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September 2006



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*“The truth.  
It is a beautiful  
and terrible  
thing, and  
should therefore  
be treated with  
great caution.”*

J. K. Rowling

*Harry Potter and the  
Sorcerer's Stone, 1997*

## **Is this market giving us another sucker rally?**

I am coming up on a decade in the investment business. I joined Merrill Lynch on November 1, 1996. After eight years as a registered representative (stock broker) for Merrill Lynch and then Paine Webber, which was bought by UBS, I became a truly independent registered investment advisor in 2005.

Every day throughout this decade has been a learning experience for me and I hope has made me a wiser advisor for the benefit of my clients. Every day I am reading and reviewing a substantial amount of investment related information. I weigh this information in light of what I have learned along the way in an effort to help make the smartest possible decisions for managing the wealth of my clients. Sometimes I get it right and some times I don't, but I know that when I don't, I can limit the downside and move forward to find the upside we need to recover and be successful.

One of the most profound experiences I had in this business was in the late summer and early fall of 2000. I was still new enough in this business to get caught up in the heavy dose of optimistic hype that prevailed at that time. In August 2000 the S&P 500 index made a run at its all time high much as the Dow Jones Industrial Average has been doing lately. Technology stocks were rising and the hosts on CNBC were breathlessly cheering the market and ready to celebrate, with party hats at the ready no doubt. And so I became swept up in this enthusiasm and having just been qualified to manage money for individual clients, I positioned them into portfolios of the most popular growth stocks of that time to help them enjoy the good ride up in wealth.

But there were warning signs out at the time, which I missed or, like almost everyone else, ignored. In the bond market there's something known as the yield curve which measures bond yields at various maturities. In August 2000 the yields on longer maturity bonds were lower than those of shorter term bonds. This is called an inverted yield curve and it is usually a bad sign for stocks and the economy. We have the same sort of inverted yield curve today. In 2000 the rate of economic growth was slowing as it also appears to be doing today. Then it was overvalued technology stocks which were coming under pressure. Today it is overvalued real estate that's under pressure.

There's no way anyone can be absolutely sure, but I have the feeling we've seen this movie before and we know how it ends. In 2000 to 2002 it ended very badly.

That's why I currently feel the need to proceed with caution. We may have missed some of this August and September rally, but my clients are quite defensively positioned in case we enter a serious downturn. In the medical profession their first rule is to do no harm. I think as an investment advisor the first rule is to evaluate the possible downside risk and protect your client's wealth accordingly. In the long run, underperforming a rally doesn't matter very much. A serious down turn does.

Jette