

The Tonge Telegraph

January 2008

May You Live In Interesting Times (Ancient Chinese Curse)

Financial markets are not happy when times are too "interesting." For example, the run-up to election in a presidential year. Who's up, who's down, who's in, who's out. We've been hearing from the candidates seemingly forever . . . ten months more before the race shakes out. A presidential election year historically has a distinctive effect on the markets. They tend to be a little jittery, "choppy" is the word some use, for the first few months of the year as the candidate selection process proceeds. As the outcome takes on a clearer focus, the markets will begin to adjust for the prospective policies of the incoming administration. The markets like certainty, hate uncertainty; thus, the earlier in the process that the parties identify their candidates, and the earlier voters can align themselves behind the respective candidates, the better. Cliffhangers seem especially disorienting for the financial marketplace.

When all was said and done for 2007, an "interesting" year, the 30 stocks in the Dow average moved that index up 6.4% while the broader S&P 500 index rose just 3.5% . . . modest changes when one considers the volatility we experienced. These figures suggest an inclination towards the large capitalization stocks, the blue chips, which has been a long time coming. Some serious threats emerged, including the effects of the ongoing subprime mortgage mess, the seriously weak housing market, and \$100-a-barrel crude oil, stirring fears that our economy may slide into a recession before the new year gets much traction.

Foreign markets did much better, as did the commodities markets. Access to and research into foreign markets and commodities have never been easier, thanks to the increased availability of Exchange Traded Funds. A new piece of research I'm using allows me to compare the performance of 40 markets around the world, including the U.S. When these are listed from best performer to worst, the US market proxy for 2007 came in 36th. The top 10 performers were all in Asia. As I've mentioned in previous newsletters, these countries, notably China, India, South Korea, are embracing capitalism with breath-taking enthusiasm, and their economies have the capacity to grow at a much faster rate than ours can, in part because the very notion of growth is so new to them. Exchange Traded Funds give us unprecedented access to these countries and I plan to take full advantage of this as the new year unfolds.

Housekeeping items: We've included your income tax reports with the December 31 statement. Printed on blue paper this year, these should be set aside in a tax folder to give to your tax consultant. Better yet, put them in an envelope now and send them right off. (For those who gave us the contact information, we will be sending these reports to them by mid-January.) If you have any questions, particularly if there are some items sold for which there is no cost basis information, please get in touch with us so we can help you determine the appropriate basis.

Best wishes for a year that is, shall we say, only moderately interesting.