Sara-Bay Financial Corp.

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Weak economy?. . . then buy Stocks!

A great benefit associated with this business is that it has given me the opportunity to work with some highly intelligent clients (and you know who you are). I have been fortunate in being able to both observe and learn from them, a few of whom have been quite successful investing in both stocks and real estate. Several of these customers, and I should say friends since they have become friends, have made extensive studies of the economy and the stock market. Since I do a considerable amount of my own work and study, I like to examine their writings, theories, and conclusions. If I deem these ideas to be valid, I may then incorporate them into my own analysis. In other words, I am not above pilfering their ideas, which will brings me to the title of this epistle . . . but first, I digress.

Years ago, I read a book by John McGee called, “The General Semantics of Wall Street.” McGee had previously co-authored another work called “Technical Analysis of Stock Trends,” which I regard as one of the best books on technical studies of stock price movement. (I sense this paragraph is really grabbing your attention! No doubt our office will be besieged with inquiries requesting where to obtain these volumes.) General Semantics is a book describing **how investors’ erroneous perceptions** led them to poor stock selections and also to making investments at precisely the wrong time.

One commonly held perception is that stocks will go up as the economy improves. This is why market commentary seems to be so focused on whether the economy is improving or not. One of my above mentioned clients, after significant research, concluded, **"Stocks generally go up when the economy is bad, deteriorating, or not significantly improving."** This is exactly opposite to commonly accepted beliefs. Incidentally, a research study by the prestigious independent Ned Davis Research team recently reached the same conclusion.

Powerful market advances can and often do start during times of economic difficulty. Since purchasing stocks during a weak economy seems contrary to what most of us would believe to be logical, let’s consider some history for a moment: The classic example is the great depression. 1932 saw an unemployment rate of almost 30%, yet from 1932 to 1937 the Dow Industrial Average gained about 400%. More recently, 1974 was a year with considerable economic problems. There were lines at gasoline stations and shortages of various other commodities. Real estate prices began to fall (Yes I know - sounds impossible doesn't it?). Condominiums in Sarasota went begging, sitting half-built and empty. It resulted in the largest bank in this town sustaining unrecoverable losses and being forced to sell. In the midst of this morass, very few of us felt any inclination to buy stocks. Yet, like the Phoenix, the stock market started rising late in the year. Within 12 months the Dow had climbed almost 65%.

Conversely, things could not have looked better in January of 2000. However, beginning in March, the general market started falling and continued for almost two and a half years. It wasn't 9/11 that sent the market down. It had already been dropping for a year and a half. Keep in mind, the song "Happy Days are Here Again," was written and published in 1929 shortly before the market broke.

When we take our perceptions of the economy and attempt to apply them to the purchase and sale of stocks, remember it is easy to blunder. There is an old Wall Street adage that says, "A rising market climbs a wall of worry."

Sincerely,

Mike

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