BEDELL
investment counselling

Thank **G**od **I**t's **F**riday! February 15, 2008

After a week of seemingly endless negative news, the University of Michigan reported that consumer sentiment dropped to the lowest reading in 16 years. A few hours prior former Fed chief Alan Greenspan stated that he sees a 50% chance of recession. Despite this negative news, the S&P 500 finished the week with a gain of 1.4%.

As we've mentioned for some time now, slowing growth has become the norm. We expect the economic slowdown to continue through the first half of the year, with a pick-up this summer. Fed Chairman Bernanke endorsed that line of thinking on Thursday, and indicated there would be further rate cuts ahead.

It's our belief that January's sell-off has factored in a US recession and a global slowdown. However, recession is still uncertain, and we maintain that one will likely be avoided. It really doesn't matter if we actually go into recession or not because it already feels like we are in one and the Market has priced one in. The panic selling and wallet tightening might force us into recession. It's becoming a self fulfilling prophecy.

So why do we remain optimistic for the remainder of the year? Global growth remains strong and the sell-off has created significant opportunities for bargain shoppers looking out beyond 12 months. Corrections aren't fun but are always healthy, and they tend to overshoot on the downside. Low interest rates – going lower – provide cheap money. Liquidity will return, and when it does, it will trigger a rally for stocks.

Problems remain, no question about it. However corporate profits remain relatively strong. Thus far ¾ of the S&P 500 companies have reported 4th quarter results. On the surface, the numbers aren't pretty, with earnings falling more than 21%. But, if you exclude Financials and Homebuilders, the remaining sectors **grew earnings over 12%**. The strength is coming from Technology and Energy, climbing 25% and 19% respectively. Your stocks scored even better, with earnings up 7% overall, excluding financials up 26%. This is impressive, and supports our rationale that what you don't own is as important as what you do.

Further rate cuts should provide more stability to the Markets and put an end to the panic selling. But the near term news will likely be more negative than positive and the volatility will continue. To put it in perspective, 20 of the 33 trading days in 2008 saw triple digit moves in the DOW. This is staggering. So hold on for the ride.

INDEX	02.15.2008	12.31.2007	%Change
DOW JONES	12,348	13,265	-6.9%
S&P 500	1,349	1,468	-8.1%
NASDAQ	2,321	2,652	-12.48%
Bond YIELD	3.78 %	4.03%	-6.20%*

Bond Prices Bond Yield %

As a reminder, our office will be closed Monday the 18th as will the stock and bond markets.

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