

Economic & Market C o m m e n t a r y

Marking Time

By looking at just the start and finish numbers of the last six months, one might think not much has really happened in the financial markets. The DJIA is down about 2.00%, the S&P 500 lost about 7.00%, and the NASDAQ lost about 12.50%. The longer term interest rates have risen as the Federal Reserve has been attempting to reflate the economy by systematically lowering the Fed Funds and the Discount Rate since the beginning of January. The headline economic data which had shown accelerating weakness during the first quarter gave way to decelerating weakness. As the weakest numbers hit the streets near the end of March, the Bears reclaimed the streets and the Bulls dashed for cover.

Some of the less public data like regional manufacturing data and jobless claims data indicate a potential turnaround in the making, but until the signs are clearer, and the clouds in the valley lift, don't expect any positive headlines. The markets are seesawing back and forth based on the daily information flow, but the Bulls seem to be gaining ground as the domestic economic data seems to be improving.

History shows that Federal Reserve rate cuts take from six to nine months to work into the system. Considering the lag time, we expected to see some early signs of a bottoming as mentioned above, and if the rate cuts are successful, better headline data should surface in the coming months. We are not going to hang our hats on the tax rebate, as we don't have a lot of history to evaluate how taxpayers will respond to it. Half the economists believe it will be spent (the desired response), and the other half believe it will be used to reduce debt (the undesired response). The tax cut, while small, will certainly not detract from economic growth and at worst, will be a modest positive. The United States is doing its part as an economic partner to the rest of the world

In our estimation, the plight of the U.S. economy is only one fourth of the game. The global nature of every country's economy forces us to consider the impact of economic trends in other industrialized countries on our domestic investment markets. Protectionist policies may be one of the more important issues to consider when evaluating the health of the global economy over the next three to five years. These policies may take the form of tariffs imposed on imports, manipulating the supply of a vital resource, or interfering with corporate mergers. History shows that protectionist policies do much more harm than good, and we believe that cooler heads will prevail, as reliving past policy mistakes is too economically and politically painful.

The current direction of Federal Reserve policy is the correct strategy, and we believe we are headed in the right direction. While the worst is most likely behind us, we still have an eye on the horizon.

We spend a considerable amount of time researching economic issues and individual securities, and more time is required every day to stay one step ahead of the information flow. To that end, we are happy to announce a new addition to the Stellar family. Dan Koerner has joined the firm as a Research Analyst. Dan is a CFA candidate, has solid experience in the field, is very familiar with the computer programs we use, and is committed being an integral part of our team.

Stellar Capital Management has seen the number of clients served steadily increase over the last 12 months. As our clientele grows, so do the demands on the firm. As always, we are committed to serving our client needs first, and will grow the firm in a methodical and organized manner to ensure that our clients are best served. Dan's addition is yet another step in the right direction.

Steve Taddie
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