Leigh Baldwin & Co.
Investment Brokerage

Milestones

This summer we will be celebrating the twentieth anniversary of our firm and what a ride it has been…It seems like yesterday that we were powering ahead in the afterglow of our victory over Iraq in the first Gulf War and the start of the greatest bull market run in history. 1994 was painful to the bond market as the Fed aggressively raised rates every chance they could and the pain in the bond market drifted over to stocks. From 1995 to 2000 though, the emergence of the internet as the world's market place, cell phones, Y2K, and innovation after innovation took stocks to magnificent highs. Everyone was a day trader and everyone had an in-law that was a Silicon Valley millionaire. Like all good things though, last call can hit hard and it did in 2001.

From the dizzying heights of 5000, the Nasdaq 100 fell some 70% at the start of the new millennium, falling to about 1200 at its worst. Terrorism reared its ugly and dangerous head and the world was changed forever. The government stepped in and through the easing of credit and spending billions on wars around the world, stocks regained their footing, and incredibly from 2003-2007 the markets were positive for 5 straight years. Even more incredible, volatility vanished as the major averages during this time period rarely if ever dropped more than 9%. The easy money policy finally caught up to the masses as real estate exploded, individual debt exploded, and Wall Street's investment and sale of risky assets exploded. We all know what happened next…

The year of 2008 was the climax of all the bad behavior of Wall Street for the previous 17 years. At the margin, everyone was in, leveraged real estate, leveraged derivatives, leveraged bonds, leveraged commodities, and leveraged stocks. The clock struck midnight for the markets and we witnessed the worst contraction in prices in seventy years or since the Great Depression. All of the major Wall Street firms were fatally exposed to the world's biggest margin call and the Fed responded by bailing out the Street and the US economy. QE1 consisted of the Fed purchasing of $1 trillion of mortgage backed securities. QE2, in September of last year, was the Fed's $600 billion attempt at buying 85% of the US Treasury market to keep rates low. Markets responded strongly to both measures which brings us to today.

The process of unwinding a debt crisis is a long and painful process for the economy, look at unemployment and GDP growth rates for examples. On the other hand, companies are lean and very profitable today and should be for the near future. While the markets may trade sideways for sometime the rest of this year, great companies should make great investments for the next several years. Without another QE (quantum easing), interest rates may go higher, possibly dramatically. With an election next year and the economy clearly slowing, we would expect some type of further government intervention in the days to come. That would be good for stocks in the short term and possibly very bad for our economy in the long run. Like Greece, at some point we may have to take our medicine, but the odds are it won't be this year. We look forward to serving you and advising you for the next twenty years and we thank you for your confidence in our firm. Have a safe and fun summer!

112 Albany Street
Cazenovia, New York 13035
315-655-2964, 315-655-9138 fax
leigh@leighbaldwin.com