

What a Long Strange Trip It's Been.

It's October. The weather is turning cooler. The Royals and Cardinals are in the playoffs. Microsoft is about to roll out a new product (without much excitement from the public). Airlines have been targeted by terrorists this summer. Coke is trying to quell questions about its marketing savvy. There are investigations underway in Washington about wrong-doing and cover-ups by the Administration. There are rumors of consolidation in the telecommunication industry. And, there is world-wide fear of an illness from Africa spreading across the globe.

Yes, it's October . . . 1985.

Many of us are old enough to remember the Royals winning the World Series, the first version of Windows for PCs, TWA flight 847, "New" Coke, Iran-Contra, the scramble among regional phone companies from the recently "broken up" AT&T, and the nascent years of the AIDS crisis.

Let us look forward, from 1985, and see what we can learn.

In 1985, Microsoft celebrated its 10th anniversary. Although, roundly criticized for not having original products, and for needing to partner with other companies (notably IBM and Apple), to even have enough products to sell, the company did generate \$140 million in sales for the fiscal year. Twenty-nine years later, Microsoft's reputation as a second-tier innovator still hangs around, even as it generates \$87 billion in annual revenue, \$22 billion in net earnings, and pays out \$8.8 billion in dividends; a far cry from their \$140 million in sales back in 1985!

So, we learned that "common knowledge" is often just a misconception, without a basis in the reality of a company's potential.

Just two years after 1985, the stock market experienced its largest one-day drop in history. On Monday, October 19, 1987 the Dow Jones Industrials dropped 508 points (22.6%), to end at 1,738.84. The headline in the NY Times the next morning was "Does 1987 Equal 1929?" Since then, it has suffered only two major bear markets.

After peaking at 11,723 on January 14, 2000 (note the 600+% gain from 1987), the "Internet Bubble" burst, and the Dow Jones fell to 7,286 in October of 2002. Of course, the S&P 500 and the NASDAQ, the two more "tech-centric" indices fell even further.

The Credit Crisis bear market of 2007-2009 was another bump in the road. From a new high of 14,164 in October, 2007, the Dow Jones fell almost 54%, to 6,507 in March, 2009. As of the end of the third quarter of this year, the Dow Jones Industrial Average was 17,043, a gain of almost 300% in just over five years.

That's a lot of numbers and dates to point out that the market (and the U.S. economy, and global economy), is incredibly resilient, and that bad news provides wonderful buying opportunities for the long-term.

So, we will continue to look for down times in the market to find un-loved or misconceived companies that can provide your account better than average results for the future. And, we hope it doesn't take another 29 years for the Royals to win another World Series.

Craig, Howard, Elizabeth, & Ward

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Paragon Capital Management, LLC, 9200 Indian Creek Parkway, Ste. 230, Overland Park, Kansas 66210

www.paragoncap.com

Craig Novorr	913-451-6330	cnovorr@paragoncap.com
Howard Jacobson	913-451-2290	hjacobson@paragoncap.com
Elizabeth McLeod	913-451-0130	emcleod@paragoncap.com
Ward Williams	913-451-2291	wwilliams@paragoncap.com
Dorothy Boehr, CCO	913-451-2254	dboehr@paragoncap.com
Maryse Schlenk	913-451-2217	mschlenk@paragoncap.com
Dana Berry	913-451-2254	dberry@paragoncap.com