



Investment Watch

1st Quarter, 2003

4940 Washington Avenue, St. Louis, MO 63108 · (314) 367-6555 · (866) 871-6356

"UNCERTAINTY"

For the longest time, I've racked my brain to come up with a relevant investment topic to discuss with you that didn't diminish the more important life and death concerns of troops in Iraq. I thought and thought—and *finally* it came to me, or maybe more accurately, it **didn't** come to me - **UNCERTAINTY!**

Uncertainty may be the only reality in today's tumultuous times! Is this uncertainty unique and original? Or do we now need more assurances of cause-and-effects and ultimate outcomes? In trying to figure this out, I recalled a parallel from my college physics courses (yes, I was a geek!), where fact is fact and there is **certainty**. Right? Well -

In 1927, Werner Heisenberg, the founder of quantum theory, published his most notable paper, The Uncertainty Principle. The uncertainty principle states that both the position and momentum (direction) of atomic particles, and therefore all matter, cannot be determined at the same time. That is, "*the more you can rely on the position, the less you know the direction, and vice versa*".

Ironically, this physical law seems to parallel the human feelings being espoused by the pundits in today's literature - "*we're not exactly sure where we are and have no idea where we are going*". We have no confidence in the stock market, in the economy, in our retirement plans. If there is one thing we are certain about - it's that we are **uncertain**.

We know that the economy has been growing, albeit, sluggishly for the past few years, but we've expected much more. I've reiterated Greenspan's words that the fundamentals in

our economy are sound—low inflation, low interest rates, modest unemployment, increases in productivity, record new housing starts, and consumers have "kept America rolling".

So why has the U.S. economy remained sluggish and not rebounded sharply? The media has unequivocally answered the question—**uncertainty**, of course!

Until recently, the American consumer, whose spending comprises 70% of the Gross Domestic Product (GDP= the total amount of goods and services produced in America), has driven the economy, unwavering and unstoppable! Corporate America was labeled the villain holding the economy back by not making investments and the media blamed it on... you guessed it, uncertainty.

Then when President Bush started beating the war drums, the American consumer, who drove the economy by his spending since 9/11, became carsick and slammed on the brakes - no more flying, no more SUV's, no more Disney World. Consumer confidence plummeted a breathtaking 15 points in February to its lowest level in ten years.



The uncertainty of whether or not we would be at war stopped the American consumer in his tracks and the entire nation skidded to a stop. The economy was paralyzed by the specter of war. Everything was on hold.

Then it happened on Wednesday, March 12th, 2003, we became certain that a war with Iraq

"UNCERTAINTY" (cont'd)

would be waged. When this uncertainty was removed, the stock market soared. Was this rational? What about the more important, still unanswered, questions of replacing Iraq's leadership and winning over an oppressed people? Uncertainty still exists.

Soon afterward when only minor Iraqi resistance was encountered, which should have been foreseen, the markets retreated, giving back half of their gain. Our reactions are irrational and our optimism can mutate to pessimism with only minor news. We are searching for stability but everything we read confirms our worries and uncertainty. Just a few days ago on page one of the Wall Street Journal, I read-

"The Dow Jones industrials fell 50.35 points on uncertainty about the war and worries about a sluggish economy"

It now seems every small movement in the markets or the economy can be attributed to our uncertainty or worries! We are being manipulated by the media. We are inundated with so much information that it is impossible to assimilate it in order for us to make sound, intelligent judgments.



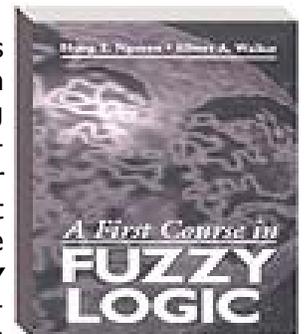
We are on an emotional roller coaster, reacting to every tidbit of information supplied by the media, unable to make rational, long term decisions. The uncertainties in our daily lives, magnified by the media, have left us paralyzed to act. So how do we cope?

Let's all take a reality check. Should we let these uncertainties suspend our daily lives? Is the current era really more uncertain than the past? Yes, we all agree, the threat of terrorism is new to us and we've only had 1-1/2 years to make sense of our feelings. But what about all of the other geopolitical risks we read about? Are these any more severe than the

risks of the Cold War with Russia, the Cuban missile crisis, the Vietnam War? What about all of the economic risks? How much more risky is our current 1.7% inflation, 5.5% mortgage and 5.8% unemployment rates compared to those 40 year historical averages of 4.5% inflation, 8% mortgage and 6% unemployment rates?

We've lived with uncertainties for the last 40 years, we are living with uncertainties now, and we must learn how to live with uncertainties in the future.

Mathematicians give us insight on how we can make decisions involving issues that are too complex to be understood or based on information that is inexact. They have named this "**Fuzzy Logic**". Fuzzy Logic resembles human reasoning in its use of approximate information and uncertainty to generate decisions. Fuzzy Logic allows people to succeed by using knowledge that is imprecise. Finally a math course we all can understand - *kind of!*



Realizing that we have incomplete knowledge and uncertainty frees us of the paralysis of inaction. We need to resume our lives and make sound decisions. Deciding to start, restart or continue to contribute to our retirement plans is the key to our future and fundamental to our investment strategy. We know this is the right course of action, even with the uncertainties of the direction of the markets or war.

Continue to invest. Investing is an act of faith - faith in the long-term success of the US economy and our nation's financial markets. We are not market timers—we are long-term investors. Most of the uncertainty of the inflated market is gone. The storm has been severe, but we have already weathered all or most of it.

Finally, all of our thoughts and prayers are with our troops hoping for their safe return.

Keith Kowalczyk 4/1/03