



Finish the Race

October 23rd, 2008

The markets plunged yesterday, retesting the lows hit a couple of weeks ago. Retests are typical in bear markets, but this one came quicker than might have been expected.

Over the last few days the guests on CNBC's early morning show, Squawk Box, have also become more bearish. The reason is logical. The bears have made a great call and viewers are eager to know how they did it and where they stand today.

One long time bear, economist Nouriel Roubini, was on the show yesterday. He provided very sound reasoning for why he felt we were in for another 30% downside in the markets. At the same time, he was asked how he was personally invested now and in the last couple of years. He said that he wasn't an active investor, but passively invested in a variety of global and equity indices. He said if he were active, he'd be in cash.

All the same, there is a disconnect between what Mr. Roubini is saying - to be in cash - and what he is doing personally by staying invested in a variety of passive global and equity indices. Like many of us, his investing time horizon may actually be longer than his forecasted period of continued pain.

If you've ridden the markets down in the last three months, I would encourage you to finish the race set before you. Don't quit now, just short of the finish line. The credit markets are finally showing some interim signs of thawing as spreads decline, the price of gasoline at the pump is starting to fall, and earnings guidance while expectedly lower, is in not nearly as disastrous as recent stock price declines have felt.

Many run of the mill growth companies we track closely and own are now trading at 8-10x reduced earnings while the fastest are at 15-20x earnings. We've seen multiple compression very rapidly, which means there are some very decent buys out there. Warren Buffett has even tipped his toes into the water in recent days, not calling the bottom, but believing that the money spent today will be well rewarded a few years out.

If you have some cash on hand, start putting it to work.

Kindest Regards,

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