The Stages of a Bull Market

William Smead
Chief Executive Officer
Chief Investment Officer

Dear Fellow Investors:

We've experienced a sharp pull back in the "Greatest Bull Market Nobody Loved". While this market takes an intermission, we at Smead Capital Management would like to remind everyone where we've come from and what history might tell us about what comes next.

In the fall of 2008, the U.S. Treasury and Federal Reserve Board took massive actions designed to avert a total meltdown of our economy. At the time, bearish investors argued that the best these government actions could hope for was to keep us out of a depression. They then argued for a three to four-year recession.

By early 2009, it was obvious that the worst aspects of the Credit Crisis (huge spreads between Treasury interest rates and high grade corporate rates/frozen money markets) were healing. Bearish investors argued that this would only affect the depth of the "Great Recession" and said that increasing unemployment and continued housing foreclosure would prevent economic growth. They said this would cause stocks to decline to prices comparable to 1982 price-to-earnings ratios, even though interest rates were high back then.

By late spring and early summer, obvious signs of economic improvement (green shoots) in California housing and multiple economic statistics were evident. Bearish investors argued that unemployment was rising and the existing debt load was going to cripple consumer spending. In their eyes, the stock market's rally from March to July would evaporate in a retest of the March lows.

Now we know that GDP grew well over 3 percent in the 3rd quarter of 2009. Bearish investors, who argued that the market couldn't go up in the first place, now argue that it has gone up too far and too fast. They believe that without the government's help there would be no economic improvement and a return to economic contraction is possible because of stubbornly high unemployment and continued foreclosure. Are you seeing a pattern?

As we came out of the 1981-82 recession and the stock market soared, bearish investors said the same thing and the Bull Market lasted five years. As we came out of the Savings and Loan/Credit Crisis in 1990, the bearish investors argued that a "jobless recovery" would stop a Bull Market and it lasted for three years.

The willingness of long-term investors to listen to these "broken records" and the unwillingness of equity mutual fund investors to add to their holdings is psychological proof that it is not different this time. Trust ownership of quality common stocks and don't be surprised if this Bull Market lasts three years and breaks a number of records on the upside. We like our portfolios and the results our companies are producing.

When the people who have been wrong stop using the same argument about unemployment and existing debt levels, we are all going to have to find something new to worry about.

Best Wishes,

William Smead

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