LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"If you don't know where you're going, you're apt to end up somewhere else."
–Yogi Berra

If we were to start on a driving trip to Los Angeles tomorrow, we would have some plan as to how we would make the trip. We would have an idea of what we would pack, what route to follow, where we might stop overnight, how fast we expected to drive, and when we would arrive. Some events would call for changes in the plan. For example, if we saw flashing red lights ahead, we would slow down. If a radiator hose broke, we would be delayed for repairs. If the news reports predicted a big snowstorm in southern Colorado, we would detour south.

What has this to do with investment management? Well, while analogies break down if carried too far, investing also should have a plan, a sense of what it is trying to accomplish. And that plan must be monitored all along the way and adjusted or altered as future events unfold.

In the October *As We See It* (written at the end of September) we said, "While traditional measures of valuation suggest the stock market is high priced, they are not useful in predicting its short-term direction nor the duration of the period of overvaluation." We did indeed believe the stock market was too high and would be corrected, but we certainly did not anticipate the suddenness or magnitude of the *correction*.

Much has been written and said already about what it all means. We will not here dwell upon our interpretation of the *crash* except to comment briefly that a correction was due, that some of the flaws in our markets were exposed, and that this has been a sobering experience. It will be a long, long time before some of the foolish speculation that was in the market ever returns.

Some of the overvaluation in the stock market of which we wrote in October has been corrected. But as measured by the traditional historical guidelines of dividend yields, price to book value, and earnings yields the stock market has not yet come to the bargain levels which have prevailed at other times. Bonds still offer historically high yields compared to stocks. Some attractive stock values have begun to appear and we are cautiously nibbling at them.

There have been predictions that the Crash of October 1987 portends a major depression. We do not know what the future holds, but we do not believe it is predetermined. Rather, we believe it will depend on decisions and actions yet to be made by governments and central banks throughout the world, by heads of major corporations, and by millions and millions of ordinary people.

We believe our investment approach, which emphasizes balance and diversification and which is value oriented, served us and you well. We see no reason to change this basic approach. Still, we will watch the road and adjust as we see what is over the hill.

With best wishes for a happy and prosperous new year.

Year End 1987

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