LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

Few will have the greatness to bend history itself; but each of us can change a small portion of events, and in the total of all those acts will be written the history of this generation.

—Robert F. Kennedy

Each of us has had experiences which become deeply imbedded in our minds and affect how we act for a very long time. These experiences may be unique to one individual or a small group, but when an event affects a large number of people, it may result in a generational shift in attitudes and beliefs.

There are still traces of bitterness from the Civil War. Our grandfathers and great-grandfathers who experienced the euphoria of the Roaring Twenties and the cold water treatment of the Great Depression were forever scarred. Stocks were scorned. Restrictions were written into laws and by-laws. For example, Nebraska implemented a law that state funds could only be put into U.S. Treasuries or Nebraska municipal bonds. Down payments for mortgages were as high as 50%. Unemployment remained in double digits until WW II.

In the 1970s, inflation came, prices escalated, Treasury bond yields reached the mid-teens, and mortgage rates approached 20%. Paul Volker, with the support of President Reagan, broke the back of that inflation but the fear remained imbedded in the minds of investors. To guard against the feared return of inflation, investors turned to equities of all kinds. This process escalated to ever riskier *investment* strategies—hedge funds, options, and derivatives crept into even *conservative* portfolios such as pension and endowment funds.

In 2008, credit availability crashed and the stock market dropped dramatically. We experienced a severe credit crisis with investment banks and commercial banks failing. Mortgage delinquencies increased while real estate prices fell. Credit contracted and for a time it was feared it was completely frozen. The evaporation of values in IRAs and other retirement accounts and decline in home values reached large numbers of people. Unemployment approached 10%.

Clearly people responded. Consumers started saving and postponed buying big ticket items like autos and jewelry. For necessities, shoppers turned to value stores like Wal-Mart and Dollar General. Universities with big losses in their endowment funds suspended or stopped building programs.

The government has responded massively. It made big investments in banks, insurance companies, and two auto companies—which were reorganized through bankruptcy. The Fed cut short-term rates to ¼% and flooded the banking system with excess reserves—all to restart the economy.

The big question now for investors is will it work? Much will depend on whether the public, the bankers, and businessmen have permanently changed or whether their new found caution is but a short-term phenomenon.

Given the loss of trillions of dollars of personal wealth over the last year or so, investment behavior is likely to be altered, at least to some degree, well into the future. We will likely see a generational change in spending and saving habits which will alter the investment landscape.

Successfully coping with the new environment will require sound diversification, principled fundamental analysis, and a willingness to invest in securities that will benefit from what may well be faster economic growth in selected foreign countries.

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450 Regency Parkway, Suite 410 | Omaha, Nebraska 68114-3701 | *tel* 402.392.2606 | *fax* 402.392.2597 | www.lawsonkroeker.com