Morgan Stanley

Philip W. McCauley III, CFA®
The Madison Group
Managing Director, Wealth Management
Senior Portfolio Management Director
Financial Advisor

Wealth Management
4969 US Highway 42
Suite 1200
Louisville, KY 40222

direct 502 394 4034
fax 502 434 6467
toll free 800 626 1592

NMLS # 1255533
philip.mccauley@morganstanley.com

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Too Fast

In 1973-74 the United States appeared to be in an irreversible decline. Inflation, unemployment and oil prices were rising and consumer confidence was falling. The stock market, as measured by the S&P 500, dropped more than 50%. The vast majority of the investors were, of course, selling in a hurry. It was also the best time in the last 25 years to buy stocks.

In 1997-98 the American economy enjoyed low inflation, low unemployment, declining oil prices and strong consumer confidence. The S&P 500 rose over 50%. The vast majority of investors were, of course, buying in a hurry.

The public tends to assume economic conditions will remain the same. The problem is that economic conditions never remain the same. The frightening truth is that if stocks were currently trading at the average price/earnings multiple of 1974 the Dow Jones Industrial Average would be about 2,500.

So what should careful investors do?

First, hold the companies we know and love. The companies we trust even when the economy and the stock market are falling to pieces. Over the long term we will do very well with these stocks even if the going gets tough in the near term.

Second, invest new money slowly. Remember the public's mood changes as quickly as that of a 2 year-old child with a sugar buzz. The public is in a hurry to jump on the bandwagon of the latest hot stock. The public is always wrong at extremes. In a market like this haste makes waste.

The challenge ahead for investors is great. The public's current view of blue chip and internet stocks resembles a teenage boy's view of a shiny, powerful new sports car. Excitement, speed and wonderful possibilities dominate the minds of new investors. An older wiser person also sees the dangers and risks of going too fast.

In the spring of 1998 my dad, brother and I ran the Boston Marathon together. My brother, Paul, and I broke ahead of Dad early in the run and at the 3 mile mark Dad shouted out “TOO FAST!” as he watched Paul and I move ahead. The excitement was too much to hold back. My brother and I felt good and we assumed our strength would last. Paul and I left the old man behind.

Flash forward to mile 13 when my brother had to slow down because of severe muscle cramps that would plague him for the next 13.2 excruciating miles. Now ahead to mile 17 when I approached the famous heartbreak hill and my dad pulled up beside me. He encouraged me to run with him, but I had nothing left for the 9 miles that remained.

Dad had wisely “banked” some energy for the hills ahead and finished the race strong, miles in front of Paul and me. I miserably completed the course and ended up in the medical tent with a body temperature in the 80’s. Paul finished the race stumbling with intense pain in both legs. Father knows best.

The public today is primarily concerned with fast starts. But it is my responsibility to help you reach long-term goals. So we will “bank” some of our available money in treasury bills because there are hills and valleys ahead. We will be prepared.

Phil McCauley III
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