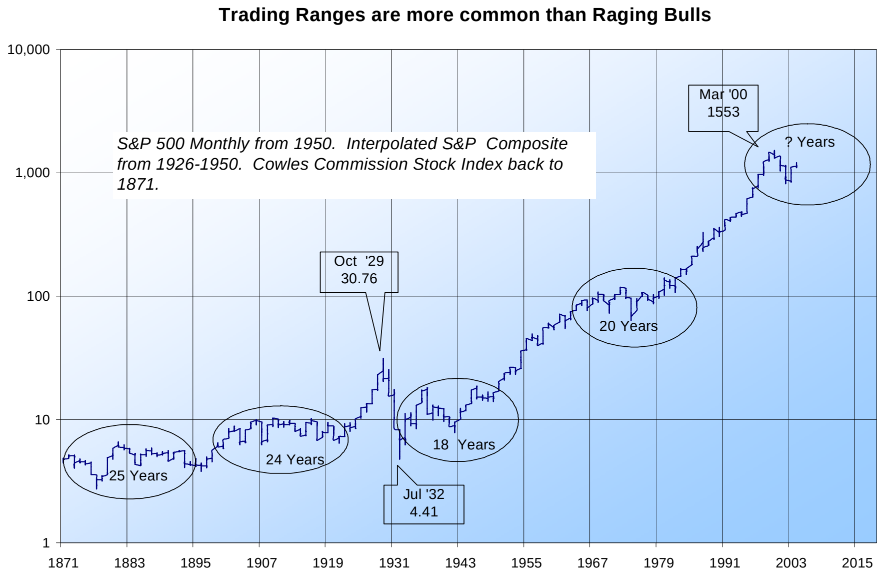
LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"The farther you look back, the farther you can see ahead."
— Henry Ford

Most investors are aware that the stock market's long-term compound annual return is a little over 10%. However, it may come as a surprise to those same investors that the majority of the stock market's return has come over relatively short periods of time. As shown in the following graph of the U.S. stock market going back to 1871, the market spends much more time in range-bound or consolidation periods than in secular bull moves. In fact, the stock market has been range-bound in nearly 90 of the last 133 years, as shown by the circled areas.

It has been the secular or long-term bull markets where investors have made the bulk of their return. It is interesting to note that if we just study the graph from 1900, the three bull runs of 1921–1929, 1946–1966, and 1982–2000 account for about 100 percent of the capital appreciation (excluding dividends) of that 104 year period. Dividends, of course, added to the return during the bull phases while supplying most of the return during the consolidation phases.



Each secular bull market was followed by a lengthy period of range-bound trading—usually lasting about two decades—in which stocks ended up roughly where they began. In those periods known as *secular bear markets*, the stock market moved up and down but did not top its old peak until 15 to 25 years after the cycle began. We at Lawson Kroeker feel that, following the market peak in 2000, the odds favor a trading range pattern similar to the patterns which followed other market peaks.

Successful investing during the stock market's range-bound phases is much more challenging than during its bull phases. A number of tactics can be utilized to enhance the odds of success. Certainly an emphasis on dividend-paying stocks makes sense in range-bound markets as dividends get paid regardless of the market's direction. A market fluctuating in a range-bound pattern may require more trading to take advantage of the fluctuations than was the case during the generally rising bull phase. Additionally, as commodities usually perform better than stocks during market consolidations, an emphasis on the stocks of commodity producers is often desirable. Moreover, even though the U.S. market may not be doing well, there could be opportunities in foreign markets. And finally, selective defensive strategies may be warranted during the inevitable slides that occur during the consolidation phase.

Successful investing is always a challenge, but the next dozen years or so could be especially challenging. Employing some or all of the above tactics should improve the odds of success.

Year End 2004