Sara-Bay Financial Corp.

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# The Emerging Powerhouse Stock Market

When stock markets finally begin to emerge from protracted bear markets, the world is full of skeptics and non-believers. People become inured to the belief that stocks do not go up very far or for very long. They simply cannot accept the fact that there is major change in the wind.

First, let us restate our definition of a bear market: A bear market is a market where the most popular average does not effectively go to a new high, typically for between 9 and 13 years (see our letter issued last fall, *A Time to Invest* on our website, sara-bay.com). In March 2000, the Standard & Poor 500 Index touched a high of around 1550. As we write this, more than 12 years later, that same index is near 1400.

During its life span, a bear market has many ups and downs, but, in effect, goes nowhere. The S&P briefly flirted with the high in 2007, and then went into another heart-stopping plunge in 2008. Twelve years is a long time to go sideways, and the great majority of investors become conditioned to the stock market failing to deliver significant returns. They believe that any advance is a temporary phenomenon, and therefore should be sold. Reading or watching the news detailing all the world's economic problems only serves to confirm their convictions.

But . . . there are interesting things happening behind the headlines. Countless companies have trimmed debt and gotten leaner. Their employees are more efficient and productive. Improvements in communications and technology are staggering over the last dozen years, making it easier to transact, monitor sales, and service clients. Many businesses have the ability to offset inflation and a declining dollar by raising prices, and this is precisely what they will continue to do.

While some corporations will go by the wayside, numerous others have learned to survive and indeed to prosper. Witness Apple's latest report last week, with revenues of just under $40 billion in a single quarter, bringing almost 30% of that money to the bottom line. To put this in perspective, this year Apple's projected sales figures are more than half the GDP of Greece.

## The Birth Of A Bull

Throughout history bull markets have been born out of fear and adversity. According to my astute friend and market student who made his own investigations, "Markets go up when business is bad, deteriorating, or not significantly improving." We concur. More than one person has said to me, "I do not want to invest now. I want to wait until things are more certain." Thinking back, in over thirty plus years in this business, I cannot think of a single day when I came to work and said to myself, "Today is the day! Things are finally certain, there are no problems, and I can finally invest!"

In 1982, we emerged to the first new high in the market since the late 60's and the news was not good. Interest rates were soaring, all air traffic controllers in the country had gone on strike and were subsequently fired by the President, Britain went to war in the Falkland Islands and in 1983 Washington Water Power defaulted on their AAA municipal bonds. In the midst of this negative news we emerged from the previous bear market.

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During a decade of tough times, smart corporations can remake themselves and tool up for the coming prosperity. Even though the stock market was well off its bottom, ‘82 was the year that the popular averages broke through to multi-year highs. It was a powerful advance. Ninety percent of investors did not see it coming and continued to disbelieve as it persistently advanced. Keep in mind, business news was still poor.

That year, 1982, the stock market started a climb, which went on for 18 years into March of 2000. This is not to say we did not have corrections along the way. Bull markets have always had setbacks, which are sharp and fast, and come out of nowhere. Invariably they scare and jolt investors, but they end in a reasonably short period of time, and the market once again begins to make new highs.

<u>From January 1, 1982 until December 31, 1999, the S&P 500 had an average compounded growth rate of over 18% per year.</u> This was the average, not the best stocks. In this period, money managers like Warren Buffett turned thousands of dollars into millions. Finally, in the late 1990’s a lot of people became cognizant that perhaps they should have been in the stock market. Unfortunately, this is always the case. By the time the average investor makes the decision to commit his money, he catches only the tail end of the Bull. It is when they hear friends and family boast of their financial acumen and openly declare their brilliance. In 1999, many arrived at the party just in time for the dot-com bubble, and the final act of the Bull for the next ten years.

We certainly do not know, nor are we saying, that the next bull market will advance at the rate of 18% per year, but we believe it will be very strong and will last for more than a decade. Everyone needs some money in savings to be accessible in the event of an emergency, but to leave the bulk of one’s investable assets in savings with interest rates as low as they are now is a terrible long-term plan. At twelve percent a year money will double in only 6 years. By contrast, money in the bank earning 1/2%, takes 144 years to double. Obviously, there is no gain without some risk, but we believe the opportunities are greater than we have seen them for many years.

Those of you who have been with us for the last ten years or so know that this letter is a departure from our more cautious stance of keeping a good percentage of one’s money on the sidelines. You can view some of these letters online by going to our website, sara-bay.com. As you know from our previously mentioned letter in the fall, we believe it is hugely important to design a serious long-term investment strategy.

Study history; in some fashion we are destined to repeat it. This is the time to build your five-year plan!

Sincerely,

J. Michael Hard Benjamin M. Hard Andrew M. Hard

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