



# Sigma Summaries

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*Dr. Elliot Luby has been a friend and client of mine for nearly 20 years. As a respected practicing psychiatrist, former clinical professor of psychiatry, and an adjunct professor of law, at Wayne State University, he has engaged me in many interesting and cogent discussions over the years, discussions that have spanned the spectrum to include such topics as human behavior, finance and socio-economics. I recently received a note from Dr. Luby that struck me as being particularly timely and poignant as it pertains to the state of corporate governance following the Enron and related debacles. With his permission, I am reproducing his note in its entirety.*

*Robert M. Bilkie Jr., CFA*

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July 2, 2002

Mr. Robert Bilkie  
Sigma Investment Counselors  
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Dear Bob:

You may recall Ernest Hemingway's classic novel, *The Old Man and the Sea*. In that story, an old Cuban fisherman ventures too far out to sea in his quest to catch a large fish. Over the preceding 80 days, he had failed to land anything, and he was determined to assume the risk of sailing out of sight of land into the Gulf Stream, where he thought he might catch a large marlin. He might then sell the marlin in the market at a price that would provide for his own sustenance over time. He was a wise old man who knew the sea and the way in which marlin behave after they were hooked. Indeed, he did snare a fish of such size and strength that it towed him farther out into the ocean. Despite the dangers, the oppressive heat of the sun and the cold of the night, he persisted. He would not release the line. Finally, after an exhausting struggle, he was able to harpoon a marlin larger than his skiff and to lash it to the side of his boat. He then set sail for the long return to shore, when the first shark, smelling blood, attacked his catch and tore away a huge piece of its side. Other sharks of all shapes and sizes reduced the marlin to a head, skeleton and tail by the time he reached the Cuban port.

Although this novella has never been analogized to the stock market, I am struck by the parallel. The retirement plans of many Americans have been shredded like that marlin. The sharks at Tyco, Enron and WorldCom have torn away the future of their employees while assuring their own. The disparity between the incomes between CEOs and executives, in contrast to their

employees', has become a national disgrace. The unconscionable greed of these corporate leaders, their investment bankers, and their auditors has caused an enormous loss of confidence in the American market and a diminution of our moral influence worldwide.

The Congress, whose members have benefited from the campaign contributions of these corporations, did not pass regulations which might have controlled their outrageous cupidity. Both Democrats and Republicans voted against forcing corporations to list stock options as expenses, which might have prevented the fraudulent inflation of earnings to increase stock prices and float the options. The Congress appears to be timidly approaching any regulation of accountants and auditors. The system cries for cleansing, but the people who profit from it the most are going to be most reluctant to swing the brooms.

I am staying in the market, recognizing that the odds do not favor me as an individual investor. With my conservative portfolio, I hope that you will fish much closer to shore.

Every generation seems to have its robber barons, perhaps because these are the character traits of the men who rise to the top. I can only hope that the large pension and mutual funds begin to exert some influence on legislators who seem not to vote their conscience but rather favor of the source of their campaign capital.

Sincerely,

Elliot

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