Investment Watch

2nd Quarter, 2002

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"Que sera sera"

/kā sĕ-ră' sĕ-ră'/

As my mother's grown older, I've caught myself reminiscing and recalled this old Doris Day song she would sing to me –

When I was just a little boy,
I asked my mother what would I be?
"Would I be handsome,
Would I be rich?"
Here's what she said to me:

"Que sera sera,
Whatever will be, will be,
The future's not ours to see.
Que sera sera,
What will be, will be"

Because I missed out on the good looks, I didn't want to leave the getting rich up to fate, as the lyric predicts. But, right now, it is difficult to visualize that I have *any* control over my future, especially my financial future. My myopic outlook obscures the reality - my **long-term financial future is predictable**.

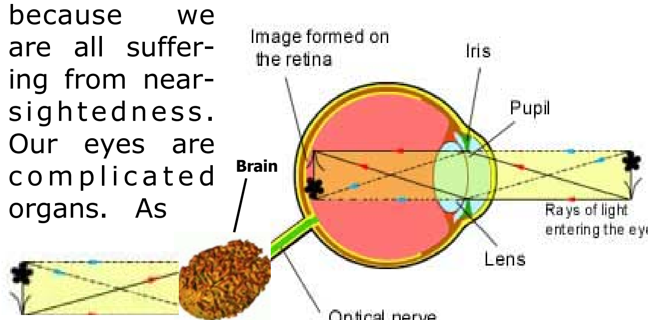
We've just hit the midpoint of a year that, absent a dramatic rebound, will be the third consecutive negative year in the US stock market. The last time this happened was the Great Depression, '29, '30 and '31. Just three short years ago, we were at the peak of investor confidence. Then irrational exuberance brought about market excesses, which should have foreshadowed the recent dire consequences. However, our lack of insight back then proves short-term market forecasts are impossible, but hindsight is 20/20.

Our rearview mirror is short-sighted. We've lost our long-term focus. Not only do we overanalyze the traumatic past, but we also let it cloud our vision of the future. I'm not an optometrist, but let's see if we can correct these "short-sighted" feelings.

During difficult times, it's important to look at the big picture. A very educated person once told me that to become wealthy you must "save a lot and invest wisely." The **first step** is to save a lot. Saving a lot is not in Fate's hands, but in ours. It is important to retain our long-range focus and continue to save.

You may remember from last quarter's newsletter, the savings rate in America has dropped to zero. Don't go along with the crowd and be average, but rather, *dollar-cost-average*! The money you save now will buy more shares because prices are low. This is the *dollar-cost-averaging* theory extolling regular, periodic investment. Save in good times and bad and you've taken the first step to a solid financial future.

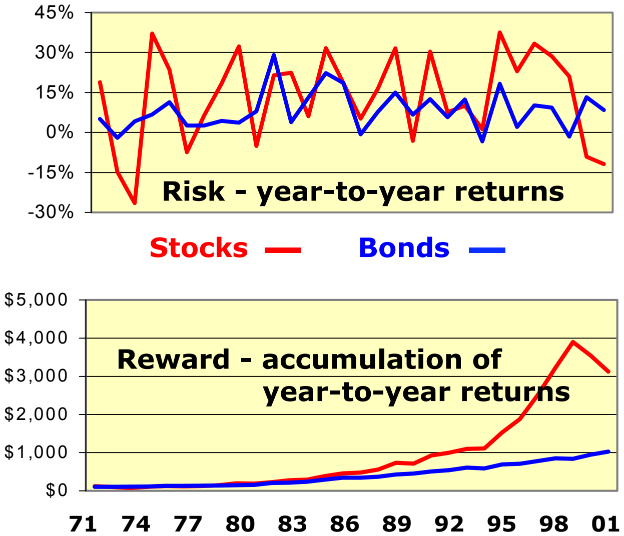
The **second step is** to invest wisely. This may seem impossible right now, but that's because we are all suffering from nearsightedness. Our eyes are complicated organs. As shown in the illustration, the light enters the lens of our eye, which turns the image upside down onto our retina. The optic nerve relays this upside down image to our brain. Then, it's up to our brain to flip the image to its original upright position. This sounds like the topsy-turvy world of today's financial markets.



"Que sera sera"
(cont'd)

The best way to cure our near-sighted view of the markets is to back-up to get the historic, far-sighted view of the **two major asset classes** — ***stocks and bonds***. Let's compare the risk as measured by the **year-by-year returns** of both ***stocks and bonds*** compared to the reward shown by the **accumulation** of these returns.

Long-Term Investing Smoothes Short-Term Risk



This historic perspective shows us why we shouldn't be short-sighted and over-analyze the short-term swings (risks) in the markets; but rather, take the far-sighted approach and concentrate on the long-term results. We cannot predict the future in the short-term, however, over the long run, ***the future is ours to see***. The markets are very predictable over long periods of time; but in the near term, no one can predict the direction of the markets. This is why we know "market timing" (getting in and out of the market to try to take advantage of brief market swings) is impossible, but long-term investing smoothes out the short-term risks and time builds our trust in the markets.

So don't lose sight of the forest for the trees! As you can see, over long periods of time, ***stocks*** are generally twice as risky as ***bonds,*** but provide twice the returns. ***Stocks*** have returned 9% to 12% while ***bonds*** yield 5% to 8%. Will these norms hold true in the future? Probably, but there are no guarantees - **Que sera sera**.

The main lesson that we can learn to invest wisely is to have our eye sight tested once every year. Read the chart carefully -

EYE CHART
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I V E
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F Y D I V E R
S I F Y D I V E R S I F Y

and do what the eye chart tells us. ***Diversify*** your savings among **asset classes** based on your time horizon (i.e. how long before you will need the money) and your personal risk tolerance.

Your time horizon determines how long of a long-term investor you can be. The longer you can stay invested the more risk you can take on because time smoothes out the short-term risk.

Times like these test our resolve for taking market risks. Unforeseen scandals burst into public view. Corporate deceptions, phony earnings, concealed expenses and insider trading create uncertainty, which is magnified by our distrust of the Wall Street analysts and the major accounting firms, the watchdogs who have looked the other way.

Diversification reduces overall risk by blending the returns of each investment class. Studies show that diversification, or asset allocation, determines 90% of the earnings of your investments. Therefore getting the right asset mix based on your personal time horizon and risk tolerance is your most important financial decision. Everyone is different.

We must have regular exams, so the oculist can correct the conditions unique to each one of us. Then we will have clear vision to take control of our financial future. Don't put your financial future in the hands of Fate. Save a lot and invest wisely or *what will be, will be* -

Que sera sera.

Keith Kowalczyk