LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

> If you see ten troubles coming down the road, you can be sure that nine will run into the ditch before they reach you. – Calvin Coolidge

Now is not the time to panic. An investor doesn't have to be an avid follower of the markets to *know* that October is a terrible month for the stock market. It seems the mainstream media outlets are constantly warning of the *imminent October stock market crash*. Such stories have a long history and are based somewhat—we suppose—on the Great Crash (October 29, 1929), Black Monday (October 19,1987), and lesser October meltdowns in 1989, 1997, 2002, and 2007. While September has historically been the worst month for the stock market, October has had a disproportionate share of significantly painful memories associated with it. Hence, investors fear October—entirely discounting the fact that it has been a middling performer since 1929. In fact, in the last twenty years the Dow has finished up in October an average of 1.8% and been positive 70% of the time.

What will October bring this year? We don't know, but we do know that investing is about owning companies, not worrying about items outside investor control. Crashes seem to happen when we least expect them, not when everyone is predicting one *any day now*. The bad news of today—Europe is probably in or nearing a recession, China's economic growth is slowing, and U.S. corporate profits could turn negative if growth slows—is not the stuff that normally precedes a crash. If not a crash, could October possibly bring an end to the bull market we have enjoyed since March 2009?

Some suggest that the current bull market should be nearing its end simply because of its length of more than five years. However, history suggests bull markets do not end because of their length, but when recessions approach. Seven of the last eight bull markets ended as the result of economic contractions, while the eighth was due to the 1987 crash. While no two recessions are the same, they tend to follow a similar pattern. Typically, an accelerating economy uses up spare capacity which leads to inflationary pressure. The inflationary pressure causes a rise in interest rates. Eventually the yield curve inverts (short rates rise above long rates), growth slows, and the economy rolls over. The current economic rebound is the slowest of the post-WWII period. Growth is being held back by a variety of factors, and the recovery shows no signs of burning itself out à la the above pattern.

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