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Understanding and Reason – Keep it Simple

It was only eight years ago, January of 2002, that twelve European nations exchanged their currency and began to circulate Euro banknotes and coins. The idea was initially adopted in 1999, and three years later 12 nations exchanged their money for Euros. There are now 15 nations in the European Union. When the original plan to create Euros was set up, it caused concern here in the US. In fact, it was never set up to benefit America, but to establish a group of European countries that would combine and compete effectively with us. We did not know to what extent it would affect our exports and overall balance of trade. The stock market averages bounced around not knowing what direction to take.

Now the unity appears to be crumbling, and while the participating countries want the strength the unanimity offers, some members are not willing to adhere to the fiscal restraint necessary to sustain the accord. It is becoming clear that the EU is unable to prevent its members from expansionary government and social programs. If one or more of its members chooses to engage in profligate spending, there appears to be little that can be done to bring them into line. The rescue package put into place by the European Union last month may or may not turn out to be successful. It could just buy time. The package is huge, 957 billion dollars, which includes 250 billion from the International Monetary Fund. The United States' contribution to this is a little under 43 billion since our share of the IMF is about 17%.

If the Euro does eventually fail, and individual countries are forced to revert to their own currencies, what does it mean to us as individual investors? We know the market hates uncertainty, but the worry is often more damaging than the event itself. In this case, if the European Union does break apart, should we lament its dissolution? It was never set up to benefit England or America in the first place.

The concern over the European Union has already caused some jolts to our stock market averages, but consider the longer-term implications. Does a breakup mean people in Europe will stop buying food, gas, electricity, medicine, homes, or traveling and taking vacations? There are corporations, both here and abroad that will continue to prosper and grow regardless of the outcome. Should events of this type affect your decision of whether or not to be an investor?

Let us try to put this into perspective. As one of our clients, <u>you are not "in the stock market</u>!" Rather, as a shareholder, you are an owner of active functioning companies that produce and sell products people need. As an owner, you are entitled to participate in the expansion of the company and entitled to share in its growth and earnings. In all market climates there are dynamic companies which will grow into tomorrow's leaders. Microsoft Corporation emerged and grew dramatically during the last half of the 1970s as short-term interest rates were climbing to double digits, gold was soaring to all-time highs, and the stock market averages were erratic and choppy. It was a difficult and uncertain period to say the least.

Our job is to continually search for growing, established companies with strong financials, as well as emerging companies. Since we typically maintain sixteen to eighteen companies in your portfolio, it is not difficult to monitor them on an ongoing basis. Those investments that fail to meet our expectations are eliminated. We only need to find a handful to achieve the goal of making your assets grow. This method has proven solid over time. Don't try to guess when prices are high or low by listening to the news media. Negative news is not the time to sell and can be destructive to your financial health.

Assume you own a piece of property with no mortgage in a desirable part of town or along a beautiful shoreline. You believe that the surrounding area will continue to grow, and your real estate will become a valuable asset to you and your family. Economies fluctuate and there is a slowdown in business. Property values, including yours, suffer declines. Would you feel compelled to rush out and sell your property so you could put the money in the bank and earn 1% or less. Savings accounts and money markets are good only as short-term parking places and ready cash.

There is a great benefit to having been in this business for many years. I have seen numerous people make hundreds of thousands or millions as a result of owning stocks. I have known others who have acquired wealth investing in real estate or by operating efficient companies. Never once have I known a single person who has made a fortune by investing in money markets, savings accounts, or certificates of deposit.

Reported news events are almost always short-term, and often imply some sort of impending misfortune. Negative news attracts the most viewers or subscribers, and news media are profit-making organizations. Do not be confused or misled by short-term events which sound so downbeat at the moment. This is a time to focus on your long-term goals.

Sincerely,

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