



9/11 And Where We Stand A Decade Later

As you all know, it's been ten years since September 11, 2001 – when we Americans witnessed the worst terror attacks perpetrated on our soil. This September, there many commemorative events and heart-rending stories that tracked the lives of those most profoundly impacted. And while we will never forget those who died on the planes that hit the Pentagon or the heroes who lost their lives in Shanksville, Pennsylvania, let us also remind ourselves, that two of those four planes attacked the Twin Towers – symbols of America's economic might in the heart of Wall Street. The terrorists were hoping they'd do us long-term damage with their cowardly acts but we stood strong – and came together as a nation in the face of a common enemy.

It's also been a pretty crazy decade since then. Through the years following 9/11, home prices rallied remarkably and Americans witnessed a period of high consumer confidence. While there is no denying that it's been a roller coaster ride with the severe housing collapse in 2007 and 2008 and subsequent market drop, the markets handled the situation very well and bounced back amazingly from their 2008 lows.

But we also must recognize that there is little we can do if the world around us starts to grind to a halt – economically, politically, and as a direct consequence, socially. A global slowdown is making it all the more challenging for American companies to shine like they mostly do. Our banking and financial institutions emerged quite well after the 2008 crisis, with strong leadership from the Federal Reserve, but the European Union does not intrinsically have the solidarity that America has, and may lack the same resilience. We will have to wait and see.

I recently came across a piece titled “Ten Years After” by Sam Stovall, the Chief Investment Strategist at Standard and Poor's, and wanted to share some of his analysis on key economic metrics over the past decade.

- In 2001, the U.S. contributed 28% to world GDP. Since then, our GDP has rallied 47% from \$10.3 trillion to over \$15 trillion. So we've done rather well on the GDP front. That said the past decade has also seen the emergence of countries such as China and India, which has caused our share of global GDP to dip to about 25% today. This decline is to be expected as other countries grow and prosper-it is even welcome, as long as we keep our edge and continue to innovate and improve our standards of living.

- After 9/11, as we all know, housing rose remarkably... but, the debacle around mortgage financing put a dent into an otherwise stellar performance. As a result, housing went into a bad slump causing housing *starts* – a simple term for the number of new homes, condos or apartments being built - to fall 61% from 2001. I believe this slump will clean out the excesses in inventory and prices, and set things right – so while this is causing a lot of pain short-term, it will make us stronger for the long run.
- Employment has also been a roller-coaster – jobs were plentiful post 9/11 but a shaky world economy has resulted in a sharp increase in unemployment from 4.9% in 2001 to 9.1% today – Many, including Fed Chairman Ben Bernanke has acknowledged recovery may take a while, so I urge you to batten down the hatches, focus on your work, save aggressively and invest regularly – down markets offer tremendous opportunity to buy quality companies at less than fair market value.
- And while we did okay financially with our war on terror, we are now dealing with a slowing world economy and we've had to borrow significantly to ride all this out. As a result, U.S. debt has increased significantly – from \$5.8 trillion in 2001 to \$14.7 trillion today. Moreover, there were many who predicted the collapse of U.S. Treasury bonds – the source of our borrowings – but were wrong; the simple truth is that the world still sees the U.S. as an unparalleled safe haven – and while other nations may purportedly be fiscally stronger, they lack the sheer magnitude and liquidity of the U.S. Treasury market.
- Oil – a key commodity - has increased considerably from \$27 per barrel (for West Texas Intermediate) in 2001 to \$80 per barrel today – caused largely by extraordinary demand from emerging economies and to some degree from speculative betting that may have artificially elevated the price of oil.
- Global political uncertainty and the possibility of bank failures – more imagined than real – have resulted in a rush to gold, which has rallied considerably from \$273 an ounce to about \$1600 today. It is interesting how Gold continues to hold considerable allure as a store of wealth in troubled times. But here again, speculators have a large role in taking it to current levels,
- Because of all these macroeconomic factors, the S&P 500 only delivered a 2.7% annual return, way below its 60-year average of 10.4%. Now, the good news here is that many sectors such as Energy, Materials and Consumer Staples performed reasonably well, but were primarily dragged down by a negative 4.3% return in financial stocks, and positive but low returns from other core sectors such as technology and healthcare.

So... it's never easy re-living a tragic event, but my takeaway for you is this – our numbers are down, but that has little to do with 9/11. Rather, it has to do with global factors and some of our own shortcomings. The good news is that the world is looking to America, directly or indirectly for leadership, and Americans are not one to squander two opportunities – one, to magnanimously help those in genuine need, and two, to not shy away from making an honest buck through a crisis. I believe U.S. stocks will again shine and come out ahead over the long run, but there well could be a few more bumps – I call them buying opportunities - along the way. And my advice is stay the course with U.S. equities because our economic fundamentals, business prowess and democratic institutions continue to be unmatched across the world.