



Thank God It's Friday!

October 24, 2008

This morning looked like it was going to be a disaster. The Asian Market collapse overnight spilled over to Europe, and our Futures Market suggested a freefall of 1,000 points. For the first time since September 11, the Futures Market had to be halted. The talking heads were telling us that this was going to be a crash of historical proportions. But you know what happened? After what was a sharp decline at the open taking the DOW 500 points lower, there was a very orderly and constructive trading session that inch by inch took the Market higher. The DOW came nowhere near the lows set in on October 10. And we didn't stay on today's lows very long either. At one point we were only down 1%. Asia and Europe were down 9% and 7%, respectively, on some of their exchanges.

There was no panic on Wall Street today. There was some knee-jerk selling to be sure, but buyers have returned. This is important to understand. We have seen so much hype and negativity in recent weeks. Local news, cable news, online news all have lead stories covering the Markets. The phrase "401k's are now 201k's" has stolen headlines. Over-reaction to fear has taken over focusing on facts.

We try not to focus on daily trading activity, because we are long-term investors. However, market analysis is critical to really understand what's going on and determine a direction. We are definitely not trying to sugarcoat what is going on. We are most likely in a recession now, and in the midst of a global slowdown. But our feeling is that this Market activity does not reflect the facts. Things are not as bad as they appear.

The global economy IS likely to get worse before it gets better. Unemployment WILL increase from its current rate of 6.1%. Volatility in the market has reached highs every week for the last four weeks. It feels like there is no light at the end of the tunnel, but if you look at the few positives, we are at least moving through the tunnel. Credit markets are unfreezing compared to past weeks.

We have been trying to find bottom in this market for some time now, and forming a strong bottom takes time. The good news is we are holding these lows. Down days occur on lighter volume than up days. And equally significant, every day this week saw a rally higher to the close. We are not going to be able to pick the ultimate bottom. But we find ourselves in a position where the upside reward significantly outweighs the downside risk for a multi-year investment horizon. We just want to find more stable ground before we feel comfortable putting money back to work aggressively.

Investor psychology remains at historically low levels, and it will take time to restore confidence. But a recovery rally shouldn't be too far off, perhaps using the election as a catalyst with new leadership. October has often been bottom for Bear Markets. Mutual Funds close their books on the 31st, and many have been facing record redemptions. Many Hedge Fund investors have demanded their money back, which will be effective November 1. Both entities have been selling in size to meet these demands which helps explain the meteoric market collapse when few buyers stepped in.

Bear Market reversals are usually quite powerful. Since 1980, if you missed just 30 of the best-performing days for the market you would have missed out on 73% of the gains. We don't feel that a buy and hold strategy is going to work in this environment, but we don't want to miss out on a recovery rally. Another 1,000 point one-day rally on the DOW is a strong possibility.

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