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Dog Days? Or Maybe Not...

And so you're asking, Hey, Rick, what happened to those summer doldrums you used to talk about, those hazy, lazy days when the Big Decision Makers were all in the Hamptons and their flunkys subdued? And I reply, yes, there were such times, dependably for July and most of August. Then, last year, the markets turned around in early July and began a 12-month run taking the Dow from 10,000 to 14,000 ten days ago. Mind you, all this happened while the dollar dropped versus other currencies, the president's ratings slid worse than that, the war was costing an unbelievable fortune (and still is!), and the real estate market took a huge hit.

No wonder my attention was caught by a story that some folks are building the tallest roller coaster in the world. We were way-y-y up there, and after some ups and more downs, we're about 5% below that 14,000 close in the Dow. On the upswing, the last 700 points were very quick and featured only a select few stocks like General Electric and Exxon, for example--both posted moves greater than 10% in the last month, boosting the Dow considerably. The Dow is a capitalization-weighted index: the largest companies carry the most weight in the calculation of the average; so, when the big ones move, the average moves.

Worth noting: the S&P 500 index, also capitalization-weighted but with better diversification--500 stocks instead of 30 like the Dow-- did not hit a new high this month. In addition, when the deterioration started, the S&P had a larger decline than the Dow. Long story short: many stocks declined last month while a select few moved forward. Some will say it was a 'flight to quality,' where money moves from low to high quality stocks. Perhaps it was some part that and some part a realization that GE stock had been dormant for two years and looked cheap relative to the rest of the market.

Bottom line for now: we've seen a lot of deterioration in a lot of stocks. My indicator has moved from the 70 level down to the 50 level. The same thing happened back in February, only to see the markets turn around and seek new highs. Conditions across the board--real estate and the rest of it--are dicier this time, so we still have the potential to move lower.

On the positive side, we have two things working in tandem, the economy and the declining dollar. I know this sounds backward, but the declining dollar helps the economy in a couple ways. Our exports are cheaper; thus we can (and will) sell more of our goods overseas. What's more, because foreign earnings are worth more when the numbers are converted back into dollars, those sales made in other countries are great for the earnings reports of our companies.

Altogether then, the doldrums sure aren't what they used to be. No lazy days on Wall Street this summer.