November 17, 2008

Weekly Market Commentary

All major domestic equity indexes moved lower and volatility continued to persist last week. The best-performing agricultural products group and its single member, Archer-Daniels-Midland Co, finished up 15%. The oil and gas refining and marketing group was the second-best performer, up 6%. The group was led by Sunoco Inc. which reported quarterly profits significantly above the analyst consensus estimate. The company attributed the strong results to very strong refining margins due to falling crude oil prices and reduced industry production related to the Gulf Coast hurricane activity. The industrial real estate investment trust (REIT) group was the worst performer, down 49%, led by its single member, ProLogis.

Treasury yields fell again as global economic data continued to paint a gloomy picture. Germany's economy contracted 0.5% in the third quarter and is likely to be a precursor to a broader European recession. China announced a $586 billion stimulus plan to boost its economy. In the U.S., initial jobless claims rose to 516,000, virtually matching the spike in jobless claims seen after 9/11. October retail sales fell 2.8%, which was the worst showing in at least 16 years. For anyone with money to spend, however, imports presented a bargain. Import prices in the U.S. fell 4.7% in October, and on a year-over-year basis have declined significantly.

	Key Market Data		
	Week ending		
	11/14/08	11/7/08	Change
Dow Jones Industrial Average Index	8,497.31	8,943.81	-4.99%
S&P 500 Index	873.29	930.99	-6.20%
NASDAQ Composite Index	1,516.85	1,647.40	-7.92%
10-Year Treasury Note Rate	3.74%	3.78%	-0.04%
NYMEX Crude Future (Barrel)	$57.04	$61.04	-$4.00
Euro/U.S. Dollar	$1.2599	$1.2718	-$0.0119

The broader view

As we have mentioned, we believe a recovery from the current recession will be accompanied by several tests of new lows before a likely bottom is reached – and a sustainable rally can begin. Still, in order to experience better depth and breadth in any recovery of the equity markets, we need to see greater healing among the credit markets. Despite the global sell-off in equities the past week, we may be beginning to see just that: There were some signs that the credit markets were thawing, especially in the areas of short-term liquidity rates and yield spreads. It is important to keep in mind, however, that the credit markets are still far from functioning as efficiently as we need for better capital market conditions across the board. To provide the domestic economy with a solid foundation for growth in 2009 and beyond, the healing process will need to extend into the functions of capital raising and a more efficient conveyance of risk premiums.

There are several key indicators for the revival of the credit markets to watch for: First, yield spreads should narrow as maturities increase. At present, yield spreads are increasing as maturities lengthen, even for relatively short-term debt. That situation needs to be reversed for any sustainable credit relief to occur. Second, investment-grade credit spreads relative to Treasuries need to decrease as well. The spread between Aaa and Baa bonds is close to 300 basis points, reflecting an exaggerated concern with defaults over downgrades. Third, we need to see a tempering in both equity market and bond market volatility. Whether you look at actual or implied volatility or volatility comparisons between equities and debt, the markets are still way too fickle. Finally, and most importantly, credit markets must return to the performance of their primary function – raising new capital. Without the ability for the capital markets to digest the issuance of new stocks and debt, a sustainable recovery will continue to be hampered.

Throughout the past two months, while the markets offered a gut-wrenching ride for investors, we have maintained that, while it important to keep the seat belts on, perhaps the shoulder harnesses can be loosened a bit. To endure the current moment requires caution from investors, not fear. Each investor benefits from having a clear understanding of the distinctions between investing – and saving or trading. Saving is when funds are put aside and preserved for future consumption needs. Investing is when savings are used to buy something that is believed likely to earn a decent amount of income, or will go up in value over time. Likewise, investing is different from trading. Generally, the difference lies in how long the securities are held. If an investor is trying to time the market – buying low and selling high as quickly as possible – then he or she is trading. Successful trading requires close attention to price trends, the courage to make quick decisions, and plenty of luck.

Investing, on the other hand, means making decisions for the longer term. Investors buy something because they believe it's valuable now or likely to become more valuable over time. Contrary to some market commentators that stress you should “rent” securities not own them, investing requires patience and relatively long time horizon. Investing “success,” however, is not the same thing as “making the most money.” Success can come in many different shapes and sizes, depending on what goals investors and their advisors set out to achieve.

A look ahead

Investors will turn their attention this week to reports on the Producer Price Index, Consumer Price Index, Housing Starts and Jobless Claims. They will also be watching for the possibility of further intervention by U.S. and foreign leaders as woes pile up for the American auto industry at home and many industries around the globe.

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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 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® 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® (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.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS®). 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®. 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.

The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices. VIX uses a weighted average of options with a constant maturity of 30 days to expiration.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

International Monetary Fund is an organization set up in 1944 to lower trade barriers between countries and to stabilize currencies by monitoring the foreign exchange systems of member countries, and lending money to developing nations.