

Market Comments - 2/3/00

2000 Off to Shaky Start

The economy is booming.. Inflation fears, rising interest rates and all eyes are on the Federal Reserve. Large caps moved up, then down, then up, but down overall in January. Small caps continue leadership, end January higher than large caps. International is down. Bonds are flat.

This was the weakest January since 1990. The Dow ended the month down almost 5% from December 31. The S&P 500 was down a bit more than 5% and the Russell 2000 small company index was off 1.7%. Bonds were mixed, but most bond indexes were down slightly.

As January Goes...?

There is a belief among some that as January goes, so will the year. Since 1900, the DOW ended the year down when January was down about 60% of the time. However, that really is not enough to forecast the rest of the year with any confidence.

Inflation / Rising Interest Rates Is Main Concern Short-Term

There is no question that the Federal Reserve's actions cause short-term consternation. But many market-watchers believe that the Fed's actions are prudent and will not harm the overall economy. In fact, they are hoping it will assist in controlling growth and allowing the expansion to continue.

The Fed was more aggressive in 1994 than it has been over the past year, and while the market did lose ground in 1994, the long-term bull market continued. My basic view hasn't changed.

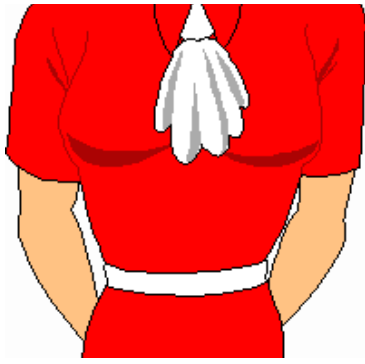
Still More Positives than Negatives

I expect more volatility. I do not expect 20% or greater stock market returns. I do think there are more positives than negatives. I would be pleased with an 8%-10% return out of the S&P 500. Trying to "time" these markets could be more risky than just holding your positions and adding to them when the market goes down.



Small companies continue to show leadership. While it may be too early to call this a longer-term trend, it makes sense for small companies to catch up to the larger ones. I still believe international stocks to be an important part of diversification for most portfolios. This paid off well last year, and while international has taken a breather so far this year, I expect it to resume it's upward trend if no major negative event occurs.

Bonds will be weak until the Fed stops raising rates. It is interesting



though, that recent buying has forced yields down on long treasuries even as the Fed raised rates last week. Bonds are still an important part of a balanced investment approach.

Another Reminder About Prudence

And just who is she, you ask? She is that motherly voice that tells you to wear your gloves and hat and to drive carefully. OK, maybe she goes too far with insisting on clean underwear in case you get in an accident, but basically she makes sense.

At the risk of repeating myself too much, the way to protect yourself against a market downturn. Is to keep enough cash available in an emergency fund to meet your regular budget and major expenses for at least six months. And if you have other major expenses coming up in the next eighteen months (such as a vehicle purchase or college tuition, you should consider setting aside that money now, also.

Most bear markets last between six months and two years. Therefore, if you always plan ahead eighteen to twenty-four months, you have an excellent chance of weathering stock market downturns.