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Dear Clients:

Today's terrorist attack on the World Trade Centers and US Government sites will reverberate in the hearts and minds of all of us for many years to come. We add our prayers to the millions from around the world for the healing of the injured and for the families and loved ones of the slain.

This heinous crime results in a declaration of war, not so much by the terrorists, as is being so widely reported in the media, but by all free societies against the terrorists. The terrorists declared war against us long ago. The free world, in the interest of honoring the sovereignty of nations, has been forced to fight this war from the shadows. Today, that has changed. The United States of America will now pursue the terrorists and their allies to the ends of the earth. We will not be alone. An attack against the United States will be seen in every free nation on earth for what it is: an attack against freedom. If we are not safe, no country is safe. Notably, a French diplomat said, "If they are attacking the United States today, they could be attacking us tomorrow."

There is no silver lining in the evil that has been visited upon us. The only good that can come of it is the shattering of our illusions that a world free of armed military conflict is a world that is free of war. From the standpoint of the terrorists, the only difference between yesterday and today is that today the United States is counting its casualties from the war that they declared upon us long ago. But for the United States, today things have changed. Coincident with counting and mourning our dead and injured, we are also stepping out from the "shadow war" we have been waging with the terrorists. President Bush said today, "Freedom itself was attacked this morning and I assure you freedom will be defended. Make no mistake. The United States will hunt down and pursue those responsible for these cowardly actions."

How these events will ultimately play out in the financial markets is not clear. Most markets around the world, like those in the United States, have been sagging for the last year as a result of uncertainties surrounding economic growth and corporate profits. Today's events, in the short run, will add to these uncertainties, but as we stated in our recent special report, we believe there are gathering forces that will spur economic growth. If an attacking nation were to follow up the World Trade Center bombings with an attack upon our shores, or another country, and unleash a full scale invasion, we would be much more negative about prospects for the US and worldwide economies. However, if the attack, as is now believed, was the work of Islamic terrorists, we see relatively little long-

term damage to the economy. Americans are an amazingly resilient people. They have proved that time and again. As long as the perpetrators of this attack are identified, pursued, and brought to justice, the American people will not withdraw into a siege mentality, which would be very damaging to the economy and the markets.

While the world will grieve this day forever, our best guess is that, after a few days of high volatility, the stock and bond markets will begin to settle down and focus on the economy. Ironically, the length and magnitude of the recent fall in stock prices will likely offer resistance to a debacle in the markets. In one form or another, the world will go on, and history shows that consumption patterns are deeply ingrained and are not easily changed.

A closing thought. Even before this recent shock to our individual and collective psyches, we have had many conversations with clients about the state of affairs in the stock market. In short, falling stock prices are rough on our peace of mind, as well as our wallets. We have been through bad markets many times over the past twenty-five years, especially the crash of 1987. October of 1987 was a monstrous event, with stocks falling 23% in one day and 33% in two weeks. Frankly, much of today's Donaldson Capital Management investment strategy was developed during those days. The first thing we learned was bad markets hurt almost all stocks. There is no place to hide. Second is that panic selling is almost a sure sign that the bottom is near and not the time to get out of the market. Indeed, it is the time to begin selectively buying. But perhaps the biggest lesson we have learned over the years is not what we do in bad times or good times, but what we do everyday. That everyday thing we do is to own the best and most dominant companies in growing industries. We want to own companies that have withstood the test of time. We want seasoned management that has a proven record of success. We want to invest in industries that are growing faster than the overall economy.

We have not written this to offer false hope. We certainly do not know what may happen next in the unfolding events of this tragedy. We can only offer our experience and understanding of how the US stock and bond markets have behaved during other catastrophic times in the world's history. They tend to handle to these events better than most people expect because the markets know that Americans are survivors. In the words of Colin Powell, Secretary of State, "You can be sure that as terrible a day as this is for us, we will get through it because we are a strong nation, a nation that believes in itself."

Blessings from all of us at Donaldson Capital Management.