



Investment Insights

Kevin Kennedy

The 2003 Year In Review

As we draw to a close on the year 2003, let's take a look back at some of the events that garnered headlines and had significant impact on the financial world.

A Year of Recovery

Despite the doomsday forecasts for a continued slow economy, and a lackluster stock market, 2003 defied the pundits and ended up being a record year in many aspects. The economy grew at a pace not seen in over a decade, with a dramatic 8.2% increase in Gross Domestic Product in the Third Quarter of 2003 exceeding even the most optimistic forecasts. Even employment is showing signs of recovering, as jobs have been created throughout the second half of 2003. Although the economy in many areas, notably the Bay Area, remains somewhat lackluster, things are clearly moving in the right direction.

A Year of Scandal

Despite the strong performance of the stock market, a variety of business scandals dominated the headlines on a seemingly daily basis. Whether it was corporate accounting issues, executive compensation outrage, or the growing mutual fund scandal, discouraging news was everywhere. Given what the economy, the stock market, and most all investors have been through the past couple of years, it shouldn't be surprising that the level of anger has risen to a point where we've stopped "turning the other cheek" on some of these long-term problems. Although in the short-run, these issues and the solutions we'll need to adapt can be very disruptive and distracting, the future will be better for all investors as a result of what we're tackling today. Kudos to the power of the individual investor and aggressive regulators like Elliot Spitzer to demand changes to "level the playing field" for all investors.

A Fantastic Year for Stocks

Contrary to what many pundits forecast, the stock markets had a very strong year, as signs of the economy shaking its two-year slump caused a sharp rise in stock prices. The stock market has responded to the positive signals in the economy, with the S&P500 up over 24% and the NASDAQ up a whopping 46% through 12/19/03. Although the markets are still below the highs reached in early 2000, patient investors, and those who had the strong will to continue to add to their investments through the downturn, are reaping the benefits. Once again, the market has shown its tendency to go against the "prevailing wisdom".

The Future

Looking forward, there is good reason to believe that 2004 will continue the recent trends shown in both the economy and the stock markets. Interest rates remain low, which should help fuel future growth. Finally, we have history on our side, as the numbers show election years are generally good years for stocks and the economy. When we look back on the year 2003, it will likely be viewed as the turning point for the financial and investment world.

Kevin Kennedy is president of Kevin Kennedy, LLC, a registered investment advisor firm in Alameda. Reach him at 510-748-1898 or Kevin@KevinKennedyLLC.com. Stocks, bonds, and mutual funds involve risk, including loss of principal. Past performance is no guarantee of future results.