

Thank God It's Friday!

June 6, 2008

Have you ever driven with someone who was positive they knew the way and ignored evidence to the contrary, yet inexplicably favored the circuitous route, struggled to stay in one lane and was oblivious to the fact that you passed the same landmark multiple times, all from different angles? Throw in a few backseat drivers and you have this week's Market activity in a nutshell.

A casual observer of Wall Street would see that the Market has been fairly tame for the last few months, hanging around the all-important 1,400 level on the S&P 500 (which translates to roughly 12,700 on the DOW). But this year has been anything but tame - the increased volatility is having a pronounced effect on all investors; speculators are reveling in short-term bets, while more conservative longer-term investors are spooked and confused. This week's action epitomized this.

In case you were wondering what the driving forces behind this Market are; there are many. Unfortunately the windshield needs a squeegee. We all know about the negative pressures of housing, credit and the US economy. It doesn't take a rocket-scientist to recognize that high oil and food prices exacerbate the challenges. But the Market has absorbed much of the negative news, which has been confirmed time and again. The price of oil remains the biggest wildcard, as it has influence on virtually anything economic.

Speaking of economics, Friday's job number showed that the unemployment rate jumped to 5.5%, its biggest one-month increase in over 20 years. This rattled an already skittish investor base, and proves that the US economy is still stuck in the woods. However, there are two "yeah, buts" at play. First the higher unemployment rate may be artificially high due to the influx of new grads entering the inhospitable workforce. Second, the excitement from this week's strong retail numbers was almost certainly due to the effect of the IRS rebate checks. Call it a draw, but the Market thought otherwise.

Thursday's rally to the tune of 200+ points on the DOW coincided with a \$5.50 climb in crude oil. Where's the logic in that? It's absent. Nothing fundamentally changed within that narrow time frame. Friday's sell-off more than erased Thursday's gains, yet crude climbed another \$11! Heightened geo-political tensions with Iran plus Morgan Stanley's new \$150 target for oil contributed to crude's surge. Unless there's something going on that is not common knowledge, this excessive move seems baseless, especially considering further evidence of a sluggish US economy. A \$16 oil increase in 48 hours is unprecedented. To put this in perspective, crude oil only rose \$1.25 after the September 11 attacks, and was still firmly in the \$20 range per barrel. We anticipate crude prices will remain elevated, and would not be remotely surprised for another surge to \$150 nor a fall to \$100. The portfolios have been prepared for this.

Back to the road map: We still anticipate both stocks and bonds to end the year higher and potentially with significance. We are judicious in when we put money to work as well as when we take it off the table. We are re-initiating a covered call strategy because we feel that near-term stocks are range-bound, and the range appears to be tightening. We are always looking for opportunities to protect your assets as well as grow them. Right now we're fixed on doing both.

Markets are driven by psychology - right now emotions are running high. Speculators are expected to continue with what's working, which will increase the volatility. Friday was ugly, no question. But if you've been following along, it shouldn't be a surprise. Panic selling has historically proven to be a bargain hunter's dream.

By the time we get to the final destination, we'll need a car wash and a tune-up, as well as a good night's sleep, but we'll get there. In fact I think we're getting close. Too bad there's no GPS for Wall Street.

By Mike Frazier

INDEX	06.06.2008	12.31.2007	%Change
DOW JONES	12,210	13,265	-7.9%
S&P 500	1,361	1,468	-7.3%
NASDAQ	2,475	2,652	-6.7%
Bond YIELD	3.94%	4.03%	-2.2%*

Bond Prices



Bond Yield %

