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Happy New Year!

What will this year bring to the markets and the world? As always, we hope for peace and prosperity. And why shouldn't we? All the puzzle pieces are right in front of us; it's just a matter of putting them together in a way acceptable to all the players. Ahh, there's the rub. Some players, thriving on the chaos, don't want peace. Still others are just inept. We must hold on to hope.

As investors, however, hope is only one of the arrows in our quiver. Last month, I wrote about caution, the need to recognize how far the markets have moved in the year, and that parties like this one don't, historically, last indefinitely. That is still true, all the more, indeed, because the markets continued to move forward all month long. What I left out of last month's Telegram was a further explanation about the strength and resilience of the current up trend. Another Wall Street aphorism is: "Bull markets typically climb a 'wall of worry.'" This market has been making substantial gains in the face of persistent bad news. Company earnings are expected to be less robust next year, the economy is expected to grow at a slower pace, the international situation seems intractable. If all that weren't worrisome enough, consider: the annual year-end survey of market strategists found that a high percentage expect the market to continue to be very good throughout 2007. Oh, oh. The last time the results were this bullish the market fell 13% in the following 12 months.

Beyond doubt, the current risk level is high and clearly higher than last month. My indicator is now at 73%, up from 70 last month and down just a point from its current top. Still, the accumulated signs dictating caution do not point to an immediate market retreat. Buyers are still in control of the markets, not sellers. My principal indicator could top out somewhere in the 80's some months from now; or it could start a jagged downhill course tomorrow (if the sellers assert themselves). The average length of time this indicator has stayed above 70 is three months, six months is the longest over the last 50 years.

As the well-known stock analyst Doris Day used to sing: Che sera sera. I will keep as much money invested as I can while the markets continue to act positively. Committing new cash in these circumstances is always a tough call. My preference now is to reduce the risk by purchasing Exchange Traded Funds (ETFs), diversified baskets of stocks traded on the exchange just like a stock, with the benefit of diversification across sectors of the US economy and international markets. Over the last 18 months, I have found ETF's less volatile in some portfolios than traditional mutual funds or individual stocks . . . and more profitable at the same time. More info on ETF's? Call me, or try <http://www.sec.gov/answers/etf.htm>

Did you write down your New Years Resolutions?? (Neither did I. No paper trail.)