



Thank God It's Friday!

June 27, 2008

The best news today was that the Market closed at 1 P.M.

Even the broad shoulders of Atlas could not hold-up stock prices today from falling into BEAR MARKET territory. A textbook bear market begins when indexes fall 20% off highs, which occurred in October 2007. You probably want to know: Are we officially in a bear market now? Close, but no cigar...yet.

And what about recession? We are on the brink of recession, but not yet there, because GDP is still positive and would have to slip into negative territory for two consecutive calendar quarters to qualify as a legitimate recession. Latest numbers - covering the first quarter of 2008 - reported that our nation's Gross Domestic Product (GDP) is still chugging along in the black, albeit at an anemic pace of 1%. Therefore, technically, no recession can be called for another 2 quarters which would bring us into the holiday sales season when the consumer should be back in the malls of America.

On Wednesday, June 25th all of us who have a mortgage...or carry credit cards... or use home equity loans paid strict attention to what the Fed reported. The Federal Reserve held key short-term interest rates steady. No change, and more importantly no rate raise. Thus ended a 9-month easing cycle where we saw 7 straight interest rate cuts which brought down rates by more than 50%: from 5.25% to the current 2%. It is obvious the Fed is walking a tightrope trying to **control inflation while at the same time not squelching growth**. Generally, the US Fed lowers rates when it is concerned about economic growth slowing but raises rates when it is more worried about inflation. This pause by the Fed indicates it is closely monitoring both ends of the spectrum, as indicated by their statement: *"Although downside risks remain (to growth), they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased."* Wall Street was understandably skeptical of such jawboning, and staged a buying strike of their own causing a rout on Thursday.

Next week, the European Central Bank is expected to raise its target rate. Its president, Jean-Claude Trichet, told the European Parliament on Wednesday that its goal is to keep inflation expectations under control. He said officials there are in a state of "heightened alert," particularly fearful of an inflation spiral in which workers seek higher wages and businesses raise their prices. This labor sensitivity is more appropriate for the French than the Americans due to the dichotomy of their labor unions' power. Historically, inflation is closely correlated to labor costs. Looking back to the early 80's when inflation was rampant at 14-15%, wages were growing at just shy of 10%. Currently, wages are rising at around 3% and their rate has steadily declined from a peak of 5% in '06. With wages declining, it will be awfully hard for inflation to continue its strong upward trend.

Credit cards are generally tied to the prime rate which in turn usually moves in lock-step with the Fed's actions. Financing conditions for lines of credit, including home-equity lines, will be tighter than they have been for years so **now** might be a prudent time to renegotiate your equity lines before rates go higher and supply dries up. Mortgage rates which reflect long-term interest rates have already begun to tick higher. Rates on 30-year fixed mortgages have surged to a 9-month high @ 6.25% on growing concerns about inflation, according to a recent report by mortgage backer Freddie Mac.

In the bond pits, traders have **bid-up prices** - refer to our Box Score- leaving yield on the benchmark 10-year Treasury bond at 3.99%. Historically, this is still relatively low.

INDEX	06.27.2008	12.31.2007	%Change
DOW JONES	11,346	13,265	- 14%
S&P 500	1,278	1,468	-13%
NASDAQ	2,315	2,652	-12%
Bond YIELD	3.99%	4.03%	- 1%*

Bond Yield



Bond Prices %

