



Weekly Commentary March 17, 2008

The Markets

The Wall Street roller coaster continues...

On Monday, we heard the sad news about the fall from grace of former New York Governor Eliot Spitzer. That kept many Wall Streeters (and much of the country) riveted until his resignation announcement on Wednesday, March 12th. Sandwiched in there on Tuesday, the Federal Reserve pleased investors with an unorthodox move that could add up to \$200 billion in new liquidity to the banking system, according to a March 11th article at MarketWatch.com. That news helped send stocks into orbit on Tuesday as the Dow Jones Industrial Average soared more than 400 points – its fourth largest point jump in history. With that gain, some market participants dared to whisper that perhaps the market had hit bottom and was ready to start a new bull market.

On Wednesday, the market ended slightly lower as crude oil prices broke the \$110 per barrel mark and the dollar continued its descent. Thursday began on a grim note as news of a potential hedge collapse left traders in a sour mood, gold topped \$1,000 per ounce for the first time and the Dow Jones dropped more than 200 points at one point, according to *The New York Times*. However, that was replaced by euphoria later in the day as Standard & Poor's released a report suggesting that the end of subprime write-downs is in sight for financial firms. By the end of the day, the Dow had closed slightly higher.

Friday's stunning announcement from investment bank Bear Stearns that its "liquidity position in the last 24 hours had significantly deteriorated" shocked Wall Street and helped send the Dow Jones Industrial Average to a loss of nearly 200 points for the day, according to *The Wall Street Journal*. Just four days earlier, Bear Stearns CEO Alan Schwartz proclaimed, "Ridiculous, absolutely ridiculous," in response to rumors of a liquidity crunch at the firm. Decades ago, Franklin Roosevelt said, "The only thing we have to fear is fear itself." Unfortunately, that seems to be true for Bear Stearns. The rumors of liquidity problems caused fear among Bear's clients and lenders and it turned into a self-fulfilling prophecy.

Despite all the ups and downs, by the end of the week, the Dow Jones Industrial Average finished in positive territory. Whew! While we cannot predict when the market will turn around and start a new bull market, we have every confidence that it will and we continue to monitor developments very closely.

Returns through 3/14/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	0.5	-9.9	-1.3	3.4	8.7	3.2
Nasdaq Composite	0.0	-16.6	-6.8	2.6	10.5	2.2
Standard & Poor's 500	-0.4	-12.3	-7.1	2.2	9.1	1.8

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, 5-, and 10-year returns are annualized. Assumes dividends are not reinvested.

AS THE CREDIT CRUNCH CONTINUES, the Fed keeps adding liquidity to the financial system. However, as quoted in *The Wall Street Journal*, Bob Eisenbeis, chief monetary economist for Cumberland Advisers, said it's no longer an issue of liquidity that's plaguing the markets, "Rather, there is uncertainty about the underlying quality of assets – which is a solvency issue, driven by a breakdown in highly leveraged positions."

This "breakdown in highly leveraged positions" initially stemmed from rising defaults in subprime mortgages. That cascaded into other areas of the financial system and is now reaching into areas that, heretofore, were considered "safe." The meltdown of Bear Stearns also suggests that we're moving from a financial crisis to a crisis of confidence. When clients and lenders lose confidence in a firm's abilities to meet its financial obligations, they can pull the plug quickly.

While that may sound rather dire, we need to keep in mind that for the prepared investor, fear may breed opportunity. As nervous investors throw in the towel, seasoned investors with a broad perspective and intestinal fortitude may profit from the tumult. Sir John Templeton, considered by many to be one of the greatest investors of the 20th century, said, "The time of maximum pessimism is the best time to buy and the time of maximum optimism is the best time to sell." That contrarian thinking enabled him to build a highly successful investment management company that he eventually sold in 1992 for nearly \$1 billion.

Of course, nobody rings a bell and says, "Hear ye, hear ye, now is the time of maximum pessimism so back up the truck and start buying." The chances of identifying the bottom of the market and jumping in at that exact moment are slim to none. However, being a successful investor does not require perfect timing. It requires a strategy of buying low and selling high.

Interestingly, when it comes to the financial markets, many investors do just the opposite. They want to sell their securities when prices are relatively low (e.g., 2002 and 2003) and then, buy securities when times are euphoric and prices are historically high (e.g., 1999 and early 2000). That's a recipe for whiplash and poor returns.

The current "confidence breakdown" may eventually lead to a great buying opportunity. As your advisor, we continue to monitor the markets and do what we think is best for our clients based on our experience and based on our clients' goals, objectives, and risk tolerance.

Weekly Focus – Bragging Rights

If you had a few hundred million dollars of spare cash, how would you spend it? Well, some of the world's most well-heeled billionaires are spending their spare change on owning the world's largest yachts. A few years ago, Paul Allen, co-founder of Microsoft, built Octopus, his 417-foot floating palace. Not to be outdone, a short time later, Larry Ellison, co-founder of Oracle, christened Rising Sun, his 454-foot behemoth. But, those pale in comparison to Dubai, the new 525-foot mega-yacht owned by, who else, the ruler of Dubai. Of course, records were meant to be broken. *The New York Times* reported a German shipbuilder is putting the finishing touches on Eclipse, the 531-foot home away from home that is reportedly being built for a Russian billionaire.

So, how much does a 500-foot yacht cost? Well, if you have to ask, that's right, you probably can't afford it! But, here's the number...about \$650 million, according to an estimate by Burgess, a company that helps owners build and charter yachts.

Happy St. Patrick's Day!

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

*Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Consult your financial professional before making any investment decision.

* You cannot invest directly in an index.

* Past performance does not guarantee future results. .

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