

Special Report: Effects of War, Parallels to 1991?

2/7/03 email to Shareholders and Clients

Dear Shareholders and Clients,

The combination of imminent war and a sluggish economy has caused stocks to retreat. Investors dislike uncertainty. Plus the news coming out about some companies has been less positive than hoped for.

The DOW finished at 7929 yesterday, just below its strong support level of 8000. If it continues to go down, the next stop will be around 7500 and the bear market lows of early October could be tested.

Is there a positive side? Yes. And history is our main guide.

At the end of 1990 many clients were worried as the United States prepared to attack Iraq. I was asked whether they should pull out of stocks. At that time the S&P 500 had lost almost 20% after Iraq's invasion of Kuwait. It recovered about half by the end of 1990, but the beginning of 1991 found investors very nervous.

I wrote at the beginning of January that historically the best times to buy the stock market were during the second half of a recession and during a war. At that time we were at a point where we were ending a recession and war was imminent. The probability seemed high that the stock market would go up and I recommended that my clients hang in there and even buy more. Indeed, after the shooting started and it became apparent that we were going to be victorious, the market shot up over 20% in less than four weeks. For the year, the S&P gained over 33%. And if you had missed the 21 best days, you would not have made any money!

What are the parallels today? First, we have had a recent recession and the economy continues to be lethargic. Second, the stock market is down significantly and investors are very jittery. Third, another war with Iraq is imminent. Fourth, it is a war that, again, we will win.

What are the differences? First, it is hard to say whether the economy is as ready to grow as it was in 1991. Overall, I think it is, but not at the same pace and breadth.

Second, the markets are down much further than they were in 1990. This could be good (better relative values) or bad (a poorer economy) depending on your view.

Third, the threat of terrorism and the potential use of biological weapons seems a greater threat this time.

Are these differences enough to negate the historical examples that confirm to a very high degree of probability that stock markets rise significantly after a recession and during a war? Of course nobody knows, and that is why the markets are down right now... uncertainty. The stock market is one of the few things that people don't want when it is on "sale".

So you are aware of what we are doing in the STAAR Funds:

A couple weeks ago we raised our cash positions and added some hedge positions. These are designed to soften any losses should the markets continue to go down. We will be paying close attention as the war scenario unfolds. Our goal is to recognize when things turn more positive and then position the Funds to participate as fully as possible in an upturn.

Of course, we are highly unlikely to be perfect in calling a bottom. We are not trying to do that. Nor can we guarantee or assure you that we will make all the right calls. But once we become confident that an upward trend is occurring, we will begin to change our allocations accordingly.

In the meantime, may I suggest that we pray for our leaders and service men and women as well as the people of Iraq and all other nations? May they be blessed with wisdom, courage and the best possible outcome for the world during this difficult and dangerous time.

Sincerely,

Andre Weisbrod
Founder and Manager of the [STAAR Funds](http://www.staarfunds.com) (www.staarfunds.com)
President of STAAR Financial Advisors. Inc.
412-367-9076

*Copyright 2002, STAAR Financial Advisors, Inc.
Reproduction, broadcast or other use for commercial purposes without written consent of the author is prohibited.*