



Weekly Commentary
March 31, 2008

The Markets

Sometimes a loss feels like a win.

Several economic indicators released last week suggest the economy is in a funk. Of course, you probably don't need us to tell you that, but now we have a few more data points to fill in the picture.

- The Commerce Department said personal spending was flat in February. That does not bode well for the economy since consumer spending accounts for roughly two-thirds of economic activity.
- The University of Michigan/Reuters U.S. Consumer Sentiment Index fell to 69.5 in March; its lowest level since 1992, according to a March 28 article from Marketwatch.com. Consumers are concerned about a slowing economy, unemployment, and rising prices in products as diverse as eggs and gas.
- Orders for durable goods declined 1.7% in February, according to the Commerce Department. That's on top of a 4.7% decline in January.
- And, in the home department, sales of new homes fell to a 13-year low in February, according to the Commerce Department. Prices are down, too. The S&P/Case-Shiller Home Price Indices released on March 25 showed an annual decline of about 11% in the average sales price of homes in 20 metro areas in January. On the bright side, the average sales price in those 20 metro areas is still up about 80% from January 2000.

It's easy to get caught up in doom and gloom. All we have to do is turn on the TV or open the newspaper and we can get our fill. However, despite last week's news, the S&P 500 Index was down just slightly more than 1% for the week. Not bad all things considered.

Ultimately, Americans seem to be an inherently optimistic bunch. Yes, we're in a rough patch right now with the economy and the financial system, but we'll get through it. As the credit market excesses and financial de-leveraging work their way through the system, we'll likely continue to experience market volatility. At some point though, we're apt to bottom out and start a new positive trend. While we can't predict when that will happen, we're doing our best to be prepared to try to take advantage of it.

Returns through 3/28/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-1.2	-7.9	-1.1	5.2	8.4	3.4
Nasdaq Composite	0.1	-14.8	-6.6	4.3	10.5	2.2
Standard & Poor's 500	-1.1	-10.4	-7.4	3.9	8.8	1.9

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.

NO DOUBT ABOUT IT, there's a "whole lotta shakin' going on" in the stock market these days. We've seen the headlines about big daily advances and declines in the markets and Standard & Poor's has now confirmed that U.S. stock volatility has climbed to its highest level in 70 years. As reported in a March 20 article from Bloomberg, Standard & Poor's said the benchmark S&P 500 Stock Index has advanced or declined 1% or more on 28 days in 2008 through mid-March. That came out to 52% of the trading days, which is the highest percentage since 1938. Back in 1938, the comparable number was 57%. Interestingly, despite the volatility in 1938, the S&P 500 actually rose 25% that year.

For a little historical perspective, going back to 2002, the S&P 500 had 1% moves 50% of the time. In 2006 that figure dropped to 12%. It rose slightly to 13% in the first half of 2007, and then soared to 39% in the second half of the year.

While the overall market is experiencing volatility, the daily swings in certain individual stocks are also quite astonishing. For example, on March 17, Merrill Lynch had a high price of \$42.42, a low of \$37.25, and it closed the day at 41.18, according to data from Yahoo! Finance. That's a drop of 12% from its high to low and a rise of 11% from its low to its close – all in one day! However, that pales in comparison to the trip that Lehman Brother's stock took that same day. It had a high price of \$34.91, a low of \$20.25, and it closed at \$31.75. That's a drop of 42% from its high to low and a rise of 57% from its low to its close – again all in one day!

It's very unlikely that the value of those companies changed by that much in one day. Instead, what we saw on March 17 was an extreme emotional reaction to unfolding events. Fear is a very potent emotion and it was on grand display that day. The significant movements may also suggest that investors (or speculators) still lack strong conviction about the future direction of the market.

As it relates to you, the market action on March 17 will likely just be an interesting footnote, if that. These large daily swings make great headlines and are fodder for the talking heads, but to long-term investors, they are just a blip.

Volatility can be scary and it tends to shake out the "Nervous Nellies". For investors who have an historical perspective, and who have an understanding of how emotions can play out in the financial markets, volatility may be an ally. After all, if there was no risk to investing, there'd also be no significant return. As your investment manager, we monitor these types of emotional market gyrations and do our best to help you take advantage of them.

Weekly Focus – Brainteaser

A certain number consists of two digits. The number is equal to five times the sum of its digits. If you add 9 to the number, the order of its digits is reversed. What is the number? See below for the answer.

Have a great week!

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.

* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.

* Past performance does not guarantee future results.

* To unsubscribe from the “[Ascension Capital Advisors Weekly Commentary](#)” please reply to this e-mail with “Unsubscribe” in the subject line, or write us at [1800 Bering, Suite 850, Houston, Texas 77057](#).

The answer to the brainteaser is 45.