999. That is to say, I believe we are unlikely to have the spurting gains in the same sectors. It will likely be a return to what I would characterize as more normal markets, where the leaders have earnings, solid balance sheets, good products, and key managers.

In my opinion, as we search for stocks, there is far more opportunity now than there has been for several years. Keep focused!

Sincerely,

Mike

J. Michael Hard
President

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