

Gaining Perspective

Market Commentary by Randy McGill, Branch Manager/Owner – September 18th, 2001

Pride. That's what my staff and I felt yesterday as calls came into our office all day long – to **buy** stocks! Beginning before the bell, one client after another called to express their desire to buy something – and in some cases anything – to show their support of America and the American way of life. Those of you who have been clients for years know that I have always represented that investing in stocks – in the private ownership of capital and business – is a unique privilege and opportunity. It is the backbone of our economic freedom and way of life. And so, despite the market's decline, which largely represents our markets playing "catch up" with Europe and Asia (whose markets had already had an opportunity to discount the tragedy), I remain optimistic. I believe that yesterday's show of "patriotism" by our clients – the fact that **not one client called to sell anything** - was accompanied by something equally important – the simple fact that our markets opened, traded and closed in an orderly fashion. Nonetheless, in moving forward, we must consider the impact of these events on our financial lives. Several thoughts come to mind:

Recession in Perspective First, are we in a recession and will corporate earnings/stock prices suffer as a result? To be very frank, we don't know at this time. We may very well already be in one, but, assuming the worst, recessions are generally short lived. You might remember that our last recession lasted just eight months, from July 1990 to March 1991. In fact, on average since 1945, the duration of recessions has been 11 months, according to the National Bureau of Economic Research. More importantly, recovery cycles have lasted more than five years on average. And although past performance is not a guarantee of future results, you should know that through 10 recessions and 10 bear markets since World War II, the S&P 500 Index has produced a total annual rate of return of 13% (9% after inflation) according to University of Pennsylvania Professor Jeremy Siegel.

Reasons for Optimism Beyond the issue of a short-term recession, we must consider the fundamental health of our economic systems. And, despite the shock of recent events, the U.S. economy remains sound. Our monetary system is intact, banks are open and your cash is safe. Our federal and local governments are functioning as they should. Lawrence Kudlow, a noted economist, explains, "Looking ahead, traditional prosperity killers such as high inflation, rising tax rates, overbearing government regulation and commerce-stopping trade protectionism are nowhere in sight. Indeed, the war against terrorism is producing a sea change in federal economic policies that will better promote recovery through more stimulative fiscal and monetary actions. Facing both war and recession," he continues, "President Bush and a more bipartisan Congress are throwing the austere 'lockbox' out the window in favor of deeper tax cuts for individuals and businesses - including capital gains, faster equipment write-offs, accelerated personal tax-rate reduction and possibly FICA payroll tax cuts. These supply-side measures will lower after-tax production costs, raise investment rewards and make it less costly to rehire unemployed workers."

Market Response to Crisis What then can we expect for stocks? Our markets have endured past crises and they/we will endure this one. The key is to not panic. Again, although past performance does not guarantee future results, the Dow Jones Industrial Average was at approximately 117 when Pearl Harbor was attacked, fell 20% to 93 by early May 1942 and then rallied to 145 by July 1943, an upward move of 56% from its bottom. In August 1962, before the Cuban Missile Crisis, the Dow was at 615. It fell to 550 in October and then rose to 650 in December and to 767 by December 1963. Finally, let's not overlook the impact of President Kennedy's assassination on the Dow. On the news, the market fell nearly 20 points in 20 minutes before the exchanges were shut down. When the markets reopened and Lyndon Johnson was sworn in as president, the Dow went from 712 to 825 by April 1964 and to 891 by November 1964.

If these events show anything, they suggest that buying into these "panics" is usually the most logical strategy for investors who can stand the accompanying risk. More important, unless there is good reason to do so, we do not

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want to sell unnecessarily, as that will only play into the hands of the terrorists. Remember, bull markets start when the news cannot get any worse. We may just be at that point. However, whether you buy now or not, I strongly recommend that you stick with your long-term investment plan.

As Always, Perspective Dictates Could a disruptive terrorist act happen again? Unfortunately, the answer of course, is yes. As you have heard and read many times this past week, we find ourselves living in a “new world” and facing a “new war.” Our primary course now must be to have greater resolve than those who seek to terrorize us, which might very well require that we learn to look beyond each possible act and remain focused on the long-term. And so, remaining calm when it comes to making investment decisions will be important always, perspective (long-term or short-term) - not any senseless act of terrorism - should dictate your investment and savings strategy.

Finally, our thoughts continue to go out to the families and friends of victims of last week's senseless acts of terrorism. All of us seem to know someone who was either directly or indirectly impacted by these events. Words cannot do justice to the loss we all share at this time. I hope this letter finds you and your family well and that it will help you to form your own perspective. If my staff or I can be of further assistance to you, please do not hesitate to call.

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