

# MARATHON

## QUARTERLY REVIEW

JULY, 1994

Dear Plan Sponsors, Consultants & Friends,

Since the end of September, 1993, the holder of the average investment grade bond has lost 4.6%. The owner of a long U.S. Treasury bond is down a remarkable 10.2%. So far this year common stocks have declined by 3.4%. It has been more than a dozen years since bonds last declined for three consecutive quarters. In that same period of time, only once, in the first half of 1984, have equities declined significantly in one quarter and not rallied in the subsequent quarter.

For many administrators of balanced portfolios, this has been the worst six months in their investment lifetimes. Both stocks and bonds have been down, and meager cash returns have provided little help. As horrible as the fourth quarter of 1987 was for equities, soaring bonds provided considerable relief when the Fed made money readily available to bail out those suffering from the stock market crash. In the current instance, the Fed is leaning in the opposite direction, raising rates in an attempt to counter inflation and, so far unsuccessfully, prop up the dollar.

The reaction from many investors has been a sense of dismay, almost disbelief, that a few months of patience hasn't already been rewarded by higher prices. Many don't realize how anomalous the past ten to twelve years have been. Prior to these past few quarters, we lived through the greatest combined bull market in stocks and bonds ever experienced in the United States. Everybody made money. People whose investment careers don't go back more than twenty years tend to believe that consistent profits are a form of birthright. They have not personally experienced the more normal markets that have prevailed throughout our country's history. There has never been a period even close in profitability to the past dozen years in the bond markets. Even including the recent decade plus of stock market success, investors in this century have seen negative equity returns in three years out of every eight on average.

In decades past, investors regularly expected that speculative excesses would be wrung out of the markets every few years. Whenever that process was deferred longer than normal, the eventual correction would typically be more severe, ultimately bringing market valuation levels back toward their historical means. In the great stock market surge of the past decade, valuation levels went to all-time highs, higher even than levels that preceded the stock market crash in 1929. The growth of corporate profits and the 10% correction from peak to trough so far this year have only brought these overextended value levels down to slightly less precarious heights. Unless this instance is fated to be unique in all of U.S. market history, stock prices need to decline considerably more to reach normal levels of value. We at Marathon have patience and will be waiting to buy a larger volume of quality stocks when more companies reach historically attractive buying levels.

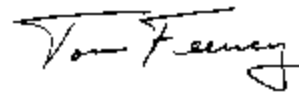
Even though the overall market correction so far has been relatively mild, fully one-third of all stocks are now down 30% from their 52 week highs with one-quarter down 40% or more. Some of the most aggressive managers who have been big winners over the past several years have been beaten up fairly severely so far in 1994. Those who doubt that virtually all the profits of the recent great up years can't be taken away forget the history of 1969-70 and 1973-74. Some of the high flying managers of the late 60's and early 70's couldn't survive the bear markets that followed their great success. There may be something worth considering in the rhetorical question posed to me at

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a recent private dinner by a former principal of one of the highest of the market's high flyers. Referring to his former firm he asked: "To whom can they possibly sell all those stocks whose prices they have pushed so high?" That was the problem in the late 60's and early 70's also, but today's practitioners weren't there then, and they'll have to learn for themselves.

Patience has been helpful so far in 1994, and it's likely to be far more important over the next year or two. So far this year, all of Marathon's portfolios have beaten appropriate market benchmarks. Equity and fixed income portfolios declined less than the market averages. Balanced and risk-averse portfolios were barely negative and significantly better than industry averages. Marathon's cash management process continued to shine, maintaining its unbroken string of exceeding comparable market indexes by a wide margin in every quarter since we inaugurated that service in 1989.

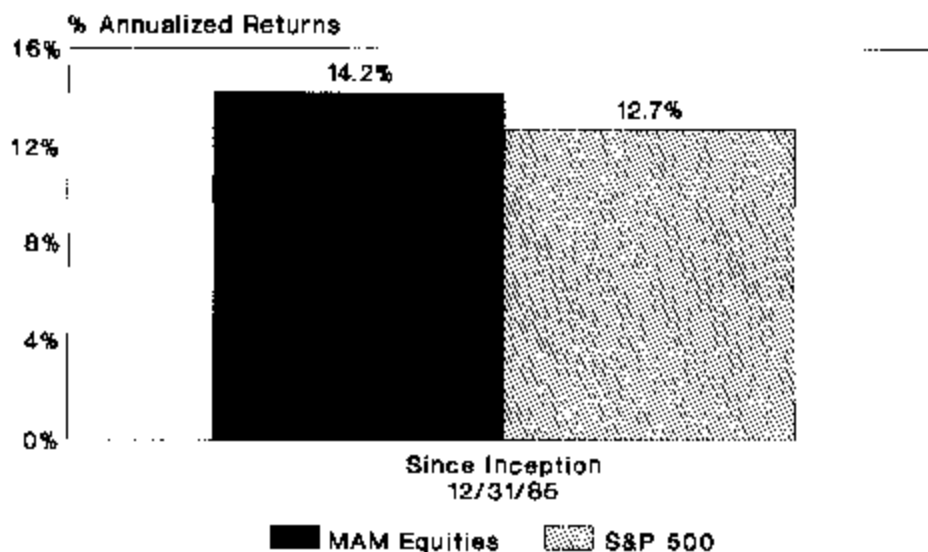
We would appreciate the opportunity to describe to you in greater detail Marathon's philosophy, people and investment processes. Please call if we can provide additional information.

Sincerely,



Thomas J. Feeney

### Marathon Equities vs S&P 500 as of 6/30/94



Past Performance May Not Be  
Predictive of Future Results