

The Tonge Telegraph **February 2003**

Still Waiting

I don't like to repeat myself but We've been waiting for over a year and a half for the economy to start moving forward. Like the little engine that could, the economy is trying. "I think I can, I think I can" is better than just about any other mantra. Plenty of hope and encouragement, and sufficient means to start a recovery--it just isn't happening yet.

I have said previously (I repeat myself): all the pieces are in place. The hard work of ending a recession has been done and the economy will recover. If we could magically remove Iraq from the equation, we would see an economic picture anyone might call acceptable. The prospect of war--with anybody--creates a huge, dark cloud of uncertainty, with everything in its shadow. Under such a cloud, the economic news would have to be very good to have a positive effect. The news isn't that good yet, but it is not all bad either. The markets will move when corporations start to make money. I do not know when this will happen.

The question for all stock investors is about risk: relative risk and risk tolerance. The answers are unique to each individual. It is still true, as I wrote recently, that these are the best of times and the worst of times. It could be a very good time to pour tons of money into stocks. The rewards, five years down the road, could be substantial. On the other hand, we could see a lot of nothing happen to the economy for another year. In which case we will spend the entire time hoping we don't lose a lot more money. Is it better to stop the losses or tolerate them for future gains?

We have all sustained large losses. I want to suggest that it's time to stop fixating on the losses and consider our choices: We can be fully invested, moderately invested, or modestly invested. As I talk with clients I am trying to ascertain the best answer for each person. For some people I am choosing to pay off some debt instead of making more equity investments. For some I am purchasing more bonds with cash or even selling stock to buy something that won't have the same risk of loss. Most people don't want any more losses. The small risk of missing out on a profitable day in the market is easier to bear than sustaining further losses. Others can live with the full risk of the market, knowing that the tide will turn and profits will be in hand again.

Your 2002 capital Gain and Loss report is included with the February portfolio statement for all taxable accounts. This report should contain all the information your accountant needs to prepare your taxes. Wendy and I have reconciled most of these with the 10 99 from Schwab. If you or your accountant have any questions, please call us.