Steeplechase Investments

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Good, bad, and ugly. It seems the year played out like the old spaghetti western of years' past. Not necessarily in the order. In the newsletter of January, 2004, I predicted, even with the large market gains we had just witnessed in 2003 that the possibility of the Dow reaching 11,000, the S&P 500 climbing to 1300, and the NASDAQ could scale the heights to 2,500. Obviously, I was more bullish than what occurred in the market. The Dow rose to the 10,800 area, the S&P to the 1250 area and the NASDAQ to 2175 area. So much for Karnack and his predictions.

Crude oil limbed from 35 to 56 dollars a barrel, a gargantuan move. In the midst of the bullishness, we took profits in our oil stocks, a little bit early, I would add. There was much, let's call it exasperation, on my part with these stocks. We started buying them when crude was under $18 a barrel. In the ensuing run-up in crude where the price tripled, we were left with profits in the 30% range-very frustrating to be right and not be rewarded appropriately. We also bought defense stocks when they were out of favor, going back a couple of years. Same kind of scenario. Sure, they rallied nicely, but not anywhere to the extent I felt they would. We bought the "old line" tech stocks: Microsoft, Intel, Applied Materials when they were out of favor and they behaved similarly. The phone companies were unliked when we bought them, hell; they were unloved or maybe even hated. In this case, I didn't expect rousing returns; I felt the dividends they pay out would be a nice cushion. The actually acted about the way I thought (more like bonds) and then we come to the big pharmaceuticals. They were unloved, paid good dividends, one and all, the perfect spot to own them. WRONG! Merck got clocked, Pfizer about the same, and BristolMyersSquibb went nowhere. And these were "safe" plays. No such thing. The loss in Merck took almost 2% out of our yearly performance. Let me not forget our dearest friends, the insurance companies. Lord Eliot Spitzer decided to put a notch on his belt by his untimely assault on these companies. Winston Churchill once said, "if you destroy a free market, you create a black market. And if you create 10,000 regulations, you destroy all respect for the law". Eliot and his one man lynching mob seems to be embarking on just such a journey. Interesting that his targets seem to be just the ones the guy on there bar stool would go after: banks, mutual fund companies, drugs, insurers. Very Populist. The reality is that all these forays are not going to help anybody but his own occupation: the attorney. Oh, and it might get him elected governor, but I'll take the other side of that trade.

George W. was reelected. Good for our taxes. It remains to be seen if it will be good for anything else. Iraq is looking more and more like Viet Nam, tho in a previous newsletter, I said I didn't think so. What effect will the cowboy being reelected have on the market. 66% of the time the market goes sideways or down after the incumbent has been reelected. But, interestingly enough, the market had a nice upward trajectory after William Jefferson Clinton and Ronald Wilson Reagan were reelected. What about the January effect? Now, that everybody knows about it, it means virtually nothing. For instance, in 2003 the market lost 3.5% in January and still had a very nice year. An the January barometer, for the people in maybe Antarctica that don't know about it, says whatever the market does in that month, it will do that year. No so fast! When the market was up in Jan., the market was up for the year 80% of the time. The second part of the correlation: when the market was down in Jan., the market was down 50% of the time. Anybody have a quarter we can flip. Forget the January barometer, everybody knows about it so it's not going to work!

Lest we get caught up in "the sky was falling" last year, it just wasn't an easy year to invest for me. We still made a return of around 3%. It was just one of those years where a confluence of "bad stuff" (boy, that sounds very erudite) influenced some of our holdings. Verisign was up 89% in the 4th quarter alone. Steel Dynamics was up in the 40% range, B.J. Services, Cendant, Cognizant Technology, Activision, American Express, Armor Holdings, General Dynamics, General Electric, Johnson and Johnson, Kellogg, Electronic Data Systems, Shuffle Master to name more than a few performed nicely. Frankly, it was just one of those years that I am glad is behind us.

Stock investing is supposed to be along term affair. While it is not how I have to view the market. To preserve, protect, and grow our capital, by nature of my profession, have to view the market hour by hour. That's my obligation, you should not however It will drive you crazy. "Kids, don't try this at home." So, here are some long term figures for you to digest. In the last 5 year market cycle, the Wilshire5000 (the total stock market) was up 80%. The S&P 500 was down **-3.5%** and the Dow was down **-2.4%**. In the same 5 year period, Steeplechase accounts on average were up +**19.1%**.

Ed

As far as paying off debt is concerned; there are very few instances in history when any government has paid off debt.

–Walter Wriston

The first rule of investing is not to lose, the second rule is not to forget the first one.

–Warren Buffett