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Volume 4, Issue 3

3rd Quarter 2008

Putting This Difficult Market Into Historical Context

This market can shake the confidence of any investor or investment manager. In these times it is important to remember that the stock market is a great creator of wealth. Many of the best periods to be invested in stocks have been right after periods of turmoil. Take for instance the great depression, the subsequent five year return after May 1932 was 367%. In July of 1982 we had the worst recession of the past 25 years, the next five year return was 267%. From May of 1994 to February of 1995 the Federal Reserve raised interest rates 2.25%, an unprece-

dent increase. Rising rates which are usually bad for the stocks didn't stop the market from recording a 251% gain over the next five years.

People will say that it is different this time and yes they are right, the market is facing a different set of challenges. But, the preceding three examples were all different and we made it through, just as we will this time.

Here is part of the justification for staying in the market for the long term. From Jan 1980—Dec 2006 a \$10,000 investment in the market grew to \$286,000. If an investor was not

invested in the market for 10 of the best days his return would be cut to \$131,000. This time period had 4032 trading days. An investor would only have to miss a small fraction of the trading days and his return would be more then cut in half. As I am writing this the S & P 500 has been up 3% over the past two days. Could this be the beginning of a rally? Nobody can possibly know. What history tells us is that often, after a sustained downturn the market rebounds, often sharply. As an investor we believe in capitalism and stay the course.

Tip of the Quarter

Here's some tips on how you can prevent or manage long waits in the emergency room

1. *If you are not having a life-threatening emergency use your primary care doctor or a retail health clinic*
2. *Once in the ER give an honest account of your symptoms without embellishment.*
3. *Speak up if your condition worsens as you wait.*
4. *If you don't already carry a list of medications that you are taking, make one while you wait. Also include any allergies to medication.*
5. *Ask to speak to somebody in charge if you are feeling sick and aren't being cared for properly.*

2nd Quarter Performance of Various Asset Classes

S&P500	-3.3%
Nasdaq	+0.6%
DJIA	-7.40%
Russell 2000	+5.8%
Hang Seng	-16.50%
10yr. Treasury Interest Rate	+12.2%
Oil Futures	+33.5%

2nd Quarter Market Review

The 2nd quarter started off well for us. After about a 5 month decline we saw some increases in stock prices in the first half of this quarter. We then lost all of our gains of the first half and continued into

bear market territory for the rest of the quarter. Let's put the blame on oil prices. Abrupt declines in market valuation can be correlated to energy prices. A 33% increase in the price of oil is in effect

a tax on our corporate sector. The price of oil has to decline before we see a significant rally in the equity markets. I believe oil prices will be lower by Christmas. Santa Claus Rally!