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RETIREMENT INVESTING

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Now What?

The United States will never be quite the same after the September 11th terrorist attacks. But this is not a time to hate. The terrorist's inhumanity should not compromise our own humanity. And, this is not a time to restrict the freedoms which we enjoy. Rather, this is a time to mourn, a time to reflect upon what it is that the terrorists were trying to take away from us – *and refuse to let them have it!*

The Oxford Dictionary defines "terror" as "intense, overpowering fear." This is what a terrorist seeks to achieve: to make us afraid. But he cannot succeed if we do not let him.

Don't let them win.

Life, and all of its beauty and ugliness will go on. The holes in the Pentagon and in downtown New York will disappear. The trees in Pennsylvania will grow back. How we respond will define the long-term effectiveness of the terrorists' acts. On September 11th, they won. But Americans are already fighting back by helping in the relief efforts. And when our military has repaid the terrorists' favor 100 times over, I hope that we rebuild the World Trade Center exactly as it was. It would be the best tribute to those who were lost, and a perfect way to tell those who hate: "*You will never beat us!*"

But Now What?

Whenever a major world event occurs, it is natural for investors to ask how it will impact the economy and their own personal financial situation. After all, financial markets hate disruption and uncertainty.

What should investors do in the wake of the terrorist disasters of September 11th? My answer

would be to gain perspective. Not to diminish what has happened, but non-financial tragedies have shaken financial markets before. There have been wars and war scares, and each time in the last 100 years, the U.S. economy and its people have emerged stronger and more successful. That may seem like Pollyanna right now, however it is true. Major non-financial events, however tragic or devastating, historically have only a short-term effect on the financial markets.

Since every crisis or national tragedy is unique, it would be imprudent and unwise to try to use past events to predict what may happen over the next few weeks. However, it may be helpful to summarize how the stock market responded after some of the following events.

• Japanese attack on Pearl Harbor – December 7, 1941

The U.S. stock market opened for trading the very next day. The Dow Jones Industrial Average (Dow) fell 6% over the next three days and 8% over the next two weeks. Prior to the attack, the U.S. economy had been in a protracted recession. As the U.S. entered World War II, the impact on production needed for weaponry and materials lifted the economy out of recession. In eleven months, the Dow had recovered to pre-attack levels.

• President Kennedy's assassination – November 22, 1963

The stock market remained open and the Dow dropped 2.9% on November 23rd, but rebounded on November 24th. Over the next twelve months, the stock market, as measured by the Dow, was up substantially, reflecting and trading on the fundamental strength of the U.S. economy.

• **Attempted assassination of President Reagan – March 31, 1981**

The stock market remained open. The Dow dropped 0.2% that day, but rebounded the next. The underpinnings of the U.S. economy had been weak prior to the assassination attempt, and the economy slipped into a long and severe recession. The poor performance of the stock market reflected not so much the country's reaction to the attempt on the President's life as it did the debilitating combination of high interest rates and inflation.

• **October 19, 1987**

The S&P 500 falls 23% in two days. The world is shocked. The Federal Reserve provides massive liquidity into the banking and brokerage sectors in order to maintain solvency. However, the newspapers were filled with talk about depression. Repeatedly, charts comparing the Great Depression to 1987 appeared in the media. Investors who panicked missed out on a great bull market. In fact, by July 1989, the S&P 500 had recovered its loss from 1987, and went on to quadruple by the end of 2000.

• **Iraqi invasion of Kuwait – August of 1990**

Once again, the stock market remained open. The Dow dropped 1.3% the day of the invasion, 6.2% over the next three days, and 14.4% over the next three weeks. However, in the next seven months, the stock market had returned to pre-invasion levels, and in one year after the invasion, the Dow was up 3.6%. Remember that the U.S. economy was already weakening during this period, and it fell into a recession in the 1991-1992 time period.

What is interesting, from a stock market perspective, about these historical events is that despite the horrific nature of events and an initial emotional reaction, investors ultimately appeared to respond to the rationality of economic fundamentals and the

markets responded accordingly. Stock prices follow earnings, and these are to a great extent determined by the overall economic backdrop and investor outlook. It is important to remember, however, that the past performance of the stock market is by no means a guarantee of future performance.

There is obviously much we do not know about the September 11th terrorist attack, and we cannot speculate on the extent of possible repercussions to the markets and the economies of the world, either in the near or long term. In light of these tragic and unforgettable events, I strongly urge you to stay focused on your long-term investing goals and objectives.

It is natural for us to wonder if the recent horrific events will affect our financial ability to care for our families and ourselves. Even if we don't plan to do so, haven't most of us at least thought, "Should we sell our stocks or stock funds?"

The best answer to that question may come not from the financial media, playing to investors' fears and uncertainties with hyperbole, but from Philip A. Fisher, author of *Common Stocks and Uncommon Profits*.

Why Fisher? Just because he's somebody whose book is one of the top investing books of all time? Hardly. Fisher started his career as a securities analyst in 1928, and founded his own investment advisory firm in 1931. Imagine starting such a career during the Great Depression!

By the time Fisher wrote the first part of *Common Stocks and Uncommon Profits* in 1957, he had lived and prospered through Pearl Harbor, World War II, and Korea, all the while learning about people and financial markets. From his writings, we can see a person who had a rational economic and financial mind, as well as a heart attuned to human nature.

Fisher's advice in 1957? "Don't be afraid of buying on war scares."

Fisher acknowledged that every conflict or threat of conflict did indeed lead stock prices to plunge sharply. But he found that in every actual war and international crisis, prices of most stocks were higher after conflicts ended or threats subsided, making it actually riskier to hold cash instead of most stocks. It is important to note that Fisher did not say that war benefits the economy, since taxes and inflation come into play. But actual results from war scares and likely inflation in wartime, strongly suggest that holding or buying stocks is the right course.

Knowing this, we should realize that selling any investment in the wake of a maniacal event perpetrated upon us by fanatically soulless individuals would be counter to our long-term belief in ourselves and our country.

If you own individual stocks, and the long-term situation for some of your companies has changed radically, of course you should reassess your investment, just as you should whenever something changes for one of your companies. But do take time in assessing the situation.

If you own mutual funds or a variable annuity, and you plan to hold it for at least three to five years, as should always be the case, a terrorist act should not alter your resolve. Yes, we may be entering a recession. But that was true before this attack. Reality is, we don't know what will happen next. We can't ever know.

When you invest, you must use time as your prime defense and asset. It is only over substantial amounts of time that the stock market, on average, rises. Time spent holding strong underlying assets is, in the end, what makes you an investor. In the near term, be prepared for anything.

This means avoid using too much margin. Any more than 10% and your risks start to rise substantially. This means never buy a stock that you plan to own for anything less than three years. This doesn't mean buying and blindly holding. It means buy and hold.

Consider selling if something changes negatively for an investment's long-term outlook, or if you have found something that you believe is truly better for the long term.

The second week of September 2001 had the longest market closure in 80 years. On September 11th, we had the most deadly attack on American soil in modern history. But we are not at war with another country, although we promise a war on terrorism. Our economic – business, financial, and transportation – structure remains in place. Our hearts and minds are wounded, but despite the horrible losses, we will come back stronger, we will continue forward, and we will do so in part to honor the thousands who have lost their lives to terrorism.

As far as for your investments are concerned, as always, you should follow your beliefs when you make an investment. If you believe that in the next five years or longer that the stocks, bonds, or mutual funds will grow stronger, and that the price of each investment reflects that, then you need not think more about it in the short run.

If you believe otherwise, then we need to reassess and reconsider your investment plan. In the end, only you know what makes you sleep better at night when it comes to your money. In a world of continual change, we all have different levels of tolerance for the uncertainty surrounding us. Your investments should reflect your long-term beliefs. Your investments should reflect your tolerance for uncertainty.

This hasn't changed. And, my investing message hasn't changed.

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