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The Markets Stall

The pause in the market was enough to have me take some profits and hold money on the sidelines for a bit. The market retreated some 400 points, which was enough to turn many indicators to the negative side. Now we have an unexpectedly good Jobs report showing the best job growth since April of the year 2000. The numbers look real and will boost the president's reelection prospects. This report along with the expected good earnings reports from the first quarter may be enough to move the market forward. We are still waiting for a reluctant Federal Reserve to raise interest rates. The current thinking is that the Fed would like to raise rates but they are still afraid of hurting the economic recovery.

When a market is moving up, it gathers strength and is difficult to knock off its trajectory. When it stalls, it lies in the water like a wounded fish and the sharks start circling. Just now, bad news moves markets down and a series of bad reports can move them into a correction. Historically, the market can correct 300 or 400 points and then go on its merry way again. Or the correction can take hold and move the markets down a thousand or more points. The market started a correction but now that has been overtaken by some very good news on the economy.

I have taken this opportunity to adjust the asset allocation (the balance between stocks and bonds) in portfolios. As I review the relative performance of different portfolios and look at one-year, two-year and three-year performance numbers, there is no doubt that the portfolios allocated 100 percent to stocks performed best over the last 12 months. The longer time frames, however, disclose that the portfolios allocated 60 percent to stocks and 40 percent to bonds did better. A 60/40-portfolio allocation, stocks to bonds, is a traditional conservative portfolio. For most people this allocation works very well. Some younger people with high incomes can afford the risk involved in 100 percent stock portfolio.

The market never goes straight up. We enjoy good years like this past one, where stocks make a lot of money; and we anticipate weak years like the previous two when losses predominated. Occasionally, you have decades like the '80s and '90s when the bull market rages on seemingly with no end in sight. During these rare periods, it is profitable to let the allocation to stocks increase in the portfolio. But when you enter more normal times, where the market moves up and down over any three-year period, a more conservative allocation smooths out the performance and lowers the overall stress in our lives. I believe we have entered just such a period. We will see more fluctuating activity and average returns from the stock markets through the near future. Hence, my caution.

Meanwhile, it's spring! Enjoy!