

The Tonge Telegraph **September 2004**

Happy New Year!

Although the calendar doesn't concur, for many people September is when the year begins. Summer vacation ends and students go back to school. Mixed emotions. I know of a woman who used to blow a trumpet and wave a flag as her kids went off sullenly on the first school bus of the season. Wall Street, too, begins anew in September. For many in the market, the year starts here more surely than in January. The nine months from September through May customarily see most of the market's activity. Starting in September, the trading desks are again at full strength, with lots of tanned, refreshed traders full of energy to do something. The question is: What?

Since last May when I saw the first two or three sectors of the market turn downward, there's been a further deterioration so that now only about three sectors show positive activity. Although far from a rout, there has been a fitful erosion of prices. With that many sectors in a downward trend, then, we're left sitting more or less in the middle ground between overpriced and underpriced. I hesitate under the circumstances to use the term 'fair' value, so I'll call current prices a reasonable value.

I have spoken earlier of various factors influencing the market in these times: the continuing war in Iraq, the threat of terrorism, the campaign heading toward November. There's plenty of room for prices to move up if the economy and corporate earnings continue to improve. There's plenty of room for prices to move down if we get derailed. I'm a firm yet cautious believer in the positive scenario.

The risk/reward ratio for individuals owning equities is more balanced now than it has been all summer. This is partly due to price erosion and partly to the fact that we have passed two of the three milestones considered to be terrorist targets this summer. The Democratic convention and the Summer Olympics went forward without incident. The Republican convention is the only remaining target from our summer list, and that is happening, with much security, even as you read this Telegram.

So the situation for individual investors may be better than it has been for the past few months. It is not a time to allocate all our cash to the markets but it is certainly not a time to be removing money. Cautious optimism leads me to be hopeful that some good things are in front of us, that our country will continue to find its way through this election season and an economic recovery with its puzzling elements. Even if this is a kind of a sort of a new year, I'm not opening the champagne. I will proceed cautiously.