



# COLBERT INVESTMENT MANAGEMENT CO.

“When written in Chinese, the word crisis is composed of two characters. One represents danger and the other represents opportunity.” --- John F. Kennedy

September 2001

In the aftermath of the September 11<sup>th</sup> terrorist attack in the United States, the Dow Jones Industrial Average lost over 22% for the year. Other stock market indices like the S&P 500 (-25%) and the NASDAQ (-38%) have also been volatile. This is the 8<sup>th</sup> time in the last 31 years that market averages have lost over 20% in a given year. We expect rough market conditions to persist during the next few weeks and months.

We must remember that we invest in the stock market through good companies that generate solid profits over the long term. Including the nine recessions in the last 60 years, companies' profits have gone up by an average of 9% per year.

Some of the major reasons why the US economy is so resilient are the following. After the Great Depression of 1929 the government created Social Security and Unemployment Compensation funds. Most American families have dual incomes, so that if one loses his/her job the other can still provide for the family. The price of the average house has not fallen over the last 30 years. The financial system is a tower of strength of the world economy: regulated, liquid, safe. Interest rates have fallen dramatically to keep real estate strong and stimulate business capital investment.

Finally, government spending has gone up, every year. Today the United States Government is considering various programs which might bring a total of \$100 Billion in economic stimulus to the economy. That amounts to 1% of Gross Domestic Product (GDP), a big number indeed.

When I started my investment career in 1987 we had something called “Black Monday” in which the stock market lost 23%, in one day, closing at 1841. Even though I have seen many difficult periods in the last 14 years, I still never know if the next 10% move will be up or down.

I remember that the following events have produced scary times in my professional life:

- 1987                      Black Monday                      -23% (in one day)
- 1990-1991              Gulf War/Recession                      -20%
- 1998                      Russian debt default                      -21%

The Dow Jones lost 1370 points the week after the September 11<sup>th</sup> attacks, closing at 8235. To put it in perspective, 8235 is almost five times what the Dow Jones was on “Black Monday”, October 20, 1987. A quite respectable 11% average return per year.

We are going through bad times, which are different from the last bad times (they are always different). The United States economy will recover without a doubt. I am confident that good companies with the appropriate financial resources will survive, take market share away from weaker competitors, and thrive in an economic rebound.

Thank you for your trust and your patience.

Sincerely,

Karim Armand