



Market Comments

September Stock Losses Prelude to More or Platform to Launch Third Quarter Gains?

September Blues

Dow Jones Industrials	- 5.0%
S&P 500	- 5.3%
NASDAQ	- 12.7%
NYSE (New York Stock Exchange)	- 1.7%
Russell 2000 (Small Companies)	- 3.1%
EAFE (International Stocks)	- 5.0%

Points in Brief:

-
- Last month I said that if the markets went down 5% or more we might be looking at the last buying opportunity of 2000.
-
- The broad market (NYSE) is doing better than the vaunted large cap indexes. This bodes well, because indexes tend to be more focused. Investors are seeing value in other stocks now and that is healthy.
-
- Greed is being disciplined in tech and Internet stocks. This is also positive. As I have said before, those who ignore fundamentals will eventually be burned. Sooner or later a company must make money.
-
- Interest rates have stabilized and come down a bit in the last few months. This is generally positive. The bond market is telling us that the Federal Reserve policy is probably working. The economy is slowing, possibly enough to prevent further rate increases this year. Bonds are posting solid gains after a poor

1999.

-
- Utilities stocks have been strong, after floundering for a good while. This is a positive sign regarding interest rates as well as for the utility sector.
-
- The sideways movement of stocks this year is allowing companies to catch up with their prices without a market-wide crash. The DOW was at approximately the same level almost two years ago as it is now. PE ratios have come down. Valuations (stock prices) are much more reasonable.
-
- Companies are still making good money. A recession does not appear to be on the horizon.
-
- Small companies continue to do better than the major large cap indexes. This continues the trend I suggested was probable two years ago.
-
- Consumer confidence is high. However, savings rates are negative, which is not good.
-
- Easy lending over the last few years raises the specter of too much shaky debt in the economy, which is a negative. This bears watching.
-
- Record trade deficits are hard to evaluate. Theoretically this should be a concern, but it doesn't seem to be much of a factor as long as productivity in this country continues to advance. Could this be something that will come back to haunt us somewhere down the line?
-
- Oil and gas price increases are a drag, but should not break the long-term growth trend unless there is a major embargo-type shortage again. While this is inflationary, it may not be enough to raise inflation to alarming levels. This will bear watching over the next six months. The positive is that it reminds us of both governmental and private sector neglect when it comes to the U.S. energy policy or lack thereof. This could actually be positive if we finally do what we said we would in the early 80's.
-
- International stocks have continued to be weaker than I expected. Compared to U.S. stocks, there would seem to be some good upside potential here, but it is hard to say just when foreign markets will turn. In fact, a contrarian might find International stocks to be a good "buy" at these levels.
-
- Market psychology appears "ifly" (that's one of those technical "expert" terms). At the end of September, a down mood was evident. Short-term, stocks could dip a bit more.

Prognosis:

Overall there are more positives than negatives. The probability seems to this writer that the S&P 500 and NYSE have a decent chance to end the year in positive territory. A 5% to 8% gain for the year appears possible. Small Caps have the potential to end the year with double digit increases. The DOW will have a harder time reaching positive gains, as will International stocks.

The negative factors are enough to make me believe it is almost as likely that the markets will move sideways or only up a bit the rest of the year. If the S&P 500 ends the year negative, 2000 will be only the fourth year in the

last twenty-five years that the index has failed to increase. October has a habit of being difficult. Significant bad news, especially regarding company earnings could depress stocks further.

My final answer? A slight edge to the positive. I look for a reasonably good end to the year.