



*October 20, 2008*

**Weekly Market Commentary**

Reversing the direction of the past three weeks, all major domestic equity indexes ended last week in positive territory.

Volatility remained a persistent theme as the equity markets swung wildly during the week sending the Chicago Board Options Exchange Volatility Index, or VIX, to a record high. Rebounding from weeks of pummeling, the investment bank and brokerage group was the best performer, rising by 28%. Goldman Sachs Group Inc. and Morgan Stanley were up on news that the government would provide funding to the two companies by purchasing preferred equity stakes in each firm. The automobile manufacturer group was the second-best performer, up 26%, on news that General Motors Corp. is negotiating a possible merger with Chrysler LLC.

The worst-performing group was the real estate services group, down 32%. Four real estate investment trust groups were also among the underperformers. Investors appear to be concerned about a weakening commercial real estate market brought on by the credit crunch.

The U.S. government injected \$125 billion into nine large banks and has an additional \$125 billion for other financial institutions at their disposal. That move helped bond yields rise somewhat higher last week as the flight-to-quality trend abated a bit. While spreads continued to stabilize, however, the credit

markets stubbornly refused to thaw appreciably at any levels beyond very short-term.

<b>Key Market Data</b>			
Week ending...			
	10/17/08	10/10/08	Change
Dow Jones Industrial Average Index	8,852.22	8,451.19	+4.75 %
S&P 500 Index	940.55	899.22	+4.60%
NASDAQ Composite Index	1,711.29	1,649.51	+3.75%
10-Year Treasury Note Rate	3.93%	3.87%	+0.06
NYMEX Crude Future (Barrel)	\$72.05	\$77.70	-\$5.65
Euro/U.S. Dollar	\$1.3414	\$1.3403	+\$0.0011

**The broader view**

While we are certain to experience further downward price pressures on equities, last week’s robust upward movement underscored a growing consensus, we believe, among investors that the recent policy measures implemented by the U.S. Treasury and overseas central banks will eventually guide the market out of the current global banking crisis.

From this point, we expect to see the distance widening between analogies with The Great Depression and the present crisis. It is increasingly evident to investors that global policymakers are cooperating in a new and disciplined way to find a way forward – in contrast to the spirit of international economic antagonism that served as a backdrop for The Great

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Depression. We think that investors and financial institutions, having now priced Great Depression-like scenarios into the market, will be better prepared psychologically to cope with the recessionary strains likely in the days ahead. For proof the recession is underway, we will be watching for a likely confirmation of that from the October Purchasing Managers' Index.

Globally, we are seeing recessions unfolding already. Among the developing markets, Singapore is among the first to see its economic activity sharply contract enough to warrant the term "recession."

Credit is the key to renewed economic growth. By pulling back from consumer lending, the banking system continues to act as a brake that won't come unstuck, increasing economic problems. As policymakers continue to use every tool in their tool box to free up the credit markets, we will be paying especially close attention to which tool the banking system employs to backstop American's lending institutions and restore confidence.

For the near-term, getting in or out of the market given the current state of volatility will continue to be perilous for investors. In



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turn, the market will be compelled to test new lows. Still, with another Great Depression priced into the market, upside swings, we believe, could be just as dramatic. Even financier Warren Buffet has opined in an effort to renew confidence, by suggesting that now is the time to be buying American stocks, not selling them.

In short, bad news can be good news for investors as it permits investors to buy a piece of the domestic economy (and global economies) at marked-down prices. Being patient today could represent an opportunity to own investments with real future return prospects.

### **A look ahead**

U.S. stocks will start the week with some optimism that the market's recent efforts to stabilize will continue, even as the outlook for the economy and earnings potentially worsen from the fallout of the credit crisis. Economists polled by Bloomberg expect Leading Economic Indicators to fall by 0.1% as the domestic economy continues to show signs of weakness. On Friday, OPEC will gather for an extraordinary meeting on new production and quota cuts.

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Diversification and strategic asset allocation do not assure profit or protect against loss. Although stocks

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have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market. The securities of small capitalization companies are subject to higher volatility than larger, more established companies and may be less liquid. Bond investors should carefully consider risks such as interest rate risk, credit risk, securities lending, repurchase and reverse repurchase transaction risk. Greater risk is inherent in investing primarily in high yield bonds. They are subject to additional risks, such as limited liquidity and increased volatility. There is an inverse relationship between interest rates and bond prices. Investing in foreign securities is subject to certain risks not associated with domestic investing such as currency fluctuations and changes in political and economic conditions.

All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics, and news.

The Dow Jones Industrial Average Index<sup>®</sup> is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index<sup>®</sup> (S&P 500<sup>®</sup>) 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.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS<sup>®</sup>). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services, and Utilities.

The NASDAQ Composite Index<sup>®</sup>. Stocks traded on the NASDAQ stock market are usually the smaller, more volatile corporations and include many start up companies.

NASDAQ - National Association of Security Dealers Automated Quotations. The NASDAQ is a computer operated system owned by FINRA that provides dealers with price quotations for over the counter stocks.

Bear market calculations and interpretations are derived from data supplied by Ned Davis Research, Inc.