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AND THAT'S THE WEEK THAT WAS…
For the Week Ended October 17, 2008

Market Matters…

Market/Index	Year Close (2007)	Qtr Close (09/30/08)	Previous Week (10/10/08)	Current Week (10/17/08)	YTD Change
Dow Jones Industrial	13,264.82	10,850.66	8,451.19	**8,852.22**	**-33.27%**
NASDAQ	2,652.28	2,082.33	1,649.51	**1,711.29**	**-35.48%**
S&P 500	1,468.36	1,164.74	899.22	**940.55**	**-35.95%**
Russell 2000	766.03	679.58	522.48	**526.43**	**-31.28%**
Fed Funds	4.25%	2.0%	1.50%	**1.50%**	**-275 bps**
10 yr Treasury (Yield)	4.04%	3.83%	3.86%	**3.94%**	**-10 bps**

So much for *less government*. With the presidential election at the homestretch, the candidates pushed their respective plans to rescue the economy in an attempt to appeal directly to Main Street folks like Joe the Plumber (basically more tax cuts vs. "spread the wealth"). The bailout moves continued as Treasury Secretary Paulson (a self-proclaimed, free-market capitalist if there ever was one) announced that the government would make direct investments into the nation's banks to stabilize the financial system. (Just don't call it nationalization.) The FDIC will be expanding its insurance program on non-interest bearing accounts, a move designed to assist small business. Throughout Europe and Asia, similar moves also were approved as the global efforts appeared to be well coordinated. The Swiss National Bank took over about $60 billion of bad assets from **UBS,** leaving the institution with one of the cleanest balance sheets around. **Morgan Stanley** received a $9 billion investment from **Mitsubishi Bank**, giving the Japanese giant a 21% interest in one of the last remaining domestic financial super-powers (and at better terms than initially negotiated). **JP Morgan-Chase** posted an 84% decline in third quarter profits (which still somehow bested analysts' pessimistic expectations). Likewise **Wells Fargo**, **Citigroup**, and **Merrill Lynch** (still under its pre-**Bank of America** brand) suffered through "challenging" quarters, to say the least, and their short-term outlooks do not look any better. (Bring on those direct government investments.) While the technology sector struggles from dire expectations of future corporate IT expenditures, **EBay**, **Google**, **Intel**, and **IBM** all announced relatively strong quarters and chipmaker **AMD** reported a narrower than expected loss.

Microsoft apparently still thinks a deal to acquire **Yahoo** would make "economic sense," though that $33/share offer most likely would no longer apply for a stock trading below $13/share. **GM** intensified its merger talks with **Chrysler** and continued to explore sale options for its Hummer unit. (But does $70/barrel oil make those cool gas guzzlers look attractive again?) Speaking of…oil plummeted to its lowest level in 13 months as prospects for recession (or worse) continued to dampen energy demand. **Goldman Sachs** became the first to predict a decline as far as $50/barrel, ironically just a few months after its analysts called for $200 oil over the next two years (no speculation in that market, though). The 50% percent slide in prices has prompted a panicking OPEC to schedule an emergency meeting next Friday. Gas prices are following in step as they pushed downward toward $3/gallon, a 25% drop from the $4.11 highs set in July.

Volatility continued as triple digits daily moves remained the norm. On Monday, the Dow broke its eight day (2,400 point) losing streak with a 900+ gain, its largest ever recorded. Profit taking and hedge fund redemptions followed, though bargain hunters reemerged at week's end (until the final hour of trading). The limited investor confidence was a welcome sign after the mass hysteria of the past weeks. The credit markets seem to be slowly (but surely) recovering with the government actions, though some banks remain hesitant to lend and businesses and consumers have been slow to borrow. Then again, given time, *more government* just may work…right Secretary Paulson (or even Joe the Plumber)? Spoken like a few true free-market capitalists.

Economically Speaking…

Weekly Economic Calendar

Date	**Release**	**Comments**
October 15	PPI (09/08)	2^{nd} straight monthly decline in wholesale inflation
	Retail Sales (09/08)	Largest drop since August 2005
	Fed Beige Book	As expected, weakness across all regions of the country
October 16	CPI (09/08)	Better than expected retail inflation reading
	Initial Jobless Claims (10/11/08)	Claims declined though still suggest labor weakness
	Industrial Production (09/08)	Worst showing since Dec. 1974, though hurricane-related
October 17	Housing Starts (09/08)	Lowest activity level in 17 years
The Week Ahead		
October 20	Leading Eco. Indicators (09/08)	
October 23	Initial Jobless Claims (10/11/08)	
October 24	Existing Home Sales (09/08)	

At this point, there should be no real surprises in terms of weak economic data. However, when September retail sales was reported as down 1.2% (for the third consecutive month) and the Philly Fed survey plunged to its worst showing in 18 years, investors were caught off guard. (Don't you guys read the papers?) While the true definition of recession is two consecutive quarters of negative growth, many analysts claim the country is already mired within one's midst and the numbers will continue to reflect such weakness well into 2009. The Fed Beige Book depicted that each region of the country is struggling and Bernanke did not rule out an additional rate cut at (or before) its late October meeting. Housing starts fell to the lowest level in 17 years and many believe that any recovery must start with a rebound in this long-suffering sector. In fact, construction activity has plunged over 30% since September 2007. (Could the next government intervention involve some direct mortgage relief for ailing homeowners?)

Now for some positive news (for a change). The inflation picture is starting to look more promising as falling energy and other commodity prices begin to move through the system. The wholesale inflation gauge, PPI, fell for the second straight month, and consumer prices remained flat from August as gasoline prices slowly retreated. Bear in mind, just a few short months ago, inflation was high on the Fed's radar screen as Bernanke and friends were forced to tackle a weak economy AND rising prices. While the Fed's "challenges" are far from over, talks of higher rates have disappeared and policymakers can exert all energies into repairing the sluggish economy.

On the Horizon…While investors remain extremely concerned about the economy and global financial markets, the week brought "slight" relief to the excessive panic of the prior eight session losing streak. Bear in mind, each new number represents a chance for fear and uncertainty to reemerge. Fortunately, next week's economic calendar remains quite light, though retailers may just weigh in with "doom and gloom" holiday predictions. Earnings season may be weak as well (with even more pessimistic outlooks) so investors should not overreact even if **TI**, **Halliburton**, **Amazon.com** and others fail to meet expectations. Volatility should continue and the days of triple digit index moves (often up and down in the same day) may be here for a while. So, try not to get so overwhelmed with the seemingly never-ending challenges and uncertainties: credit crisis, weak economy, plunging stock market, presidential election, etc. *One day at a time…*the government actions are starting to thaw out the credit concerns and lending/borrowing should return to (somewhat) normalcy in due time. *One day at a time…*declining energy and commodities prices should improve the inflation picture, which will help the consumer and allow the Fed to better focus on the struggling economy. *One day at a time…*stocks tend to be leading indicators and often begin to rise even when the economy remains in the midst of a recession. *One day at a time…*the election (regardless of the victor) represents a new beginning, a new direction, a new attitude, and hopefully renewed confidence. *One day at a time.*