Marathon Strategic News

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Economic Outlook

The Economy is Growing

During the past three years we have experienced a negative series of unpredictable events which have included: the bursting of a stock market bubble that plunged the NASDAQ almost 80% off it's highs; domestic terrorism; numerous accounts of high profile corporate fraud, accounting scandals, and Wall Street theft; the price of oil spiking to $39.99 per barrel; and war with Iraq and Afghanistan. Yet through all of these unsettling events, the US economy has demonstrated far more resilience than people give it credit.

In 2001, we experienced the mildest recession in fifty years. Since then, the economy has shown slow but steady improvement. Last year the economy grew at an estimated rate of 2.9%, and this year it is expected to grow at a rate of 2.5%. This is great considering that the average rate of economic growth has been 3.3% over the past 50 years. Also last year, corporate profits rebounded by 7.6%, and capital expenditures increased each consecutive quarter. In short, we believe that the long-term economic fundamentals of the US economy are solid.

People Have Long Investment Horizons

Avoiding the stock market can be dangerous for people with long investment horizons. Today, the average American has a greater than 5% chance of living past the age of 96. This means that the average 65 year-old still has a 30-year investment horizon (let alone if they are planning to provide for their children and grandchildren). With such long investment horizons, it becomes almost impossible for most people to achieve their long-term goals if they eliminate (or substantially reduce) stocks from their portfolios. This becomes particularly clear when we compare the +12% historical growth rate of stocks to today's long-term and short-term government bonds which currently yield less than 5% and 2% respectively.

Stay Disciplined – Resist Fear & Greed

It is natural for investors to feel overly optimistic at the top of a market. Likewise, it is natural for investors to feel overly pessimistic after a sharp stock market downturn. A common mistake made in both cases is when one projects short-term events into longer-term trends, and then acts on them (trying to "time the market").

History suggests, and current fundamentals are confirming, that the pendulum of investor sentiment has swung too far to the negative side. As we have seen, war and other media obsessions may affect the direction of the equity market for a few years. However, investors must keep their "*eye on the ball*" and focus on long-term economic and investment fundamentals.

Three years ago, many investors abandoned their disciplined asset allocation approach to investing. As a result, they poured money into the ever-increasing stock market bubble. Today, we are at the opposite point where many investors are too frightened to even contemplate long-term investing. Don't be tempted by greed or fear into trying to "time the market" – it is a losing proposition! It is the economic fundamentals that determine the performance of investments over 30-year (or longer) horizons. Stick to your long-term investment strategy, and ignore the non-fundamental distractions.

Typical Economic Recovery Checklist

- ☑ *Federal Reserve eases rates (started January 2001 and ended December 2001).*
- ☑ *Wait 9-12 months for lower rates to boost GDP.*
- ☑ *GDP Rebounds (Dec 2001).*
- ☑ *Wait 4-8 months for corporate earnings to rebound (expected between April and August of 2002).*
- ☑ *Corporate Profits Rebound.*
- ☑ *Capital Spending Rebound*