LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"Those who agree with us may not be right, but we admire their astuteness."
– Cullen Hightower

We periodically attend the Contrary Opinion Forum held annually in the fall at Basin Harbor Club near Vergennes, Vermont. The timing and location of the Forum are, of course, inviting. More importantly, however, the Forum is far different from meetings sponsored by Wall Street firms which tend to put a positive spin on everything. At the Forum, the speakers are quite varied in their outlook which makes for a more thought-provoking experience. A summary of some of the presentations at this year's Forum follows:

Charles Hill of FirstCall/Thompson Financial reminded us that, while most recessions are brought on by overheated consumer spending, the current recession/slowdown was brought on by a capital spending binge that eventually burst. Due to the persistent decline in capital spending, stemming from the previous spending binge, earnings have been more disappointing of late than during a typical recession. Consequently, during the struggling economic recovery, analysts have been consistently over-optimistic with regard to their earnings expectations. Mr. Hill expects a stock market rally after an October bottom, but the key to the longer-term outlook, in his view, is the revival of capital spending and whether the consumer can carry the economy until that happens.

An interesting discussion of the secular change in the markets was presented by John Bollinger of Bollinger Capital Management, Inc. Mr. Bollinger sees the stock market in sixteen-year rising and consolidating cycles. The rising market is characterized by a buy and hold environment favoring growth stocks in which it is easy to attain positive performance but very difficult to beat the market. The consolidation phase is characterized by an environment in which it is easier to beat the market with value stocks favored over growth stocks and active trading becomes necessary. He identified the sixteen year cycles, beginning with a consolidation phase as 1934–50, 1950–66, 1966–82, 1982–98, and 1998–??.

Steven C. Leuthold of the Leuthold Group reminded us that emotions are critical barriers in the road to long-term investment success. To control those emotions, he provided ten important lessons to apply when managing your serious money: 1) Know yourself, especially your weaknesses and build some defenses against them. 2) Adhere to a written list of disciplines. 3) Consider risk as well as return. 4) Cash is not trash as it reduces risk in a declining market and provides a chance to take advantage of declines. 5) Consider market crises as a potential opportunity. 6) Sometimes, bonds are better than stocks. 7) Stock market new valuation eras have always been temporary. 8) Short-term trading is a loser's game. 9) History is experience—learn from it. 10) No growth is permanent.

The most bearish presenter was Martin H. Barnes of the Bank Credit Analyst. His major concern is that consumer spending may falter before capital spending picks up. As time goes on, the odds that the consumer will fail increase. Should the consumer fail, we will go back into a recession. He then fears deflation—and all the problems it creates—as a real possibility. If there is going to be a problem, it will stem from a decline in housing prices which would lead to mortgage defaults, and mortgages represent the bulk of consumer debt.

Michael L. Burke of Chartcraft is a stock market technician who made a very specific forecast. He looked for the correction we were then in to end around October 8th (it ended on October 9th), to be followed by a 20% rally by year end. After the year-end rally ends in December or early January, 2003, he looks for another seven to eight months of decline with the eventual low occurring in August. That low will be followed by a 50%, or more, rally to the 2004 election.

Much of what we learned at the Forum reinforced what we had been thinking. We have some near-term economic and geopolitical problems to work through before the all clear is given for the stock market. Longer term, we will be in a trading-range market for years to come which will require more trading than we customarily do to be successful. The secular environment has changed, and we have to change with it.

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