

The Tonge Telegraph *January 2005*

Looking Backward & Forward

Welcome to 2005! I hope your holiday season was full of good times with family and friends. I also hope you're finding your New Year's resolutions reasonable, attainable . . . and still intact!

Like the two-faced Greek god Janus, let's review some of the major economic events of 2004 and get ourselves some perspective to prepare for the year ahead. We had another positive year for stock indexes, the second in a row. The Federal Reserve increased interest rates five times, by very small increments. Oil prices spurted to \$56 per barrel and ended the year around \$44. The dollar fell against major currencies as the trade and budget deficits increased. The economy clawed its way forward. The presence of China as a world economic player loomed larger. President Bush was re-elected. The war in Iraq and the war on terrorism continued without apparent progress.

All in all, it was a pretty good year for the economy. Alan Greenspan continued to manage effectively. The markets responded appropriately, not excessively. At current levels, the S&P 500 has taken 2.2 years to move from a bottom to a peak at the end of 2004. This is just about the average time it has taken the markets to recover in their cycles over the last seventy years. As I look at the markets today, I see them at quite high levels, not excessive but still elevated; we must see continued economic progress in order to sustain or increase values from these levels. I am not pessimistic or bearish at this point, but I remain cautious and am alert for signs of deterioration. Most accounts are invested to the maximum equity exposure to get full benefit from the positive activities currently taking place.

I've enclosed your year-end Realized Gain and Loss report with this month's portfolio statement. Many people did call us with the necessary information so we could send this report directly to their accountant. We will send those reports out during January. If you are not among those who have called us but would like the report to go directly to your accountant, please call and we will contact your accountant to be sure the report gets to the right place. If you have any questions about your report—or about anything having to do with your investments—please call me.

Tsunami Disaster Relief: I encourage you all to help in any way you can. Direct monetary donations currently seem to be the best. Numerous agencies are accepting donations toward the massive recovery effort. If you have a favorite agency, please contact them to see what you can do. If you're looking for ways to donate and have access to the Internet, I suggest starting at the Google.com Web site. A link on their homepage lists many of the organizations involved in providing relief. This catastrophe has taken many lives and left still more in jeopardy. Thank you for your concern and your help.