

Note: I can't find any evidence that I sent this out, or when exactly I wrote it- but just for fun I include it and date in Feb. 2009, because it does have that "desperate" we HAVE to be near the bottom of this MESS tone to it. Enjoy!

There is only one question and one question only!

As we are watching and managing all the permutations and weird events that this "global situation" is tossing at us, we have come to a conclusion.

This is a one question market.

That Question is "Is this situation a bump in the road or the end of days?"

It's not an easy question either, that are people out there that are making the point that a depression is coming, that the free enterprise system is over and that it will take decades if ever to return to our normal style of life, others are suggesting by their talk and actions that this is the buying and opportunity of a lifetime.

Who is right? Both seem equally confident.

You have to make up your own mind.

I present the arguments we have below in two different columns. I have taken the liberty of taking the emotional verbiage and tone of the pundits of each that point of view.:

Pro the World: The free world has always overcome all the disasters that it has been unified against, Hitler, Communism, Slavery, Apartheid. While this challenge seems much larger than any of those, it's the entire world that is in unison to solve this issue not just the free world.

Con the World: We have spent a generation or more living off the future, by piling up debt and leverage, this is a root cause of this crisis, yet it was taken to extreme by our wall street and the system had a heart attack which we blame on the failure of Lehman brothers. It is going to take some time to fix this, not only do we need to "save" or "bankrupt" ourselves out of our debt on a personal level but the demand for stuff that we would have been buying will drop off. So the demand for goods and services from US sources will be lower for two reasons 1) our savings rate to increase and 2) the future demand levels will be less because we will be spending less. This will take some time and reduce profits and income levels all over the place.

Pro to the world: While the US have been living on the margin on increased debt for a generation or more, the rest of the world is only recently joining us and as the 3 billion

people in China come on board as consumers (albeit slower without our demand) they have Lessor debts and can increase demand for goods and services, hence the demand level for good services and especially commodities cannot be based solely on the demand from the Western World, the influence of these new buyers may have a significant influence and cause a more rapid end to the crisis than without them.

Con to the world: There is a profound lack of confidence in each other and our governments and institutions. This will cause increase conservatism among investors and businesses owners. They will not make new investments in risk based things (unless they believe this is not the end of the world) and hence businesses will have trouble raising capital and few if any people will buy stocks, hence the future of the world is bleak. So they cannot raise capital (from other than the government) and their revenue will decline profit margin will decline and so on.

Pro to the world: In general businesses are not the villain here, the amount of cash on corporate balance sheet was at an all time high at the end of 2008, the villain here are the people, with excess debts, the primary one of which is their home which has declined in value remarkably. So business might be very well be able to survive this period of de-leveraging until the sun shines again either due to domestic demand or demand from overseas.

Con to the World: The dollar is trash, our debt loads (including government, are too high and going higher so no one outside the US will want to invest in the US.

Pro to the World: Currency prices are relative and the whole world in this mess. Most of government are ramping up their debt loads and their central bank balance sheets so this problem itself is unlikely to affect the relative value of the dollar. Further, the U.S. got into this mess first, and hence will likely come out of it first. Also if the individual are in fact paying off our consumer debts then that will reduce demand for that debt and might well increase the value of the dollar.

Con the World: Stocks are risky, expensive and run by a bunch of criminals, there is no way that any reasonable person would ever invest in them again.

Pro to the world: Some of the worlds smartest investors (Buffett, among them) say otherwise and are making investment and have been at prices higher than they are now. These are people who have been right (mostly) for a lifetime, further with interest rates at basically 0% less inflation (if any) the relative appeal to stocks which have dividend yields of 5% or higher look pretty good. Sure the dividends may be adjusted but the stocks might also go up. Once calm returns people will stat thinking about making investments that will return an income, and that will be more than likely, stocks.

Con to the World:

Our government is become socialist and is getting more involved in the business world. This is creating problems which will have to be solved at another time, maybe hurting the stocks and the market altogether.

Pro to the world:

Yes, unwinding will be necessary, just as a patient needs to come off a ventilator slowly and carefully, but this seems a necessary cost to keep the patient alive so that they can recover. Agreed these are unprecedented times but so was the extent of leverage and the greed that was uncovered. The size of the problem was unprecedented and the solution is too. With luck we have learned from the mistakes of the past and going forward out systems will be improved to stop this type of thing from happening again in our lifetimes. I am sure that the creation of the Social Security system was considered socialistic and too expensive too, and still may be, but its existence did not impede the creation of a lot of wealth and capital.

Which is the correct answer? Will this be the end of the western world as we know it or just a rather unpleasant bump in the road that has been made much worse by media coverage and unbelievably complex and opaque causes of the problem?

While each of us must make up our own minds, I put forth my individual answer which I hope is correct.

- 1) This is a wake up call of gigantic proportions, to the entire world about leverage and lack of transparency and regulation, I think, that the world answered the call and hopefully our governments can communicate and cooperate toward a worldwide solution to the issues. Certainly all the countries and central bank so of the world have paid a price.
- 2) We are looking at this mess as if it's only "us", here in the U.S. with maybe a little of western Europe and China tossed in, it is far from that. This will affect all countries and all peoples of the world and all of them will be part of the solution
- 3) "Things are different this time," is an old expression that is wrong. Well it's been wrong each time it's been used up until now anyway. This mess is one of our own creating and the solution will be one of our creating too. Messy yes, perhaps slow, yes but one we will do. As I suggest above, never has so much focus been placed on one problem for the whole of the history of our species.
- 4) Our society and our generation is not one to take depression or recessions for very long. Our bad training to take on debt and spend is not gone. Tempered perhaps by the lack of debt and or the lack of income, but we have not changed. While I hope that we don't go nuts like what happened to real estate and the liar loans again, we will as a society and the baby boomer generation continue to enjoy the privileges of we have before just as soon as possible, this will aide the recovery.

Some might not, all will do it less than before but once “stability” returns get out of the way.

- 5) We are all hampered by a lack of “visibility”, people are worried they might lose their jobs in a few weeks or months, people who own businesses are concerned how their customers or clients will react to the fear and uncertainty and how that fear will affect revenues or the lack of financing.

Should I be right in my conclusions above, this is the perfect example of another old saying:

Buy when there is blood in the streets, even when it is your own!

John Marks Templeton (1912-2008)

I am a youngster in the investment business at only 31 years, but I can't find or hear from anyone who can remember worse times. Hence I pull out the “blood in the streets” quote. I know my blood is on the street and yours is too..

What you do about it will determine the quality and perhaps the quantity of your life from now on.

Respectfully submitted,

Charlie Stoll