

# SARA-BAY FINANCIAL CORP.

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October 23, 2008

## **Dark Clouds and Silver Linings**

Every twenty years or so, the stock market goes through a purging much like we are seeing today. It is difficult to predict because the timing of these events is so irregular. The last one was in 1987, and the one previous occurred in 1974. This type of washout is almost always due to an overextension and excess of some form of debt. 1974 was a classic since the market dropped a little over 45% from the high the previous year (this year the low was approximately 44% off last year's high). The market touched a low in October of that year, bounced around with some good rallies in November, and then in December dropped slightly through the October bottom once again. The business news was dreadful, investor outlook was gloomy, to say the least, and it proved to be an outstanding time to buy.

There are only a few market advisors and stock selection experts whom I have come to respect over the years. Given the plethora of market pundits and self-proclaimed experts parading across our news media, we should be able to find many professionals able to offer intelligent advice and wise counsel. Unfortunately, this does not seem to be the case. My admiration is reserved for a distinct minority. There are a handful of people who have an innate ability to divorce themselves from the popular perceptions and the misconceptions, endemic to our industry. Not only are they pragmatic, they approach the business of investing armed with a world of common sense.

The late Sir John Templeton is one of these. He was born in 1912 in the small rural town of Winchester, Tennessee. His father worked at farming, building homes, and other jobs. His mother was a deeply religious Presbyterian who taught him religious faith and confidence in himself. John learned quickly to take advantage of opportunity. He attended Yale on a scholarship, and graduated second in his class with a degree in economics. He went on to Oxford as a Rhodes Scholar and received a master of arts in law. Returning to the United States, he went to work as a trainee for Fenner and Beane, the forerunner of Merrill Lynch. This was the mid 1930s, the middle of the great depression, and he was a young man in his twenties. It was clearly not the most comfortable time to start in the investment business, but his parents had taught him self-reliance, integrity, charity, discipline, humility, and enthusiasm.

During the next twenty-five years, John created some of the world's largest and most successful investment funds. In 1999, Money Magazine called him "arguably the greatest international stock picker of the century." He eventually sold his Templeton funds to the Franklin Group in 1992, and now it is known as Franklin-Templeton. John lived rather modestly year-round in his beach home in the Bahamas. He drove his own car, and never flew first class. He wound up giving most of his money to charity. In 1987, Queen Elizabeth II knighted him for his service in philanthropy. He died this past July at age 95.

One of the most interesting things about John was that he was a contrarian. He loved going against the crowd and he looked for neglected stocks. He sold into roaring bull markets, and he invested during the depths of despair. When asked about living and working in the Bahamas, he replied, "I've found my results for investment clients were far better here than when I had my office in 30 Rockefeller Plaza. When you're in Manhattan, it's much more difficult to go opposite the crowd."

2201 CANTU COURT ♦ SUITE 217 ♦ SARASOTA, Florida 34232-6255  
941-371-8027 ♦ 800-373-2917 ♦ FAX 941-371-8314 ♦ [www.sara-bay.com](http://www.sara-bay.com)

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The most difficult course to follow has always been the path that leads us against the crowd. This has never been more valid than today when every publication and every TV and radio program devoted to business is blaring the mega-problems involving banking or the stock market. During the last three weeks I have seen customers, and some brokers, selling stocks for no other reason other than the fact that the prices are down.

***“Invest at the point of maximum pessimism,” - John Templeton***

The ongoing problems with our banking and financial system have never been better publicized. The resulting worries have manifested themselves in tumbling prices, not only in financial companies, but also in stocks of almost all other industries. One of my clients suggested the word “crisis” has been used so many times it is in danger of losing its effectiveness. To some extent we are all guilty of the impulse to follow the herd, but heaven help us when we do. Stock prices, when beaten down unmercifully, give us an opportunity to dramatically improve our investment performance over time.

***“Cash combined with courage in a crisis is priceless,” - Warren Buffett***

No one can guarantee that the Dow has reached a bottom, but one thing is certain. We are roughly 5,000 points closer than we were last year at this time. About a year ago we wrote a letter titled *Bumps in the Road*. It explained some of our concerns, and why we wanted to maintain some cash in our managed accounts. Put simply; we believe conditions are changing. Furthermore, we think the next few months could prove an excellent time to search for bargains, and that is what we intend to do. Thank you all for your trust and confidence during a difficult period.

***“The four most dangerous words in investing are, ‘This time it’s different!’” – John Templeton***

Sincerely,



Mike Hard

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