



Thank God It's Friday!

January 25, 2008



This week's roller coaster ride on the stock market gave volatility a new meaning. **Investors were whipsawed** with more than 7% fluctuation from this week's lows to its highs.

For much of 2007, stock markets brushed off bad news in the US housing and credit markets with these consoling assumptions: First, that growth in overseas and emerging economies had "decoupled" from the US and would override the weakness in the US. Second, that the credit crunch would be confined to the mortgage and housing markets. Third, that policymakers, led by Mr. Bernanke, would salvage the economy—and the stock market.

Of these critical assumptions, only the government rescue has proved correct. Clearly, the American consumer is cutting back her purchases and the labor market is slowing. Overseas economies are showing signs of slowing growth and their stock markets have suffered the 20% decline that meets the informal definition of a bear market. But the US Congress is hammering out—at lightning speed in government time—a \$150 Billion plan to get consumers and businesses spending. And **the Federal Reserve enacted a whopping ¾ % interest rate cut** on Tuesday morning—following cuts totaling a full percent since August and with ANOTHER ½ point cut expected at next week's meeting. The State of the Union address next week will undoubtedly aim to allay economic fears.

We are cautiously optimistic for the market's prospects in the coming year. First, because although bad news abounds—higher energy prices, credit crunch, slowing growth—these are taking no one by surprise. The nation's top economists are in rare consensus: the economy is slowing. **Once everyone AGREES a slow-down is coming, it is likely already priced into stocks:** markets consistently resume growth well in advance of the overall economy.

Another reason for our optimism is that GROWTH is RECESSION PROOF and we are growth investors. We began rebalancing our portfolios some months ago to invest like a recession was inevitable....then prepare to rejoice if the R word was not only premature but also exaggerated.

Case in point: last year's spectacular TECH run on the coattails of innovation from I-phones to never-lost-gps systems in your car....SOLAR stocks soared following a simple documentary film and a Nobel Prize raising the world's awareness for the NEED for alternatives to fossil fuels.

We may well have seen the lows of the stock market, but regardless of how severe the slowdown in the economy, **there are always profitable places to invest.** We'll be looking for—and finding—they for your portfolios.

INDEX	1.25.2008	12.31.2007	%Change
DOW JONES	12,207	13,265	-8.0%
S&P 500	1,331	1,468	-9.3%
NASDAQ	2,326	2,652	-12.3%
Bond YIELD	3.58%	4.03%	-11.2%*

Bond Prices ↓ Bond Yield % ↑

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