



October 13, 2008

Weekly Market Commentary

The major domestic market indexes experienced one of the worst weeks in modern history as investors became fearful about the potential for a systematic meltdown in the global financial markets. In sharp contrast to the previous week, when it was the worst-performing industry group, the real estate services group was the only industry group that was positive, up 6% led by its single member, CB Richard Ellis Group Inc. The company had jettisoned an undisclosed number of employees in a national restructuring program.

The fertilizer and agricultural chemical group was among the better-performing groups for the week, declining only 5% – a relatively good performance in a very weak market, driven primarily by Monsanto Co., the largest member of the group.

The automobile manufacturer group was the worst performer, down 49%. General Motors Corp. and Ford Motor Co. were both down sharply. On Friday, both companies made statements, meant to reassure concerned investors, that they were not considering filing for bankruptcy. Moreover, rumors began to mount over the weekend about a possible GM and Chrysler merger. The investment bank and brokerage group was among the underperformers, declining 36%. The Goldman Sachs Group Inc. was down 31%, and Morgan Stanley was 60%

lower, both affected by the global credit crisis.

Bond yields ended the week mixed as long-term yields moved higher while short-term yields continued to benefit from a flight to quality. The Federal Reserve reduced short term rates in an attempt to provide more liquidity to the banking system. The Fed was not alone in cutting interest rates as the European Central Bank, Bank of England, China, Hong Kong, Canada, Sweden, Switzerland, Australia, South Korea and Taiwan all cut rates this week. However, global coordinated central bank cuts and more liquidity injections around the world failed to restore calm to the markets.

	Key Market Data		
	Week ending		
	10/10/08	10/03/08	Change
Dow Jones Industrial Average Index	8,451.19	10,325.38	-18.15%
S&P 500 Index	899.22	1,099.23	-18.20%
NASDAQ Composite Index	1,649.51	1,947.39	-15.30%
10-Year Treasury Note Rate	3.87%	3.61%	+0.26
NYMEX Crude Future (Barrel)	\$77.70	\$93.88	-\$16.18
Euro/U.S. Dollar	\$1.3403	\$1.3784	-\$0.0381

The broader view

We think at this point in the financial crisis that the nominal Gross Domestic Product (GDP), the key barometer for economic well-being, will likely be negative through this quarter and the first quarter of 2009.

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This sober outlook may be revised upward if oil prices decline substantially and the credit market finally eases. While inflation is likely to decline in step with slowing global economic growth, fresh inflationary pressures in 2009 can't be ruled out since central banks around the world are pushing the money supply substantially higher.

The one bright light on the economic horizon, in our opinion, is the massive, coordinated policy response currently taking place worldwide. Policymakers from around the globe are united in their resolve to avert a global financial meltdown. On Friday, The International Monetary Fund specifically endorsed the plan of action put forth by the G7 nations, which called for public funds to recapitalize banks. The G7 includes the United States, Japan, Germany, France, Italy, the United Kingdom and Canada. The European Union is also a participant. The G20 includes those eight and adds China, Brazil, Russia, India, Mexico, South Korea, Saudi Arabia, Argentina, Australia, Indonesia, South Africa and Turkey. Together, the G20 account for about 90% of global gross domestic product.

We are confident that policy makers will consider all options necessary to stabilize financial markets and limit the spill-over damage to the "real economy." As governments shift credit risk from investors to taxpayers by providing direct loans and guarantees, we anticipate more governmental actions. These steps are likely to include: a direct role in interbank lending, government guarantees of bank loans (or a clearinghouse for these loans), use of the Troubled Asset Relief Program (TARP) to provide equity infusions into banks, and more rate cuts.

It is clear to us, that equities won't be able to recover meaningfully without some easing

in credit conditions. Yet, it is important to keep in mind that while we're facing the most significant financial crisis since the Great Depression, this is only the 11th worst decline in domestic stocks. We are mindful that significant lows in equities are usually high volume events, and given the fear and panic selling that has gripped the markets, it is possible that we have not seen enough volume on the decline side yet. Again, we believe policymakers here, and abroad, are far from done. Eventually, confidence will be restored and the credit markets will start functioning again. Once the market finally bottoms, it is highly likely we will witness a significant "relief rally" in share prices. If a rally does occur, we believe the market will probably retest and probe the lows before making any real moves to the upside. Some economists speculate that the unfolding slowdown in the rest of the world has more to do with the sell-off in U.S. stocks than with the financial crisis. That means the financial crisis in the U.S. could end sooner than the global economic slowdown. Contributing to an eventual recovery, we expect that key OPEC countries will allow oil prices to slide further to mitigate economic weakness until the financial market situation stabilizes.

A look ahead

Domestic equity markets open this week with investors either comforted or disappointed by the meeting of the G7 finance ministers and central bankers, who gathered in Washington D.C. to address the global financial meltdown and its implications for the world's economies. It is apparent that the markets have more than priced in a hard recession. For those who watch the fundamentals, however, the coming week will feature a lot of new data about the economy, much of it certain to be rather sobering, including reports on the



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Standard and Poor's 500 Index[®] (S&P 500[®]) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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