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capital management

Investing Inspiration

**Making Money in the Next
Great U.S. Stock Market**

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The Last Great U.S. Stock Market - Prepared by 1972 Nifty Fifty Bubble

Dow Jones Industrial Average (1966 – 1983)



Source: Dow Jones Indexes. Past performance is no guarantee of future results.



- ● ● | Nifty Fifty-One Decision Stocks

The stocks were often described as "one-decision", as they were viewed as extremely stable, even over long periods of time.

Source: Wikipedia



Nifty Fifty Constituents

We know the stalwarts...

- General Electric
- Coca-Cola
- Disney
- Merck & Co.

Do you remember these?

- Emery Air Freight
- S.S. Kresge
- Simplicity Patterns
- Polaroid



Nifty Fifty Valuation

This group sported high valuation...

Security	Price-Earnings Multiple 1972	Price-Earnings Multiple 1980
Sony	92	17
Polaroid	90	16
McDonald's	83	9
Intl. Flavors	81	12
Walt Disney	76	11
Hewlett Packard	65	18

Source: Burton Gordon Malkiel, *"A Random Walk Down Wall Street."*





Market Coming into 1982

- ❑ Depressed stock prices
- ❑ Years of neglect and dismay: created
Incredibly negative psychology
- ❑ Massive ammo on the sidelines
- ❑ Inflation fears everywhere
- ❑ Interest rates peaked



1973-1974: Nifty Bubble Deflates



The S&P 500
(December 1972 - December
1974)
was down ~45%.



The Nifty Fifty fared
much worse.

Source: BigCharts.com



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The Market Answered

Market consolidation the next 9 years



Source: BigCharts.com



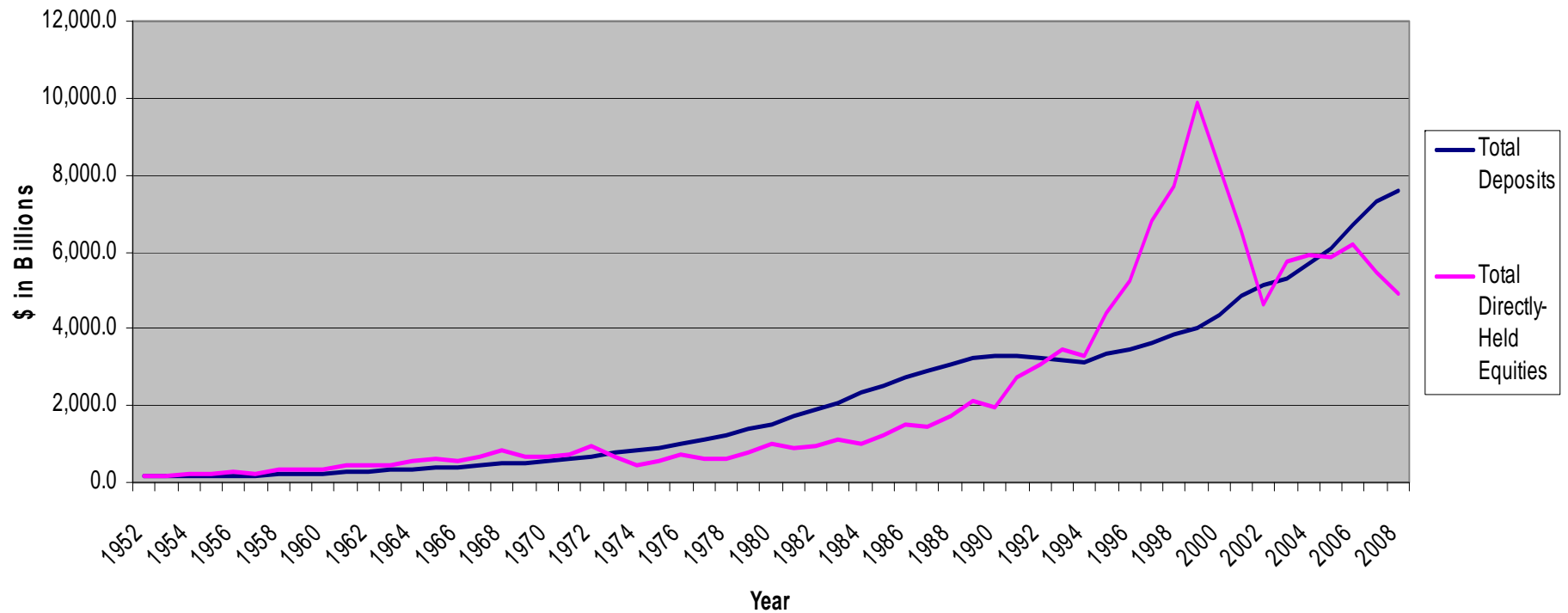
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Massive Ammo on the Sidelines

Total Deposits vs. Total Directly-Held Equities



Source: Federal Reserve Flow of Funds Statistics





Massive Ammo on the Sidelines

Year	1972	1981
Total Deposits (in billions)	\$697.2	\$1731.7
Total Directly-Held Equities (in billions)	\$921.4	\$905.2

Source: Federal Reserve Flow of Funds Statistics

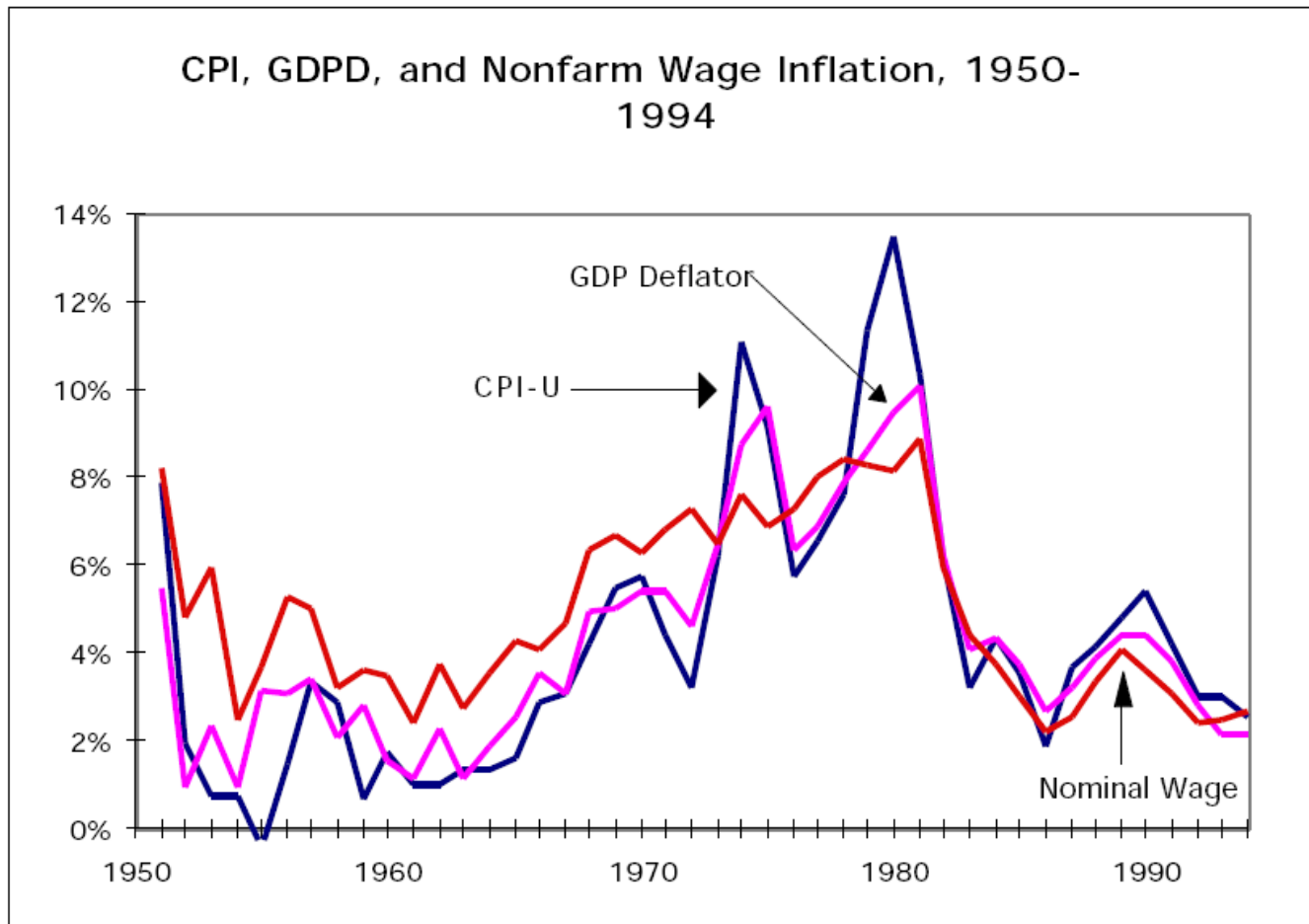




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The New Mantra Became “Inflation Protected Investments”



Source: J. Bradford De Long, America's Only Peacetime Inflation: The 1970s.



“The Death of Equities”

THE DEATH OF EQUITIES

How Inflation is destroying the stock market

Business Week, Money & Banking, August 13, 1979, p. 54-59

Say Hello to Wide-Asset Class Diversification

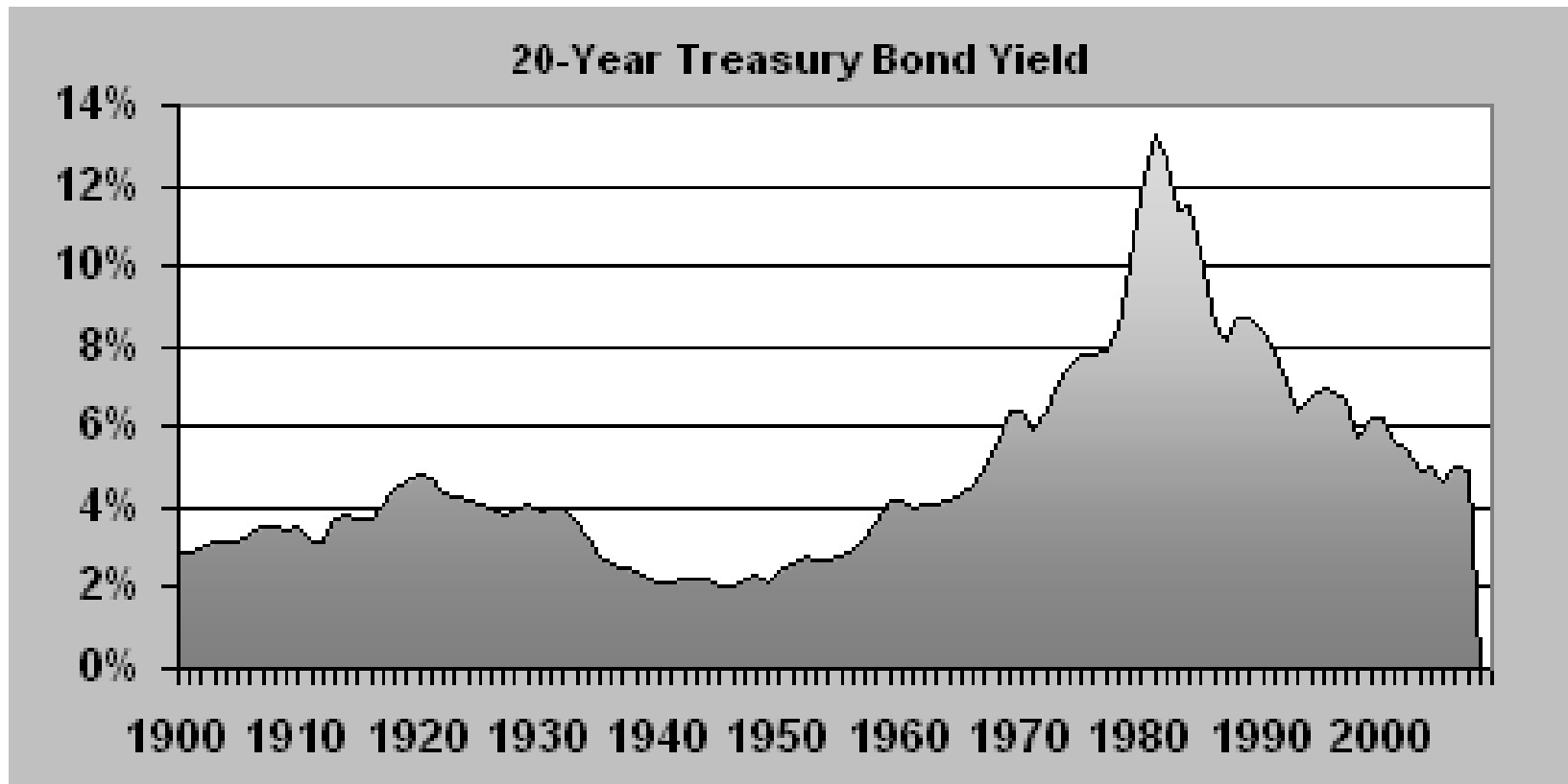


Market Coming into 1982

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Increasing Interest Rates Didn't Help



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A Closer Look at Four Nifty stocks: 1972 – 1982

		P/E Multiple (Valuation)	Earnings	Price
Disney	1972	81.6	\$0.03	\$2.20
	1982	20.7	\$0.06	\$1.32
	Change	-75%	136%	-40%
Johnson & Johnson	1972	61.9	\$0.04	\$2.72
	1982	17.8	\$0.17	\$3.10
	Change	-71%	297%	14%
Coca-Cola	1972	47.6	\$0.06	\$3.09
	1982	13.4	\$0.16	\$2.17
	Change	-72%	149%	-30%
GE	1972	26.1	\$0.06	\$1.52
	1982	11.9	\$0.17	\$1.98
	Change	-55%	187%	30%

Source: Bloomberg

**Price at market peak on
Aug 25, 1987**

\$6.83

6.5x since Aug 12 market
trough of 1982

\$6.54

2.7x since Aug 12 market
trough of 1982

\$6.52

4.5x since Aug 12 market
trough of 1982

\$5.47

4.2x since Aug 12 market
trough of 1982

These stocks averaged 4.1x your money vs. 3.3x on the
S&P 500 from trough of '82 until peak of '87



General Electric Co. 1982 - 1987



Source: BigCharts.com



Coca Cola Co. 1982 - 1987



Source: BigCharts.com



Walt Disney Co. 1982 - 1987



Source: BigCharts.com



Johnson & Johnson 1982 - 1987



Source: BigCharts.com



'72-'81 Set Up for the Bull Market of '82-'99



Dow Jones Industrial Average 786 to 11720

Source: BigCharts.com

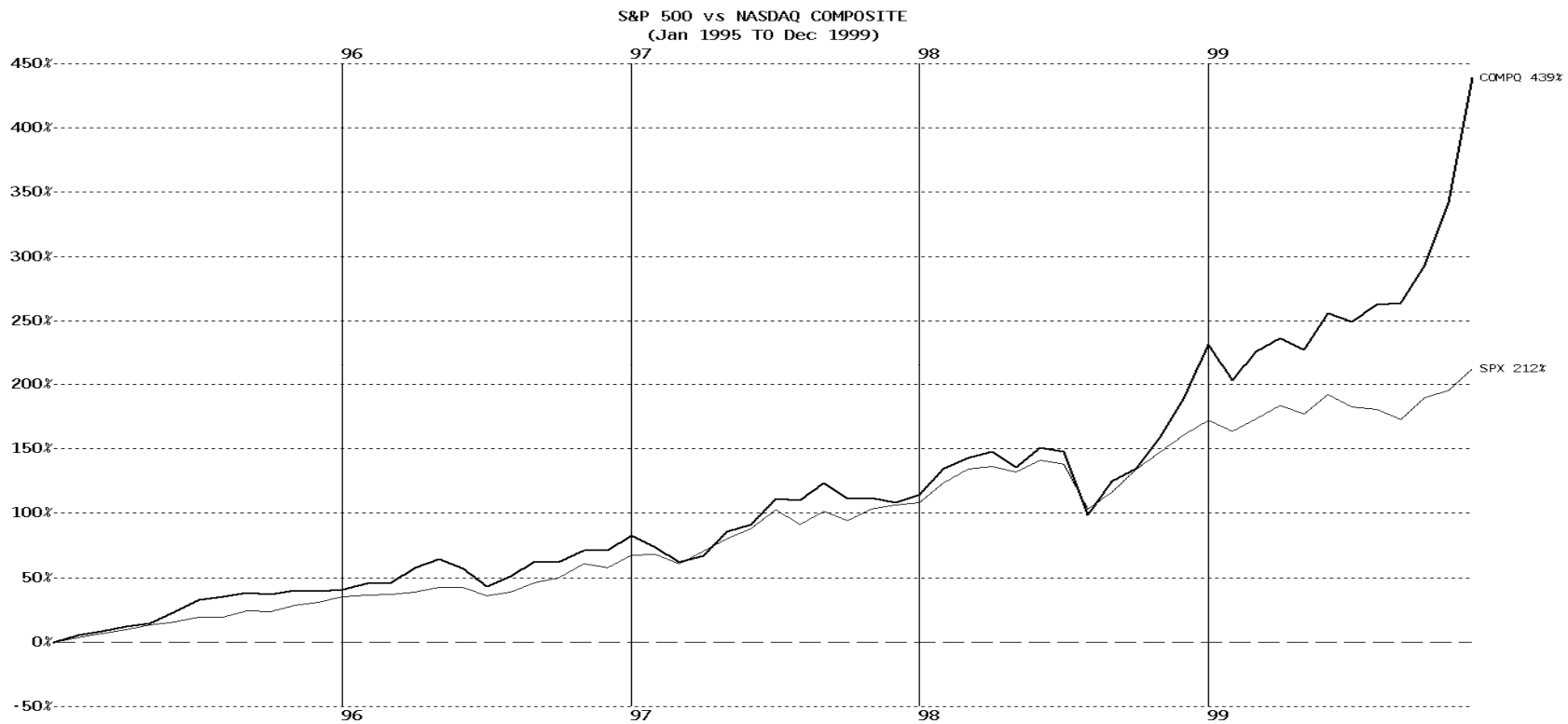




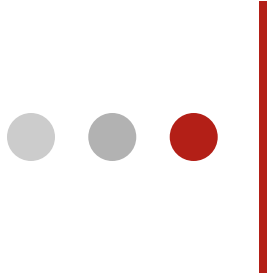
The Next Great U.S. Stock Market – Prepared by the Tech Bubble

□ Average Price-to-earning ratio (P/E)
grows from 8 to 20

□ Large Cap Growth ended with
extraordinarily high P/E's

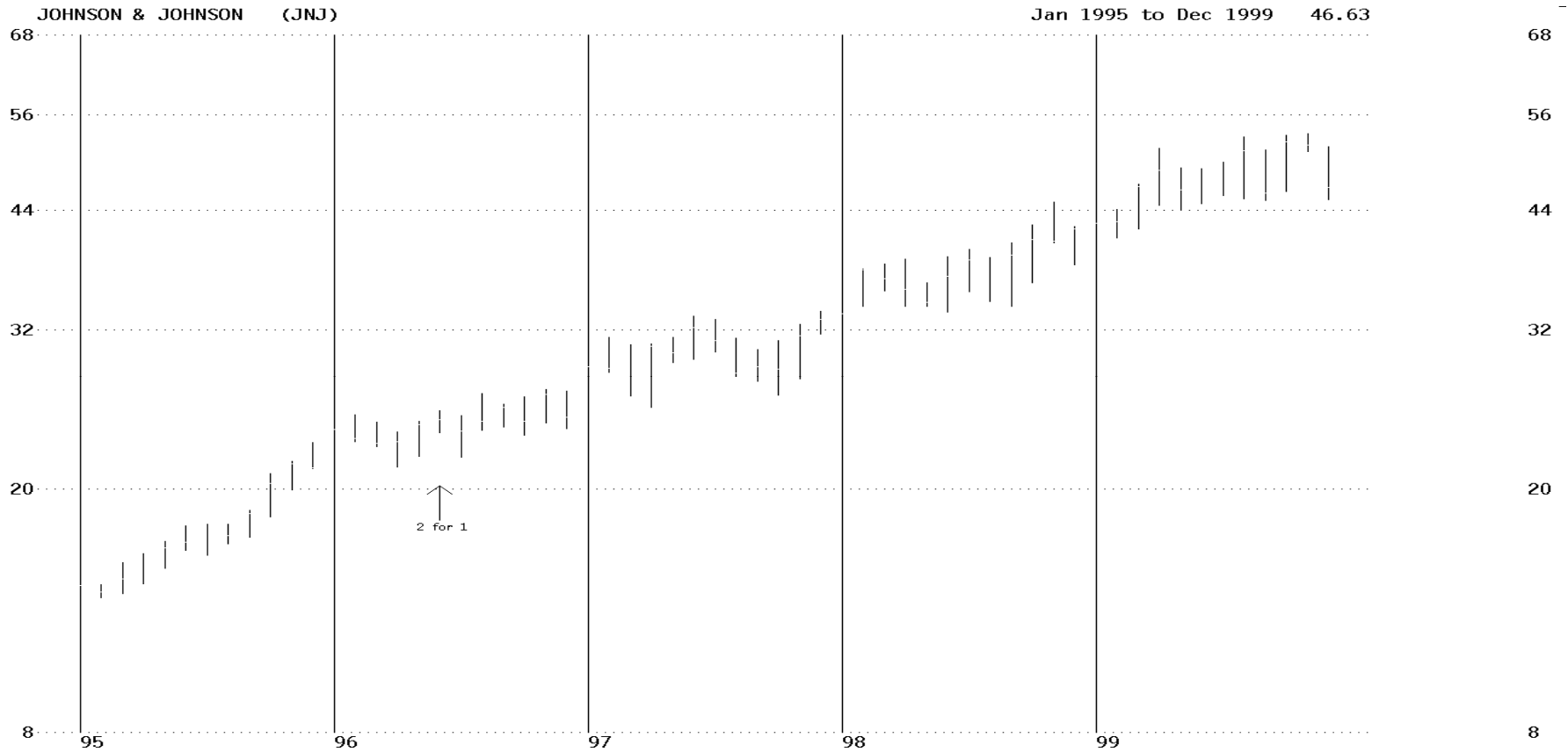


Source: Thomson Baseline



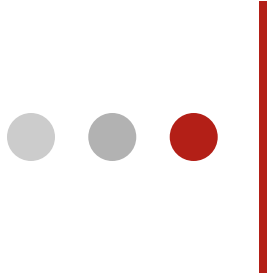
Examples of the “New” Nifty Fifty Stocks

Johnson & Johnson 1995 - 1999



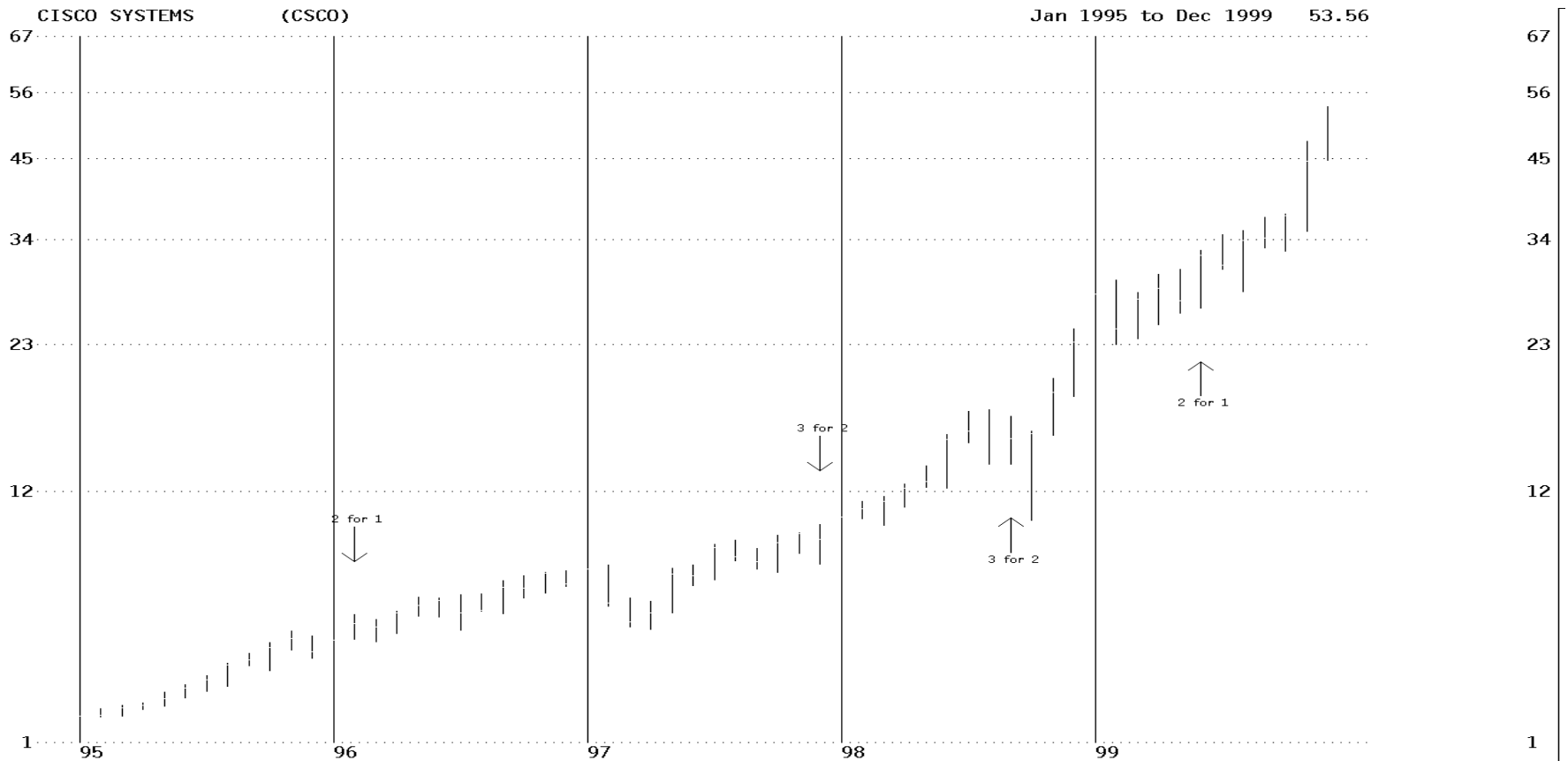
Source: Thomson Baseline





Examples of the “New” Nifty Fifty Stocks

Cisco Systems, Inc. 1995 - 1999



Source: Thomson Baseline



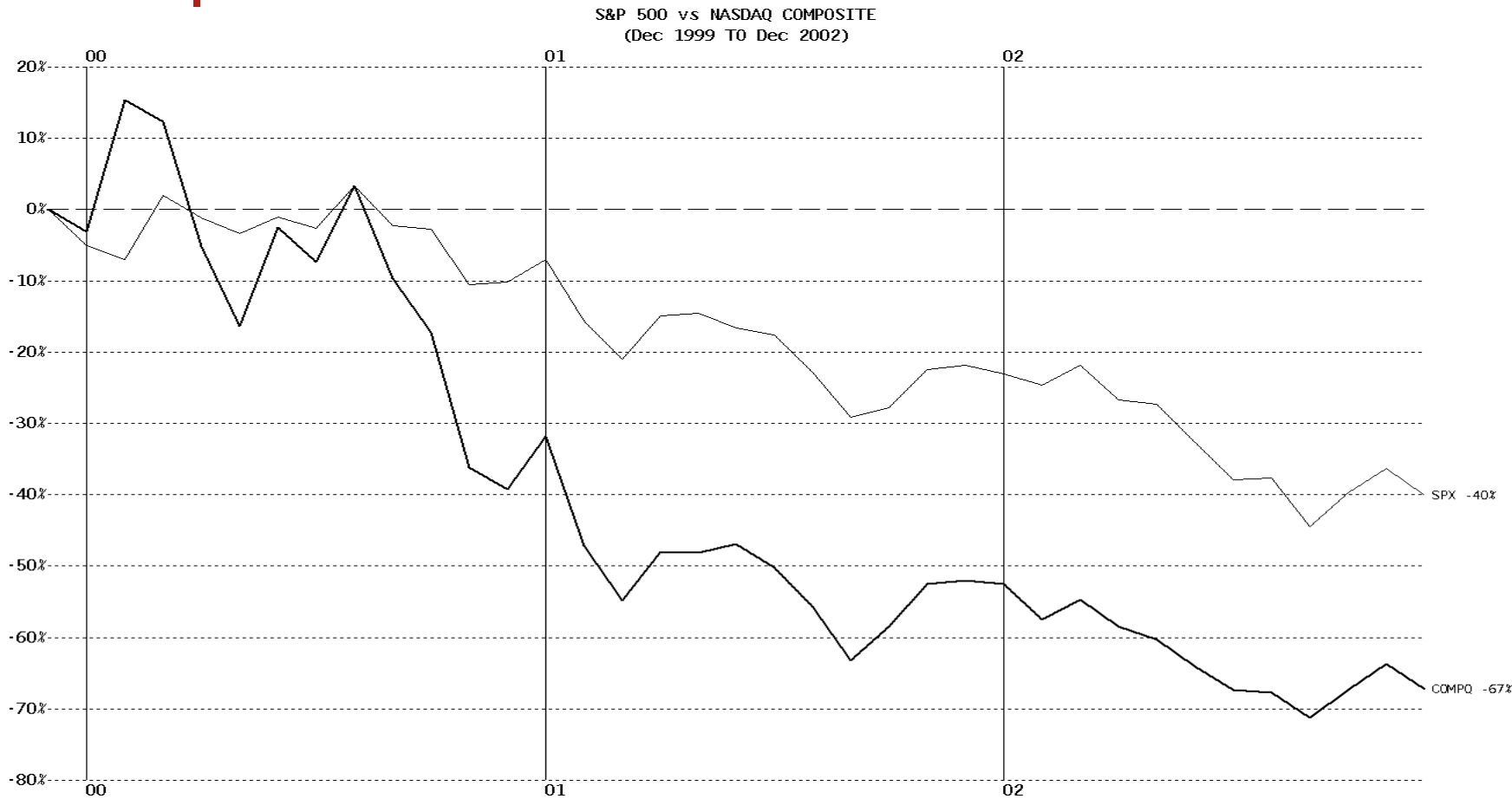


The Next Great U.S. Stock Market

- ❑ 2000 - 2002 Bear Market
- ❑ Years of neglect-incredible psychology
- ❑ Massive ammo on the sidelines
- ❑ Dramatically lower interest rates
- ❑ Best bang for your buck



2000 – 2002 Bear Market



S&P 500 vs. Nasdaq Composite 2000-2002

Source: Thomson Baseline





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A Closer Look at Five Nifty Stocks: 1999 - 2008

		P/E Multiple (Valuation)	Earnings	Price
eBay	1999	782.5	\$0.02	\$15.65
	2008	17.1	\$1.62	\$27.72
	<i>Change</i>	-98%	8000%	77%
Starbucks	1999	40.4	\$0.15	\$6.06
	2008	20.0	\$0.88	\$17.57
	<i>Change</i>	-51%	487%	190%
General Electric	1999	48.2	\$1.07	\$51.58
	2008	13.9	\$2.14	\$29.83
	<i>Change</i>	-71%	100%	-42%
Microsoft	1999	64.9	\$0.81	\$52.53
	2008	15.0	\$1.81	\$27.12
	<i>Change</i>	-77%	123%	-48%
Pfizer	1999	39.6	\$0.82	\$32.44
	2008	8.2	\$2.13	\$17.55
	<i>Change</i>	-79%	160%	-46%

Look familiar?

Source: Bloomberg



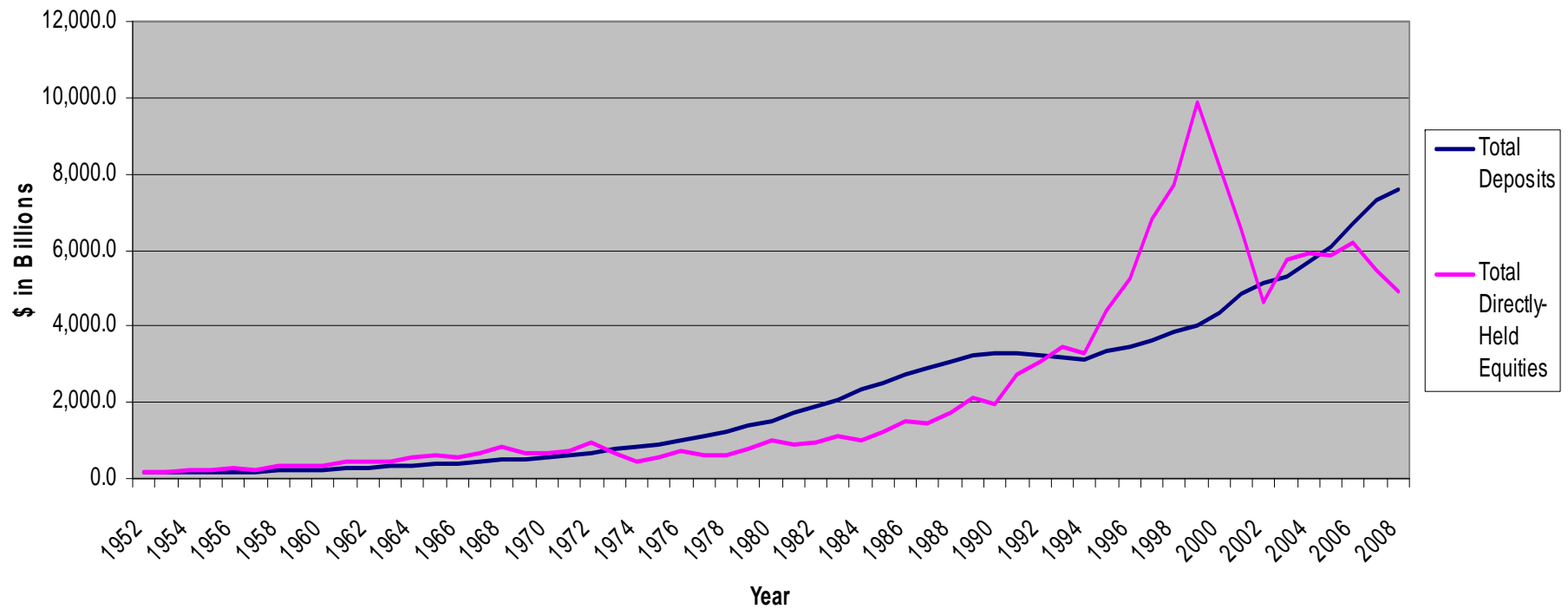
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Total Deposits vs. Total Directly-Held Equities



Source: Federal Reserve Flow of Funds Statistics





Massive Ammo on the Sidelines

Year	1972	1981	1999	2008
Total Deposits (in billions)	\$697.2	\$1,731.7	\$4,028.2	\$7,588.3
Total Directly- Held Equities (in billions)	\$921.4	\$905.2	\$9,891.7	\$4,898.3

Source: Federal Reserve Flow of Funds Statistics

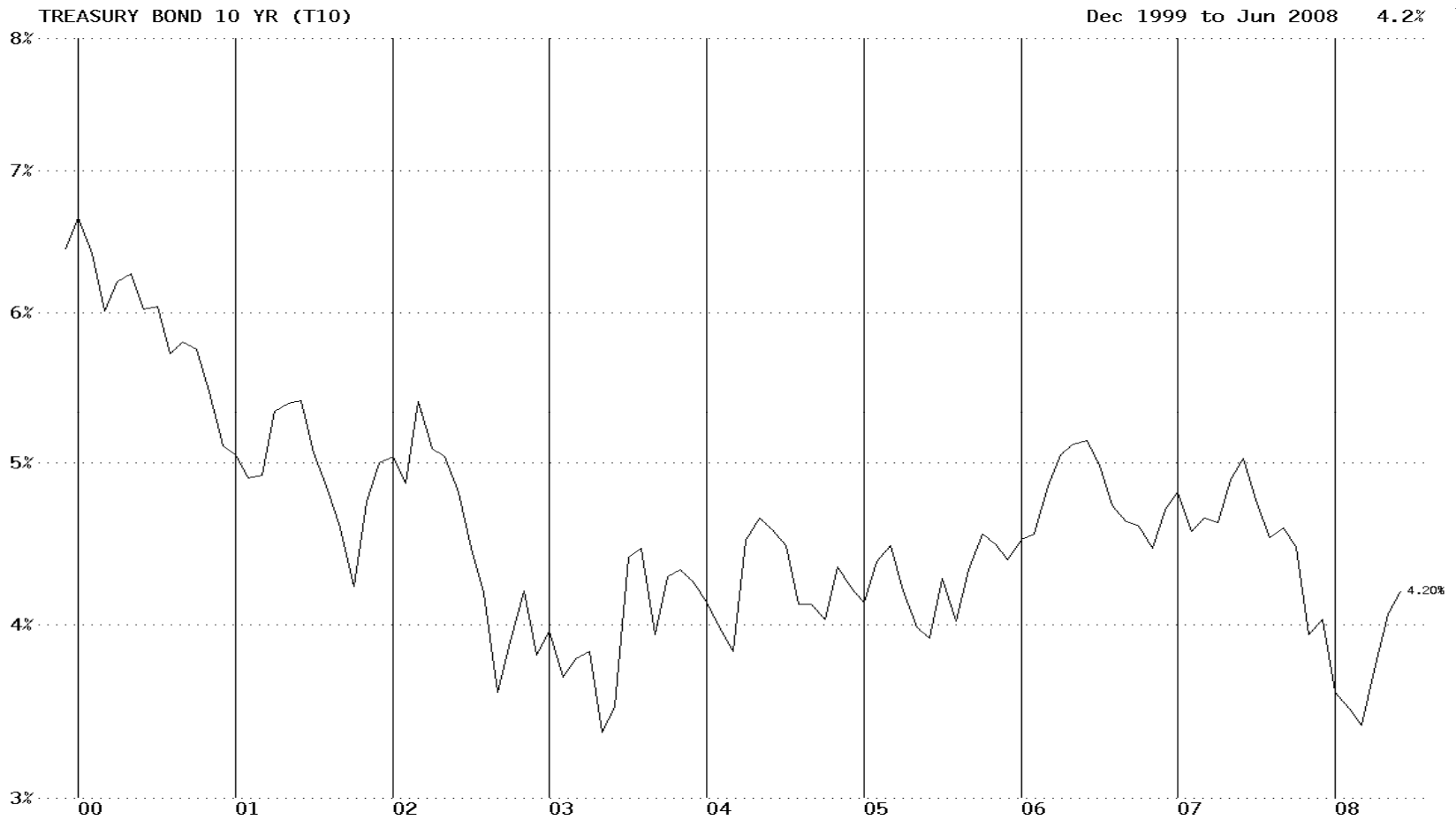


The Next Great U.S. Stock Market

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Lower Interest Rates



Source: Thomson Baseline



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Coca-Cola	1972	47.6	\$0.06	\$3.09	\$53.66 <i>37.1x since Aug 12 market trough of 1982</i>
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	1982	11.9	\$0.17	\$1.98	
	Change	-55%	187%	30%	

Source: Bloomberg

These stocks averaged 28.3x your money vs. 12.9x on the S&P 500 from trough of '82 until 6/20/2008



General Electric Co. 1982 - 2008



Source: BigCharts.com



Coca Cola Co. 1982 - 2008



Source: BigCharts.com



Walt Disney Co. 1982 - 2008



Source: BigCharts.com



Johnson & Johnson 1982 - 2008



Source: BigCharts.com

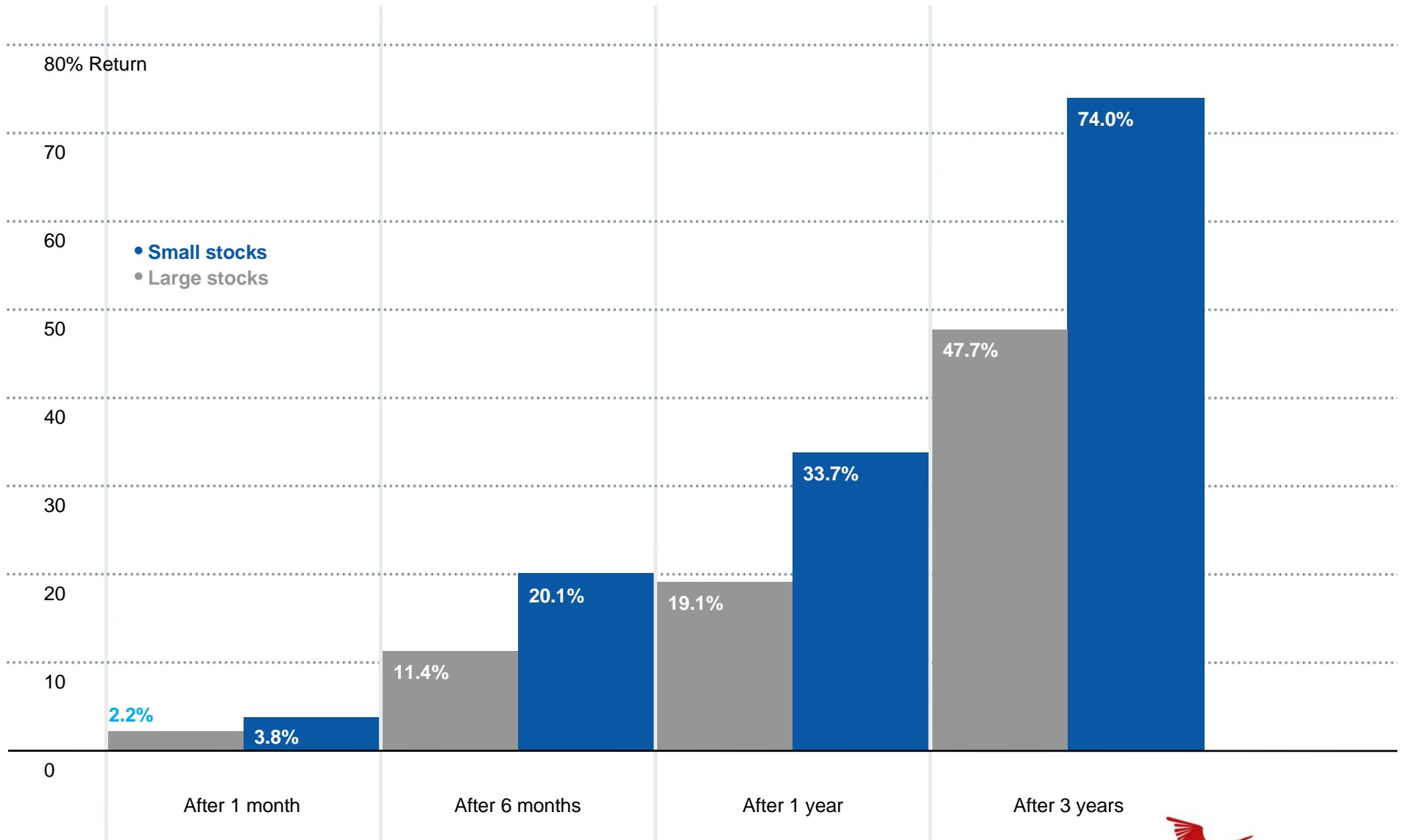


What Could Trigger the Next Great U.S. Stock Market?

Market Events to Look for:

- ❑ The market bottoms in the middle of the recession historically
- ❑ Popular investments become unpopular (Heebner)
- ❑ Emerging economy's slow
- ❑ Oil demand declines
- ❑ Financial companies find a bottom

Stock Performance After Recessions 1945 - 2007



Past performance is no guarantee of future results. Cumulative returns of large and small stocks after recessions 1945-2007. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2008 Morningstar, Inc. All rights reserved. 3/1/2008



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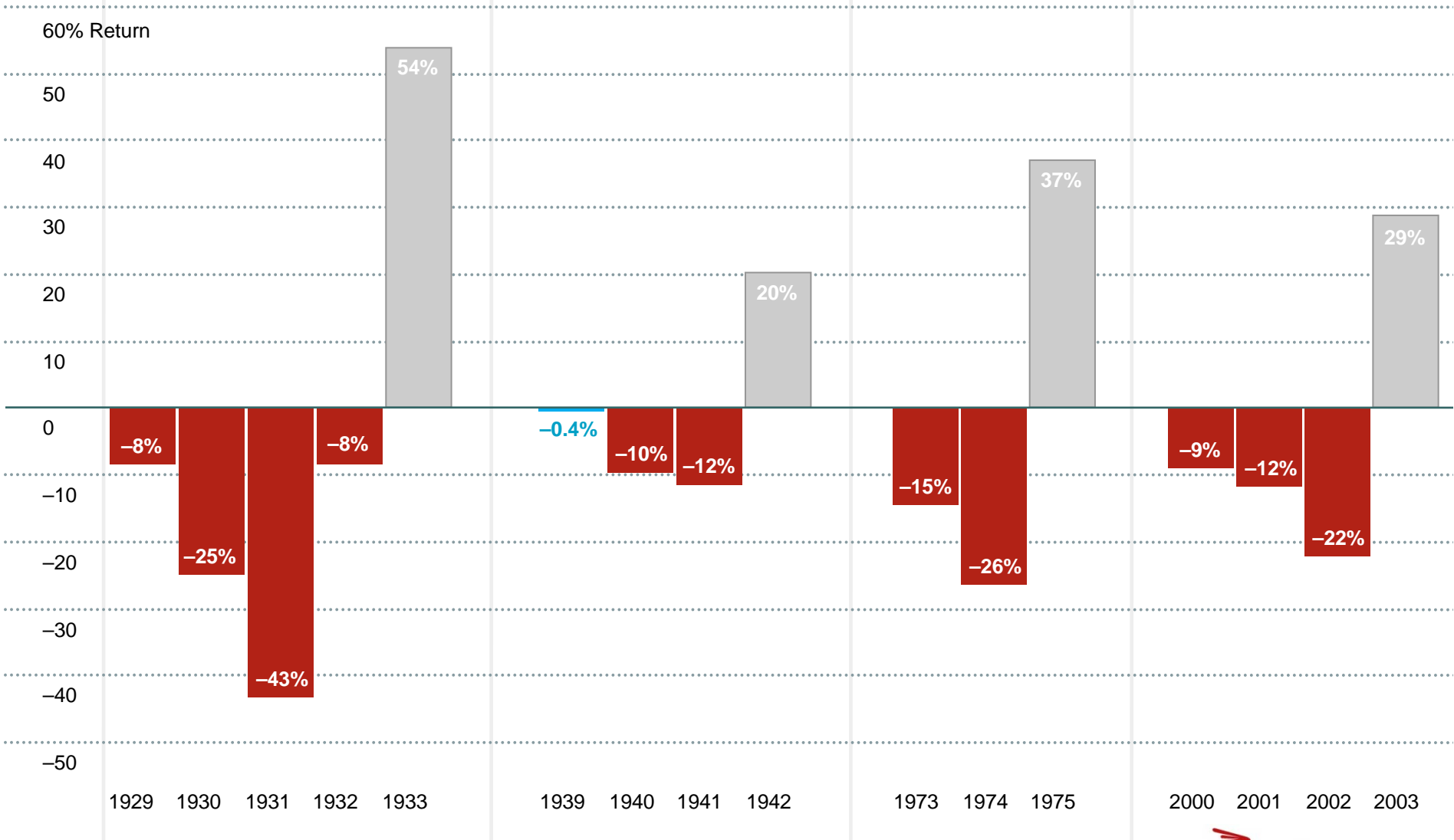
investing inspiration



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Periods of Negative Stock Returns 1926 -2007

Average stock market return from 1926-2007 was 10.4%



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2008 Morningstar, Inc. All rights reserved. 3/1/2008





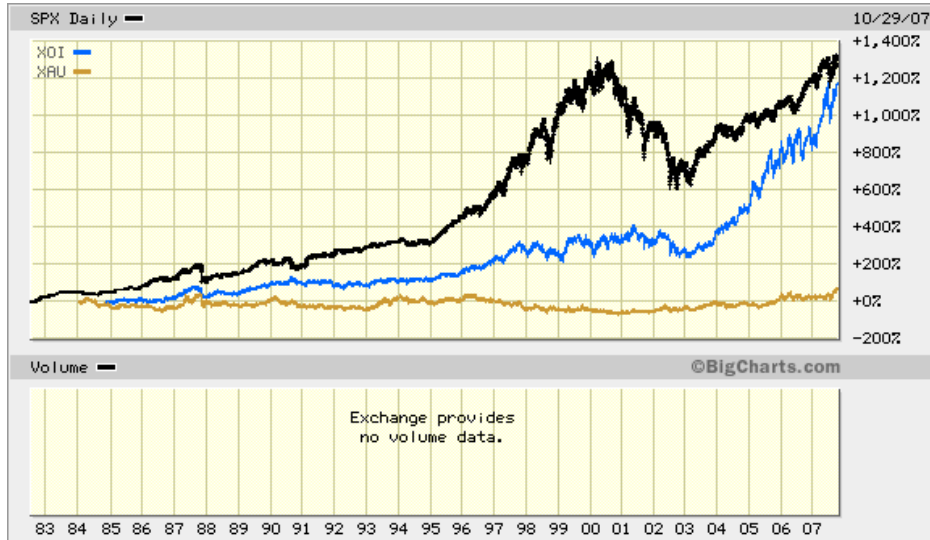
What Laid the Groundwork for the Next Great U.S. Stock Market?

The “one decision” investments of today

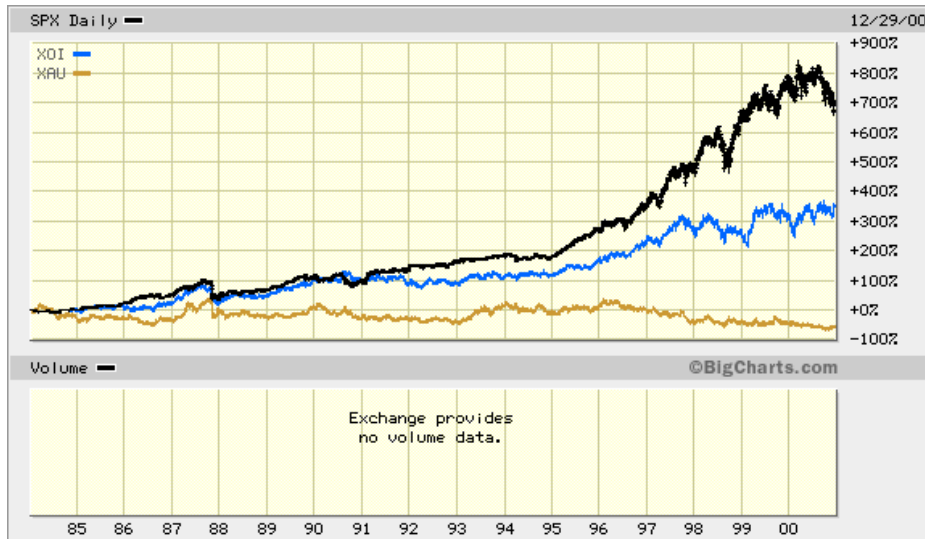
- ❑ Rising Oil Prices
- ❑ Emerging market prosperity
- ❑ Growth from cyclicals
- ❑ An ever falling U.S. dollar



S&P beats Oil & Gold since the early '80s



The S&P 500 vs. the PHLX
Gold & Silver
VS.
Amex Oil Index:
7/1/82 - 10/30/2007



The S&P 500 vs. the PHLX
Gold & Silver
VS.
Amex Oil Index:
1/1/84 - 12/31/2000

What's in dislocation today?

S&P 500 vs. the PHLX Gold & Silver vs. Amex Oil Index: 1/1/2001 - 5/29/2008

