



## What are the Odds?

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Dear Fellow Investors:

A number of years ago we wrote a piece about two very similar State of the Union speeches. Calvin Coolidge gave his last State of the Union address in December of 1928 and President William Clinton gave his last one in early 2000. Our country was at peace, had enjoyed an amazing run of prosperity, sat on booming stock markets and the US government had its financial house in order in both cases. These speeches represented inflection points of legendary magnitude. These were the worst two times to invest in common stocks in the last 100 years. What were the odds of that happening?

At Smead Capital Management (SCM), we see a great deal of consternation in the marketplace about the opposite circumstances we see today. The US government and many individual states are running huge budget deficits. We are fighting a worldwide war on terrorism and a number of hotspots are flaring up all over the world. The economy has suffered the deepest recession since 1981-82 and the biggest financial panic since the 1930's. Lastly, the US stock market is 30% below where it was at the time of President Clinton's speech after more than ten years. The only decade worse? You guessed it, the one following Coolidge's speech in 1928.

What are the odds that this is a good time to invest in the US stock market for the next ten years? At SCM, we think high! Tough times impose a discipline on consumers, financial institutions, governments, companies and politicians which lay the groundwork for years of future success. It is exactly the opposite of the sloppy, unethical and undisciplined participants who dominated the markets after years of prosperity and booming stock prices.

Most market commentators were talking about stocks rising to the sky and the elimination of business cycles in the late 1920's and the late 1990's. Today, all we hear about is how much hell we have to pay for the sins of the past 10 years. Some call it the "New Normal". Any number of respected market pundits will tell you how low we have to go to make things right in stocks. Let SCM make an optimistic prediction for you based on today's negative psychology and seemingly endless list of unsolvable problems. We believe the S&P 500 Index will hit 2000 in ten years and the Dow will hit 20000. What are the odds that the stock market will appreciate 7% per year for the next ten years to accomplish those numbers? We believe way above normal because of how scarce that opinion is.

Best Wishes,

***William Smead***

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