



Weekly Commentary
April 7, 2008

The Markets

With the first quarter now in our rearview mirror, it's a good time to reflect on the key issues that affected the markets. As you can see in the chart below, the domestic stock market did not fare well over the past three months. However, it is still showing positive returns for the 3-, 5- and 10-year annualized returns.

Returns through 3/31/08	1st Quarter	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-7.6	-0.7	5.3	8.9	3.4
Nasdaq Composite	-14.1	-5.9	4.5	11.2	2.2
Standard & Poor's 500	-9.9	-6.9	3.9	9.3	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.

TURMOIL IN THE CREDIT MARKETS

The word "subprime" became firmly entrenched in our lexicon over the past few months as the domino effect of defaulting homeowners rippled through the financial system. Packaged pools of mortgages declined in price and led to billions of dollars of losses for large multi-national banks, investment banks, and hedge funds. Even the normally staid municipal bond market was affected as yields on tax-free municipal bonds rose above the yield of comparable Treasury securities. Prior to the first quarter, that hadn't happened in decades according to an April 1 *Wall Street Journal* article. The Federal Reserve Board, in an effort to maintain stability in the economy, lowered a key interest rate by a full two percentage points this past quarter. The Fed also broadly expanded the terms and the types of firms that could borrow from it. All in all, it was an historic quarter for the credit markets and for the actions taken by the Fed.

BEAR STEARNS GOES BYE-BYE

In a classic "run on the bank," rumors of liquidity problems at investment bank Bear Stearns led to an unprecedented Federal Reserve orchestrated bailout of the firm by J.P. Morgan Chase. The hastily created deal on Sunday, March 16, helped avoid a potential major disruption in the financial markets when the markets opened the next day. The Fed pulled out all the stops on this one and its actions will likely be debated by academicians, politicians, and investors for a long time to come.

COMMODITY PRICES CONTINUED TO ROAR

Gold prices pierced the \$1,000 per ounce mark. Platinum prices broke the \$2,000 per ounce level. Crude-oil prices topped \$110 per barrel. Natural gas prices rose 35% for the quarter on the New York Mercantile Exchange and wheat futures peaked at more than \$9.25 per bushel, all according to the *Wall Street Journal*. It was somewhat ironic that commodity prices were rising while recession talk in the U.S. was picking up steam. You would think that a slowing U.S. economy would put the brakes on commodity prices. Toward the end of the quarter, commodity prices did moderate to some extent, but bullish forecasters believe continued demand from emerging economies (e.g., China, India, Brazil) and tight supplies may keep us from seeing a lot of air let out of what some folks believe is a commodities bubble.

“SOS” FOR THE DOLLAR

Dollar weakness continued this past quarter as it slid 7.5% against the Euro, 10.6% against the Yen, 12.4% against the Swiss Franc, and 3.2% against a trade-weighted basket of 26 currencies, according to the *Wall Street Journal*. A weak dollar makes imports more expensive and makes traveling overseas more expensive, too, for Americans. On the bright side, it makes our exports more competitive and that has helped certain sectors of our economy. Low U.S. interest rates coupled with fears of inflation have helped keep pressure on the dollar. At some point though, that may change. “The dollar is as undervalued against the major currencies as it's ever been,” according to Robert Sinche, head of foreign-exchange research and strategy at Bank of America Corp, as reported in an April 1 *Wall Street Journal* article.

WINNERS AND LOSERS

By broadening our horizon, we find that there are winners and losers throughout the world's stock markets. Here is a partial list ranked by U.S. dollar returns.

Winners

Morocco	24.4%
Peru	14.5
Slovakia	10.7
Pakistan	8.5
Mexico	8.3

Source: Dow Jones Indexes

Losers

Turkey	-37.2%
Cyprus	-35.0
Iceland	-33.8
India	-29.2
China	-26.8

Source: Dow Jones Indexes

The Dow Jones World Index, which excludes U.S. stocks, fell 8.7% in dollar terms in the first quarter, according to the *Wall Street Journal*. That's not too far off the 7.6% decline in the Dow Jones Industrial Average. So, when it came to the stock market, there were few places around the world to profitably park your money in the first quarter. While the quarter ended in the red, it started the new quarter on April 1 with a huge rally that saw the Dow Jones Industrial Average rise nearly 400 points. We'll let you know in three months if that momentum carries through for the rest of the quarter!

Weekly Focus – What About Money?

“Money really isn't that important. Is a guy with \$50 million happier than a guy with \$48 million dollars?”

-- Milton Berle

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.

* 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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