SIGMA INVESTMENT COUNSELORS

Sigma Summaries

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Good News.... If You're Honest

When you stop and think about it, a lot of heavy stuff was thrown in the path of stock and bond markets in 2005. The stock market dealt with $70 crude oil, two category 5 hurricanes, rising interest rates, an uncertain geopolitical environment, General Motors in financial turmoil and two back-to-back years of positive, above trend equity market performance (stringing together years of positive performance is typically rare). Commentators and analysts were quick to point out all the negative headlines that trumpeted everything from death of the consumer to death of all consumers (bird flu pandemic).

Do you remember reading the newspaper in late September and October with all these negative headlines pounding our heads all at the same time? I do. And, if I'm honest, there were many mornings I was afraid to open *The Wall Street Journal* and *The New York Times* to read what new headline awaited us. Nevertheless, you plow ahead and deal with whatever comes knowing that many things are out of your control and that this too shall pass.

Amazingly, the stock market bounced back strongly in November with the best monthly performance of the year and is heading toward another positive year. It seemed as though a light switched on and all of a sudden investors realized it was OK to focus again on strong corporate profitability and other positive developments. This is the main reason we tell clients not to make major investment and asset allocation decisions during these emotional times. Successful investing takes a little fortitude and a lot of perseverance. Time is the friend of the long-term investor.

These emotional times also create great buying opportunities. Therefore, it is very important for us to remain focused on company fundamentals and look for overreactions in the market. Many of our best investments over the last three years have come from these market-related overreactions.

Energy prices provided the biggest emotional roller coaster ride in 2005. As we commented last month in the November Sigma Summary, crude oil and natural gas moved up rapidly during the year caused partly by a lack of spare capacity that resulted from the recent acceleration in global demand and partly from the damage caused by hurricanes Katrina and Rita. The price increases provided a lot of short-term dislocations in the U.S. and around the globe but have not derailed the global economic demand for goods and services.

The daily commentary and prognostication of oil and gas prices appears to be extreme at the current time. There is no doubt that we will need to monitor and seek more technology related investments in the broad energy complex. But as ExxonMobil, Chairman and CEO, Lee Raymond, commented, tongue-in-cheek, prior to the recent Congressional Energy Hearing, "I didn't realize there were so many refinery and energy experts in the world" indicating a similar expression of over zealousness.

Interestingly, ExxonMobil released this month its annual long-term outlook for energy. This is truly a long-term outlook analyzing country-by-country energy demand, supply and production for the period 2000 to 2030. Exxon believes that energy demand will increase 50% by 2030, driven by economic progress and population growth. However, it also believes current known oil resources are adequate to sustain this level of growth assuming ongoing improvements in energy efficiency and increasing technological advances. The outlook also estimates that 80% of energy demand will come from the emerging economies of China, India, Africa and Latin America.

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This long-term view of energy segues nicely with our view that we must continue to "Think Globally" in search of the best investment opportunities. Along with energy demand, increasing globalization requires us to be diligent and mindful of changes in the global landscape effecting companies, consumers and governments. The emerging flat world of borderless communication and collaboration will produce tremendous innovation and investment opportunities. It will also create stiff competition for even the best of our companies.

The new competitive world requires companies to possess the combined abilities of a long distance runner and 100-yard sprinter. Companies must plan and invest for the long-term global marketplace race with increasing research and development dollars while at the same time making sure they are at least one-step ahead of the competition with the newest technology or medical discovery.

The new competitive marketplace has certainly affected the U.S. automotive industry. Not only does the industry face tough global competitors, it also must deal with tough issues regarding labor, pensions and healthcare. It would be convenient to ignore the current problems. But ignoring the issues is not possible – especially for anyone living in Michigan.

Dealing with the economic implications is necessary and doesn't need to lead to an unpleasant ending. I remember, like it was yesterday, comments made by legendary Salomon Brothers, Director of global research, Martin (Marty) L. Leibowitz, Co-author of *Inside the Yield Book* and formerly Vice Chairman and Chief Investment Officer of TIAA-CREF, in a presentation he gave to the State of Michigan Retirement System Investment Bureau in 1989. He recommended that the investment professionals sell all auto-related bond and equity investments because so much of Michigan's economic base was tied to the financial health of the automotive industry. What a great recommendation. Think about it. Here was a security analyst, albeit a brilliant one, thinking only in terms of risk aversion in 1989, not about trying to predict the future.

The message in this little story is that diversification of financial assets is extremely important for most investors in today's world. You never know when today's corporate heroes become tomorrow's fallen heroes.

To repeat a constant theme at Sigma, we strive everyday to seek investments with good risk/reward characteristics, strong corporate governance, experienced leadership and healthy cash flows. This approach allows us to cope with and manage through higher than expected oil and gas prices, hurricanes, wars and even possible recessions. It also allows us to stay in the game and to be there for the eventual recovery.

As we come to the close of this crazy year and reflect on everything that has taken place, I believe we can say with honesty that it was in fact a good year.

All the employees of Sigma Investment Counselors would like to express our best wishes for you and your family during this holiday season. Let the good things in your life be foremost in your thoughts and let's work together to have a prosperous 2006.

Written by:
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Chief Investment Officer

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The Securities and Exchange Commission requires, under Rule 204-3 of the Investment Advisers Act of 1940, that investment advisers offer, annually, a copy of Form ADV, Part II, which is a written disclosure document containing information concerning the background and business practices of the advisor.

Sigma Investment Counselors is pleased to provide a copy, and hereby offers to deliver the brochure to any client upon receipt of your written request.

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives.

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