

# THE PENDULUM SWINGS...



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2008 will long be remembered as a year of extreme market disappointment and performance. Business reports morphed into tabloid like stories. Wild swings in the market, defaults, blowups, theft, and similar fast-moving events kept investors, spectators and professionals on the edge of their seats. Pain was inflicted on all investors, regardless of aggressive or conservative strategies. Particularly painful was the fact that even balanced accounts (as judged by the performance of the largest funds) had a difficult time protecting asset values. Cash was scared out of the banking system until the FDIC came to the rescue. There was simply nowhere to hide.

2008 also will be a launching pad for an examination of the old rules, implementation of new rules and an earnest and renewed vigilance toward accuracy and disclosure. The pace of these changes is not known, but is already under way. We are now a couple of months into the 2009 calendar, and the market will be swimming upstream against a tide of ever-changing earnings estimates, historically low interest rates, fears of future inflation, and ever-present geopolitical events.

All these things nibble at our conscience and confidence as we move forward as investors. There are some certainties: cash has been and is building on both corporate and individual balance sheets, saving not spending is the current “new order”, and government spending replaces private investment during such times.

Recall the analogy of a pendulum- when the pendulum swings too far (extremes of 2008), the correction process starts and eventually swings too far the other way. So, where are we? Will the market fall another 35% like 2008? We encourage investors to be watchful not fearful. Will interest rates fall below zero? Unlikely. Look for higher rates in the future with a dose of inflation. Will we still eat, go to the doctor, buy gas, turn on lights, and use our cell phones and computers? We say yes and commit to navigating the investment climate accordingly. Prudent, steady and long-term investing is still the way forward. If you would like to discuss your portfolio, please give us a call. We are a fee-only, registered investment advisor with clients throughout the Southeast.

**Stock Market Contractions and Expansions**  
1973–2007

