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Time For a Breather

Whoa, there! I know I was a tad optimistic in last month's newsletter, but I didn't think the whole world would be reading it. To my credit, I did insert a caution that the market can easily get ahead of itself. Now it may have done just that. At last tally, the stock markets were up about five percent for the month and about 17 percent from the lows of mid-March. The five percent for the month is about the same as the year-to-date figure.

Five percent is quite enough, given the outlook for the economy. This would be a good plateau for the market to take a breather. Consumer confidence is up, but there's a lot of inertia as well. What's more, there's a louder buzz now about that little understood concept called "Deflation". We all understand Inflation and have lived with rising prices most of our lives. The reverse of inflation is deflation or falling prices. The Federal Reserve considers an inflation rate between one and two percent to be "price stability." We have been in this range for the last four or five years, but there are some indications we may be going lower.

The Federal Reserve has learned techniques for fighting inflation over the last 30 years. But as Fed Chairman Greenspan shared with Congress last week, the monetary authorities neither thought that deflation was possible nor know much about how to fight it. Do we have another 30-year learning curve in front of us? Stay tuned.

Portfolio values have increased over the past month, truly a welcome sight to all of us. I've been patient throughout the past year about making changes in portfolios because I'm not a fan of change just for its own sake. Now that we've got some of our value back on the stock side, we can contemplate some adjustments, especially to the income side; bonds are being called and new bonds have very low interest rates. A good and above all stable source of income is hard to find these days.

On the bright side, then, the market has moved up and summer is coming, although a damp and chilly Memorial Day weekend was a downer. The best thing about summer for the stock markets is that everybody goes on vacation, leaving few people in New York to manipulate things. My hope is that prices will stabilize somewhere near the current levels and hold there through the summer doldrums. By Labor Day, we will be that much closer to seeing economic growth happen. By the time of my next Telegram to you, we'll see where we are as vacation season starts.