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Is this the worst?

In the last 14 months, everytime I had expected that things can't get any worse, they do.

The sheer destruction of wealth in not just equity but across asset classes has surprised me.

This is not the first time that I've seen a bear phase and every time it strikes, I try & figure out if I could have predicted it, what were the signs. Obviously, with benefits of hindsight I recall my note of Sep07 in which I was wondering why is Dow Jones hitting all time highs when there is talk of the economy getting into a recession. That should have alarmed me more than it did, simply because the extent of fall was definitely not anticipated.

The manner in which various events have unfolded is shocking to say the very least and it seems as though things do not seem to be improving at all. Every day, every week, every quarter is like living with more bad news.

In the above background I must admit that I feel apologetic for not having been able to see this and the extent to which this has affected your portfolios. I feel the pain in equal measure if not more, but having reached this stage today, I wonder what now?

I still believe that the only asset class which can pull our portfolios out of this mess and recover the losses that we have made is equities. We do have short term opportunities in Bonds and maybe in Gold as well till the time this fear is alive but they will not give money for long.

Thus, having taken a wrong call of not exiting equities when the markets were high we should not take another wrong call of exiting now when the markets are low. I agree that there is a high degree of uncertainty still, thus this pull out will take long, but do not give up hope in this environment where you are surrounded by negative news.

The fall of markets is largely being attributed to the unwinding of excesses created by free credit in the phase of 2000 to 2007, now we are moving in absolutely opposite direction of no credit with banks not willing to lend, thus individuals as well as corporates not willing to buy, everyone is in saving mode. The money cycle is just not turning as it should. This way, all of us may have to grow food for ourselves some day!!!

Before I close

- Assume that more bad news is round the corner but remember news is after an event and in the past, we will never know it before.
- The market is smart... we are not
- Be prepared for life's uncertainties - Have adequate life, health, home & car insurance
- Minimize costs – Pay high cost loans
- Keep more than enough cash in your working capital kitty but do not be too defensive either, when all this is over you would not want to repent having missed a 'bargain'.
- Do not give up hope - As Alan Greenspan once said, there is one thing for sure about a recession, it gets over.