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Jaws

Just when we thought it was safe to go back in the water, the markets turned in the worst performance for the month of June since 1930. Few people saw this one coming, although with good old hindsight, the ingredients were all there. The doomsayers got it right this time.

None of the economic fundamentals seemed to have changed much in the lead-up to last week. The US economy seemed stable . . . the Federal Reserve made no sudden moves. The price of oil kept setting records each week, so predictably we almost got used to it. Perhaps the only thing that really changed was hope. Suddenly, a day after the Fed meeting, everybody looked around and came to the realization that the economic situation, world wide, was not in fact improving as we thought it was. It will get better, yes, but the problem is that it is not starting to get better yet. It was as though everyone came to that understanding at the same time; hence, a real downer, a bummer, a mess, the theme from Jaws playing ominously in the background.

The markets, in short, gave up on the hope or the delusion that later this year things would start to improve. Realistically, another year may pass before improvement emerges, way too long a time frame for the markets to live with. Thus we may hope we're entering now what some call the 'capitulation phase'. Everybody just gives up on owning stocks, individual issues drop to ridiculous levels. General Motors is our poster child, our bellwether, for this phase. Granted, it's been in the tall grass for a long while, but is it really reasonable to value that company at 1955 levels? Hey, maybe it is! Maybe GM's going out of business, but I doubt it.

I have made some adjustments to portfolios but I am not, so far at least, inclined to sell everything. That has rarely, if ever, proven to be the right thing to do in these circumstances. I am not categorically opposed to selling stocks and thereby raising cash levels in portfolios; but I think it would be a mistake to go too far in that direction just now. Sellers at a fire sale hardly ever come out better when the sale is over.

Let's be clear: we may not have bottomed out yet. Hope and optimism are among the loss leaders just now. I maintain, however, as I have written in recent Telegrams, that we are in a period of opportunity as well, unlike anything most of us have seen in our lifetimes. We may have been wounded, but historically our economy finds a healing way. If patience is ever the prime virtue, it is during such periods. It's not my role here to play the brave and smiling Pollyanna—that would not be fair to you. I will point out, however, that the doomsayers and the Pollyannas are both right about fifty percent of the time. Let's keep a good thought as the vegetables are fattening in this summer's garden.