Marathon Strategic News

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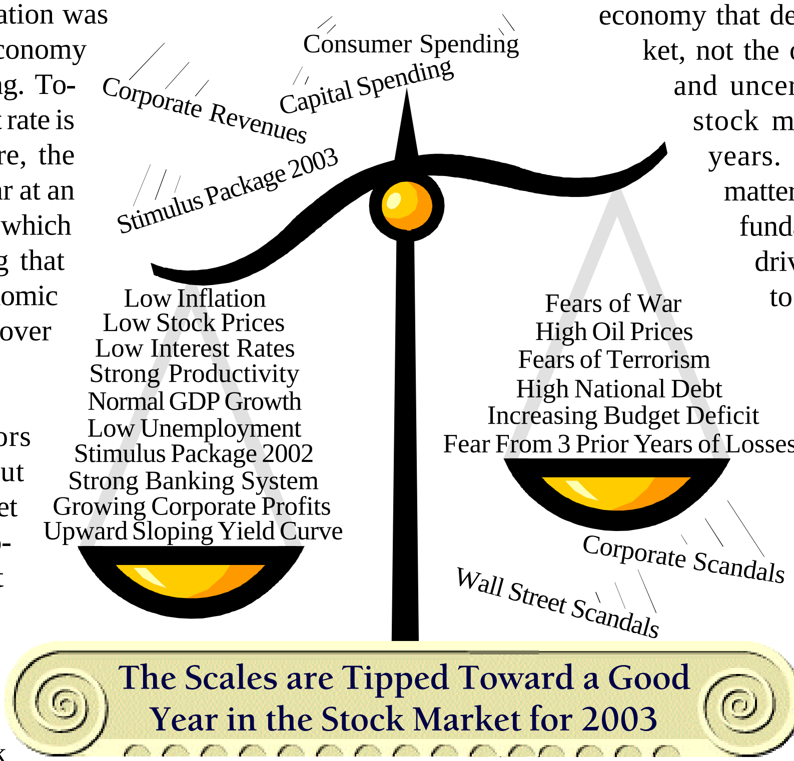
Economic Outlook

The Bear is Probably Dead!

No one can know with certainty if the worst bear market that we have seen in seventy years is finished. However, there are many reasons to be optimistic. It is **very** unlikely that the stock market in the world's preeminent economy will decline for four straight years (especially following one of the mildest recessions in fifty years). The last time the stock market declined four years in a row was during the Great Depression, when one third of the population was unemployed and the economy was severely contracting. Today, the unemployment rate is only 6%. Furthermore, the economy grew last year at an estimated rate of 2.5%, which is not bad considering that the average rate of economic growth has been 3.3% over the past 50 years.



The Scales are Tipped Toward a Good Year in the Stock Market for 2003

Nevertheless, investors remain skeptical about next year's stock market prospects due to: geopolitical concerns about Iraq and terrorism; recent corporate and Wall Street scandals; and the past three dismal years in the stock market. Interestingly, many of these sources of fear could turn into positive situations or simply dissipate in time. For example, the impending conflict with Iraq will most likely be resolved soon. One of the more probable outcomes would be a quick military victory resulting in a more stable Persian Gulf region. If this were to occur, oil prices would likely settle back to $18 - $23 per barrel. The price of oil is always an extremely important factor affecting the health of the economy. I believe that once the price drops, the stock market will have a renewed confidence to move forward.

Another example of a negative situation that may have positive effects going forward lies in the aftermath of the corporate accounting scandals. During 2002, many companies shifted to more conservative accounting practices. These changes will create more financial transparency and should decrease the risk of future accounting "surprises."

In prior newsletters, I have repeatedly mentioned the importance of a healthy economic environment when making investment decisions. Ultimately, it is the economy that determines the stock market, not the other way around. Fear and uncertainty have driven the stock market for the past few years. However, it is only a matter of time before the strong fundamentals of the economy drive the stock market back to more reasonable levels.

I believe that the greatest risk investors face today is that they will submit to their fears and lose focus on their long-term investment objectives. Investors with well-thought-out financial plans that maintain a long-term perspective can ride out market declines – even when they occur three years in a row. The best time to invest is when you have excess long-term-oriented funds to do so. It is the length of time you are invested in the market that has historically made the largest contribution to returns. Anytime you redeem assets while the market is declining, you risk missing the upward trends that often follow these periods.

As we have stated many times before, no one can successfully "time the market." The best course of action in both bull and bear markets is to maintain a long-term, buy-and-hold investment strategy. We still firmly believe the long-term outlook for the U.S. economy is very strong. In conclusion, it is my opinion that the bear market is finally over.