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## The Popularity of the Weather Channel Did Not Change the Weather

*Information is wonderful. The more information the better, right? Over the last few years, a cornucopia of new financial media resulted in many investors buying a few popular stocks. This led to excessive valuations and all time stock market highs. Like everything else in life, it is possible to have too much of a good thing.*

2000 began with a Y2K whimper, but ended with a bang (or a pop?). After ten years of excellent stock returns, the market finally gave some back. The decade of the 1990's was marked by an average annual S&P 500 stock return of approximately 18%. While some debate whether 2000 was the last year of the old millennium, or the first of the new, there is no argument that it was marked by negative stock returns. The Dow Jones and S&P 500 were down roughly 6% and 9%, respectively, while the NASDAQ retreated by more than 39%.

We believe that last year will be looked upon as a watershed stock market year for decades to come. With the market correction mainly behind us, though continuing in some sectors, we believe we are positioned for positive equity performance going forward.

Reflecting on the recent past, there is no question that much good came from this period of "mostly up and some down". For example, the number of Americans who own stock individually and/or through their retirement plans is at an all time high (around 50%). With the Internet itself and the media providing 24 hour reporting on the investment subject, millions upon millions of us are regularly

tuned into the wonders of our capitalist system. Nothing but good will come from an increasing number of individuals viewing themselves as stockholders and therefore, genuine stakeholders in the global economy.

A similarly subtle benefit from the experiences of the last 10-15 years is that the stock market has shown itself to be an amazingly efficient "allocator of capital" for emerging businesses and ideas. The quickness with which the market both rewards and punishes may be a little unsettling, but the results are awe-inspiring.

To be sure, there have been recent excesses in the market...especially with respect to Internet and related technology stocks. However, a look beyond the excesses shows tremendous innovation and entrepreneurial spirit, the likes of which we have not seen for some time.

Every business model must now justify itself daily as to its role in the new economy. Technology and the global availability of information, allow good managers to analyze and adjust their plans quickly. Those who cannot react, perish.

As for those investors who have been hurt by lower share prices, we are confident that many were investing funds that they could afford to lose and will make tax and asset allocation adjustments which will cause the year 2000 to mean little to their net worth a few years from now.

Our clients' equity portfolios appreciated significantly during the decade prior to 2000, and due to diversification and our valuation discipline, gave back relatively little or nothing last year. The year 2000 confirmed our investment approach which has produced positive results during strong markets and preserved capital during weak periods.

As for our outlook, we see numerous positives. First, many of the stock market's excesses are now largely behind us. Second, technology will continue to improve productivity and keep inflation low. Third, we believe interest rates and energy prices have peaked and will head lower. Finally, the world remains America's "capitalistic oyster" and the opportunities for global growth remain in place. A short recession is certainly possible, but the longer term trend is positive.

In conclusion, we note that a lot of the recent media-inspired financial press (CNBC, Yahoo, etc.) is like the Weather Channel. Both do a perfect job of telling viewers what happened in the past...that instant, that day or that morning. Unfortunately, many viewers have learned that the media's short-term views of the market are as valuable as weather forecasts. It is now obvious that both Mother Nature and Wall Street play for keeps.

Important Disclosure: "It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities discussed in this newsletter."

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