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Downturns & Opportunities

Odd fact: by the time the government is actually able to say we are in a recession, we are usually well on our way out of it. Not a problem with our leadership or our reporting system; it's just the nature of recessions. Consider the conventional definition: "two or more quarters of negative economic growth." We can't know those until the data are in, and we're well into another quarter before that happens.

While the prognosticators are busy playing "will we or won't we" go into a recession or "are we or aren't we" already in one, the view from your living room is clear: the economy has slowed significantly and it is much harder to make ends meet. Your car costs still more to run, your house more to heat. Food prices, factoring in transporting costs, are up. Some folks have seen their mortgage payments escalate. The point: our economy, national or personal, is hurting. Let the economists argue about what name to put to it.

Our two chief economic spokesmen, for example (Fed chief Bernanke and former chief Greenspan) have somewhat different views. Bernanke sees "significant downside risks" but believes we will have a stable economy in the near term, followed by better growth in the second half of the year. And, interesting for him, at this leap-year end of the month, he sees a weak economy as more of a threat than inflation. Greenspan is offering a 50-50 chance of recession with no longer-term outlook. Neither is predicting severe recession moving towards depression.

The opportunity in the midst of all this talk lies with the stock market. Markets generally look ahead about six months and trade based upon the current perception of what the situation will be then. The markets are indicating that the deepest part of this economic downturn, still in front of us, will be painful but will pass. They aren't signaling some imminent return of the Bulls, based on some perceived economic surge later in the year . . . but they are indicating that the worst has a perimeter.

The opportunity lies in buying now while other investors may be distracted by the shouts of "the sky is falling," failing to foresee an improving economy down the road. Have the markets bottomed out? My indicators show that we have hit levels lower than any downturn since 1987. If you could warp back in time and buy stocks whenever you wanted to, you would likely pick just such times as these to make your purchases. In the lifetimes of most of us, only 1987 and 1974 recorded lower levels.

These are, nevertheless, the hardest times for most people to stay in the stock market. Many want out in hopes of avoiding further drops in their portfolio, unwilling or unable to see six months ahead, things looking better, stock prices moving back up. Such strange behavior, the selling-off, compared to our other shopping habits, where everybody loves a sale, sees the opportunities, can't wait to grab those bargains.