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In the movie, “Groundhog Day,” the character played by Bill Murray is stuck reliving the same day until he finally gets it right and can move ahead with his life. For now, investors seem to be held captive in their own version of Groundhog Day, as financial markets struggle with a recurring cycle of boom and bust over seemingly the same sets of issues: staggering budget deficits, weak employment, sagging home values and the worrisome behavior of government officials who are supposed to be looking out for us. Stock prices have once again given way to another slump in recent months, while bond yields have sunk to new lows over renewed concerns for the fragile recovery. People are understandably discouraged, and they are looking for answers which, to date, have been elusive. Today’s economy, even with its serious problems, is considerably bigger than it was a generation ago. Here are some thoughts behind our opinion that financial markets will get through this frustrating “day” and move on to more productive times.

It is okay to disagree – People do not agree on how to fix the economy. The subject of economics is more philosophy than science, because economic theories are based on expectations for human behavior. There are very few, if any, absolute scientific “facts” to guide policy-making. We all have beliefs, and those beliefs motivate us to act a certain way. Politics can play into this, particularly in an election season, and sometimes with unfortunate results. Our actions typically serve our own best interests, but they also motivate us to cooperate with others in an effort to improve our standard of living.

Volatility is bound to happen – The *supply* of goods and services usually needs time to adjust, while the *demand* for them can change suddenly. Even in a well-functioning economy, those sudden changes in demand will cause temporary surpluses and shortages. We tolerate volatility, because everyone is better off specializing in their most productive activity, while depending on others to do their part. For example, it has been a long time since most people were primarily engaged in growing their own food. Today, roughly 97 percent of the U.S. population goes to the grocery store, happy to depend upon the other three percent who run increasingly efficient agriculture, dairy and livestock enterprises to feed the nation. If we could not trust food to be available in our local grocery store, we would all behave quite differently. Southern California residents will remember how empty the grocery shelves got after the 1992 Los Angeles riots.

People are resilient and motivated to succeed – People can overcome daunting obstacles and make enormous changes in their behavior if they see an opportunity to make their lives better. For example, as people were able to move away from farms, they were increasingly drawn to higher-paying job opportunities and the conveniences of cities. For the first time in history, more than half the world’s population now resides in

urban areas, and that trend appears to be accelerating. Once someone has adapted to an improvement in their way of life, they will fight to keep it. Anyone who doubts that premise ought to try taking an iPod away from a teenager.

More people, more opportunities to reinvent our economy – Our lifestyle today includes many goods and services that did not exist a generation ago. An article in the Wall Street Journal noted that “*Fewer than 100 of the companies in today’s S&P 500 Index were around in 1957*” (August 21, 2010). The world’s population is rising, and a greater portion of that population is gaining access to improved education. Commerce tends to spring up in areas that offer a capable workforce. That means advances in our way of life can come from anywhere, as discoveries made in any location can be quickly exported all over the world.

Breakthrough ideas need access to capital and labor – Right now, there are ample supplies of both. Investors are actively directing trillions of dollars in search of a decent return, and today’s capital markets make it relatively easy to deploy that capital anywhere around the globe. In addition, companies have accumulated record amounts of cash in the three years since the 2008 Credit Crisis. Those funds are available to finance worthwhile new business activities at a time when there is an abundance of well-trained people who are looking for jobs.

You have your own personal workforce – Corporate profits are actually quite strong, and companies have shored up their balance sheets in recent years. Worrisome news headlines have taken the wind out of the stock market, so valuations are currently attractive by historical measures. Stock prices are low relative to expected earnings, and the dividend yield on the S&P 500 Index is now higher than the yield on the bellwether 10-year Treasury note. When markets swoon and the news is discouraging, take a look at the companies in your portfolio. They represent the potential of hundreds of thousands of employees who are working to generate progress for your shares.

The financial markets are going through another rough time, and we recognize how painful that is for equity and fixed income investors. However, market conditions can change quickly, and just as unexpectedly, for the better. We encourage you to contact us if you have any questions about current events or topics you would like to discuss.

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