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Good News vs. Bad News

In the pitched battle between good news and bad news for control of the stock market, the good news had a better month. The economic reports on personal income, personal spending, and job growth were all above expectations. Coupled with some declines in the price of oil at mid-month, such news helped increase consumer confidence.

The foundation of our economy continues, with fits and starts, to strengthen. It remains sensitive to the constant pressure high oil prices put on the system. With a wary eye on inflation, the Federal Reserve continues to increase interest rates in a carefully calibrated fashion, gaining flexibility should more difficult problems start to appear. In other words, as interest rates finally get back to a 'normal' level, the Fed enhances its ability to move the rate down as well as up in order to keep the economy moving forward. Keep in mind that Federal Reserve Chairman Greenspan is entering the last six months of his tenure. You can bet that he wants to leave with a solid economy as his legacy.

The stock markets, for their part, had a pretty good month. Although the major indexes are just beginning to reach a positive status for the year, they did recover a lot of ground over the last few weeks, in part because much of the bad news that hovered on the horizon did not materialize. One of the biggest threats to progress in the stock markets is the potential impact of hedge fund losses and subsequent withdrawals. Hedge funds are large players and a meltdown here could prove serious.

Meanwhile, our short-term gains in the markets have not as yet reversed an overall downward trend. We'll see what unfolds in June; for now the improvements are very sector specific. Any improvements are welcome and important; however, they do not necessarily indicate that the markets have changed direction in a long-term sense.

Last month I indicated that I thought the markets were priced at somewhat below fair or equilibrium level. The action in May raised the overall level so we are nearly even, almost in balance. This is a good place for the market to rest and that may be the best we can hope for. The market is going to be moved by the news. It doesn't generally stay in balance for very long, so I expect to see some movement before everyone starts taking summer vacations.

We can all hope for better news on the weather front as well. I hope that you got that rare glimpse of the sun last weekend. It has been a long month without the kind of weather we most want and expect. Perhaps this two-week nor'easter has finally moved on, with summer not far behind.