



Thank God It's Friday!

February 8, 2008

It was another tough week in the trenches of Wall Street. Continued worries over the weakness of the economy and the increasing ramifications of the sub-prime credit crunch set the tone on the street. Stock Market performance this week was bearish. The Dow Jones Industrial Average gave back all of its 4.4% gain from last week. This was the steepest percentage decline since March of 2003.

This week we were fortunate to be able to hear Alan Blinder speak. Blinder is a noted American Economist and Princeton Professor. You may recall Princeton has turned out several economic stalwarts including current Fed Chairman, Ben Bernanke. Blinder served on President Clinton's Council of Economic Advisors and was a Vice Chairman on the Board of Governors of the Federal Reserve System. His presentation offered some insight into the current economic state.

The Fed is fighting two problems at once: A decline in spending – leading to weak growth or even a recession. And a paralyzed financial system – granting less credit leads to a decline in spending. We ask: when will these markets become unfrozen?

A slump in spending is much like a batting slump – you need more punch in the lineup, you may need to change your batting order or if things get too dire you may want to bring in a new player. What you don't want to do is turn the team upside down

As far as the National Economy is concerned we need more spending. This spending may happen naturally or we may need monetary stimulus from cutting interest rates. If things are moving too slow we might need/want fiscal stimulus. Blinder believes we don't need big structural changes for that purpose – they are too slow anyway. We are inclined to second these thoughts.

Regarding housing Blinder throws government intervention out as a possible solution – this would be similar to FDR's plan that created a homeowners loan corporation. This program could save about one million mortgages and would have a three year duration.

One other notable item was Blinder's outlook for oil. He sees oil prices remaining elevated over the next 2 years. Oil at current prices should have minimal impact. This goes along with our belief that energy will be a strong sector in 2008.

INDEX	02.08.2008	12.31.2007	%Change
DOW JONES	12,182	13,265	-8.16%
S&P 500	1,331	1,468	-9.33%
NASDAQ	2,304	2,652	-13.12%
Bond YIELD	3.65%	4.03%	-9.42%*

Bond Prices ↓ Bond Yield % ↑

By: Jude Bedell & Mike Frazier