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ROADMAPS

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For months we've been discussing why the stock market is going up, and why it will continue to go up. Start with the emergence of Brazil, Russia, India and China (BRIC) as rapidly growing economies. There is exponential growth in the number of new companies, even new industries being created, and all representing new wealth creation opportunities. Add in the staggering number of new, first time investors in these countries opening new accounts every day. We are talking about *millions* of new investors wanting to join the ranks of those trying to improve their lot in life. Money is cheap and easy to borrow, and the world is awash in liquidity.

Step across the ocean to the United States, and we see private equity buyouts. Collectively, these remove hundreds of billions of dollars of value from our stock market per *quarter!* Because we, unlike the BRIC nations, are not adding many new companies to our stock market, the amount of stock that is available for purchase here is being sharply reduced.

When the world wants to buy, and the supply can't keep up, prices go up. This is true whether you are speaking of strawberries or stocks. Millions of new investors are joining the existing investors with their newly borrowed funds. This adds up to a lot of money trying to buy. Their buying pushes the prices up, which encourages others to want to participate, which causes prices to rise more, and... You get the idea.

What concerns me today is the private equity buyout phenomenon. This is the term for the purchase of an entire company and its subsequent removal from the stock market. What is happening is not new and is not uncharted territory. In fact, right now we have a pretty good roadmap. In the 1980's we had a leveraged buyout boom. Today it is the private equity boom. Call it whatever you want, and there are differences, but *they both have the same effect on us.*

We know how the story ends. First, the buyouts come as a surprise. The buyers are legitimately investing in the enhancement of their future. Then, investors seeking quick profits begin to try to anticipate which companies will be the next to be acquired, and they try to scoop them up ahead of time. The private equity buyers begin to buy companies as a speculation, hoping to resell to someone else at higher prices. Each buyout announcement results in the investor's need to reinvest the funds. Most investors reinvest the money from the sale of stocks into other stocks, thereby causing further price gains in the remaining companies.

The scorecard comes out--how many buyouts did you own before the announcements? The race for the next one, the next big score, begins to outweigh sensible long term plans and greed finally overcomes fear. People begin to measure performance based on daily gains. How much did you make today? (You know it's time to sell when you hear *that* question!)

In the 1980's the LBO (leveraged buyout) boom ended with charges of insider trading, high profile investors being hauled off to jail, and a noticeable and unpleasant market decline. The private equity boom will also end. All booms end. All fads pass into history, at least until the idea is dusted off, tweaked a bit, and recycled under a new name.

And life will go on. The stock market will go on and new highs will once again be made. It could be *years* before this fad ends! We have a roadmap. We've been here before and we know the way. Let's not allow the euphoria of the moment (or its end) distract us from our goals.

Cindi Showalter