



It is September 11, the sixth anniversary of a day we will never forget. Dates such as September 11, 2001, and December 7, 1941, should never be forgotten. Such dates are important not only as a tribute to the fallen, but for the lessons they provide. They further serve as significant dates in our personal histories. Remember where you were on 9/11? The day *Challenger* exploded? The day Reagan or Kennedy was shot?

by Mike Keliher

The year 2001 has a series of days that should be recalled in our personal histories as investors. On January 3, 2001, the Federal Reserve, in response to the bursting tech bubble, began a series of rate cuts. The 50 basis-points cut was heralded as a savior and pundits urged investors to “jump in” since “one should never fight the Fed.” When the market opened the day after that rate cut, the Nasdaq Composite stood at 2,594. In October 2002 it hit 1,110. Those Fed optimists rounded the bend and saw not a bull, but an angry bear. The bear bit more than 55 percent out of the “buy and hold” investor’s portfolio.

Yes, you say, but the Nasdaq Composite has soared since. Up 136% as of the close on September 11, 2007! Yes, we agree, up 136% to . . . 2,597. Six years and eight months and now back to even. So, is the best now really ahead just because the Fed is about to cut interest rates?

Do you “not fight the Fed” this time? History shows that it is not as simple as following a clever phrase. There is never anything simple about investing.

As you make your action plan, get out your 2000-2002 brokerage statements. Many of us had a significant allocation to the tech stocks in those days. Before you decide to either “jump in” or “ride it out,” recall your personal history of days in 2001 and 2002. Did your stomach drop when you opened your monthly statements to see yet another gut-wrenching decline in the balance? Recall that personal history; did you ride it through? Or, as many of us, did you reach a breaking point and get out near the bottom only to get back in much higher? What impact did the losses have on your personal life? Your health? Your relations with your spouse? Your job? Will you react any differently if the bear bites the Fed again this time?

The relevant history lesson relates not to the Fed at all. Instead it is history’s lesson that after a significant bubble the best way to stay whole is to get out of the bear’s way when you first see him, not as he finishes his lunch. +

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