FREE KIC NO. 37 NOVEMBER 08

THIRD ANNIVERSARY

Unbelievable as it may sound "Free KIC" is now three years old and to mark the occasion I thought that it might be interesting to look back over some of the big picture ideas I have written about during that time.

In Opinion Piece 6 of March '06, "Brilliant Buffett", I wrote the following:

The first thing that I would like to highlight is his discussion on the use of financial derivatives. I hope that what he has said will strike a warning bell in the minds of any executives that use non-exchange traded derivatives in their organisations. If I were in the shoes of any such executive I would want to make sure that I understood the assumptions that were used. I would also want an internal audit team to double and triple check. Just look at the scale of losses that Buffett talks about in what are benign markets. He raises the legitimate question of what would happen in a tougher environment.

When I wrote this paragraph I failed to see just how big an issue this would become. I did not recognise the sheer scale of this particular time bomb. There I was warning readers about the problems of derivatives while at the same time I totally under estimated the problem. As the following extract from Opinion Piece 4 of January '06 indicates:

hopefully the world economy can continue to muddle its way through without a major crisis.

I honestly thought that the world economy was unlikely to be facing a major crisis. I was excited by developments in Asia. I thought that Asia would be strong enough to drive the global economy and as an example of this I wrote about the great things I saw going on in Singapore in Opinion Piece 14 of November 06:

I genuinely believe that I can make a strong case for investing in Singapore.

In other words I have to accept that I failed to predict that the stock market was about to face such an awful time and I failed to predict that we would be talking about a depression as if it could be a serious possibility.

Having acknowledged my lack of foresight in regards to the US property and derivatives bubble I should point out that in a way I wrote about the fact that I was unlikely to recognise in advance what would create the next crisis. In fact I wrote that I knew a crisis would occur at some future date and I knew that I had to be prepared to live with it.

I believe that Opinion Piece 11 of August 06 is particularly interesting because in it I wrote about crisis situations and the implications for my investment philosophy.

I want to highlight some of the things I wrote in that August 06 piece because I said back then that I was going to invest my own money in the stock market and I was going to avoid the same mistake that I saw other people making during crisis situations.

Just ignore those blips that are caused by inflation, oil, politics, terrorism, valuation bubbles, dodgy accounting, under funded pensions, strikes, greedy executives etc, etc.

In other words I said that the stock market would fall in the future and that fall would happen for any one of a number of reasons and the fall would cause people to panic

> *the reality is that nobody and I mean nobody I know finds it easy to ignore all the blips.*

I said that I would resist this temptation to panic and I would hold my nerve.

it is my intention to invest through the blips

Here I am with my portfolio down over 38% for the year to date (as of Nov.14th). The world is in a recession and there is a genuine sense of panic. I am facing the very same feelings that caused other people I know to pile out of the stock market but it is my intention to hold my nerve.
I had hoped that I would not face such a major test of my philosophy so close to the time I started KIC but life throws these things at us and when we come out the other side of this I will at least be able to say that I did what I said I was going to do.
Only in 7 to 17 years time will I be able to answer the question I raised back then

Can I genuinely say to people that all you have to do is buy an index fund or an index ETF (Exchange traded fund) and if you hold on to it for 10 to 20 years you will definitely do better than leaving the money on deposit?

Given how fast the last three years have gone it won't be as long as you think before I will be able to answer this question.......................Opinion Piece 240 in 2025?

If I am right that now is not the time to panic well the other logical conclusion is that now must be a good time to invest in shares. The equity risk premium must have expanded from three years ago and the anticipated returns for the future must be even higher. I should be buying but in the current climate I might have the opportunity to buy even cheaper so as always timing is really difficult.