

Don't Focus on the Yo-Yo

Mark Zinder



Mark Zinder began his career in the financial industry in 1983. He quickly learned his talent was to make the complicated less so and the dry, lackluster, mind-numbing details of the financial industry come alive. As he worked to sharpen his skills in sales by day, at night he managed and performed in comedy clubs. It is this unique combination of talents that Zinder earned his title of National Spokesman for Franklin Templeton, one of the most respected names in the financial industry.

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There are over 100 stock markets in the world. The largest is the New York Stock Exchange, however one of the oldest is the London Stock Exchange, founded in the 1700's and formally named the London Stock Exchange in 1801. In June of 1815, Napoleon with a hundred thousand troops was marching towards Waterloo where he was going to meet Wellington head on. Everybody at the London Stock Exchange was extremely nervous that Wellington was going to lose the war because he was out manned and out numbered. Napoleon had a hundred thousand troops and Wellington only had seventy-five thousand troops. The way you had a war 190 years ago is you had two massive frontal assaults and usually the team with the most people would win. Everybody at the London Stock Exchange was extremely nervous that Wellington was going to lose the war so they were prepared to sell their stocks at a moment's notice. As a matter of fact, they were watching one key individual they were watching a man who is soon to become the wealthiest man in the world because of this one event. They were watching a man named Nathan Rothschild. Whatever he did was what they were going to do as well. The herd mentality was already fully in place.

Through carrier pigeons, homing pigeons and runners, Rothschild was able to ascertain some startling news before anybody else had it. He learned that Wellington, out manned and out numbered, had actually defeated Napoleon at Waterloo. With this information, he ran to the London Stock Exchange and he said, "Sell everything." Everybody panicked and sold their stocks along with him and the market got hammered. Three hours later, Rothschild returned to the London Stock Exchange and he bought all of his stocks back for 50¢ on the dollar. That night the news comes out that Wellington has defeated Napoleon at Waterloo. The next morning everybody ran to buy their stocks back, and the market went straight up. In one day one man, Nathan Rothschild, made a million pounds. I had that adjusted for inflation and currency transactions and today that would be the equivalent of roughly four billion dollars. He did that in one day. When it was all over is when he uttered those infamous words,

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"You buy when there's blood in the street." I say no, no, no, no, you buy when there's blood in the street even if it's your own. You buy it when nobody else wants it. You buy it at the point of maximum pessimism.

When was the last time you came back from the mall and you saw your sweetheart, your wife. You said, "Sweetheart, honey, I saw it, I love it. It's the right time, it's the right color, it's the right size. Guess what? Guess what? It is also on ____ Did I hold up a cue card? How did you know to say? This is the only business I know of that when things go on sale, nobody wants to buy it. Today there are markets overseas that are gloomy but are on sale and offer you the best opportunities in the world.

I make my home in Nashville, Tennessee. I'm originally from Birmingham, Alabama; as a matter of fact, I just got back from Alabama where I was visiting my parents. I have to be honest with you; it's really great to be back in America. Nashville, Tennessee: famous Tennessee residents include Andrew Jackson, seventh President of the United States; Al Gore, Vice President to Bill Clinton; a good friend of mine, Jack Daniels makes his home just south of Nashville. But our most famous Tennessee resident would probably have to be Elvis Presley. I don't know if you know this or not but in 1977, when Elvis Presley passed away, there were roughly 1400 Elvis impersonators in the world. Today, some 28 years later, there are roughly 45,000 Elvis impersonators in the world. If Elvis impersonators continue to grow at this rate, by the year 2030 one in four people in the world will be an Elvis impersonator.

That's what we do in this business of ours; we take numbers and we extrapolate them out into the future. Here's one: at the dawn of Christianity, two thousand years ago, there were roughly two hundred million people inhabiting the earth; today the world's population is 6.4 billion people. If the population of the world continues to grow at the rate it has been growing, by the year 3530, the weight of the people inhabiting the earth will be equal to the weight of the earth itself. I don't know what it means either; I just thought I would bring it to your attention. But that's what we do in this business; we take number and extrapolate them out into the future and try to give

you an idea of what your investment, your account, what the stock market is going to be worth in the next five, ten, fifteen, twenty years.

As a matter of fact, if we've got a problem in this business, it's exactly that. We are all numbers people in this room; we're left brained analytical numbers people. We talk in numbers. Our clients, on the other hand, are right brained picture people. If there is a problem in our business today, it's just that we're talking in numbers and they're thinking in pictures; they don't have a clue what we're talking about. So today rather than show you graphs and charts, I'm just going to tell you some stories, stories you can go back and tell your clients so they get a visual idea of what you're talking about. As a matter of fact this whole left brain/right brain thing, analytical versus picture, was first made aware of to me when I was 16 years old. I was going out with this girl. I go to her mobile home to pick her up; she comes out of the kitchen/bedroom and we're leaving. Now her dad's left brain analytical, I'm right brain picture. As we're leaving he says, "Young man, I want my daughter home no later than 10:15." I say, "Wow, mid October, cool!" We tend to see things differently.

Here's a true story. 1997 Mexico City, a four lane highway with two lanes running north, two lanes running south. I don't know if you know this about highways or not, but your average highway lane width is roughly twelve feet wide. They had twenty-four feet going north, twenty-four feet going south, always bumper to bumper. So the government in Mexico City decided to expand their highway. Now what we would do in America is we would spend two to ten million dollars a mile and we would actually add another twelve feet of lane; but what they decided to do in their infinite wisdom in Mexico City in 1997 was, rather than add twelve feet of lane, they simply went in and redrew the lines so instead of having twelve foot wide lanes, they had eight foot wide lanes. And they took a four lane highway and they turned it into a six lane highway and they improved efficiency by 50%. What they didn't realize was automobiles and trucks going 70 miles an hour with only one to two feet of lane between them will cause a lot of traffic accidents. They went, "Oops, bad idea."

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They redrew the lines back down to a four lane highway. I'm not making this up. There was a public outcry, waste of taxpayer's money. So the government put the left brain thinkers to work on this. This is actually what they reported back to the people of Mexico City in 1997. They said, "When we went from a four lane highway to a six lane highway, we improved efficiency by 50%. When we went from a six lane highway to a four lane highway, we had a decrease in efficiency of 33% for a net gain of 17%.

We don't do that in our business, do we? Keep in mind a stock or a mutual fund that goes down 25% one year has got to go up 50% the next year just to break even. Sometimes people will play with the numbers. Today it is imperative that we play by the numbers. We talk in numbers; we love to talk in numbers in this business. We love to talk in millions and billions and trillions. Let me tell you what a million, what a billion, what a trillion is. A million seconds ago was eleven days ago. A million steps goes from New York to Boston. A million inches is length of the island of Manhattan tip to tip. If the day you were born, you started counting and you counted until the day you died, you wouldn't be able to count to a billion. A billion minutes ago was the dawn of Christianity two thousand years ago. Get this: a billion coca cola's ago was yesterday morning. Wow!

Now Bill Gates is 49 years old, he's worth about forty billion dollars. I'm 48 years old I'm not worth quite half that. He's 49 years old; he's worth forty billion dollars. Microsoft stock is averaging about 29% per year since conception. If Microsoft stock continues to grow at the rate it has been growing, by the time Bill Gates turns 65 years old he will be worth over a trillion dollars. That is the GDP of Thailand. The GDP of the United States is twelve trillion dollars; GDP of the world is thirty-three trillion dollars.

There are five things that will determine the outcome of your portfolio over the long term: #1 how much you invest; #2 how often you invest it; #3 how long you invest it for; #4 the tax consequences; and #5 is the rate of return. What do we all focus on? The rate of return, the one component we have no control over is the one everybody focuses on.

Let me go through some rates of return for you. The London Stock Exchange started in 1801, Dow Jones Industrial Average started in 1896, S&P 500 started in 1926, the NASDAQ started in 1971. Since inception the rate of return on the London Stock Exchange is 9.7; Dow is 10.2; S&P is 10.3; NASDAQ is 10.7. Ten is your number. How are you going to get there? It's your choice. We all go to the fair tonight, you get on the roller coaster, I get on merry go round; we both start the same place, we both end at the same place; you get sick, I don't. Ten is your number; how are you going to get there? It is your choice.

Where can you get 10% these days? The average investor not doing ten, they're doing two. I recommend you go to the places that look the gloomiest.

I want to draw some parallels for you between the United States in the 1960's and the United States in the 1990's. U.S. 1960's: we're experiencing the longest economic expansion in our history, it lasted 107 months. U.S. 1990's: we're experiencing the longest economic expansion in our history, it lasted 109 months. U.S. 1960's the Dow averages 18%; US 1990's Dow averages 17.8%. That's pretty interesting. U.S. 1960's long hair; U.S. 1990's longing for hair. U.S. 1960's our President struggled with Fidel; U.S. 1990's, our President struggled with fidelity. The list goes on and on and on.

Do you know where the term bear market and bull market comes from? When a bear attacks, it attacks with its claws in a downward fashion; when a bull attacks, it attacks with its horns in an upward fashion. In 1973 and 74 was a bear market down 45%. In 2001 and 02 bear market down 45%. Isn't this interesting?

Maybe all we need to do is go back to 1977 and look at what did well. Maybe that's what we need to be investing in today. What did well? International out performed domestic 5:1. Go where the places are the gloomiest, go where nobody likes it right now. Nobody likes Europe today, let's do Europe. Let's do the US in 1982, Europe in 1992. In 1982, the U. S. was coming off the worst recession since the great depression. Europe in 1992 was embarking on the worst recession since the great depression. U.S. in 1982 unemployment rate 11½%; Europe

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1992 unemployment rate 11½%. U.S. 1982 inflation 13%; Europe 1992 inflation 13%. U.S. in 1982 were coming off the worst recession since the great depression but in 13 years, 1995, we will embark on the greatest bull market in American history. Today Europe is coming off the worst recession since the great depression beginning in 1992. In 13 years that would be 2005; that would be right now. You might think, "I don't want Europe right now, I want to buy exciting markets. I want to buy the U.S. in 1998; I want to buy China right now; I want to buy Japan in 1980. "No, no, no." When did you buy Japan? You bought Japan in the 1960's; remember Japan in 1962? I wear more computing power on my wrist today than was available in the entire world in 1962, in 1962 doctors came to your house, pizzas didn't. In 1962 if this said "Made in Japan" on the bottom of it, it was junk. In 1985 Japan's buying up America; they bought Rockefeller Center, they bought Pebble Beach. We wanted to be Japan; we were imitating Japanese management styles; we were eating Sushi like we enjoyed the stuff.

What does it say today? Made in China. Did you know in 1962 there was 68 million people living in Japan; today there's 1.3 billion people living in China. 1.3 billion people. You know what we do in America? We say there are a billion people in China. No, no, no, no. there are 1.3 billion people in China. The .3 we tend to lop off. That will be equal to the total population of the United States. We just tend to lop it off. There are more people in China learning to speak English than there are English speaking Americans. There are 10 million babies are born every single year in China, which is equivalent to the size of the state of Michigan. Did you know, on average, a woman gives birth in China every 45 seconds. I say we find this woman and put a stop to it.

China is building basic infrastructure. In the next ten years, they will spend a trillion dollars basic infrastructure: roads, bridges, water sewer, power generations, airport, seaport, telecommunication. All of Asia is going to spend 3.4 trillion. China today is building the largest infrastructure project the world has ever built - the dam of the Yangtze River. They are building the Three Gorges Dam

estimated cost 30 billion dollars. U.S. companies weren't even offered the opportunity to bid on it. Why, because we are policing the world, we are telling them you're going to ruin your environment. We built dams, we built the Hoover Dam, we brought water to the desert. Why can't we do what they can.

By the way, can someone tell me the name of the bureaucratic agency in charge of everything outdoors: the dam and the forestry? It is called the Department of the Interior. Go figure that one out. The one word you can't use to express what you do. So I propose that instead of being called bureaucrats, we call these people decorators and it would be Department of Interior Decorators.

The point of the story is countries emerge as all countries emerge. Keep in mind the US was an emerging market a hundred years ago. In 1899, Dr. Charles Duwell, head of the U.S. patent office said everything that can be invented has been invented. Toilet paper was invented in 1910. I just wanted to put that in perspective for you. The average life expectancy in 1900 was 45 years which is also, coincidentally, how long it took the U.S. to double the standard of living. 45 years. At the end of WWII, we had blown up Japan's factories; we help them rebuild. They have new factories; they doubled their GDP, not in 45 years, but in 33 years. Today the emerging markets of China, Malaysia, Singapore, Taiwan, the Philippines are doubling their GDP every eight, nine, ten, eleven and twelve years. They are doing in a decade what took us a half century to do. You're seeing that compression in their stock exchange and you're seeing wide levels of volatility.

Here is my analogy. Imagine you see a child playing with a Yo Yo going up an escalator. Focus on the escalator, not the Yo Yo. Am I suggesting you invest in China? No. Why do stock go up? Stocks go up because earnings improve, earnings improve because you get contracts. Asia going to award 3.4 trillion dollars of contracts in the next ten to fifteen years. I'm suggesting you invest in the countries that are getting the contracts to build the infrastructure in Asia. Those are blue chip multinational European firms. Europe has some of the gloomiest markets

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in the United States and in the world, but some of the best opportunities and some of the cheapest stocks.

We have all learned from watching others. I think the most I ever learned was from my older brother who is 5 years older. I was 13 years old, he was 18 years old, He was going to a party one Friday night and Mom said, "Your curfew is midnight. Be home by midnight." Keith, being who he is, rolled in the next morning around 6:30, tried to sneak in the house, sneak in his room. Mom and Dad heard him, they caught him, grounded for life. Now

it's 5 years later. I'm going to a party one Friday night and I'm 18 years old. Mom says, "Your curfew is midnight." I said, "Yes, ma'am." and I came rolling in the next morning around 6:30 just like Keith had done 5 years previously. I thought boy I can't sneak in the house and sneak in the bedroom like Keith so what did I do? I snuck in the garage, I pulled out the lawn mower and I started mowing the grass. Mom and Dad woke up. Dad said, "Look honey, he's mowing the grass" and Mom said, "Yes, and he made his bed too."