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A short list of the Major Financial Crises since 1982

- 1982 Mexico, then Latin America
- 1987 Black Monday
- 1989-91 United States Savings & Loan and Latin American Debt Crises
- 1997-8 Asian Financial Crisis
- 2000-2 Dot-com Collapse
- 2007-? Subprime Mortgage Crisis

It has been a difficult thirty years. It seems that as soon as we get through one crisis, the next one is already upon us. Since 1982, every few years investors have confronted the *worst financial crisis since the depression*.

So, how should investors respond in times as trying as these? It depends on your investment objectives. The mainstream business media orients towards investors with a very short-term outlook. If you are primarily concerned with your investment performance over the next twenty years, you are not likely to spend a lot of time glued to a television to find out how your stocks did today.

Many of the business channel viewers are using leverage or debt in a quest for quick riches. The risk to this aggressive approach becomes obvious during times of market uncertainty. If you are heavily leveraged, a few bad months can potentially wipe out your entire portfolio. But, history suggests that if you forego leverage, and remain invested in stocks through thick and thin, your chances of accumulating substantial wealth are very good.

Timing is Everything (or is it)?

Assume that your timing was very bad, and you invested your entire \$250,000 nest egg in the Dow Jones Industrials in the spring of 1981, right at the peak prior to the Latin American debt crisis. Complicating matters further, you had no ability to buy the dips or dollar cost average over the past twenty-seven years. A little more than one year into the

life of your portfolio, it's shrunk a sickening 23%. You would reasonably wonder whether you had time to make up the losses.

Twenty-seven years later, in June of 2008, after another sickening credit crisis, your nest egg would be worth \$2,780,882. In spite of enduring six major financial crises in the last three decades, the Dow Jones which was a little over 1,000 in 1981 is now over 11,000. The average annualized return over the last 27 years is a little over 9%. Assuming the same rate of return as the past 27 years the Dow would substantially exceed 100,000.

Are We There Yet?

There are many reasons to believe that the worst of the recent bear market is behind us. Valuations are very low by recent standards; earnings outside of financials are holding up very well and inflation, though high for energy and commodities, has not yet infiltrated into wages or most other consumer goods.

Eventually, stocks reflect a corporation's long-term earnings power. Historically, earnings grow about 8% a year. Earnings growth is tied to global productivity and there are plenty of reasons to believe that the world economy should be more productive during the next generation than the previous one.

The rapid spread of free-market capitalism and global trade, the emergence of a consumer class in many of the lesser developed regions of the world, instantaneous global communication, and the trend away from tyranny towards democracy should support robust long-term earnings growth. None of that changes in spite of the potholes that we hit along the way. History suggests that buying rather than selling into the periodic financial crises is the prudent investment strategy, as imprudent as it may seem at the time.

Gimme Shelter

Barden Capital is not content to rely on a buy and hold approach to achieve good returns. We actively adjust to changing market conditions in an attempt to maximize our clients' potential to accumulate wealth. We believe that prudent strategic diversification is the most effective risk management tool. Currently, about one-third of our investments are in international companies, with the balance in U.S. companies.

Unfortunately, in times of market stress, diversification tends to be less effective as markets are more globally linked. The reality is that in some market environments there is little that can be done to shield our clients from global volatility. All we can do is take advantage of the across the board sell-off to initiate positions in high-quality companies that would otherwise be more expensive.

Accenture is one recent purchase that fits this description. Accenture is a global management consulting, technology services and outsourcing company. They employ 180,000 people in forty-nine countries. They help companies throughout the world to develop operating standards that will help them to compete on a global scale. We took advantage of the recent volatility to purchase Accenture when it was trading at its lowest valuation since going public in 2001.

Fortunately, our robust international exposure, and our strong allocation to energy and basic materials has allowed our clients' portfolios to perform far better than the S&P 500 which is down nearly 20% from its high reached just last fall. Until the market finds more stable footing, we will continue to focus our research efforts on finding quality companies that have healthy balance sheets and low-debt levels.

There is a time in the market cycle to increase our exposure to smaller, even riskier companies. We are not there yet. The market will likely continue to fret about the fallout from the credit crisis and the uncertainty about the upcoming election. But, when psychology shifts from fear to confidence, and investors see the glass as half-full rather than half-empty, we will adapt our clients' portfolios to the ever-changing investment environment.

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