



Founders Group Report

May 8, 2006

Good News!

Watching the Dow Jones average approach its all time record high, I smiled with peace within myself.

As I have instructed all my students, over the past 35 years, the markets go up and down daily, but, the long term trend is always up. In fact, the stock market looks like a yo-yo going up and down in the hands of a man walking up steps. Hopefully, you learned from my teachings, and your own research, that equities will always beat out every other asset class over time. You, personally, can remember the Dow hitting 11,700+ just 6 years ago. Then, the tech-wreck and 9/11 caused it to drop to 7,400. If you sold out at the bottom, you probably lost money. If you held on...then, no money was lost. You have experienced and learned a valuable lesson. Buy and hold will always win out (unless there is a world wide thermo nuclear holocaust - if so, the world is over and who cares). Over these past 6 years, the "drive-by media" simply dumps bad news on you. Even with "all" the bad news in the world the markets keep going up. (You know it has been the same bad news reported for the past 200 years. Pull out the Ibbotson "mountain chart" for evidence.)

Those of you that have been clients since 1987, when the Dow dropped from 2,200 to 1,700 in one day (22%); we told you to hold on. The invasion into Kuwait, in 1991, dropped prices by 20%...hold on. The "Asian Contagion" in 1997 as the markets fell 15%...hold on. So, from 2,200, in 1987, to 11,700 in 2006, an increase of 5.3 times, or about 10% per year (add in 3% average dividends equals 13% per year – DUH!!)

You know it is funny, the Investment Company Institute, that tracks individual investor behavior, noted the following: In 1982, when the Dow was at 762, money was flowing out of the stock market. In 1987, at 2,100-2,200 Dow, money was flowing in. When the Dow dropped to 1,700, money flowed out. In 1997-2000 money poured into the market during the tech bubble on the way up to 11,700. When the bubble burst and the Dow dropped to 7,400, guess what, money poured out.

Watch...once the "drive by media" notes a new record on the Dow, money will pour in. Enjoy the ride, stay on the course.

Sidebar: Unemployment at 4.6% today hasn't been seen in over 20 years; Interest rates are still at 40 years lows; home ownership at record levels; wages are up; productivity is up; corporate profits at record levels; reinvestment at record levels, job creation is through the roof and more. Yet, the media will make you feel like the world is ending.

If you want to discuss this, I am here for you. I wish you health, wealth and greatness. See you on the beaches of the world.

Paul E. Ferraresi

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For advice on this topic or other areas of your financial life, contact me at:

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