

President's letter

January 2006

Issue 01-02

UNREASONABLE INVESTOR EXPECTATIONS

I felt the two attached charts relevant (the old adage "a picture is worth a thousand words") as a demonstration of historical market events. Additionally, each of these charts represents the approximate time span over which I have been involved in the financial services industry (the early 1970's). I remember such events in the 70's as the oil embargo, seemingly endless flat equity markets, and rising interest rates.

With the 1980's came Bunker Hunt Day, the culmination of a historical interest rate cycle, the government arranged birth of what was to become the greatest equity market in history and, of course, the beginnings of an unprecedented stampede into equity investments on the part of millions of Americans who had not previously been involved in equity investments.

The 1980's and 1990's created an era of historically unreasonable investor expectations, expectations which caused many to believe that the equity markets would continue to return 10% - 20% forever. Expectations which caused many to overextend themselves irrationally and in my view, quite recklessly in margin accounts, options trading, Penny stock trading, and yes, even to borrow money against their homes and other idiotic schemes. In more than a few cases, such actions brought severe consequences for those who could not afford it (retirees and the like).

In spite of the market "corrections: which began early in 2000, these "expectations" still exist! Think about the potential consequences of taking greater risks; take another look at the charts below

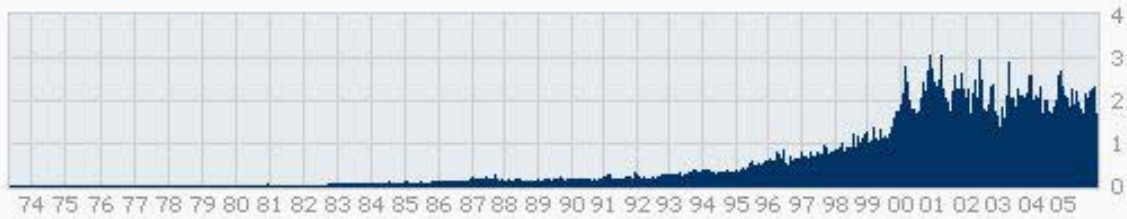
NASDAQ Daily

Close Jan 13



Volume

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Volume

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Billions