

The Tonge Telegraph **September 2003**

The Moment Of Truth

Or if not precisely a moment, then a series of revealing moments will show us the truth about this economic recovery. The summer's quiet economic gains have stirred appropriate reactions in the markets. As the leaves take on their glorious fall hues, we'll begin to discern the growth prospects for the fourth quarter and the beginning of next year.

Current reports suggest the economy is doing quite well. Growth for the second quarter was larger than expected (3.1 %) and the forecasts for the next two quarters portend continued good growth. These strong numbers reflect increases in consumer income and spending and in the very high expenditures for war and defense. While defense spending provides a short-term stimulus for the economy, in the longer term it contributes to high deficits, it is not sustainable, and it has few redeeming social consequences. Low job growth is another serious concern on the negative side of the ledger. It may change for the better as growth continues. We would not be able to celebrate an economic recovery that lacked real growth in job creation.

Some companies--Intel is an example--have projected increases of as much as 20 percent for their business. Such projections are very good not only for the individual companies but for the economy as a whole: this kind of confidence helps shape our collective perception, and the forecasts become self-fulfilling.

Stock markets have already begun to price individual securities to reflect an economic recovery and growing corporate earnings. This, too, is a positive development, and the pricing seems appropriate, given the anticipation of growth. Problems for the stock market will arise if companies are not able to meet the expectations they announce for themselves. On the other hand, if the economy continues to grow and companies meet or exceed earnings expectations, the stock market will continue to move forward.

A number of individual securities have backed off from the price levels reached during the summer, a sign of both health and a healthy caution. People are manifesting optimism and realism at the same time. All the pieces are in place for a sustainable economic recovery; we need only continue doing what we are doing to help it succeed.

No matter what the calendar says, fall is already upon us. The school buses are running again. Temperatures at night are brisk. The garden is rewarding our earlier labors. I hope yours will be a most enjoyable autumn, rewarding and gratifying. Hey, it's one of our four best seasons here in New England! Enjoy!

P.S. Please return the paperwork we sent last month. Call if you have any questions. Thanks!