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The Economy- Slipping? Sliding?

And if so, what does it mean? Just as I am about to shelve my doom and gloom rhetoric, the government comes to my rescue and reports that the economy grew by only 1.3% in the first quarter. These numbers are always revised, but for now it appears that the weight of the housing slump, elevated inflation numbers, and sluggish investment by business have resulted in the slowest growth for our economy since 2003. There may well be some stock market repercussions from this report.

Meanwhile, the markets in April, oblivious to or disdainful of such data, remained consistent with the historical record and had a very good month. Enthusiastic investors sought and got positively giddy returns. The Dow Jones Industrial Average closed over 13,000 for the first time. Veteran market watchers will recall how much trouble the Dow had closing above 1000 for the first time. So, we celebrate this welcome—not to say astounding—event. Then again, increasing stock prices are always welcome.

April's market activity returned my indicator to its previous high mark above 70 and went on to post its own record high of 74. As always, any reading above 70 is cause for caution, but that does not necessarily translate as an imminent decline in the markets. They may lose some because of the end-of-week economic report; and in all probability, they will go down eventually simply in conformance with the historical record. It's been a long time since the markets actually declined by 10% or more, let alone experienced a serious correction.

The current rally is the fourth longest on record. It is not, however, any more than average in magnitude. Several factors leave the door open for markets to move still higher: low P/E ratios, merger activity, and the presidential election cycle. In the end, the economy is the real foundation for stock market growth. Current projections are diverse enough, some suggesting slightly slower growth than last year, some dipping all the way to negative numbers, aka recession. Among many sources for such projections, you may find the website frbsf.org/economics/ useful for further study.

The stock market itself used to give us an indication of what might be ahead. As I said last month, for some reason the markets don't seem to be looking six to eight months ahead right now, evidently caught up in the mania of higher prices just as they were in the year 2000. This same disconnect between what's going on in the real world and what's going on in the stock market happened in 2003 when the market just wouldn't acknowledge either the improving economic picture or corporate earnings prospects. It's almost as though the market has become a following indicator of economic activity instead of a predictor. One cause of the current disconnect may well be the extreme diversity of economic forecasts. As Jimmy Durante used to say, Everybody wants to get into the act!

All this serves to keep my job interesting and I enjoy every minute of it. If there's anything I can do to help you understand more about your account, your finances, or what I am thinking about the future, please call me. I always enjoy talking with you.