LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

> "I don't think anything could shake my confidence in this market," Mr. Allen says. Mr. O'Keefe adds, "Even if we do go down 30%, we'll just come right back."
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> "There was that bad stretch a little while back," he says. "Guys called me up and said, 'what do I do?' I told them, 'Buy more.' "
>
> – "Tech-Stock Chit-Chat Enriches Many Cape Cod Locals"
> *The Wall Street Journal*, March 13, 2000

> "All they ever say is, 'Buy, buy, buy,' all the way down from $100 a share to bankruptcy," the burley 63-year-old barber said. . . . "Now, they give a stock tip and I stay as far away from it as I can. Nobody trusts anyone anymore."
>
> Indeed, while mostly avoiding investments in more stocks, Mr. Flynn has been driving to a casino in nearby Connecticut every Monday to play blackjack and poker. "I do better there than I do in the market," notes Mr. Flynn.
>
> – "At Cape Cod Barber Shop, Slumping Stocks Clip Buzz"
> *The Wall Street Journal, July l8, 2002*

The above quotations are from two articles in *The Wall Street Journal* about a small-town barber, written less than two-and-a-half years apart. In the first article, the barber's faith in the market is unshakeable—his portfolio is approaching seven figures, he is doling out advice, and he is contemplating early retirement. In the second article, he has lost faith in the stock market and the professionals involved in it, and professes a preference for the casino over the stock market.*

*From the *Consilient Observer*, CSFB, July 16, 2002.

We have gone from an inflated stock market, or stock market bubble, to a deflating and hopefully deflated market. When the stock market bubble is inflating, there is a tendency to throw caution to the wind. Fundamentals are not considered relevant and may even cause one to miss out on outsize gains. On the deflating side of the bubble, everything is suspect. Companies that meet or exceed earnings estimates are often punished along with everyone else. On the way up, investors have a tendency to believe everything they are told; on the way down, they are suspicious of everything they are told.

As human beings, investors are emotional. Their moods are greatly affected by current economic and financial conditions. When the economic and investment outlook is favorable, they feel good; when it's questionable, they feel bad. These mood swings have a great impact on their willingness to buy and own stocks—and thus on the prices of stocks.

In a lecture delivered in the 1940s, Benjamin Graham noted that while there had been many advances in the art of security analysis up to that date, no way had been found to control investor emotions. Then, as now, investor emotions went to extremes. Human nature has not changed. The small-town barber's fear and greed are symbolic of those investors who preceded him as well as those who are sure to follow.

Over the past three years, we have witnessed a move from extreme optimism to extreme pessimism in the stock market. History reveals that the seeds of reversal are sown in these extreme positions. It is a truism that when investors expect returns to be highest is when they are likely to be the lowest and vice versa.

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