Bob's Quarterly Update

BOB DREIZLER, CLU, ChFC, *CHARTERED FINANCIAL CONSULTANT*

Specializing in socially conscious investors
SPRING, 2003 • ISSUE TWENTY-EIGHT

Is War Really Good for the Economy?

I don't know where this *hypothesis* comes from; I suspect it was not coined by a pacifist. I'm writing these words in early March as I appreciate a peaceful, glorious day sitting next to Monterey Bay. The Iraq War has not yet started, thankfully. Maybe it won't start, but our President seems determined to start a war, despite his proclamations to the contrary.

Do wars generally make stocks and the stock market increase in value? Are wars good for the economy? Since the economy and the stock market are related, but not necessarily well correlated, I'll only deal with the more easily quantifiable performance of the stock market to address these questions. I'll use the Standard and Poor's Average as the proxy for stock market performance.

The non-financial cost of war and its inevitable byproducts, as measured by human suffering, are too painful to consider. Further, this topic is too complex to examine in 800 words, so I'll merely share some thoughts and statistics about the monetary cost.

The logic behind the "good for the economy" argument is that large quantities of lethal goods need to be rapidly produced. This, it is assumed, will have a trickle-down affect. Bomb and bullet makers will need to employ more workers who will then buy more productive items such as expensive tennis shoes, cheap hamburgers and violent video games.

World War II (1939-1945)—The massive industrial mobilization during WWII brought the US out of the Great Depression. After three negative years* from 1939 thru 1941, the stock market posted gains each subsequent war year, then declined in 1946.

Korean War (1950-1953)—The stock market gained ground in each of these years, dropped in 1953, then had the two best years in a decade. As with other wars, it's hard to isolate the impact of the war from non-war factors.

Vietnam War (?—1975)—When did American involvement become a major economic factor? The mid and late Sixties were good years for the stock market, but from 1969 to 1974 the market declined a net 18%. 1975 and 1976 were the two best years of the decade.

Iraq War I (1991) — Daily market swings correlated with battlefield success or setbacks, much as it did recently in Afghanistan. Because most of the cost of this war was paid for by allies, the domestic cost was not significant. After an initial decline, the market gained 20% in the six months after fighting stopped.

Pre Iraq War II—The process of preparing for war has not made the stock market flourish. On the contrary, the uncertainty caused by a potential war is paralyzing investors and delaying major purchasing programs by major corporations.

So what are the reasons that this particular war at this time in history may NOT be good for the economy?

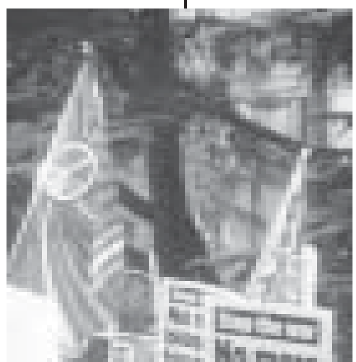
continued on the next page

*1939-1941 was the last period since 2000 thru 2002 that the market was down three consecutive years. Unless something turns market momentum, the market will be down for four consecutive years for the first time since 1929-1932.

OIL. The cynics among us believe that this war is more about controlling Iraqi oilfields than our president's concern for Iraqi human rights. If things don't work out well, oil prices could skyrocket. Escalating energy prices will ricochet though the economy, likely causing the demon of inflation to further shrink the buying power of consumers.

MASSIVE BUDGET DEFICITS. I'm such a fiscal conservative that I could never be a Republican. When the federal government spends huge amounts on non-budgeted expenditures such as wars, it can only be financed two ways: 1) tax increases and 2) using the government's credit card.

Increasing taxes seems like the responsible way to pay for a large expense that is supposed to benefit today's taxpayers, the majority of whom seem to support going to war. But this administration wants to CUT taxes!



This policy will obligate future generations (i.e. our children and grandchildren) to pay for this war, and could have a catastrophic impact on the economy. Ten percent of all federal spending now goes to pay INTEREST on our current debt. What percentage of federal spending will this become when the debt increases and interest rates possibly double or triple? This doesn't leave much money for future wars, let alone education and Social Security.

> Foreign policy decisions are much like investment decisions. You need to weigh the risks versus the potential rewards.

RELATED ECONOMIC FACTORS. Diversion of resources to military spending and away from domestic spending may harm economic recovery. Bribes to UN Security Council members to vote our way and diplomatic blunders alienate our allies and trading partners. This could lead to future boycotts of American products, triggering a genuine recession.

Foreign policy decisions are much like investment decisions. You need to weigh the risks versus the potential rewards. Despite what Bush, Rush and Fox News say, our national debate is not about whether Saddam Hussein is a dangerous leader. It's not about whether he is hiding some weapons of mass destruction. Few Americans disagree on these points. It's about whether the risks and consequences of invading and occupying Iraq are greater than the risks of using alternative strategies.

The evidence is inconclusive. The last half of the 1990s was the best five year period for the stock market in history and one of relative tranquility in the world. Though war may sometimes be good for the economy, peace may be better.

HOW MUCH IS A TRILLION DOLLARS?

How much will Iraq War II cost? A study by the Committee on International Securities Studies of the American Academy of Arts and Sciences said it would cost between $50 and $140 billion if the war were short. When the cost of up to ten years of occupation, peace-keeping, nation-building and humanitarian aid to victims is included, the cost could reach one to two trillion dollars. That's a lot of money.

Picture an inch-thick stack of crisp new $100 bills - a pile worth $21,000. If you continue building the pile until it reaches four feet, you'll have a million dollars. Once the C-notes are stacked three quarters of a mile high, their value is one billion dollars.

A pile extending 75 miles into the sky is worth one hundred billion dollars, give or take a few billion. Placed gently on its side, the bills would extend from Sacramento to San Francisco. A two trillion dollar stack of one hundred dollar bills would extend half way across the country.

Each American's share of ONE TRILLION DOLLARS would be $3,500. Imagine what could be done with that much money were it used differently.

PEACE RESOURCES

Most large communities have an organization devoted to the hope for peace and justice in the world. Here are two local organizations.

Sacramento-Yolo Peace Action is an all-volunteer grass roots organization that works to educate and mobilize the public to change U.S. foreign, military, and domestic policy to:

- end the development, use, production, and sale of weapons of mass destruction
- stop U.S. military intervention against other nations and peoples
- respect the entitlement of all people to decent livelihood, self-determination & human rights.
- promote peace through international and domestic economic, social, and political justice.

Among other activities, they stage the peace vigils at the corner of 16th and J Street every Tuesday from 4-6 PM and around Sacramento. Phone number :(916) 448-7157. Website: www.sacpeace.com.

The Chico Peace and Justice Center is a community-based non-profit organization committed to working for peace and social and economic justice through the power of non-violence. The Center is dedicated to combating poverty, racism, sexism, economic exploitation, militarism, and environmental destruction. The center works for social change through education, community building, and direct action. CPJC is an offshoot of the Chico Peace Endeavor, which has been working for nonviolent change since 1960.

Phone number :(530) 893-9078. Website: *www.chico-peace.org*.

SRI NEWS

SRI in the Rockies (in the Sierras)

For the first time, SRI in the Rockies, one of the major annual gatherings of the socially responsible investment industry in the U.S., will be held in California. The 14th annual event will be held at The Resort at Squaw Creek October 19th through the 22nd. Squaw Valley is less than two hours from Sacramento.

SRI in the Rockies is a professional conference that offers many opportunities to meet industry leaders and learn from and network with fascinating, passionate people from all corners of the social investment community.

I haven't missed this event in nine years, wherever it was. If you really want to get absorbed in this topic and have fun, find out more at *www.sriintherockies. com*.

Disclosure about Bob's Thirdly Update

In the interest of transparency and forthrightness, I hereby admit that *Bob's Quarterly Update* rarely comes out four times a year, despite my best intentions. This is the twenty eighth issue in nine years. However, since I like the front page masthead, the current name will remain.

Also, some of you may have noticed that I'm ranting and raving more than usual. It's a sign of the times, I guess. I'll return to more money-management issues when the world quiets and people decide to start investing again. If you don't like my tone lately, I will graciously remove your name from my list. However, if you like my diatribes or know of others who would like to receive this free newsletter three or possibly four times a year, just call (916) 444-2233.

Bob's Quarterly Update is published
by Bob Dreizler,
General Securities Principal,
Protected Investors of America

2012 H Street—Suite 200
Sacramento, CA 94814
(916) 444-2233
FAX: (916) 444-3540
bdreizler@protectedinvestors.com

YEAR-TO-DATE INDEX/AVERAGE SCOREBOARD THROUGH MARCH 14, 2003*

	% Change
Standard and Poor's 500 Index	(5%)
Domini Social Index 400	(5%)
Dow Jones Industrial Index	(9%)
NASDAQ Index	(0%)
Lipper* Balanced Average	(3%)
Lipper* Small Company Core	(9%)
Lipper* International Av. (non-U.S.)	(6%)

*Lipper Services, Inc., 2003
** You cannot invest in the above indices and averages. Past performance is no guarantee of future return

There is a Native American story about a grandfather, talking to his young grandson. He tells the boy that he has two wolves inside him that are struggling with each other. The one is the wolf of peace, love and kindness. The other is the wolf of fear, greed and hatred.

"Which wolf will win, grandfather?" asks the young boy.

"Whichever one I feed," is the reply.

From *earthfutures.com* (101 Ways to Stop the War on Iraq)

Bob Dreizler, Chartered Financial Consultant
2012 H Street, Suite 200
Sacramento, California 95814-3110
916.444.2233

Printed on recycled paper

Return service requested

Gimme Shelter

Is there a safe place to put money in these troubled times? Not really. Nearly every “safe” alternative seems to have a down side. CDs and money market funds are paying record low rates. At 1% to 2%, your after-tax and after-inflation rate is negative. Bonds have performed well in recent years, but their values usually decline when interest rates start to climb. With low interest rates, up-side potential is limited, making bonds riskier than they seem. Annuities still offer apparently high rates of return, but you need to carefully examine expense factors and company stability.

As I’ve said so frequently in this newsletter and face-to-face with clients, I truly believe that the best way to meet your long-term financial goals is to prudently diversify based on your risk-comfort level.

This means not putting all your money into high-tech stocks when that seems like the obvious thing to do. It also means not stashing all your funds in bonds or CDs when fear and safety dominate our thoughts.

Our tolerance for risk naturally changes as we grow older and when our personal situation changes. The best response is to reduce your overall portfolio risk level by changing the diversification mix.

Risk tolerance is also influenced by current public sentiment or economic/geopolitical crises. During challenging times, the greatest temptation is to avoid the stock market entirely until things get “better.” There obviously is risk when you are IN the stock market, but there is also a risk being OUT of the market. At some point the market will climb and will probably do so rapidly. Whether it is years from now or next week, the initial surge will come as a surprise. If history repeats itself, those totally out of the market will likely wait too long to return and won’t start investing again until prices are high.

If you’ve read the cover page already, you know that I’m not optimistic now. However, the many dark episodes in recent history have ultimately been followed by eras of hopefulness. If the world situation totally deteriorates, it won’t matter how your 401(k) is allocated. For our own sanity, we need to assume that things will improve. We still need to think of our long-term goals and imagine a future where the world is a friendly and peaceful place.