

The Tonge Telegraph **September 2006**

Consumer Confidence

The consumer confidence index is an indication of how the consumer is feeling about the economy and the future. The consumer, which is us, is feeling less confident today than any time in the last nine months. This doesn't necessarily come as any great surprise given the fact that gasoline prices are high, real estate values are lower and the job market is perceived as somewhat softer than it was only a couple months ago. In addition, the hot days of summer have rapidly given way to cool fall days, which hastens the arrival of the oil trucks. Nobody is looking forward to that.

So the consumer has pulled back a little bit and the Fed Reserve, much to their credit, also paused to only a month ago. At this stage of the game economic forecasting becomes somewhat more useless than normal. (Economists have predicted five of the last two recessions.) Clearly the trend is to less economic activity. That trend however, does not carry a whole lot of momentum or power at this point. The trend could end tomorrow or continue on throughout the fall and into the winter. An extended slowing of the economy would definitely not be a good thing.

Meanwhile, not surprisingly, the markets are confused. Although the bond markets are reacting decisively with each new piece of economic data the stock markets are not. We call this a "choppy market." Oil producers such as Exxon continued to do well. Otherwise there are signs of life from time to time in several areas but nothing is sustained. The markets continue to look for new leadership and I suspect we will see a meaningful change in the next 30 days. Unfortunately there is almost equal chance of the change being positive as negative.

One of the interesting positive aspects of this current situation is that the valuations of companies are not considered extreme. Many companies have done very well in the last few years and their share prices have risen along with the increase in earnings. There has been no buying frenzy, which tends to take share prices to unreasonable heights. This has been a fairly orderly increase in prices. Not all shares have participated. Small companies have had the most attention. As the focus shifts from small to large companies the valuations are better. In fact, I would consider the valuations of large companies to be more historically normal.

This gives us a situation where we can expect the prices of securities to move in tandem with expectations for the economy. (Keep in mind, that security prices tend to be six months ahead of the economy.) This is a good situation in that it is at least rational as opposed to the "irrational" situation we had several years ago when share prices had been pushed up to unheard of valuations. Stay tuned and we will see what September and October bring us this year.

Congratulations to all of you who have just sent their children back to school. Summer is over and life can return to a normal pattern.