

## The Tonge Telegraph

### March 2007

#### Gray Tuesday

Last Tuesday's market activity was, on one level, great theater, rather like the slalom or luge events at Winter Games. As all readers of my newsletters know, I've been talking about the probability of a market downturn for more than four months—when, not whether. The market entered an area of increased risk in November when my index went above 70%. Markets rose further, pushing that particular index to the 75% level. Then came Tuesday, a gray day not black

Like that day in '29 or in '87. This day won't rank in the top 20 of bad days.

So, what's next? Neither I nor anyone knows for certain, but I do know where we are and what I'm going to do if this is in fact the beginning of the real downturn. Tuesday's activities moved my index back to the 70% level. (The average portfolio's market value returned to the level of late November.) Although the sellers were clearly in control of the market on that day, it is not clear that they will dictate the overall trend in the market just yet. My index's return to 70% depicts a slide; it doesn't portend an avalanche. A level of 67% will tell me that sellers have indeed gained control of the market and that further defensive moves will be necessary.

I often describe the market as something like a freight train—extremely hard to affect its progress and momentum. For instance, numerous pieces of bad news—economic, political or global—may make little or no impression on a bull market, while every piece of good news adds fuel to the advance. Similarly, when the market is going down, almost no amount of good news will stop the slide. It usually takes a dramatic event of some sort to stop the market and begin a new phase or direction.

On Tuesday, we had disturbing rumblings from China (a 9% drop in its markets) as well as news that our economy's growth has been even slower than expected . . . together with remarks from former Federal Reserve Chair Greenspan suggesting a recession later this year. Slowing economies and recessions—or rumors thereof—are not good for stock markets. Suddenly, everybody shelved the rosy scenarios and took some profits. Does this selling take hold of the market and change the upward trend we have been in for the last nine months? Do we foresee a retreating market? Or is this just a healthy sell-off in an upward trend? That will become clear in the next few days and weeks. The market has had a long run, and a sell-off of as much as 10% would not only be normal but historically overdue.

Meanwhile, I have implemented the first phase of portfolio defense by purchasing an ETF (Exchange Traded Fund) that will make money if the market falls. I sold a couple of positions where people had large gains or oversized positions and I'm reassessing other holdings to see if further action is needed. If the indicator falls below 67%—as I expect it will before the year is out—I will start the next phase of defending the market value of your portfolio. Please call if you have any questions or concerns.