



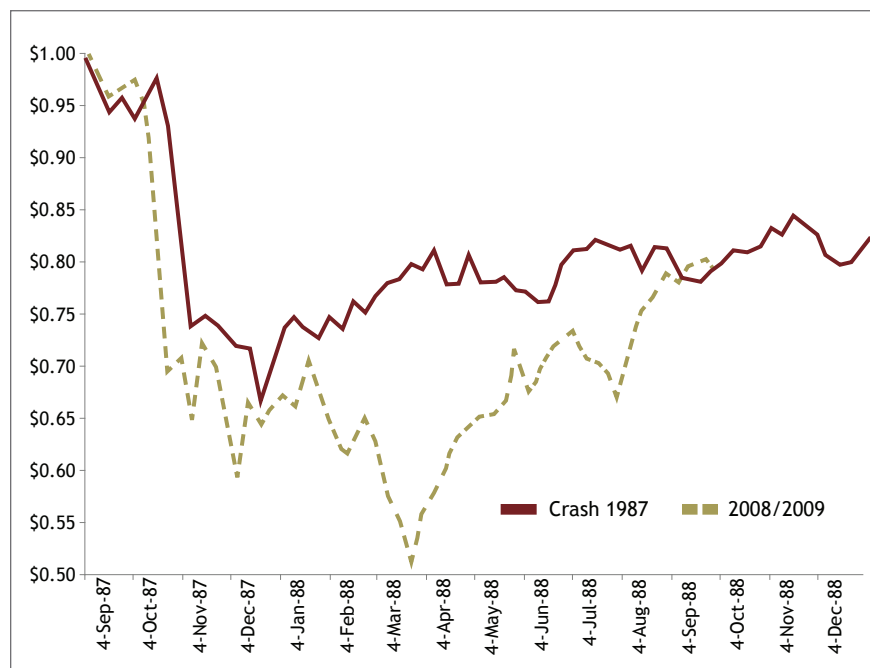
# ICON

## WAS THAT A CRASH?

By Craig T. Callahan, DBA, Founder and President | Sept. 18, 2009

On Oct. 19, 1987, the stock market dropped between 20% and 25% (in one day) depending upon which index is used as a measure of the broad market. The unusually rapid and severe decline was labeled a “crash.” In early October 2008, the market dropped a similar amount (20-25%) in five trading days. Although the 2008 drop was not labeled a “crash,” we ask what is the difference between a day and a week? In fact, if the market over those two periods is graphed using weekly data (Friday closing prices), the two severe declines look identical. The graph below shows the NYSE Composite Index set equal to \$1.00 on Sept. 2, 1987 and Sept. 4, 2008.

NYSE Composite Index Weekly Friday Closing Prices (August 1987 - December 1988)



*The figures shown are past results. Past performance does not guarantee future results.*

The NYSE Composite Index is designed to measure the performance of all common stocks listed on the NYSE, including ADRs, REITs and tracking stocks. The index is weighted using free-float market capitalization and calculated on a price return basis. Total returns for the unmanaged index include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. Individuals cannot invest directly in an index.

Source: Bloomberg

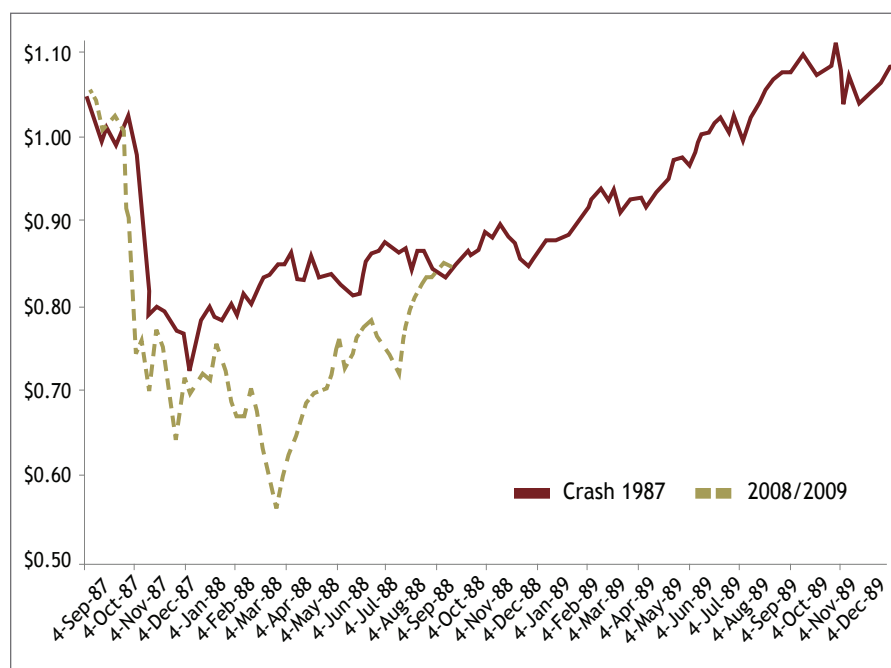
Of course, some variables and events are different this time. For example, there was not a recession in 1987 or 1988, although there were legitimate concerns in that regard. The purpose of looking back to 1987 and 1988 is to see how investors and the market behaved post-crash. Back then, the market drifted lower for six weeks. Some investors just sold out of fear and disgust while other selling was forced by margin calls. In the fall of 2008, the market drifted lower for the same period – six weeks – driven by the same selling factors plus hedge fund redemptions.

In 1988, the market rebounded and advanced in segments of two steps forward, one step back. Looking in their rearview mirrors, some investors were eager to sell into the advances just to get out at prices more favorable than at the market low. To advance, the market had to eat through or absorb the jittery money. This time, the market hit another low on March 9, 2009, before beginning its recovery. As of Aug. 28, 2009, it is interesting (if not eerie) to note that the market is in the same exact place at the same post-crash time period.



The next graph extends the time period through 1989. Back then, it took about a year of occasional setbacks before the market could advance on a straighter path. Finally, on July 21, 1989 (one quarter less than two years after the crash) the index reached its pre-crash \$1.00. Then the upward sailing was much easier.

NYSE Composite Index Weekly Friday Closing Prices (August 1987 - December 1989)



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As of Sept. 4, 2009, the ICON valuation readings suggest the market, in general, is priced about 13% below our estimate of intrinsic value. We believe such a reading makes an upward recovery path similar to 1988 and 1989 possible and reasonable. Naturally, unpredictable news events could influence the path of stock prices in the coming year. If the path to recovery is similar to the pattern in post-crash 1988 and 1989, investors should be prepared for a “two step forward, one step back” recovery with the potential for a smoother ascent as time passes.

**Past performance does not guarantee future results.**

*Opinions and forecasts regarding sectors, industries, companies, countries and/or themes, and portfolio composition and holdings, are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security, industry, or sector.*

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*Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will consistently lead to successful results.*

*ICON’s value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates and bond yields, in an effort to determine whether securities are over- or underpriced relative to ICON’s estimates of their intrinsic value. ICON’s value approach involves forward-looking statements and assumptions based on judgments and projections that are neither predictive nor guarantees of future results. Value readings are contingent on several variables including, without limitation, earnings, growth estimates, interest rates and overall market conditions. Although valuation readings serve as guidelines for our investment decisions, we retain the discretion to buy and sell securities that fall beyond these guidelines as needed.*

*Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.*

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ICON Advisers<sup>SM</sup>  
 5299 DTC Boulevard, 12<sup>th</sup> Floor  
 Greenwood Village, CO 80111  
 1-800-828-4881  
[www.iconadvisers.com](http://www.iconadvisers.com)  
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CRASH (9/18/09)

