

The Tonge Telegraph

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Status Quo

The god Janus, you'll recall, was two-faced, looking forward and behind. Regarding the markets in the month named after him, he needn't have bothered. They afford pretty much the same view either way. Yesterday (January 29), the low on the Dow Jones Industrial Average was within one point of the low at the end of December and the high mark was within 35 points—one quarter of 1 percent—of December's number. We're entitled to be glad the month wasn't a downer—historically, a bad January in the market is ominous for the year to come. On the other hand, the market didn't go up either, about which the gods of history don't have much to tell us.

The economic reports were good to very good all month, and for the most part corporate earnings sang the same song. If we were to remove the cloud of the Iraq war from the picture, things would look very sunny indeed. Yes, we have massive deficits (partly owing to the war), and they are troubling. Some theorists, however, see the trade deficits as the cost of fostering the development of capitalism in other countries. They argue that as capitalism spreads and a growing middle class starts to have some discretionary income, time will see a great surge in demand for US goods and services. Hey, it's a theory.

While we're waiting to see how that works out, we mustn't lose sight of a little problem I've been noisy about lately, the possibility (the predictability) of a downturn in our markets. Prominent market pundits at the most recent Barron's roundtable, a semiannual informal gathering, discussed this very point. (No doubt some of them have been reading the Telegram.) Their take on the situation is very similar to mine. Everything is going well and looks to continue in that mode, but the elephant in the room is this little matter of the market not having had a downturn of at least 10% in more than four years. Among those who felt that a downturn was "necessary" to maintain a healthy market, the hope was "sooner rather than later". Their sense was that a downturn in the first six months of the year would be less severe than a downturn in the second half.

In any case, it's not here yet; besides which, I'm not expecting some kind of disaster anyway. A disaster would be waking up some morning to see everything down 25% before any trades could be done. I foresee nothing so outrageous as that. A more likely scenario is a gradual weakening of the markets followed by some bad news about the economy. I'm watching carefully for signs of deterioration and have already mapped out strategies for your accounts.

Here's hoping you're enjoying the localized effects of global warming (it was 16 below zero in northern Maine today) and the start of the presidential election process. What? Already? Yes, and it will be with us for almost eight seasons. Mercy!