



Thank God It's Friday!

September 12, 2008

We have been talking about volatility all year, but this week takes the cake. Monday's rally off of the Fannie/Freddie takeover at the hands of the Treasury Department was completely erased the following day by fears of Lehman Brothers' questionable future. Each day the plot thickened, yet each day the Market also strengthened. Panic, confusion, fear, speculation and bargain-seeking have all been the catalysts. This Market has been more turbulent than Elizabeth Taylor's love life. To put it in perspective, the DOW has seen a 300 point intra-day move every day in September heading into Friday; 8 consecutive sessions.

We re-tested the July lows twice, and importantly held those levels. Thursday's action saw the Market shoot up like a rocket off the lows and it accelerated higher, reversing a 245 point loss into a 170 point gain on strong volume. That is significant. The recent behavior of this Market has been confusing and chaotic, for all investors alike. We are gaining conviction, however, that we are in a bottom formation for the Market and as long as we hold the July levels, we could be poised for a rally.

Digging deeper into the underbelly of this Market, both Financials and Retailers have risen over 20% since mid-July versus an increase of 3% for the S&P 500. This is counterintuitive to most considering the problems we still face in the banking sector and the U.S. economy as a whole. But remember, the Stock Market is a discounting mechanism that looks further out into the future. This is a good sign. Despite the erosion of capital in Fannie, Freddie, Lehman and Washington Mutual stocks, higher quality bank and brokerage companies have rallied. The Market is suggesting that a recovery is on the horizon. The volatility will stick around for a while, and a strong bottom will require multiple tests. We're not out of the woods yet.

This weekend should prove to be eventful. Hurricane Ike will hit the Texas coast Friday night. Over 25% of our nation's oil refining capacity resides along the Gulf, so potential damage and outages threaten crude prices. Also, the lights will be on at Lehman Brothers' headquarters through the weekend as they try to engineer their future. Buyers exist, but brokering a deal has been tricky. One thing is certain; the Market won't welcome an unresolved Lehman on Monday morning. Stay tuned.

By: Mike Frazier

INDEX	09.12.2008	12.31.2007	%Change
DOW JONES	11,422	13,265	-13.9%
S&P 500	1,251	1,468	-14.8%
NASDAQ	2,261	2,652	-14.8%
Bond YIELD	3.73%	4.03%	-7.4%

Bond Prices



Bond Yield %

