LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"In times like these, it helps to recall that there have always been times like these."
– Paul Harvey

In the mid 1950s, a short film was produced by the New York Stock Exchange promoting stock investing. In the film, about a young family, the husband had just arrived home from work. His wife was preparing dinner, and their two children were playing. The husband indicated he had been to see a stockbroker that day during his lunch hour and that as a result, he thought they should invest some of their savings in stocks. The wife, with a look of shock and disbelief on her face, said *stocks* as though it were a dirty word.

The 1950s was a time when investors were only gradually returning to stocks following the devastating 1930s, World War II, and the Korean War. The speculative frenzy of the 1920s led to a degree of manipulation of the stock exchanges that seemed to set new records for unscrupulous behavior. Many corporate scandals were exposed during the early 1930s as the economy came under stress and the stock market crumbled. Investors completely lost faith in the stock market because of the scandals and poor earnings. As an indication of the popular disgust for the market, Bob Hope starred in a 1941 movie, *Nothing But the Truth,* in which he played a stock broker. In the movie, he makes a bet with his coworkers that he can tell nothing but the absolute truth for 24 hours. *Liar Liar*, a movie produced a few years back, in which Jim Carey played a lawyer, was patterned after the Bob Hope movie. Following the 1929 Crash, it took investors a long time to regain trust in Big Business and the stock market.

Speculative manias, such as our recent stock market bubble, bring out the worst aspects of our system. During the bubble, greed overtakes not only many investors but a number of those running corporations and those who are supposed to be the watchdogs. This greed takes many forms but generally seems to be associated with efforts to boost profits in order to generate a higher stock price.

Once the bubble bursts and the economy weakens, the unscrupulous acts are exposed. Today we are experiencing a seemingly endless stream of bad news alleging widespread management negligence and malfeasance which is chipping away at the trust vital to a free-market system. We worry that a post-Enron tainting of the equity culture could take years to reverse and could reduce what investors are willing to pay for stocks to a level lower than it might otherwise be.

Clearly, corporate governance is now front and center in the minds of investors, legislators, and the media. In fact, according to a February 11th Business Week/Ipsos-Reid poll, 81% of investors do not have much confidence in those running Big Business. And 68% have little or no faith that the stock market treats the average investor fairly. If that poll were taken today, it would likely show an even higher, perhaps much higher, lack of confidence.

The media attention given to corporate malfeasance and accounting issues has reached a fever pitch, and reforms are already forthcoming. Much of the bad news about Corporate America's bad guys is reflected in the price of stocks. However, that said, a return to normal will take a long scandal-free period combined with solid earnings growth.

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