



President's Corner

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Taking Stock of the Situation

Presently, the Dow Jones Industrial and S&P 500 indexes are down roughly sixteen percent from their October 2007 highs. We have never cared much for the numerical definitions of a "bear market" (which is an index down twenty percent or more from its high). Such "bear" occurrences in the US Equity markets are rare. In fact, there have only been four such occurrences since 1925, they were 1929, 1932, 1942, 1973-74 and most recently, 2000-02.

Personally, I have been in this business during the last two of these. Naturally, the question is "will the current situation develop into another significant bear"? We believe so, in fact, we believe the situation may well be worse than the two preceding bear markets I have witnessed.

As pointed out in prior letters, the consumer has been the driving "engine" of the US economy (and therefore the markets) and that consumer is in debt and "tapped out". We do not care how traditional investment managers care to spin the data. The recent announcements from Washington serve to reinforce our views of the seriousness of the present economic situation. The government is going to give me and most other taxpayers \$600 sometime in May in hopes that we will be the American thing and spend it.

This unprecedented and ridiculous scheme, in our view, is too little too late. In keeping with historical precedence, the American government is addressing the situation after the proverbial horse has left the barn. Where was Alan Greenspan during the tech and housing bubbles?

We have recommended and continue to recommend a dramatic reduction or elimination of participation in the equity sector in most portfolios. This one may very well be too prolonged and deep to "ride it out". Additionally, we suggest limiting fixed income exposure to issues maturing in less than five years (preferably laddered maturities – no bond funds) and of the highest quality. Finally, we are suggesting that many money market funds, which most investors think are safe, may have some risk.

As always, please call us for ideas and an assessment of your particular situation.

Polar Investment Counsel Inc is a federally registered investment advisory firm and broker dealer which manages customer accounts on a fee or commission basis. The firm's senior principal, Michael Jordan, has nearly thirty-five years of industry experience.

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