



December 1, 2008

Weekly Market Commentary

Investors had something extra to be thankful for by the end of a week made shorter by the Thanksgiving holiday. All of the major domestic equity indexes made major gains by Friday's closing bell. The S&P 500 Index concluded with a five-day, 19.1% rise that became its best five-day rally since the Great Depression. Even more impressive, the Dow Jones Industrial Average Index gained 1,277 points, or 17%, in just five sessions, marking its best five-day percentage gain since 1932, and its best five-day point gain on record.

Once again, U.S. government action proved to be a major driver of events, as a rescue of Citigroup, the unveiling of President-elect Obama's economic team, and an \$800 billion plan to facilitate lending encouraged investors to look for bargains.

The U.S. government announced a guarantee for the bulk of \$306 billion of troubled assets identified at Citigroup and then took an additional \$20 billion of TARP (Troubled Asset Relief Program) funds and injected it into Citigroup by purchasing the bank's preferred stock. As a result, investors in Citigroup (and other troubled institutions) were relieved that policymakers would not let them fail and that their common shareholders' equity positions would be unhindered by the terms of the bailout. Then, the Federal Reserve and Treasury Department jointly announced the creation

of a \$200 billion effort to facilitate auto loans, student loans, credit card loans and small business loans.

Key Market Data			
Week ending			
	11/28/08	11/21/08	Change
Dow Jones Industrial Average Index	8,829.04	8,046.42	+9.73%
S&P 500 Index	896.24	800.03	+12.03%
NASDAQ Composite Index	1,535.57	1,384.35	+10.92%
10-Year Treasury Note Rate	2.92%	3.20%	-0.28%
NYMEX Crude Future (Barrel)	\$54.43	\$49.93	+\$4.50
Euro/U.S. Dollar	\$1.2692	\$1.2589	+\$0.0103

The 10-Year Treasury Note reached its lowest level on record, while LIBOR, the world's most widely used benchmark for short-term interest rates, increased across a number of time horizons. If there were strong conviction behind the idea that the latest initiatives were going to be successful in getting banks to lend willingly again, it seems that LIBOR rates should have come down. For Thanksgiving week anyway, investors took a holiday from such interest rate concerns and seized advantage of deeply marked-down equity prices. As a result, Financials led last week, rising 28.19%; followed by Basic Materials and Telecommunications, which rose 16.40% and 16.36% respectively. Among companies, in addition to a 111% surge for Citigroup, General Motors jumped 71%,

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while Pulte Homes and Goldman Sachs climbed 50% and 48%, respectively.

The broader view

From an economic standpoint, however, there wasn't much good news to celebrate last week. Third quarter Gross Domestic Product, the key benchmark for economic health, was revised down to -0.5% from -0.3%. Additionally, durable orders slumped 6.2%, existing home sales fell 3.1%, new home sales dropped 5.3%, personal spending declined 1.0%, and weekly initial claims, while improved from the prior week, continued to register above 500,000.

That the market managed to look past this worrisome news, including a well-orchestrated terrorist attack in Mumbai, India, suggested it had gotten to a point where prior selling efforts had been exhausted. Still, overall downward price pressure on equities in November was significant. Despite the big gains in November's final week of trading, all major domestic equity indexes finished the month lower.

Some bright spots, however, have undeniably emerged from all of the recent gloom. With the sharp rise in U.S. stocks last week, we believe investors are looking more favorably on efforts by the U.S. government to provide the right elixir to cure an ailing economy. The sharp decline in U.S. retail gasoline prices to just \$1.86 added to the festive mood. The savings rate climbed sharply to 2.4% in October from 1% in September, as spending fell 1% and incomes rose 0.3% month over month. We see the rise in savings as faster than expected, and believe that if the savings rate could approach high single digits, it would be a good sign.

The Federal Reserve's announcement to purchase \$500 billion of mortgage-backed securities, along with the falling 10-Year Treasury Note rate helped push mortgage interest rates down significantly. We expect, in the coming few days, to see mortgage rates fall to the lower end of the range they have occupied during the past two years. This is significant: Other than a permanent, large scale program subsidizing mortgage rates or down payments, we don't believe policy makers have many other options that could materially boost demand for homes. Policy measures that have focused on reducing foreclosures have not – and cannot – offset the demand destruction that has taken place, which lies at the heart of the financial crisis. While housing is still bottoming out, and the employment picture may get dimmer, we believe it may be still too early to call the bear market over. There is no question that the economy will be a challenge for at least the next couple of quarters. However, it does look to us like confidence, trust, and *hope* may be finding their way back into the markets.

A look ahead

The coming week is likely to test any emerging bullishness. It is possible selling pressures could manifest themselves early this week as traders seek to realize some profits from the recent rally and with concerns emanating from the terrorist attacks in Mumbai. Investors will start December with a sense of optimism that much of the dismal environment for corporate profits may have already been discounted by the market, even as upcoming reports, including the key jobs report on Friday, are expected to show a worsening economic picture.

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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.

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