



## Thank God It's Friday!

October 31, 2008

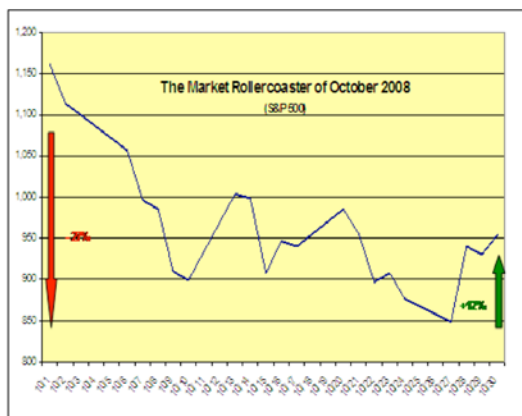
"October. This is one of the most peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February."

-Mark Twain

We can finally close the books on October 2008. It was the worst month for the US Stock Market since 1987, and the worst month for global markets on record. The S&P-500 Index was down over 17% for the month, as the graph below depicts. This picture shows the market was down as much as 27% during October, then rebounded just this last week, to close down only 17% for the month. October has seen Market bottoms more than any other month. It happened in 2002, it happened in 1987, even the Great Panic of 1907 occurred and bottomed in October. Let's hope THIS October follows suit by marking a bottom in stock prices.

So why is October so rough on stocks? For starters, the Mutual Fund Industry's fiscal year ends on October 31. So when they close their books, they declare distributions and gains for the year, and they re-position their Funds getting rid of underperformers, especially high profile dogs that were top holdings for the fund. This is entirely window dressing, but creates forced selling, and large institutions still have the power to move markets.

This October has been particularly harsh due to what has appeared to be further liquidation by Hedge Funds. As the credit markets froze up, hedge fund investors who had used excessive leverage - sometimes as much as 40 to 1 - received margin calls which forced them to sell stocks to meet demands of investor redemptions. When people wanted their money back from the Hedge Fund, traders at these speculative funds had to dump substantial amounts of stocks, even ones they liked. This was an incredible and frightening state of affairs which began unwinding in October.



On a positive note, buyers have returned to both the stock and bond markets. Panic selling has abated and the initiation of a recovery have commenced. We've got a long way to go, but things are looking much better. Tuesday's election should provide more investor confidence, regardless of the outcome.

Another reason for optimism, we are moving into the strongest seasonal period for the markets. Despite the fact that our economy remains in tough shape, 4th quarter spending should pick-up a bit as gas prices have plummeted and the Holidays inevitably get people to open their wallets.

We already got a Halloween treat today as the market rally finished this week UP 10%. Furthermore, we expect a modest Santa rally will usher-out 2008.

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