Stanton & Castleton, Inc.

An independent firm

Let's Review: Our Monthly Newsletter……………11/01/09

This month:

The S&P 500 index fell 57% from the peak on 10-09-2007 (1565) to the March 9th 2009 low (677). Since that March day we have now risen as much as 62% hitting a recent high of 1097.91 on 10-19-2009. We are still 30% below the high of 2007. We should surpass that level at some point; in the meantime it is important to consider what a "reasonable" value is right now. In the last two years we have read many economic analysis that all seem to agree (with 20:20 hindsight) that the economy peaked on a greatly over leveraged consumer and lending market….if only we had saved more, consumed less and held down our credit debt these past 30 years the U.S. would be better off. Yet now on the run back up as fear subsides we make comparisons to an over leveraged period of history as the benchmark to look towards near term. The market may think so….and it is always right but not always reasonable.

We though a revisit of this excerpt from an essay written by Warren Buffet quoting his mentor Ben Graham about the market describes this best:

"The mental attitude toward market fluctuations most conducive to investment success is best imagined as market quotations coming from a remarkably accommodating fellow named ***Mr. Market*** *who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy or sell your interests or sell you his.*

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations are anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting his business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interests and rob him of his gains. At other times he is depressed and can see nothing but trouble ahead for both the *business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.*

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior the better it is for you.

But, unlike Cinderella at the ball, you must heed one warning or everything will turn to pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom that you'll find useful. If he shows up some day in a particularly foolish mood, you are free to ignore him or take advantage of him, but it will be disastrous to fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and don't know who the patsy is, you're the patsy."

The common thread among the managers we employ in the design of your portfolios is a philosophy akin to Mr. Buffett's. They see the volatility as the friend of the long term investor, creating potential opportunity to buy bargains and sell when assets are dearly priced. We employ a team of managers who follow this approach and have developed strategies designed to deal with Mr. Market.

We ask a mentor to review our Capital Markets Outlook each quarter before we publish and the comment was we sounded pessimistic, asking if that was the message. The answer is no! We actually are building the case for a much healthier and more competitive U.S. economy going forward. A less leveraged base with greater savings in reserve will be better equipped to move forward in investment and consumption with much greater staying power. Take this with the still growing gains in productivity spurred by technological advances and economic dynamics of the "web" and you get a recipe for strong sustainable growth. The question is when? Our current belief is while this recovery will be more fitful than past recoveries it will build as the near term risks are worked out: commercial real estate, housing recovery, bank lending, government deficit spending, new taxes, potential new entitlements and the conclusion of our wars in Afghanistan and Iraq. We have a very full plate of issues that effect economic growth. We try to remove the emotion of "Mr. Market" recognizing that often the values are volatile!

Bob:

The holidays are coming up! Joyce and I are looking forward to Turkey Day….our favorite holiday. All the boys will be here, as we just heard from Jordan that he will be allowed to travel. Next year he will be deployed so this is great news. Ryan, Ethan and Cole are all doing well…except one of them brought the flu home. Joyce and I survived…barely. We hope you all enjoy a fantastic Thanksgiving Day! Let's hope for a good football game!

Ron:

Big news in the household is that Ari turned 16 at the end of September and just had his first "behind the wheel" driving class. It is now up to me to "practice" with him. Consider this fair warning to all: if you are driving anywhere near north Irvine to stay away from all white Toyota 4 Runners! Send blood pressure medication !!!!

Amy:

I am the new office administrator! I hope to get to know you all over the coming months as I get the office ship shape! Have a wonderful Thanksgiving.

This month "Financial Topic": One more cartoon!

"In the end, how your investments behave is much less important than how you behave."

Benjamin Graham
The Intelligent Investor

The Numbers:

Closing Values / 10-30-2009

DOLLAR	weaker	**NASDAQ**	2,045.11	-77.31
10-YR YIELD	3.39%	**S&P 500**	1,036.19	-20.89
VOLUME	1,654,782,130	**DJIA**	9,712.73	-.45

Provided by Standard & Poor's

(Referral Hotline: 877-975-0955)

M^3

Manage……..Monitor……..Maintain

If you would like to read past issues of our newsletter just click this link:

www.stantoncastleton.com