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AND THAT'S THE WEEK THAT WAS…
For the Week Ended October 24, 2008

Market Matters…

Market/Index	Year Close (2007)	Qtr Close (09/30/08)	Previous Week (10/17/08)	Current Week (10/24/08)	YTD Change
Dow Jones Industrial	13,264.82	10,850.66	8,852.22	**8,378.95**	**-36.83%**
NASDAQ	2,652.28	2,082.33	1,711.29	**1,552.03**	**-41.48%**
S&P 500	1,468.36	1,164.74	940.55	**876.77**	**-40.29%**
Russell 2000	766.03	679.58	526.43	**471.12**	**-38.50%**
Fed Funds	4.25%	2.0%	1.50%	**1.50%**	**-275 bps**
10 yr Treasury (Yield)	4.04%	3.83%	3.94%	**3.70%**	**-34 bps**

Wake me when it's over. Perhaps that Rip Van Winkle approach to investing makes practical sense these days (at least, for folks with five-plus year time horizons). Rebalance those portfolios consistent with current objectives and risk tolerances; don't look at those statements for a while; quit staring at screens all day and getting up at 3:00 a.m. to watch CNBC Asia; allow the bailout plans to work their "magic;" let the financial crisis pass without panicking. Apparently…easier said than done. Late in the week, the global hysteria continued on enhanced prospects for worldwide recession. (Aren't those fears already built into the markets?) Indexes in Germany (-8.3%), France (-7.8%), Great Britain (-7.3%), and Japan (-9.6%) plunged and domestic markets were met with excessive volatility (again) to end the week. When the dust finally settled, the Dow, Nasdaq, and S&P 500 each fell over three percent Friday (and even more for the week).

During the week, Hank Paulson provided additional details of the $700 billion bailout plan and **PNC Financial** promptly took advantage by announcing its intent to acquire **National City** for $5.58 billion after selling preferred equity shares and warrants to the US Treasury. Likewise, financial conglomerate **ING** became another recipient of the coordinated bailouts by obtaining a $13 billion capital infusion from the Dutch government. Meanwhile, the Fed announced plans to buy commercial paper from high-rated companies in an attempt to thaw out the short-term credit markets; **General Electric** said it fully intends to participate in this lending program. Slowly, but surely, institutions are determining how best to take advantage of the governmental efforts.

Third quarter earnings likely will represent the fifth straight period of declining performance (didn't investors know that going in?). Thomson Reuters predicted S&P 500 companies will reflect a 10% drop in aggregate profits. Many of the actual results remained strong (relatively), though pessimistic outlooks have garnered most of the attention. **Microsoft** posted sales that beat Street expectations (but warned of the future); **Apple**'s profits surged 26% (but warned of the future); **Amazon.com's** income skyrocketed almost 50% (but warned of the future); **UPS** reported a lower than expected decline in profits (but warned of the future). Could the warnings actually be managements' way of setting expectations low so they can beat them in the quarters to come with earnings surprises? (Perhaps that's just wishful thinking?) **American Express**, **Caterpillar**, and **Samsung** were among those companies that reported challenging quarters, while **McDonalds, Dow Chemical**, and **Northrop Grumman** reaped favorable results.

OPEC announced plans to cut oil production by 1.5 million barrels a day to counter the continued slide in prices. Apparently, energy traders don't trust OPEC to keep its word as crude tumbled to 16 month lows on weak demand expectations. The national average of gasoline fell below $3/gallon, lending consumers a (slight) hand before the holidays. On the political front, Senator Obama tapped former Fed Chair Paul Volcker as a key economic advisor (Greenspan doesn't have quite the luster these days), while Senator McCain continued to criticize his opponent's "spread the wealth" philosophy. Perhaps, we should just sleep through the election as well?

Economically Speaking…

Weekly Economic Calendar

Date	**Release**	**Comments**
October 20	Leading Eco. Indicators (09/08)	First increase in five months
October 23	Initial Jobless Claims (10/11/08)	Larger than expected increase confirms weak labor
October 24	Existing Home Sales (09/08)	Strongest increase in 5 years
The Week Ahead		
October 27	New Home Sales (09/08)	
October 28	Consumer Confidence (09/08)	
October 29	Durable Goods Orders (09/08)	
	Fed Policy Meeting Statement	
October 30	Initial Jobless Claims (10/18/08)	
	GDP (3rd quarter)	
October 31	Personal Income/Spending (09/08)	

The political grandstanding and blame-placing continued this week as Greenspan, SEC Chairman Cox, and former Treasury Secretary Snow became the latest fall guys to get tongue lashings from the holier-than-thou Congress (that seems to share no responsibility for this financial mess). Meanwhile, FDIC Chair Bair promoted a plan to incentivize banks to refinance underwater mortgages with government assistance. Economists believe housing must lead any rebound and Bair's plan is designed to help stabilize that sector. On that note, existing home sales climbed by 5.5% in September, the strongest showing since July 2003 (that must account for something), though the favorable news seemed to be lost on investors. The index of leading economic indicators unexpectedly rose by 0.3% in September, its first increase in five months. Interestingly, the index of consumer expectations was among the positive monthly indicators, despite the fact that consumer activity is expected to be dismal in the upcoming holiday season.

Despite the (slightly) positive signs in the weekly data, the IMF projected zero to negative growth in the U.S. for the remainder of 2008, with a recovery beginning in the second half of next year. Labor will be a huge component of this weakness as companies continue to get "lean and mean" to jumpstart their operations (or merely survive). **Goldman Sachs** will be reducing its workforce by 3,260 jobs; **Chrysler** is planning to eliminate 1,825 jobs; **Xerox** will cut 3,000 jobs; **Merck** announced a restructuring that includes losses of 7,200 jobs. No sector seems immune. While the U.S. struggles to avoid negative growth (a foregone conclusion perhaps revealed as early as Thursday's GDP release), China's statistics bureau reported that it's country's growth rate fell to nine percent expansion (yes expansion) last quarter, the first time it grew by less than 10% since 2002. (Not quite the global recession economists are expecting.)

On the Horizon…It's beginning to sound like a broken record. It's beginning to sound like a broken record. In a nutshell, the economic data should be weak; the earnings releases should be soft (at least the outlooks). That much should already be known (and built into the markets). **Procter & Gamble**, **ExxonMobil** (any new profit records?), and **Chevron** highlight the list of companies announcing earnings. (Remember crude has plunged over 50% since halfway through the past quarter and the energy releases will not reflect those moves.) A hectic week on the economic front will be highlighted by 3rd quarter GDP, which may reveal negative growth (and renew fears of recession). By true definition, two consecutive down quarters translate into recession. If such a downturn is indeed inevitable, perhaps the economy will be better off getting such confirmation now, rather than letting the rumors persist. After all, stocks are considered a leading indicators and typically begin rebounding in the midst of a recession (as opposed to once it ends). Finally, the Fed meets again to discuss monetary policy and another rate cut to stimulate the economy seems likely (but below 1%?). Weren't those guys/gals expecting to raise rates before the end of the year? (How quickly things can change…isn't that right, Mr. Greenspan?)