

## The Tonge Telegraph

### July 2005

#### Guilty Verdicts

Finally we got some guilty verdicts on two pairs of former corporate chieftains, excellent news for the future of the markets as it puts all corporate executives on high alert. The new legislation, called Sarbanes-Oxley, makes the chief executive responsible for financial disclosures and has certainly captured the attention of the CEOs. There's nothing like having your buddies contemplating some serious jail time for perpetrating lies to the shareholders to send everybody back to their desks for another review of the numbers.

Meanwhile, the economic beat goes on. The economy still looks to grow between 3 and 3.5% for the year. The Fed has raised interest rates; very few jobs have been created in this recovery; incomes have not increased substantially; and energy costs are eating into paychecks, reducing the disposable income for the average worker. At the other end of the spectrum, the wealthy continue to spend, so consumption is still a healthy part of our economy. There's much talk of a real estate bubble resulting from increasingly fancy financing options and speculation.

Amidst these pluses and minuses—and the ever-present threat of sixty-dollar crude oil--the stock market fights hard to do well. The downward trend I talked about in the last several newsletters did reverse during early June. The major indexes rebounded and most sectors now show positive activity once again. One interesting aspect of this market is that it is not being led by the tech industry. Energy-related issues and housing issues are at the forefront of this rally. I view it as a good sign that something other than the very volatile tech stocks, which have led almost every rally for the last ten years, should start to lead the way. New leadership is a healthy thing.

Another encouraging activity is on the merger front. Several prominent mergers have occurred recently. Some of this industry consolidation is a normal progression but it is still a welcome sign that corporations are once again willing to step up and try to move the ball forward.

Housekeeping items: Last fall and winter we offered to send our year-end reports directly to your accountants. This process worked very well for those who participated and I encourage those who did not to consider it for next year. It is easier both for us and for your accountant if we send the material directly to them in January. This allows them time to get back to us with questions before they start completing your tax return. We almost always get last-minute calls looking for some piece of data. So, please call us or e-mail us with the name, address and telephone number of your accountant and we will try to make next tax season a little smoother. You may e-mail us directly using: [rstonge@gwi.net](mailto:rstonge@gwi.net) or you may go to my web site which is: [ricktonge.com](http://ricktonge.com) and e-mail me from the button on that site.

Summer is finally here—90-degree days deliver the message—and I hope you're enjoying the best that summer has to offer.