

December 17, 2012

Dear Valued Investor:

The anticipated arrival of every *New Year* lends itself to reflection. With 2013 fast approaching my thoughts revolve around not only the past 12 months but also the past 2 ½ decades, as 2012 marks my 25<sup>th</sup> anniversary as a *Financial Advisor*.

25 years ago in early January of 1987 the *Dow Jones Industrial Average (DJIA)* closed above 2000 for the first time and through mid August of that year advanced an additional 700 points, a gain of +44% from the previous year's close. The jubilation, however, quickly waned as the *DJIA* fell -36.1% in less than 60 days, including a one day drop of -22.6% on October 19<sup>th</sup>, aka *Black Monday*.

1987 was a baptism by fire for me but it was not an inauspicious time to start my investment career. Living through that summer and fall proved invaluable in helping me contend in the years that followed with the ever changing sentiment and emotions that help shape and define our equity and fixed income markets.

Putting the markets aside for a moment, the world was a very different place 25 years ago. In 1987 the *Cold War* was still in high gear evidenced by the *Soviets* fighting in Afghanistan (3 years earlier you might recall, the *U.S.S.R.* boycotted the 1984 Olympics in Los Angeles in response to our boycotting the 1980 Games in Moscow over their invasion of Afghanistan) and President Ronald Reagan making his landmark "Mr. Gorbachev, tear down this wall!" speech in Berlin in June. The world's population was 5.0 billion and world *GDP* was \$16.7 trillion (2011 U.S. Dollars). U.S. *GDP* was \$4.7 trillion, representing a little over 28% of the world (our population was 242.3 million less than 5% of the world population). Worldwide there were only 2 ½ million mobile cellular subscribers (1.2 million in the U.S.) and there were no commercial internet providers in 1987 – zero. The *GDP* of Brazil, China and India were \$294.1 billion, \$270.4 billion and \$283.9 billion, respectively (i.e., these countries collectively had a population almost 8 ½ times the U.S. but their combined *GDP* was 18% of ours).

Fast forward to today. The *Berlin Wall* and the *Iron Curtain* fell in 1989 and the *Soviet Union* collapsed and dissolved in 1991. Moreover the *Cold War*, which had hung over the world like a dark black cloud for almost 5 decades, was over and is now a simple entry in the history books. While thankful for this epic course of events, I am also mindful of my beloved, deceased parents, Janos and Sarolta Gogolak, who fled their native *Hungary* during that country's failed 1956 uprising against communism, seeking a better life for their 2 boys and soon to be born child in America (i.e., I was born 3 months after my family arrived). Without their sacrifice and bravery, combined with the greatness of their newly adopted country, the United States – a true land of opportunity – my life would not be the same.

The misery and failure of communism led to the embracing of capitalism by most countries across the globe. Although capitalism, as we know all too well, is not without its' flaws, explosive economic growth and prosperity have ensued. While the world's population has increased by 40% in the past 25 years from 5.0 billion to 7.0 billion, world *GDP* has grown by more than 4 fold from \$16.7 trillion to \$70.0 trillion (over the same time the U.S. population increased 28.6% from 242.3 million to 311.6 million and *GDP* increased by a factor of 3.2 from \$4.7 trillion to \$15.1 trillion). Meanwhile the *GDP* of Brazil, China and India have increased from \$294.1 billion, \$270.4 billion and \$283.9 billion to \$2.5 trillion, \$7.3 trillion and \$1.8 trillion, respectively. Collectively the *GDP* of these countries has grown from \$848.4 billion in 1987 to \$11.6 trillion today, a more than 14 fold increase.

Worldwide mobile cellular phone subscribers now total 5.9 billion (from 2.5 million in 1987), approximately 84% of the world's population, while internet users total 2.2 billion or 31% (i.e., there were no commercial internet providers in 1987).

What about some market metrics such as corporate earnings and dividends over the last 25 years? In 1987 earnings and dividends for the *S&P 500* on a per share basis were \$16.04 and \$9.17, respectively. This year earnings and dividends are estimated to come in at \$100 and \$28. It is important to note that while our nation's *GDP* increased 3 fold over the past 25 years, per share earnings have risen more than 6 fold, reflective of U.S. corporations conducting an increasing amount of business overseas, especially in developing countries where economic growth has been more robust. Equally noteworthy, *S&P 500* per share dividends are almost double the level *S&P 500* earnings were 25 years ago (i.e., \$28 'vs.' \$16.04)!

While I have not accounted for inflation in the financial statistics I have cited (i.e., the equivalent purchasing power of \$100 in 1987 was \$198.01 in 2011), inflation accounts for a fraction of the growth statistics I have shared with you. For example, world *GDP* has risen from \$16.4 trillion in 1987 to \$70.0 trillion today – inflation accounts for approximately 30% of the increase; the remaining 70% is real growth. Similarly inflation accounts for 19% of the 6.2 fold increase in *S&P 500* per share earnings since 1987; the balance of 81% is real.

#### Some Final Thoughts:

I hope the history and statistics I have shared with you are helpful in giving you some perspective as to how much the world has changed over the past 25 years when I began my career as a *Financial Advisor*. I have intentionally not dwelled on the negatives – the wars in Iraq and Afghanistan, the horrendous terrorist attacks on 9/11/01, the bursting of the high tech bubble, the 2008-2009 financial crisis (i.e., stock market crash, housing collapse and *Great Recession*), the downgrading of U.S. debt in the summer of 2011, the fiscal cliff that beckons at the end of this year etc. – because they are already deeply entrenched in our minds.

While the negatives are real and many and should not be discounted, I would argue that the positives also need to be recognized. In February of 2009, *The Economist* announced that for the first time in history more than half the world's population belonged to the middle class – a monumental achievement. In the next 10 years the world population is expected to grow by another one billion people and an additional 1.8 billion is anticipated to join the middle class – this is a huge and powerful force.

No one has a crystal ball to know what the future holds but whenever I find myself despondent about the state of the economy (U.S. and global) and/or the direction of our markets, I reread the following passage from Greg Easterbrook's "*Sonic Boom – Globalization At Much Speed*":

"Raymond Kurzweil, who in the 1970s invented the first practical device for optical character recognition and has since become a futurist<sup>1</sup>, notes there is steadily less time between an invention and its use by the average person. Kurzweil defines average-person use as something in the hands of at least 25 percent of the U.S. population. Looking back to the nineteenth century, forty-six years passed between the development of systems for wide-scale electricity distribution and the electrification of a quarter of America's homes; thirty-five years passed between the invention of the telephone and common telephone access; thirty-one years separated the invention of radio and common radio ownership; twenty-six years passed between invention of television and common access to television; sixteen years between the development of the personal computer and a quarter of American possessing a PC; thirteen years between development of the cellular-relayed wireless call and a cell phone in every fourth pocket; seven years between development of the Web and mass access to the Web."

I find it an immediate cure for my shortsightedness. I do believe the best is yet to come.

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Thank you for giving me the privilege and honor to assist you with your investments. There is nothing more meaningful to me than to have your trust and confidence.

Annie Servis, my wonderful and dedicated *Assistant* who has been my valued associate from the very beginning 25 years ago, and I wish you the happiest of *Holidays* and a healthy and prosperous *New Year!*

Best regards,



John A. Gogolak  
Senior Vice President/Investments

encl.  
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P.S. If you know someone who might benefit from our investment services please let us know – thank you!

*Sources: [www.bigcharts.com](http://www.bigcharts.com), UN News Centre, Standard & Poor's, World Bank, International Statistics of the IMF and United States Department of Labor.*