

## The Tonge Telegraph

### March 2004

#### Shaking the Crystal Ball

Remember that little glass ball you'd shake and the snow would fly around? Our crystal ball looks a little like that just now.

The markets have taken a little rest over the last month. Some issues, particularly some technology stocks, have sold off a bit. It is not clear whether this is a so-called pause that refreshes, or the beginning of some larger selloff. The NASDAQ can use some cooling off. The Dow and S&P 500 have moved forward more conservatively. I foresee more selling in the NASDAQ and more pausing in the larger capitalization. Although there is some deterioration in my primary indicators, I don't perceive a direction change. The pace of the advance has slowed considerably but has not yet reversed. New purchases will be made cautiously, and you can expect to see some profit-taking in individual securities that have moved up considerably over the past year.

Interest rates remain a key element as we gaze into the future of markets and our economy, particularly as our economy depends less on manufacturing and more on services and financials. Bill Gross of PIMCO advisers postulates that as this shift proceeds and even accelerates, we become more and more vulnerable to interest rate increases. He asserts that our economy remains afloat by virtue of a low interest rate environment. Cars sell because they come with zero percent interest. Housing activity benefits from low rates. The problem is that rates cannot go any lower and they will at some point start to increase which, he says, may bring the economy to a screeching halt. I assent to the scenario he lays out, but not necessarily to his conclusion. The economy must begin to move under its own power before interest rates can be increased.

The other potential pressure on interest rates, as Chairman Greenspan warned last week, arises from our immense and growing deficit. He went so far as to suggest cuts in Social Security in order to address the problem. When a political figure reaches toward that third rail, we know the issue is serious.

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