

Thank God It's Friday!

July 18, 2008

We closed the books on another week on Wall Street: The story was all about CORPORATE EARNINGS announcements. The Dow tacked on 400 points, snapping a 6-week losing streak.

With headline news dominated by Fannie Mae and Freddie Mac possibly being undercapitalized, investors' fearfully looked for direction and assurance into the health of corporate America. They got it from the Secretary of the Treasury and the Federal Reserve. More importantly, they got it from **cash** as large investors gobbled up Fannie and Freddie Bonds which was the best possible sign of renewed confidence.

On Wednesday, Wells Fargo helped catapult the Dow to a 3.6% gain for the week with earnings results that were poor, but not as poor as some expected. Wells announced smaller than expected mortgage write-downs and raised the dividend. JP Morgan's earnings were in the black, whereas, both Citibank and Merrill Lynch reported serious losses. The equity markets applauded these losers as though they were Olympic champions.

Preferred Stocks profited from this week's financial stocks reversing their downward trend. Some showed two to three point gains. The average financial preferred stock was up a whopping 25% this week. Money started moving back into this strong cash-flow investment after having been pummeled just because they were somehow related to banks or financial services companies. Think: Bank of America. Even preferred stocks issued by stalwart foreign banks like Barclays of London and Royal Bank of Scotland were punished for the sins of American mortgage abuses. This was caused by fear the financial crisis would cross the

A classic Wall Street adage is: BUY THE RUMOR...THEN SELL THE NEWS. Today, GOOGLE fell victim to this strategy after reporting solid quarterly **EARNINGS of \$4.63 per share**. But since many Wall Street analysts had been estimating \$4.74 a share, the stock got slammed by traders taking profits. Bear in mind that GOOGLE's stock was UP 100 points since it last reported earnings in April.

Juxtapose this *irrational common stock behavior in GOOGLE shares to what happened to Citibank*. . The nation's biggest banking company reported a **LOSS of 54 cents per share** for the April-June period. In the same time frame last year, the bank earned \$6.23 billion, or \$1.24 per share. The irony is that Citicorp traded UP 7.7% today ...while Google shares were taken down 9.8%. Stay tuned until Monday when APPLE reports its sales and earnings. Hopefully, rational behavior will return to the stock market and APPLE shares will go UP on profitable results and UP again when the latest iPhone sales are revealed.

INDEX	07.18.2008	12.31.2007	%Change
DOW JONES	11,496	13,265	-13%
S&P 500	1,260	1,468	-14%
NASDAQ	2,282	2,652	-14%
Bond YIELD	4.08%	4.03%	-1%*

Bond Prices



Bond Yield %



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