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## Now is the time to buy

As I reported a few days ago I stepped in with a list of stocks and did some buying. But then I'm repeatedly asked: Why am I buying when the market is plunging? When we're in the midst of one of the worst financial crisis of my lifetime? When the bad news seems like it will never end? When so many people are panicking? The answer is simple: That's when stocks are cheap.

I never try to predict where the market is headed next. This is obviously a long-term approach intended for patient investors. It's very important to distinguish this way of thinking from that of a trader for whom a day is long term and months are an eternity.

And let me remind you that the time to sell isn't now with the Dow hitting five-year lows. The important thing is to take advantage of opportunities now. This seems so obvious that I'm not going to belabor the differences.

Suffice it to say that the causes of the current credit crisis are rooted in the ongoing collapse of the real estate bubble, which has proven to have far wider and deeper ramifications than the collapse of the tech bubble that began in 2000.

A big difference is leverage. Most real estate purchases are leveraged, with the mortgage debt repackaged and distributed to myriad investors. Leverage magnifies losses. Now we're seeing the consequences of a massive de-leveraging and the forced sale of assets at fire-sale prices.

No crisis is exactly like one from the past, but to me the current real estate and credit crises most closely resemble the S&L crisis of the late 1980s and early 1990s.

The overall economy proved remarkably resilient in the face of the failure of thousands of savings and loans as well as falling real estate prices. Recall that the crisis also required massive federal intervention in the form of the Resolution Trust Corporation, which acquired the real estate, mortgages and other assets of the failed thrifts and disposed of them in an orderly fashion that helped put a floor on prices. Something like this was necessary this time too, now that the Treasury and Fed have belatedly decided that the piecemeal propping up of wayward institutions is no way to restore confidence.\*

For investors, the good news is that a purely financial crisis can set the stage for strong future gains. Stocks rose moderately between 1990 and 1992 and rose very robustly from 1992-1995. For the decade 1990-99, the Dow Jones Industrial Average gained an average of 18% per year, one of the best decades ever. I'm not saying that's likely to happen again — the '90s encompassed most of the tech bubble — but it does show that a financial crisis need not cast a pall over future returns. Indeed, to the extent it curbs dangerous excess, it enhances future returns. Meanwhile, don't panic; don't follow the herd. I'm prepared to take advantage of any further declines. I'm confident discipline and patience will be rewarded.

Sincerely,

Scott Spiering  
President

\*Information collected from John B. Stewart's article "Today's Crisis Should Set Stage for Future Gains" – [www.smartmoney.com](http://www.smartmoney.com)