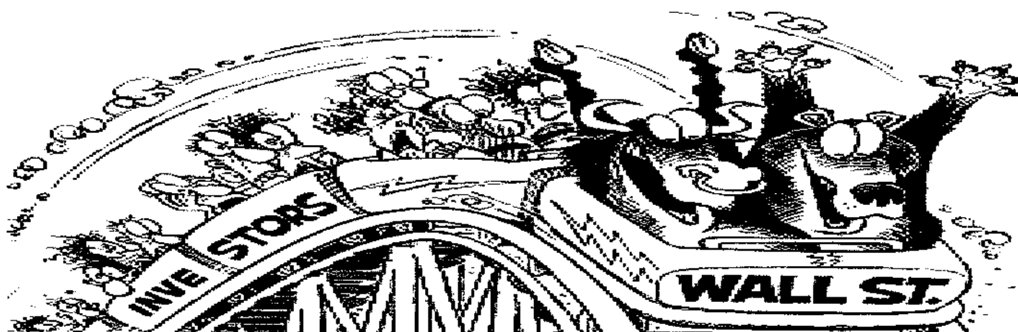
Colley Asset Management, Inc.

REGISTERED INVESTMENT ADVISOR

"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it." ~Warren Buffett



Dear Investor,

Lately, I have been fielding a number of questions about "shock reactions" to traumatic events that impact the financial markets and our daily lives. **Natural disasters, wars or the threat of wars, surprise and high drama events and developments will make our stock and bond markets jittery, volatile and scared.** We have all experienced it before; the fear leads to panic and the anxiety around the unknown is unsettling and alarming. Some describe it with emotions that are very stressful and depressing. Some see it as a time to regroup, while a few may see it as a pivot point or actually a buying opportunity.

As you might figure, this is a subject "yours truly" has studied and gained insight about and I have often put crises into perspective by looking back to historical lessons learned. Nowadays, with the "lightning speed" release of information and news around the world, stories and emotions travel very fast. We also know that the perceived severity (whether realistic or hyped) of the news (problem) and the "unknown" component can add greatly to volatility and selloff reactions. Questions frequently asked:

- Will it be a knee jerk reaction?
- How serious is it? Could it get worse?
- Should we sell and get back in when the coast looks clear?
- Should we monitor things closely but remain basically calm?
- Should we ride it out and exercise a degree of patience or selectively lighten up here and there?
- Are some sectors, due to the news, more vulnerable than others?
- And so on...

THE GRANITE PALACE, 358 BROADWAY, SUITE 304, SARATOGA SPRINGS, NY 12866
(518) 581 0500 • (800) 581 0501 • FAX (518) 581 0525

The answer could be a "qualified "yes" to all those questions. It depends on who you are and your situation, personal profile, and overall comfort levels. It will also depend on what you are invested in, your time frame, and if you have special circumstances that pertain.

Another familiar angle is to recognize that financial markets are news-driven and it is their intrinsic nature to go up and down. That is one of the few things that is predictable. The key question becomes: ***Down, but "out" for how long?*** A few days or weeks, several quarters, years, or a whole decade. During the recent deep recession (2008-2009), many analysts and most in the media reminded us that downturns lasting more than a couple months cause investment anxieties akin to those horror stories about the hardships and deprivation from their parents or grandparents (a.k.a. The Great Depression decade of 1929-1939). Worries swirled that this 2008-2009 disaster would keep the stock market "sunk" with no returns or comeback to speak of for at least five to ten years, which was a grim forecast and very gripping indeed. This is where assessing risk and reward potential comes in and investment objectives and strategies get defined and maybe redefined.

Although history is **no "guaranteed guide"** and **times do change**, I would like to put crises in perspective with the chart below:

CRISES IN PERSPECTIVE

Event	Reaction Dates	% Loss	% Change in DJIA (• 18 weeks later)
Fall of France (WW II)	5/9/40	-17.1	+7.0
Pearl Harbor (WW II)	12/6/41	-7.0	+9.6
Truman Upset Victory	11/2/48	-5.0	+2.0
Korean War	6/23/50	-12.1	+19.2
Eisenhower Heart Attack	9/23/55	-6.5	+11.7
JFK Assassination	11/21/63	-3.0	+15.1
US Bombs Cambodia	4/29/70	-14.4	+20.7
Kent State Shootings	5/4/70	-5.0	+13.6
Arab Oil Embargo	10/18/73	-18.0	+8.0
Nixon Resigns	8/9/74	-15.5	+12.5
Financial Panic 1987	10/19/87	-34.2	+15.1
Gulf War Ultimatum	12/24/90	-4.3	+18.7
Gorbachev Coup	8/16/91	-3.0	+11.3
World Trade Center Bombing (Clinton)	2/26/93	-1.0	+8.5
Oklahoma City Bombing	4/19/95	+0.6	+12.9
Asian Stock Market Crisis	10/7/97	-12.5	+25.1
Russian LTCM Crisis	8/18/98	-11.3	+33.7
WTC/Pentagon Bombing (Bush)	9/11/01	-15.5	+15.0 (-15% one year later)
WorldCom/Enron Corp. Scandals	10/2001	-7.3	+10.6
Iraq War/Hussein	3/2003	+1.1	+15.4
2008-2009 Deep Recession	2008-3/2009	-56.6	+10.1 (+22.6% six months later)
Eurozone Meltdown	4/2010-7/2010	-14.9	+5.5
May Overnight Flash (3 days)	5/6/10	-16.6	+7.2
Japan Earthquake	3/11/11	-10.6	+7.8 (five weeks later)
Average:		**-12.1%**	**+13.2%**

• 18 weeks later is 126 days or about four months.

Quick Conclusion

The data is very revealing and telltale. It shows how resilient the U.S. equity markets have been in its post-crises periods. Although there is no pure historical comparison, the facts of the past remind us of America's ability to bounce back, to stabilize, and to "Get back up on the horse" again. We know that our current economic recovery has seen fragile moments and remains both encouraging but muted by the far-

reaching and lingering effects of the deep recession, high unemployment, and deficit challenges.

Over the last fifty years, the American stock market (DJIA and S&P500) has spent more time being bullish (about 65% of the time) than bearish. Historically, the 1929 Crash was the nation's worst correction and bear market. It started as a grave, 3 ½ year bear market, followed by some stabilization and, eventually, the New Deal under President FDR. This Depression was a costly one and left lasting scars for over a decade before regulations and greater liquidity solutions lifted the country out of it in 1939, just in time for WW II and a "bread and butter" economy took hold. Fast forward...The October 19, 1987 record one-day DJIA plunge of 521 points (or about 34%) led to exchange flow reforms and more orderly trading, regained its value by September 1989 (about two years later).

Other correlations are similar and remind us that the markets start to come back when the panic lifts and data begins to confirm a better future. Sometimes, the markets try to anticipate the turnarounds and comebacks and the typical "lead" time tends to average 6 to 9 months. The deeper the recession means the deeper the toll on us all and the longer it takes to rally and recover back. **Today's staircase recovery, which is fraught with pullbacks, is an example of the back and forth: the recovery is "on"/the recovery is "off".**

I hope these remarks offer a degree of **hope and insight. Naturally, what is most suitable for your personal goals and risk tolerance is where CAM wants you to be.**

As we are in the beginning phase of "earnings central" for Corporate America's 1st quarter results, my next newsletter will be focused on "best picks", sector analysis, and favorite themes. In addition to the fiduciary orientation and research models used, CAM does his homework on many quantitative measures, too, including:

- Buy/sell trading data (50 and 100 day and 13-week moving averages)
- Disclosed insider trading trends...even dividend payouts (as relevant)
- PEG and P/E ratios; future projected numbers and cash flow
- Analyst opinions and changes in outlook...debt/equity ratios
- Profit margins (three-year average margins and turnarounds)
- EPS Growth Rates (reliable and 15+% per year)

I invite you to call or contact me with any questions and concerns you may have. Let me wish everyone a wonderful Spring season with lots of healthy green shoots at your feet and sunshine in your view.

With Best Regards,
JC

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