SLOCUM, GORDON & CO. LLP
INVESTMENT MANAGEMENT AND COUNSEL

VIEWPOINTS

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This Economic Commentary is designed to present the Firm's current views on timely topics that we feel may be of interest to our clients. Viewpoints is also available electronically on our website: slocumgordon.com.

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In Greek mythology, Sisyphus was a king punished for unacceptable behavior by being compelled to roll an immense boulder up a hill, only to watch it roll back down, and to repeat this throughout eternity. For the investor, the stock market's behavior lately may illuminate the meaning of the word *sisyphean*: "endless and unavailing, as labor or a task." Indeed, many individual investors have felt the frustration of the market seemingly taking one step forward and two steps back, gaining strength only to fall back to previously lower levels in an endless cycle that saps confidence and faith in the system.

We are all influenced by experiences that we have lived through. The prevailing economic environment at any point in time, if it lasts long enough, can impact how we think and act on investment decisions. For example, because the Great Depression years were so dramatic and seemingly interminable, for years thereafter investors were satisfied to receive a dividend from their stock investments. Capital appreciation was not expected and certainly not the principle objective for putting money at risk in the stock market. For decades, this rather "old fashioned" mindset resulted in low volatility in the markets at a time when dividend yields were generally higher than prevailing interest rates in the bond markets until the inflationary 1970's changed all that.

Enter the period of the 1980's and 1990's where the investment landscape evolved into a more speculative, capital gains driven market. A rising stock market that resulted from a concerted effort by the Federal Reserve to rein in inflation changed investors' perception of risk as dividends became less important. For nearly thirty years, the fundamental concept of investing for a current return from a dividend was totally out of vogue because capital gains were always a more potent lure in the marketplace for investors. During that period, speculation and risk increased dramatically in all aspects of finance and investment.

As the millennium turned, a set of related events that brought attention to the fact that asset prices had appreciated beyond historical norms changed the way investors viewed risk, and it has taken the better part of ten years to run off that excess risk in stock prices. Increased volatility is a result of a market adjusting to a new set of economic realities that differ greatly from the last go-go period, and a credit crisis such as we have been in now for a few years simply takes time to heal. Investors feel this sisyphean experience in the markets watching portfolio valuations fluctuate wildly, up one day and down the next.

We have been writing for some time now that dividends should matter to investors. Even in more heady market periods, the component that dividends contribute to total return is an important reason to put money "at risk" in the first place. As we have constructed our portfolios over the last many years, dividends continue to play a central part in our investment strategy and have served to mitigate volatility in these mercurial markets we are living through. As we have noted before, it would seem that talking heads and column writers in the financial press have suddenly become converts to the idea that a dividend is now the sine qua non of investing. We agree, and it may be this way for some time to come.

Stock prices rise and fall, but in an environment where interest rates will remain historically low the main objective for us is that cash flow from a secure (and rising) dividend stream be there on a consistent basis. Happily, corporations are in a very strong financial position at the moment. They have adjusted quickly to this new economic backdrop, and substantial liquidity remains an important component of the balance sheets of public companies, particularly the large US multi-national companies.

It would appear to us that we are bumping along the bottom here in the markets, but that it will take longer to get out of the malaise that we as a country have gotten ourselves into. The current political climate is not friendly to capital, and until that changes volatility will persist. Sovereign debt issues in the Eurozone will continue to impact credit markets until there is agreement and resolution among the member countries. Economic expansion is sub-par everywhere in the developed world, and a slowing growth rate in China is having an effect on global business generally.

Our investment strategy remains conservative, recognizing that stock prices may appear cheap, but that time will be needed as an essential investment criteria before they move to sustainably higher levels. However, let there be no doubt as history is our guide, they will. In the meantime, investors are getting paid to wait.