



December 8, 2008

Weekly Market Commentary

On the heels of Thanksgiving week’s advances, all major equity indexes moved downward last week – but only slightly. While this retreat owed more to profit-taking than to fresh market fears, there was plenty of fearful economic news to be had. Yet, the markets for the most part kept their cool.

The ISM Index, a survey of national manufacturing conditions, got things started Monday as the Index fell to 36.2% – its worst reading since 1982, and well below the 50% mark that is seen as the dividing line between a manufacturing sector that is expanding or contracting. Then, the National Bureau of Economic Research (NBER) announced that December 2007 marked the start of the current recession, which the bureau forecasted to last well into 2009.

Employment news was particularly gloomy. Employers cut payrolls last month at the fastest pace in 34 years as the unemployment rate rose to 6.7%, the highest level since 1993. Automatic Data Processing (ADP) released its jobs report, and the federal government reported its weekly unemployment insurance claims, as well as the highly anticipated monthly payroll/unemployment survey data. ADP’s survey showed a loss of 250,000 jobs from October to November. This marks the second consecutive month that actual results were materially worse than estimates. The majority of the loss occurred in medium

sized businesses (with 50-499 employees). Continuing job claims also moved higher to 4.09 million, a metric which has not been at this level since the week ending December 25, 1982.

Key Market Data			
Week ending			
	12/05/08	11/28/08	Change
Dow Jones Industrial Average Index	8,635.42	8,829.04	-2.19%
S&P 500 Index	876.07	896.24	-2.25%
NASDAQ Composite Index	1,509.31	1,535.57	-1.71%
10-Year Treasury Note Rate	2.70	2.92%	-0.22%
NYMEX Crude Future (Barrel)	\$40.81	\$54.43	-\$13.62
Euro/U.S. Dollar	\$1.2718	\$1.2692	+\$0.0026

The broader view

The fact that the actual reported employment numbers are materially worse than estimates still tells us that the majority of experts do not yet have a grasp of the severity pertaining to the current economic slowdown. That makes it likely that these troubling unemployment numbers will continue to spike for at least the next several months. The inability of the government to loosen credit may be inciting businesses to cut more jobs than they normally would, too, further depressing purchasing power and weakening the economy. We believe the negative synergy of rising unemployment and frozen credit markets may be accelerating downward economic pressure. It’s clear to us that the U.S. economy may

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be headed for its deepest and longest recession since World War II as mounting job losses take a toll on consumer confidence and spending. In short, we probably didn't need the NBER to tell us a recession is here. With credit markets still frozen, the economy may not turn around for some time.

Bad news, however, does seem to be having less impact on the market than in weeks past. Why was the market surprisingly unruffled? Perhaps the market is noticing some improvements from a technical perspective. On one hand, we expect that the market will continue to challenge investors; yet, we still believe the markets are well into a bottoming process. The mid-November bottom in the S&P 500 Index was the second in this cycle; and, notably, it had fewer new lows, lower volume, and more breadth than the October 10 bottom – a positive indication.

Also, while retail investors are selling stocks and bonds at record extremes, cash on the sidelines (relative to stock funds) is well above the levels at the 2002 cyclical lows. With reasonable valuations and perhaps some sober earnings forecasts on Wall Street, we may have enough fundamentals potentially in place for the markets to lure some of that cash off of the sidelines. In the coming weeks, the markets will continue to gauge the severity of the economic downturn. At the same time, the

markets may need to absorb year-end tax loss harvesting. Eventually, we believe, investors will become unsatisfied with the paltry yields offered on risk-free Treasuries. As a result, riskier assets – such as equities and corporate bonds – will look more attractive on a risk/return basis, helping those assets to rally.

The data needs to get better to spark such a rally and we are nowhere close to that, so it seems. But \$3 trillion in stimulus from the U.S. government will help. It may not be long before we stop talking about the "R-word" – recession – and start worrying about the "I-word" – inflation (or possible a burst of hyperinflation) sometime in late 2009.

A look ahead

Investors will likely turn their eyes from Wall Street to focus more closely on Washington this week. Lawmakers will continue to debate bailout requests from struggling carmakers. Also, investors will be keyed into any announcements from President-elect Barack Obama or House Speaker Nancy Pelosi on the direction of a major job-creating, stimulus package. Washington's continued efforts to fix the broken credit system may continue to be a light in the darkness.

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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.

ISM Index is a monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month.

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