

## The Tonge Telegraph

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#### War is Coming

The market began to show some convincing strength during the last month. The ominous prospect of a war on Iraq, however, together with continued sluggish economic growth and dim prospects for corporate earnings have overwhelmed the efforts of bottom feeders to jump-start a new stock market rally. Hardly a bull anywhere to be seen.

The Dow Jones Average closed below 7700 last week after an impressive move from 7700 to 8600 over the last month. It's depressing to have a rally slip away just when we've begun to nourish some optimism. I have no doubt the market will bounce from these low numbers as people seek bargains. And bargains are there to be found, but it will be a while before we enjoy the anticipated price increases.

Last month, I suggested the possibility of a double dip recession: we might just enter another recessionary period without recovery in between. The economy is sputtering. The Federal Reserve Board voted to keep interest rates (already at historic lows) unchanged. Chairman Greenspan professes to see signs of life in our economy as well as some significant problems. In an unusual action, two Fed Governors dissented on the opinion to leave rates unchanged. This group usually shows a united front, so signs of dissent lead me to believe there are some problems ahead of us.

Company earnings are certainly a problem. Although the consumer is continuing to spend, corporate CEOs are behaving timidly. If you can put yourself in the chief executive position for a moment, one of the problems facing our economy may become clearer. First, all corporate chiefs are now under siege. Some abused their power, putting their personal financial gain ahead of the owners of the corporation, the stockholders. The alleged perps are wearing fashionable orange suits now, and the remainder are being cautious about their actions. A cautious chief executive spends company money reluctantly, holding off on that new piece of technology or any other spending unless the benefits are very clear.

New technology, be it a piece of machinery or software, is capital spending, a major component of our economy. Not enough of that is happening. In this environment, corporations wait (and will continue to wait) for actual sales and earnings to hit the books, and for competitive pressures to push them into spending.

The short term for the markets is murky at best. The markets will have a tough time for as long as it takes our economy to straighten out and move forward. On the other hand, the long term prospects are as rosy as they have ever been in our economy. The investment implications of the economy recovering can be summed up in a single word: 'Profitable.'