Marathon Strategic News

500 Market Street, Suite 610, Steubenville, OH 43952 · (740) 282-5198 · Toll Free (866) 435-4224 · www.mstrategic.com

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Commentary by Nicholas Terezis, CFA

Economic Outlook

Last January, investors were worried about the following: the possibility of having a fourth straight down year in the stock market; lingering effects of Wall Street and corporate scandals; increased likelihood of a war in Iraq; and the remote chance that our economy would slip back into recession. Today, the economic outlook is much brighter and more stable. The economy has entered the <u>third</u> consecutive year of an increasingly strong expansion. Gross domestic product (GDP) grew at an estimated rate of 4.2% in 2003, and is expected to continue to grow at a rate of 4.5% to 5.5% in 2004 (GDP has grown by an average 3.3% over the past 50 years). Also, last year marked the end of the longest and deepest equity bear market since the Great Depression.

In fact, as we take inventory of the positive and negative factors that may influence our economy over the next few years, I believe that the scales are notably tilted toward continued strength in the economy and stock market. I believe the main areas of concern are limited to an increasing budget deficit, high oil prices, high national debt, and fears of terrorism. In contrast, the lengthy list of positive factors that will likely continue to support our economy include: low unemployment; stunningly high productivity; growing corporate revenues, profits, and capital spending; the impact of previously enacted tax cuts; an upward sloping yield curve; above average GDP growth; an accommodative Federal Reserve; low interest rates; and almost no trace of inflation.

Strong Stock Market Outlook

Substantial stock market bubbles have historically been once-in-a-generation phenomena. The past six years featured the greatest bull and the worst bear markets since the 1920s. Although many investors still feel the pain of this latest stock market bubble, the probability of another bubble forming and bursting in the next few years is very remote.

Over the next five to ten years I expect the stock market will revert back to its historical long-term rate of return (approximately 10% annually). This year's stock returns are not likely to perform as well as they did in 2003. However, I believe that there is a better than average chance that they will exceed the historical 10% annual rate of return.

Be Careful of Fear Merchants

During the bear stock market many newsletter-writing fear merchants claimed to have clairvoyantly foreseen the down market. The problem is that most of these soothsayers always claim that the stock market is one step away from chaos. Beware of these fear merchants! They are usually guilty of giving the <u>worst</u> long-term investment advice possible – just so that they can sell a sensational fear-based newsletter. Just because their prophecies were correct during 2000-2002 does not mean that you should listen to them. The way that I see it, *Even a broken clock is correct twice a day*.

Stay Diversified – Do Not Try to Time the Market

Do not be tempted by greed or induced by fear into trying to "time the market" – it is a losing proposition! It is the economic fundamentals that determine the performance of investments over long investment horizons. As I 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 diversified, long-term, buy-and-hold investment strategy. If we continue to see the stock market improve over the next few years, do not change your investment strategy. Do not begin to concentrate your investments in any single stock, sector, or asset class. Stick to your long-term diversified investment strategy, and ignore the non-fundamental distractions (such as perennial bears). Smart investors always have diversified portfolios, because there is always uncertainty, and no one is clairvoyant.