



Defining QualitySM

WHEN WILL THIS ORDEAL FINALLY END?

We are in the clutches of a bear market and recession that is proving stronger than many investors' commitment to long term investing. There are good reasons for current concerns and those reasons are very frightening. There really is no need to discuss them further.

This recession and the bear market are wreaking lasting damage on the lives of many. The fear is understandable along with the urge to sell and go to cash. But the realization that many company shares are available at bargain prices is going unnoticed. No one seems to care and probably will not care until prices move higher and fear subsides.

Some say the selling pressure is coming mostly from hedge funds. Others say it is mutual funds raising cash to meet withdrawals. It is clearly being driven by the need for funds to meet cash flow requirements for banks, businesses and individuals. It probably began with forced selling by excessively leveraged funds and has clearly spread to main street investors fearful they will run out of liquid assets to pay bills.

But the real reason stocks are trading lower now is the mania of fear. Business news sources are constantly referring to the Great Depression and what they believe happened in the 1930s in the stock market. Daily "talking heads" on business channels make references to the Great Depression. Most comments are not worthy of tabloid journalism. They need to provide facts and double check their sources. Then they need to stop offer their opinion and start providing real data and information.

That will never happen. It is the reason you will never find a television in our offices tuned to CNBC, Fox Business News or Bloomberg. If I want to waste time and be entertained there are much better options. Unfortunately too many smart people are relying on the "tube" for information. I would recommend the *Financial Times* and/or *The Economist* for insightful and in-depth information regarding the markets.

Yes, the market has declined and there are high unemployment rates and more than enough business and bank failures to talk about to keep the air waves cracking. No one needs to listen or watch the news to know things will certainly get worse before getting better.

To the extent some compare the current market to the Great Depression, I would suggest they consider the following: The Dow Jones Industrial Average increased by 363% from July 11, 1932 to March 5, 1937.

Manic fear paralyzed the markets in the Great Depression. Too many in today's markets are permitting the same manic fear to overwhelm their capacity to think.

In short, solutions are in place. All that is needed is time. Like a teenager who impatiently demands their wishes be met now, the market is still behaving petulantly while sulking between emotional outbursts still hoping to get whatever it wishes NOW. Government panders while giving the impression legislators can really make things better for all of us now.

Deep recessions require time to rehabilitate.

One measure that could be encouraging is the Price to Earnings Ratio (PE) for the S&P 500.

Jeremy Siegel wrote an article in *The Wall Street Journal* February 25, 2009 edition titled "The S&P Gets its Earnings Wrong."

Siegel questions their methodology. He asks why does S&P calculate performance based on market capitalization (changes in market value of large companies count more than changes for smaller companies) but counts earnings as though they were equal.

Exxon-Mobil is the largest company by market cap in the S&P 500. Jones Apparel is the smallest. In the method S&P uses to calculate performance, Exxon-Mobil is equal to 1,381 times the market cap of Jones Apparel. But when S&P calculates earnings it counts the earnings or losses for Jones Apparel equally.

Siegel describes S&P's earnings calculations bizarre. I would say they are flawed.

Suppose Jones Apparel or Exxon were to announce surprisingly horrid earnings for the second quarter? Which do you think would have the greatest impact on the market?

Now let's be positive and ask which would impact the market more if the earnings were better than expected?

Siegel raises an interesting question. By S&P's reckoning the market PE for its index is more than 20 times or about 5 points higher than its historical average of 15.

When the PE is viewed by weighting earnings as it is in calculating performance, the PE is about 9.

Siegel concludes stocks are cheaper than they look and we agree. We all know the real problem is fear. The market will recover ending this ordeal when reason overcomes fear.

A handwritten signature in blue ink that reads "Tom". The signature is written in a cursive, slightly slanted style.

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