

Exactly the Wrong Thing

When stock prices are cheap, selling is exactly the wrong thing to do, yet this is precisely what everyone is doing. They are also not buying. Of course, that is why stock prices are going down. What we have today is a remarkable case in the irrationality of markets.

The psychology works like this. Prices decline, people panic, they sell. Prices decline more, people panic more, they sell more.

One might argue - doesn't it make sense to protect against declines by getting out? Why call that irrational?

Selling a stock without understanding its worth is irrational. The way to determine what a stock is worth is to assess the company's profits. Selling a stock at a price dramatically lower than its worth is even more irrational. Why would anyone sell a \$20 stock for \$10? But they are.

Selling because "you know" prices will go lower is also irrational. In our opinion, no one can predict price movements. What about waiting for things to stabilize? This is just a variation on the idea that one can predict prices. Volatile markets generally don't stabilize until after they have recovered. Witness the 22% stock price jump from November 21 to year end. Was it safe to get back in on 12/31? Apparently not. The next time it might jump 30 or 40% in a month. Will it be safe then?

Of course, media pundits will list all kinds of good reasons why stock prices will go down more, just as they listed all kinds of good reasons why stock prices would go up when they were already high. The new administration's policies won't work. The Fed is printing too much money. We are a debtor nation beyond the point of no return. Jobs are being lost left and right.

In the words of Yogi Berra, it's Déjà vu all over again. Democratic and Republican administrations have both implemented damaging policies in the past. Big companies and financial institutions have gone bust. The Fed has printed too much money. Jobs have been lost during recessions and depressions. Throw in a couple of world wars, and there you have the dark side of US economic history. Yet through it all, corporations have continued to make decent profits and pay decent wages. The primary requirement for them to continue doing so: the continued existence of Western Civilization.

I do not want to sound cavalier about the financial imbalances or debts of our nation. The key is to understand that relative to the size of our economy, they are manageable. We are still wealthy and relatively healthy - an assertion based on economic fact rather than idle hope. One must not confuse a severe economic contraction with the demise of Western Civilization. Assuming our continued existence, we will recover from the current contraction, and stocks will adjust in price to their profits as they always have.

However, for stocks to rise, sellers will have to throw in the towel. I do not know when that will be. I only know we will not be joining them. The profit value of the stocks we own is demonstrably and significantly higher than the market value reported on your statement. What we really have today is the buying opportunity of a lifetime.

Nick Tompras
March 2009

IMPORTANT DISCLOSURES

ACR Alpine Capital Research LLC is an SEC registered investment adviser. For more information please refer to Form ADV on file with the SEC at www.adviserinfo.sec.gov. Registration with the SEC does not imply any particular level of skill or training.

All statistics highlighted in this research note are sourced from ACR's analysis unless otherwise noted.

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the examples discussed. You should consider any strategy's investment objectives, risks, and charges and expenses carefully before you invest.

This information should not be used as a general guide to investing or as a source of any specific investment recommendations, and makes no implied or expressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives. This is not an offer to sell or a solicitation to invest.

This information is intended solely to report on investment strategies implemented by Alpine Capital Research ("ACR"). Opinions and estimates offered constitute our judgment as of the date set forth above and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. There are risks associated with purchasing and selling securities and options thereon, including the risk that you could lose money. All material presented is compiled from sources believed to be reliable, but no guarantee is given as to its accuracy.

The Equity Quality Return (EQR) Advised / SMA Composite consists of equity portfolios managed for non-wrap fee and wrap fee clients according to the Firm's published investment policy. The composite investment policy includes the objective of providing satisfactory absolute and relative results in the long run, and to preserve capital from permanent loss during periods of economic decline. EQR invests only in publicly traded marketable common stocks. Total Return performance includes unrealized gains, realized gains, dividends, interest, and the re-investment of all income. Please refer to our full composite performance presentation with disclosures published under the performance section of our web site at www.acr-invest.com.

The S&P 500 TR Index is a broad-based stock index including reinvestment of dividends and has been presented as an indication of domestic stock market performance. The S&P 500 TR index is unmanaged and cannot be purchased by investors.