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Convention Time

After a month of little excitement in the political world, we move toward the conventions, where we will meet the running mates and hear about our future. I expect few surprises at these highly orchestrated events, and no major gaffes. We move on—the media fixate on something other than the economy and the markets for a few weeks, and a good thing, too.

The markets are still doing the tango, back and forth, round and round. The daily movements are usually 200 points on the Dow, in either direction depending on the latest economic news or corporate earnings report, all of it mixed these days. We thought for a while that earnings might improve in some predictable fashion, but that hasn't worked out yet. Some companies report as expected, others miss the mark. Every miss produces the tizzy of the day, the investment community perceiving that recovery is not happening, stocks may still be unreasonably valued. Economic reports showing increased foreclosures, job losses, or some other negative have a similar effect on stocks.

Through all the flux, there are grounds—I kid you not—for looking ahead to an improving situation for the markets. In the last week, my indicators have moved to a positive status, meaning that once again it appears safe to go back into the waters. The improvement in the indicators is quite substantial so far. At this stage, an improvement usually happens for one of two reasons: first, there is a perception that six months from now things will be better than they are now; and second, the market is seen to be way oversold for even the current view of the economy.

The second reason is certainly true for today's market. In many instances, stocks have been vastly oversold. Bank of America is a great example. A year ago, before the banking crisis, this stock was selling at about \$52 a share and was considered a 'value stock.' Recently, the shares were trading in the mid 30's, a reasonable discount considering the problems banks are facing. At one point this month, the stock sold down below twenty as if the company were going out of business. A week later, some common sense returned to the market and the price increased 60% to just under \$30 a share. Such patterns will continue with other stocks as fears and deep breaths take turns ruling investor emotions.

We enjoyed a little break in oil prices and a slight increase in the dollar's strength, both of which help the economic outlook. And time, the greatest healer, is passing. This has been a nearly 'perfect storm' for the economy to struggle through. The turbulence in housing, banking, energy, and recession all at once has tested the US economic system and particularly the Federal Reserve. The leadership at the Fed continues to do its best through the storm. The tide now appears to be turning, if imperceptibly. We look forward to continued efforts on all sides to restore stability. A new political line-up is in the offing, and in time, a new growth phase will begin.