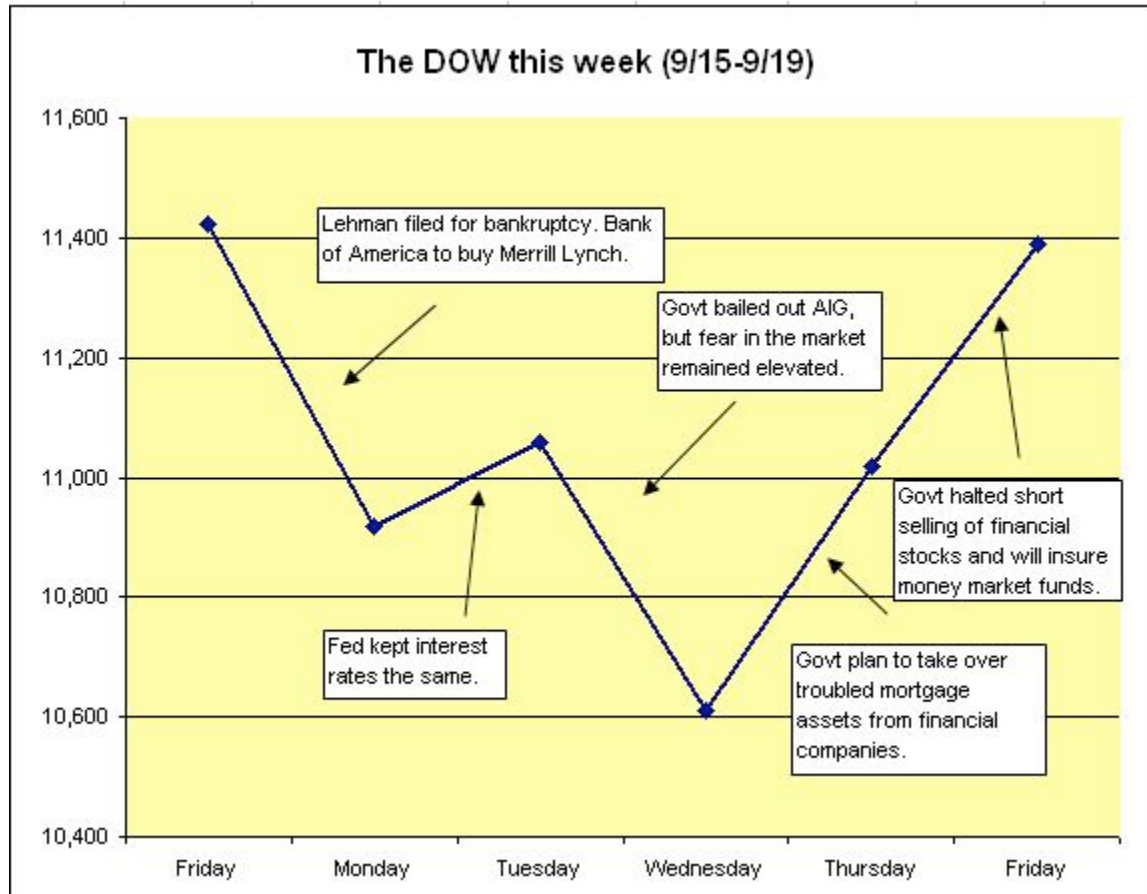


If you were on a desert island from last Friday till today, to find the market up a mere 0.3% for the week, you probably thought, "Oh well, that was nice, didn't miss much." In fact, Thursday and Friday saw the biggest 2-day gain for the global markets in the past 38 years.



The government decided to change the rules of the game..not before or after, but during the game. The government came in full force to provide some support to this recent crisis. No objections here. In our opinion, the Fed is designed to act as the "lender of last resort" and performed accordingly. This week marked a major turning point in the financial crisis.

Here's a play-by-play recap of this historic week on Wall Street:

Monday: Dow down 504 pts as the trifecta of bad news hit the Street: Lehman Brothers filed Chapter 11 bankruptcy; Bank of America acquired Merrill Lynch and the 504 point decline in the Dow was the largest since Sept 2001 following the events of 9/11.

Tuesday: Dow up 141 pts as The Federal Reserve Board met and decided to leave interest rates untouched. This was in line with expectations from last week, but expectations of an interest rate cut had increased following the renewed fears of the next bankruptcy filing. With interest rates directly affecting bond prices, Monday's flight-to-quality in Treasuries brought the 30-year bond to a low of 3.91% this morning. That is the lowest yield since 1987. This means the yields on many blue chip stocks are higher than you'd get from Treasury bonds.

Wednesday: Dow down 449 pts as the U.S. government stepped-in to rescue insurance giant AIG from bankruptcy to avert what we feared would spark a global financial crisis of enormous proportion. The government's \$85 billion bailout of a pivotal player in global finance came just two days after the government refused to save Wall Street icon Lehman Brothers from a similar fate and is the latest in a series of government and private sector steps that have remade the U.S. financial system. However, the markets ignored the AIG bailout as stocks declined 4% while gold rallied up 11%.

Thursday: Dow up 410 pts in a classic relief rally primarily ignited by resurrecting an old trick from the 1980's called the Resolution Trust Corporation. But it was a bumpy ride as the Dow's 600 point swing during the day was the largest since January 2008.

The Federal Reserve announced the injection of \$180 billion into global money markets. But not alone: We were joined by central banks from our closest allies, namely the EEC, the Brits, the Swiss, the Canadians and the Japanese.

Then at noon, there was mention of the Resolution Trust Corporation (RTC). Fear turned into hope...hope that there is light at the end of this rollercoaster tunnel. There were reports that the government may create an RTC-like entity to help fix the credit markets by taking over banks' bad mortgage debt. The Resolution Trust Corporation was created during the savings and loan crisis of the 1980's to buy real estate, mortgages and other assets of failed savings-and-loan institutions. By creating a similar entity to take over the bad mortgage debts, it could give the credit markets a complete make-over, improve liquidity and ease the cost of borrowing for businesses.

Friday: Dow up 368 pts as Treasury Secretary Paulson announced plans to set-up a government program to take over troubled mortgage assets from financial institutions. The eventual structure of this entity is still unclear but the intent of the government is clear and firm.

The SEC immediately banned the short-selling of 799 financial stocks for the next 10 days with a possible extension for up to 30 days. Unfortunately the SEC failed to re-institute the up-tick rule which can temper panic short-selling. This is an oversight in our opinion.

Historically safe assets like money market funds came under the cloud of fear so the US Treasury announced that the government will insure the holdings of money-market funds. The amount of money on the sidelines, invested in money-market funds is HUGE: about \$3.4 trillion in value with the concept that \$1 invested comes back to the investors as \$1, plus interest, with no compromise to principle.

Volatility in the market will likely continue, but the US economy dodged some serious bullets this week via collaborative problem solving among the Fed, the Treasury and the Congressional leadership. This affirms the US banking system is tough and malleable and able to sustain some serious body blows without being knocked-out. It would be naïve to believe these events along with their solutions will not make us bleed a little, but we are on our way to changing how we do business in America. Thank God It's Friday!

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