

THE AMERICAN STOCK MARKET AND ECONOMY

These few paragraphs are about the American economy and the American stock market. They are not intended to blame anyone, choose sides on issues or spew acrimony. Instead, they are to summarize for the great people of the Ark-La-Tex several important issues relating to the preservation of their financial wellbeing. No one should make financial decisions based on this information alone; all decisions should be made only after seeking proper guidance from a qualified professional.

There are four of these important financial points, kept brief here for reason of space. First, historically speaking, the stock market is still high priced, even after the significant drops since March, 2000. The price of the market has for many decades been measured by the PE ratio, or price-earning ratio. The historical average for the PE ratio is about 15. This average was reported to be about 26 at the market peak March, 2000. It is now reported to be in the range of 20. Were it to reduce to the average of 15, which reduction has historically occurred based on a principle called "regression to the mean", the stock market as a whole would have to decline in excess of another 30%. Such a reduction of the Dow, for example, would reduce it to about 6000. Downward momentum could certainly carry the market much lower, causing even greater losses.

Now, the second important point: There is a centuries old and well documented cycle of boom and bust in the economy of the civilized world, with an average period and frequency that suggest we may be due for a bust. The last bust was called the Great Depression, which more or less began with the Great Crash (stock market crash), which followed the Roaring Twenties. What name will be ultimately give to the ten or twenty years span of time after the roaring 1990's? The decades long cycle of boom and bust to which we refer is called the Kondratieff Wave in honor of its discoverer. While the Kondratieff Wave has been as predictable as the seasons of the year all these centuries, perhaps it may never repeat itself again, or perhaps the economic downturn it implies is imminent may be delayed several more years. But what if the bust is beginning now?

Important point number three: The U.S. dollar has recently been falling in the world currency market. Why should this matter to us? Because it means the U.S. stock market has lost value even more rapidly for foreign investors than for Americans. And why should that matter to us? Because foreign investors

help "price" the market by bidding up or down stocks alongside we Americans. With the dropping dollar, these foreign folks are less likely to stay in the U.S. market. That hesitancy could be a contributing factor in a potential downward spiral.

The last important point is one that needs little explanation because we are hearing about this issue a great deal in the media: distrust of the information we are given by publicly listed companies, by their accounting firms, by investment analysts. Lack of confidence in information may result in lack of confidence in the stock market. Remember that every stock transaction involves a buyer and a seller each of whom believes he is making a good deal, a wise choice. In the present environment, the price at which buyers and sellers can both hold this belief has been steadily declining - and the decline may continue.

Having briefly outlined these four grave issues, let me comment on their potential impact and importance. On the positive side, they do not signal the end of our American economy or the American stock market or our American values and way of life. They could, however, greatly impact individuals' and families' lifestyles. For the Baby Boomer generation and for all persons anticipating a day soon when their dollars will be working for them rather than they working for their dollars, there may be a devastating disappointment. This disappointment could be still greater for people already retired. Even if such a difficult economic era were not labeled a depression, it would certainly leave a great number of people depressed. After the Great Crash of 1929, the stock market took longer than twenty years to get back to its original peak. Most people are not prepared financially or emotionally to face another such debacle.

While the third and fourth points, those regarding the dropping dollar and public distrust of "the system", may be short-term issues, the first two points regarding market price-earning ratio and the Kondratieff Wave are longer term. The short-term issues might be thought of together as a fuse, the long-term as a bomb.

In closing, my hope and prayer is that dark economic winter is gone forever. However, so that the people of the Ark-La-Tex can be the best possible stewards of their personal financial blessings, they should know about the above mentioned threatening possibilities. With this information they should

make calm judgments about how to proceed. Not now, not ever, should anyone panic.

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