

## The Tonge Telegraph

### May 2003

#### **Congratulations**

Not to promote undue optimism, but . . . I think the picture has changed for the better. The Federal Reserve chairman has gone out on a newly leafy limb and said that the economy may grow at a somewhat better pace now, with its own impetus and without the need of major tax cuts. So . . . I want to congratulate all those who toughed it out in the harrowing markets of the past three years.

The U.S. economy is the basis for any sustainable stock market growth. The economy is not out of the woods yet, but its prospects are better. As corporations start to purchase goods and services from each other, the economy as a whole can grow.

Historically, stock markets look out at least six months to see what the prospects are for business and the economy. What we've seen, in shock, over the last three years was not only a downturn in the economy, but a stock market bubble that burst, numerous corporate misdeeds, accounting fraud, industry manipulation, and sharp drops in both corporate sales as well as consumer confidence. The result? The traditional market model that anticipates events at least six months ahead also collapsed because it became impossible to attempt a forecast in an environment with so much radical change. This left the market direction hostage to the nightly news, with corresponding swings in volatility. At last, however, the market may now be dusting itself off, gazing ahead, and seeing some hazy sunshine through the thick layer of clouds. Many of the crisis' and issues that have side tracked the market over the last few years have either resolved themselves or at least become better defined, allowing us to look forward again.

So . . . does this mean the ride will now be bump free? Whoa. Not so fast. Nobody sane is saying that. But it may mean that the forecasts of improved capital spending in 2004 are no longer so discouraging. I know most of us are just getting use to it being 2003 but if you look forward six months or more as corporations and the markets do, you are already planning for 2004. To me, the improving atmosphere means that some stocks will probably start to do quite well, which means, in turn, that the selection of individual stocks will be crucially important in the months ahead.

Let no one imagine that I am predicting a return to those heady (not to say giddy) days of yesteryear, with 20 percent returns and sky's-the-limit pricing. Overall, enough of the necessary factors are present so that the stock market now may be able to focus once again on an improving economic situation. No one will mistake our economic recovery for the Kentucky Derby. But it's beginning to get some traction, and as confidence improves we will see some better returns.

I have put off making portfolio changes the last few months because the markets were so confused. Now, going forward, I expect the markets to start acting in a more predictable way and will make some necessary adjustments to portfolios. Please don't hesitate to call me if you have any questions.