

## **The Tonge Telegraph**

### **March 2006**

#### **Markets Advance**

First, an apology for those of you who received the incorrect newsletter last month. Lisa and I embraced a new piece of technology which solved a printing problem we have always had with this newsletter. The technology worked just fine, as usual it was the humans who made the error. Many thanks to those of you who called in to let us know and allow us to send the correct newsletter out with only a days delay.

The stock markets as measured by the major indexes had another strong week. The DOW, S&P 500 and NASDAQ all posted new high marks during last week. Although this is a good sign and indeed appropriate given the strong earnings companies have reported each of the last two quarters, there are some clouds. As the markets advance we're seeing fewer and fewer companies posting new highs. Of the 30 companies in the Dow industrial average, for instance, only five posted new highs in the most recent run-up. The S&P 500 and NASDAQ saw similar action, although the NASDAQ is being pushed by some renewed interest in technology companies.

We would prefer to see a broad advance. That is, we would like to see these indexes increase because many companies participate not because only a few are doing well. This narrowing of participation combined with indexes reaching new highs moves me to a cautionary mode. I start looking very carefully at any price deterioration in individual stocks and funds. It may be that the market is just shifting gears and a long anticipated change in leadership from small-cap companies to large-cap companies is about a place. Then again, it may be that the markets have already accounted for all the good news we have received and are in need of a rest.

We won't know the answer for some time. This cautionary situation could play out in any number of good or bad scenarios. As always, it is more profitable to recognize what is happening as opposed to trying to anticipate what might happen. My research will help me understand the situation as it unfolds and allow me make appropriate changes in your portfolios.

The current markets are buttressed by a strong economy and a low rate of inflation. Corporate earnings continue to be good and tax receipts have increased. The large trade and budget deficits are problems which require long-term solutions not short-term fixes. We are entering one of the most politically charged parts of our election cycle, the midterm elections. We cannot expect many good things to be happening in Washington this year or next as posturing takes place for the 2008 elections. Fortunately, the economy is moving forward in a way that is usually impervious to political gridlock.

Income tax season is upon us. If you or your accountant need any information regarding your investments please don't hesitate to call us.