



## Market Comments

### After Tense Weeks, Markets Rebound From Support Levels. Short-term Outlook Favorable... but for How Long?

Last month we provided graphs showing how the U.S. stock markets had dropped to key support levels. The good news is that the markets have rebounded strongly from those levels. This could allow the markets to climb a bit further near term.

Good news on inflation was one of the triggers launching the markets. Interest rates have eased and bond values have gone up.

The potentially bad news is that the conditions that have caused the markets to retreat are still lurking. In particular, the Federal Reserve may still want to preempt inflation with another rate increase.

### Year-End Scenarios

I see a number of possibilities for the next two months. Here are the three general ones.

1. Fed raises rates and/or disappointing earnings reports/forecasts and/or an unforeseen crisis occurs. Any one or a combination could set the market into a deeper correction and even cause the first calendar year losses since 1994.
2. There is no Fed rate increase and the bias is neutral. All else remains stable. In this case, normal market jitters and possibly some latent Y2K concerns would keep the market from a major advance. The end result would be an S&P500 total return for 1999 in the 8%-12% range (It was up about 11% at Friday's close).
3. There is no rate increase and the Fed issues positive statements if not a bias to lowering rates (which would be unlikely). News on inflation is positive. Confidence that Y2K will be a minor problem continues. Earnings and other news from companies is positive. In this case, the markets could run up by year end with the S&P500 having yet another 20% year.

I suspect that scenario #2 will be most likely. I also think it would be most healthy. An average (10-11%) stock market return would bring expectations back into a more realistic range. Investors would view the volatility of 1999 as acceptable. Neither fear nor euphoria would prevail. This would set the stage for an orderly and strong start to the year 2000.

## **Anticipate Your Cash Needs. If You Need Money From Investments, Sell Now**

Look ahead at least six months. Don't be too greedy in your investment accounts. If you know you are going to need money soon, sell some investments as the market goes up.