Northwest Viewpoint

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Inspiration in the Shadows of Grand Teton

An ICM Bond Analyst Explains the Importance of Rational Decision Making in a Stormy Market Environment

By Dana McCullough
Fixed Income Analyst

In This Issue:

Lightening struck and thunder roared voilently; the sky seemed to be breaking apart before our eyes and coming down in piercing masses of hail and ice.

Our legs ached and our hearts raced. It seemed as though the enemy was closing in on us. Fully exposed on the rocky edges of Hurricane Pass deep within the backcountry of Grand Teton National Park and acutely aware of each metal item in our 60 plus pound backpacks, we had no choice but to press on.

Huddled in a tight single file line, the four of us focused on taking one step after another finding comfort in the cadence of our steps. We exchanged few words, as each of us escaped into the internal dialogue of our minds.

Market Cycles

I recalled the day's forecast – a sunny 75 to 77 degrees with a 10 percent chance of precipitation; surely I didn't read it incorrectly. I digressed further, noting the discrepancy between the forecast and the actual and the similarities to recent experiences in the capital markets in which expectations were shattered by a slowing economy, a colossal terrorist attack on US soil, admissions of fraud and corporate misdeeds followed by major bankruptcies, and sputtering economic recovery starts.

How bleak it seems in the midst of it all! Yet, much like the dead of winter, there's always the hope of spring. And while sometimes it seems as though spring will not rear its flowering face, it always does. The markets, much like the seasons, go through cycles. While we cannot predict with 100 percent accuracy when winter will transition into spring, or when a bear market will bottom and transition into a bull, we do know from history that both will occur.

History Repeats Itself

In fact, from a historical perspective we're in the middle of a dreary winter, but not unseasonably so. In terms of the percentage declines

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from bull market highs to bear market lows, 1929-1932 and 1973-1974 experienced worse markets. Interestingly, the current plague of scandals has rich precedents in history as well.

In fact according to Aravind Adiga of *Money* magazine, "We are merely playing out of a familiar script, major stock market bubbles have a tendency to end this way." Adiga goes on to note several examples of notorious Wall Street scandals ranging from 1929 in which Albert Wiggin, head of Chase National Bank, made millions shorting shares of his own company stock, to 1975 when the SEC censured accounting firm Peat Marwick Mitchell for failing to perform proper audits of five companies that collapsed soon after getting clean reviews from the firm (sound familiar?), and the S&L bailout of the late eighties.

The list goes on and on citing historical violations including embezzlement, insider trading, derivative related losses and phony corporations.

Don't Panic

Returning to the reality of my situation, I realized that I was no longer gripping my trekking poles, but rather my hands were frozen in place around the handles. Did I find comfort in the fact that there are several historical precedents in which people are blindsided by brutal mountain storms or that our current battering by Mother Nature wasn't the worst one to ever strike? Absolutely not!

In fact, what I did feel was the instinctive urge to panic, much like the average investor watching his or her assets decline in value after having enjoyed a prolonged period of extreme bull market conditions. Thankfully, I did not panic. I simply stopped, pried my hands off of my trekking poles, attached the poles to my husband's backpack (who wants another lightening target?), tucked my hands inside my jacket in hopes the heat from my body would defrost my hands, and fell back in line with the others.

I couldn't help but think of the advice given by Frank Russell in the article *The Emotion and Reality of Surviving a Prolonged Bear Market:*

> *When in the midst of a bear market, investors should behave exactly as if they were confronting a grizzly bear: Remain calm and avoid sudden, emotionally driven decisions. An abrupt response, without consideration for future implications, such as exiting equity markets, can be detrimental to an investor's ability to meet their long-term investment goals. This instinctive reaction to sell equities ensures that the investor falls prey to the 'buy high, sell low syndrome.'*

Rational Decision Making

Like any situation that elicits the unmistakable desire to panic, doing so is typically the worst possible option, and tends to prolong rather than solve the existing problem. In fact, much of the malaise in the current markets can be attributed to the fact that they are running on almost pure emotion. Simply put, lower prices rather than economic fundamentals are creating lower prices.

The media's spin on corporate misdeeds, earnings restatements and the like only exacerbates the problem by pumping more fear and hype into the marketplace. Such emotions lead to irrational decisions as investors join the ranks daily of those selling at the lows, claiming they can no longer handle the pain.

As the weather cleared and our fears subsided, I realized that wise investors, like wise backpackers who are prepared for the unexpected and resist the emotions that pave disaster's way, are rewarded for their diligence.

That evening we nestled our tents alongside a huge boulder that protected us from the wind and enjoyed a gourmet mountain meal of pasta and relished in the shadows of the Teton Range. In two days, we had traveled more than 20 miles over magnificent mountain passes with panoramic views too beautiful to even describe.

While our journey was not over, we knew we had the tools to make it through our final days in the mountains and through the current market as well. ▲

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Back to Basics

By Patti Tisdale, Senior Portfolio Representative

Question: *My consultant has suggested that my overall investment portfolio be well diversified. I understand my portfolio should consist of a mixture of stocks, bonds, and money market investments, but can you explain the difference between value investing and growth investing?*

Answer: Your consultant is correct. It's a good idea to have a mixture of many types of investments in your overall portfolio to lessen the risk of wide swings. Value investing and growth investing are two traditional approaches to equity investing that tend to complement each other over time.

Value investors buy stock in companies that they believe are under-valued. These companies are either out of style, overlooked, or have fallen into disfavor among investors. Value investors purchase companies when they believe earnings expectations are at their lowest and sell companies when Wall Street and other investors start to "love" the company as earnings estimates are revised upwards.

At the same time value managers are starting to sell their companies, growth managers step in. By now these companies have a favorable public opinion. Growth investors buy stock in companies that tend to grow substantially faster than others. The theory is that growth in earnings and/or revenues will directly translate into an increase in the stock price.

ICM's Small- and Small- to Mid-Cap Value equity strategies position clients in a portfolio of these overlooked companies in anticipation of the market's discovery or renewed appreciation of their investment value. Our research team sets price targets based on their expectation of a normalized price to earnings ratio relative to their industry, or what we believe should be a fair market valuation for that company.

ICM's Large-Cap Core Growth equity strategy participates in the growth of well-managed companies over time. Well diversified portfolios are constructed by selecting stocks that generally have earnings, dividends, and cash flow growth above the Russell 1000 Index, and price to earnings ratios close to market levels.

Many experts recommend a blend of both growth and value investments to help minimize portfolio volatility and maximize returns. ▲

Kudos

Promotions in the Research Department

We are pleased to announce the following recent promotions within the research department at ICM. Kevin Jones, CFA, has been promoted from vice president/senior portfolio manager to senior vice president /senior portfolio manager; Michael Finkel has been promoted from research analyst to senior research analyst-technology; and both Kyle Knigge, CFA, and Todd Cruse have been promoted from research analyst to senior research analyst. All of us here at ICM appreciate their hard work and dedication.

Kevin Jones, CFA
Senior Vice President
Senior Portfolio Manager

Michael Finkel
Senior
Research Analyst -Technology

Kyle Knigge, CFA
Senior
Research Analyst

Todd Cruse
Senior
Research Analyst

Employee Spotlight

Please join us in welcoming the newest member of our research staff.

Bryn Harman, CFA
Senior Investment Analyst

Bryn Harman brings over eight years of experience to ICM's Small- and Small- to Mid-Cap Value research teams. Most recently with RedChip Companies, LLC as a senior investment analyst, Bryn's extensive experience also includes holding the positions of a listings officer/analyst with the Alberta Stock Exchange, corporate finance consultant for an accounting firm, and tax and research analyst for a financial planning group. A graduate of the University of Saskatchewan with a degree in business, Bryn is a member of the Association for Investment Management and Research and has earned the Chartered Financial Analyst designation. ▲

Web Sightings

By Dennis Roginski, Senior Portfolio Representative

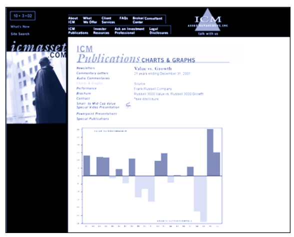
It's 8:00 a.m. (EST) and you have a client sitting in your office. You're trying hard to organize your thoughts as you wait for your first cup of java to stimulate your brain cells. Your client has agreed to use ICM as their money manager and you need a copy of ICM's Investment Management Agreement.

While it's only 5:00 a.m. on the West Coast, it's a 24-7 web-site world. Simply log on to *www.icmasset.com*, click on PUBLICATIONS, and then on CONTRACT. Click on the picture of the Confidential Client Profile and Investment Management Agreement, and you can print it directly from your computer. It's that simple.

Charts & Graphs

Click on the ICM PUBLICATIONS/ CHARTS & GRAPHS section for a great selection of educational material.

There you will find ICM's Market Cycles chart, which shows the importance of a diversified portfolio. Also in this section are charts & graphs comparing value vs. growth performance, small-cap vs. large-cap performance, and the breakdown of market capitalization of U.S. public companies.



Hear Here

Click on PUBLICATIONS/AUDIO COMMENTARIES and listen to the most recent quarterly commentary or commentaries from past quarters.

This quarter's featured speakers are Jim Simmons, CFA, President and Chief Investment Officer; Kevin Jones, CFA, Senior Vice President/Senior Portfolio Manager; Liz Gabriel, Vice President, and Dana McCullough, Fixed Income Analyst.

Our audio commentaries are available in cassette format. To request your copy, contact a Client Services representative at **(800) 488-4075** or by e-mail at *clientservices@icmasset.com*. ▲

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