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Contrasting Views

As the weight of high oil prices and hurricane devastation settles in on our collective outlook, we're not surprised that the latest consumer confidence figures are the lowest in 15 years. Why is this significant? Because the confident consumer has kept our economy moving forward over the last two years. Upon hearing this information, what could be more normal than our surmise that the economy may be headed for some problems.

The Federal Reserve Board, however, appears to have a different view. For the 11th time, the Fed has raised interest rates and has indicated that it may do so again. The rate is now 3.75%, and indications are that the Board will continue to raise rates as long as inflation lurks like the proverbial snake in the grass. The Fed governors do their job well, and it's incumbent upon us to recognize that they see our economy as being strong enough to warrant continued pressure from higher interest rates.

Given these diverse perceptions, it is no wonder the stock market has done a yo-yo impression for the last couple of weeks. Buyers have been less aggressive; sellers have moved to protect the profits in their portfolios. The net result is that the market has rolled back enough for me to move into a defensive posture.

A defensive posture means that I'm on the lookout for stocks and sectors that are beginning to deteriorate. I want to defend the current market value of the portfolio by holding on to the gains we have experienced. I may take some profits in positions that have done well and reinvest money cautiously in other sectors that have historically held up better in market downturns. We sometimes call this "doing lifeboat drills" on the portfolio. A defensive posture does not mean that I need to sell everything and buy treasury bonds for fear of a market collapse. It signifies a cautious attitude, and it dictates having a game plan in place should something more serious begin to develop.

The market's current configuration suggests that it can go either way. It is neither overbought nor oversold. It sits firmly in the middle position waiting for the contrasting data to tip the scales in one direction or the other. As usual, the piece that finally does tip the scale may or may not be economic in nature. It could just as easily be something political or, as we've seen already, something from Mother Nature. Stay tuned, and call me if you have any questions.

Housekeeping item: Schwab has consistently been reducing its commission rates over the last year. It is now offering its lowest rates to those accounts that elect to receive trade confirmations and statements via e-mail. E-mail obviously saves both natural resources and postage, so it is both fair and reasonable that Schwab lowers commission rates for these accounts. If you would like to begin receiving e-mail confirmations of trades and monthly statements, please email us at rstonge@gwi.net and we will start the process.