

To: MDE Clients
From: Mitchell D. Eichen, J.D., LL.M
Chief Executive Officer
Date: September 26, 2001

Re: The MDE Group Special Commentary III

A LOOK BACK...A LOOK AHEAD

Pride, fear, confusion, determination, uncertainty. These were the emotions that embraced the American psyche last week and dictated its actions. As these emotions were felt throughout the entire nation, no place were they more clearly displayed than at the very target of the September 11th terrorist attack—Wall Street. In spite of the welcome rally we enjoyed in the opening days of this week, no one can tell what lies ahead for investors, over the coming weeks and months. On September 11th we entered a tunnel of darkness, both emotionally and financially. As we wander through this tunnel over the coming weeks or months, we will encounter unexpected zigs and zags, ups and downs, highs and lows. But when we emerge from the tunnel, as we surely will, the images at the other end will not only be clearer, but also much brighter.

As a nation in mourning stayed home over the past two weeks, far away from airplanes, shopping malls and restaurants, we are reminded of the economic and emotional malaise that defined the American psyche, and our economy, during the late 1970s. Those feelings of impotence and hopelessness marked the nadir of the post World War II era. They were created by long-term fundamental problems both at home and abroad. On the home front, we faced the political and societal divisions created by America's more-than-decade-long involvement in Vietnam. The Watergate crisis created a lack of confidence in our government. The second Arab oil embargo of the decade caused us to awake before dawn to wait in hour-long gas lines to buy much needed fuel for our land yachts produced by a dying American automobile industry. We also confronted the economic realities of ever increasing double digit inflation and interest rates which made our economy seem like that of a third world nation, not that of the United States of America.

Abroad the news was equally depressing. We lived in the long shadow cast by the seemingly never-ending Cold War and escalating arms race, which we appeared to be losing. This was a time when flexing American muscle abroad meant boycotting the Olympic games. Perhaps the greatest wound to America's national pride was the taking of American hostages in Tehran. For over a year we helplessly watched our fellow Americans paraded before our eyes on TV amidst the daily ranting of new bands of radicals claiming to be Islamic Fundamentalists. The ultimate image of how far this great nation had fallen was captured by that scene of battered American helicopters strewn over a far away desert in a failed rescue attempt. Surely many among us felt that our best days were behind us.

However, these crises subsided in due course. As a nation we became infected with a new brand of American optimism. We began to believe, as our president told us, that America was truly that shining city on the hill...and the last best hope for men on earth. That indomitable American spirit in the face of adversity restored both prosperity at home and prestige abroad. It left us victors of the Cold War, and unleashed two decades of unprecedented prosperity, gloriously capping what will forever be known as the American Century.

As we begin the new century, times again look bleak. Radical militant groups under the guise of Islamic Fundamentalism are again holding America hostage, but this time the threat is on our own soil. We have become gripped with fear, anxiety and uncertainty—too afraid to get on airplanes to do America's business or take our children to Disney World; too anxious to go to the theater or to restaurants; and too uncertain about the economic future to go to the shopping malls or car dealers. This chokes off confidence and optimism, the very fuels upon which the economic engine of America and the world operate.

Many Americans are being paralyzed, not only by the fear for our physical safety, but also by the fear for our economic well being. The dreaded "R" word, recession, fills every financial publication and news broadcast. Stocks gyrate wildly, not in response to their long-term prospects, but in reaction to near-term events. The unabashed greed and unwarranted speculation of the late 1990s have turned into irrational fear and equally unwarranted dumping of some of America's great companies. In a rational world, we would not suffer such extreme volatility. But who ever said that investors were rational, at least over the short term.

As we have often reminded our clients, no one ever outlawed the business cycle. Since the end of World War II, the United States has endured no fewer than seven recessions, only to emerge each time with a stronger and more vigorous economy. The fact is that even before September 11th, the unprecedented 10-year economic boom was simply dying of old age. The events of September 11th have accelerated this cycle and brought an end to the debate as to whether we were in, or about to enter a recession. The only question now is how deep and how long?

The answers to these two questions will be governed by a combination of political events that will unfold over the coming weeks and months. Some of the key questions, which no investor or investment advisor can answer at this time, are the type and degree of the much anticipated military response, the success of the terrorist interdiction effort within our own borders, and the ability to change the worldwide political landscape in such a way as to drain the lifeblood from various terrorist organizations.

Also of great importance are the shape, magnitude, and timing of the anticipated fiscal stimulus package that will emerge from Washington. While monetary policy was widely credited as being the catalyst for the expansion of the 1990s, since the stock market began its slide some 18 months ago, monetary policy alone has proven unable to revive the financial markets and forestall recession. To prevent the economic fallout from September 11th from driving us into an economic abyss, both the administration and Congress will likely look to fiscal stimulus to turnaround the United States economy and restore faith in the financial system. However, we strongly believe that a non-economic external political catalyst, such as a discernible military victory, or a lessening of tensions on the home front, will first be needed to ignite this market response.

Our role as financial advisers is not to act as some type of Pollyanna or cheerleader, but to provide a rational and unemotional view as to how current events should likely affect our clients' portfolios over the long term. It is based on this analysis that we offer our clients our best advice to not overreact to near-term events, but to stay on course.

We have been in continuous contact with all our money managers over the last two plus weeks. They, too, remain cautiously optimistic. They are all taking advantage of this market volatility to better position our clients' portfolios for participation in the anticipated recovery. Where appropriate, they are rotating parts of the portfolio into more promising areas. Those

managers who were holding some cash are beginning to recommit part of this cash on an opportunistic basis. Where possible, many are also recognizing tax losses that will otherwise evaporate when the market recovers.

We would not recommend that our clients attempt to “bottom fish” or commit new money to the market on a wholesale basis at this instant. However, as the landscape becomes clearer over the coming weeks, we would begin to average in new money. We would recommend rebalancing portfolios back to, or closer to target allocations between fixed and equity investments to take advantage of any rebound. While more volatility should be expected over the coming months, given current valuations, and the underlying strength of the most powerful economy the world has ever seen, there is no reason to believe that markets should not be substantially higher one year from now.

As we look at the state of the United States and its economy today, we are cautiously optimistic. We are a far stronger country today than we were some two decades ago. Today, inflation and interest rates are near historic lows for the post World War II era, and productivity is near historic highs. We are in the middle of a technology revolution, which is changing our lives daily. The United States is the world’s only superpower—a country without peer both militarily and economically. The country is united today, as it hasn’t been in generations, ready to take whatever actions are necessary to confront and overcome, both the terrorist and economic threats.

The MDE Group
500 Lanidex Plaza, Parsippany, New Jersey 07054
Tel: (973) 887-4900, Fax: (973) 887-7321
www.mdegroupp.com