



*Humpty Dumpty sat on a wall,  
Humpty Dumpty had a great fall.  
All the king's horses  
And all the king's men,  
Couldn't put Humpty together again.*

I think it would be interesting to consider Humpty today in light of our current economy. My modern version would rhyme like this:

*Humpty Dumpty sat on a bubble,  
Humpty Dumpty was asking for trouble.  
And when the great bubble,  
Became nothing but rubble,  
Could the nation's great women and men,  
Put Humpty together again?*

## GET READY FOR A BULL RUN

BY THOMAS CURRAN

I have always believed the best lessons are learned during periods of adversity and not successful times.

If I am right then our recent investing experiences should prove to be very helpful in the future.

The dreadful experience we have endured in the equity markets over the ten year period ending 12/31/2008 is the catalyst for my observations. Perhaps it is desperation that causes me to believe that somehow the losses of the recent past will somehow give birth to riches over the next ten years. It is my firm belief that we are entering a period when long-term investors in the stock market will enjoy historically high returns.

Let me tell you why.

Curran Investment Management believes

recent equity performance is predicting the beginning of another historic bull market, a bull market that will produce extraordinary long-term results. The worst ten year period for US equity performance dating back to 1880 ended in 2008. Domestic and international economic news is dismal. Investors worldwide have professed their lack of faith by flooding the fixed income markets searching for a safe haven. We believe similar periods of market behavior can help predict what will happen from here. We are optimistic for future equity returns and believe the risk paradigm has shifted. A long-term equity investment today has less historical risk and higher probable return than perhaps any period since 1880.

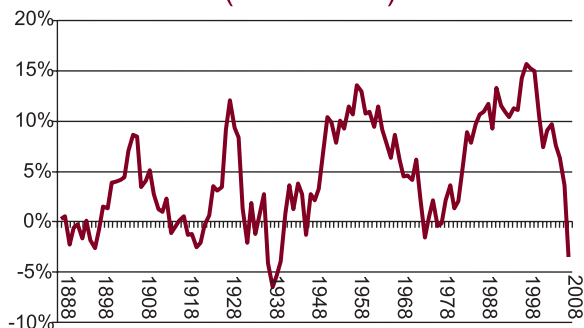
## TEN YEAR ROLLING AVERAGES?

We have prepared an exhaustive analysis of historical equity market data returns based on ten year rolling returns dating to 1880. Using single period (one year, three year) return data to decipher historical trends presents a problem. Any one year of return data is impacted by micro economic factors that are unique to that given year and may

not relate to a long-term economic cycle (example: September 11, 2001 market crash). Using a ten year rolling average, (previous ten year cycle for each year evaluated) allows us to illustrate and predict based on broad market reactions to the longer term economic cycle.

*The goal is to identify common market trends that have existed in multiple periods of varying fiscal and monetary policy and during varying domestic and international economic climates.*

Rolling 10 Year Period Price Appreciation (1888-2008)



Data source: Robert Shiller, Irrational Exuberance (Princeton University Press 2000, Broadway Books 2001, 2nd ed., 2005)



## WHY ARE WE OPTIMISTIC?

We have just lived through the worst ten year period for equity returns since 1880. If we compare five similar periods since 1880, each period has been followed by a ten year period that has achieved annualized double digit returns.

These periods have triggered the beginning of long-term bull markets that have seen investors experience 20% annualized investment returns at their peaks. An investor would have received a 20% investment return for ten years straight.

*Simply put, we have been through the worst ten year period ever. Similar periods, no matter what economic climate, have bred new bull markets that produced outstanding long-term results for investors.*



## WHEN DO WE THINK THE BULL RUN WILL BEGIN?

We think we are close to the beginning of the Bull Run, but the timing is difficult to predict. In the previous ten year periods following the dismal returns, years three, four, and five

have averaged the greatest rebound. Earlier years have seen some sideways movement, while later years have tapered off in the acceleration of growth.

*The equity markets have historically rebounded much faster than the overall economy. Once an economic rebound is clear, we usually have already experienced the largest percentage increases in equity prices.*

## WHY DO WE THINK THE RISK PARADIGM HAS SHIFTED?

After the carnage of the 2008 equity market, the ten year number dipped into the negative zone. There have been four previous times when this has occurred; we call them market “troughs” (the period of time the average stays in the negative zone).

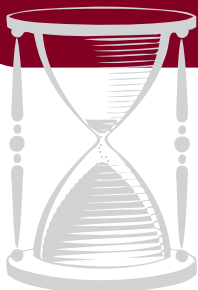
Some of these troughs admittedly last for over a decade. However, equity market performance during these “trough” periods is relatively neutral. Prolonged sharp declines once we enter these “trough” periods are not common.

*Based on historical data the real risk is we are entering a long-term consolidation/sideways period. This risk has historically produced greater than even equity returns.*

We went back to 1880 and viewed market returns using ten year rolling averages. By doing so it allows us to see more clearly long term trends. The trends are clear and they are conclusive.

There were four great bull markets.

The first began in 1896 and ended in 1905. The second began in 1921 and ended in 1928. The third began in 1939 and ended in 1958. And the fourth began in 1975 and ended in 1998. These great bull markets enjoyed average annualized returns of 13.85%. The bull markets lasted an average of 15.5 years while the bear markets lasted an average of 12.75 years.



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