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AND THAT'S THE WEEK THAT WAS…
For the Week Ended October 31, 2008

Market Matters…

Market/Index	Year Close (2007)	Qtr Close (09/30/08)	Previous Week (10/24/08)	Current Week (10/31/08)	YTD Change
Dow Jones Industrial	13,264.82	10,850.66	8,378.95	**9,325.01**	**-29.70%**
NASDAQ	2,652.28	2,091.88	1,552.03	**1,720.95**	**-35.11%**
S&P 500	1,468.36	1,164.74	876.77	**968.75**	**-34.03%**
Russell 2000	766.03	679.58	471.12	**537.52**	**29.83%**
Fed Funds	4.25%	2.0%	1.50%	**1.00%**	**-325 bps**
10 yr Treasury (Yield)	4.04%	3.83%	3.70%	**3.97%**	**-7 bps**

Trick or treat? For most investors, Halloween was a welcome treat from the haunted trickery of the markets over prior few weeks. In fact, despite some frightful economic releases that virtually confirmed recession (see below), the major equity indexes received a nice reprieve this past week as investors moved beyond mass hysteria and found bargains in the carnage. On Tuesday alone, the Dow and S&P 500 indexes both surged over 10% and proceeded with their remarkable (if not illogical) runs as the week continued. (Then again, who can define logic these days?) Despite the positive moves, the Dow plunged by 14% in October, while the S&P 500 lost about 17%, making it among the worst performing months in over two decades. The volatility was almost too much for investors to bear as the Dow experienced triple digits moves from open to close on all but three trading sessions. Global markets underwent similar gyrations with Hong Kong's major index, for example, plunging 12.7% one day before soaring 14.4% the very next session.

The recent panic seemed to have subsided a tad as the stimulus packages (sounds nicer than "bailout") began to take effect. The credit markets have thawed as corporations took advantage of the Fed's decision to buy short-term commercial paper, thus, providing them much needed liquidity. Major banks began receiving capital injections from the government as part of the bailout package and were "told" (in no uncertain terms) by their new "partner" to re-initiate lending programs. (Looks like those investments may not be so passive.) **Capital One** and **Sun Trust** chose to be participate in the government's generosity by selling preferred stock and warrants, though both were rumored to be eyeing weaker institutions as acquisition targets (a strategy that may have differed from the Administration's goal of enhanced lending).

The week's quarterly earnings releases were mixed at best though companies continued to warn about future weakness (which will hopefully lead to some positive surprises). **Exxon-Mobil** reaped another record quarter and rival **Chevron** saw its profits double during the period. Bear in mind, crude has plunged over 50% since mid-July (and suffered its worst monthly decline on record) so their future results may not be as strong. **US Steel** announced favorable earnings, though warned that weakness in commodities could impact its operations. **Procter & Gamble** experienced a better than expected quarter, though management reduced its sales estimates for the remainder of the year. **Motorola** announced a quarterly loss and laid off 3,000 workers to cut expenses. **GM** and **Honda** both reported poor quarters as automakers struggled worldwide.

Despite the earnings weakness, recession fears, and market uncertainty, Senators Obama and McCain still want to be president. With the election just a few days away, Obama took to the airwaves with a 30-minute infomercial to illustrate the "past eight year of failed policies." McCain criticized the Obama plan as ill-conceived wealth redistribution and even let his new spokesman, Joe the Plumber, do some of his harshest talking. Come Tuesday November 4th, the voters will speak. And, in the days that follow, investors will share their initial views about what the new prez may mean for the markets. Here's hoping he's more "treat" than "trick."

Weekly Economic Calendar

Date	**Release**	**Comments**
October 27	New Home Sales (09/08)	Unexpected 2.7% rise confirms slight sector rebound
October 28	Consumer Confidence (10/08)	Worst level ever reported since index started in 1967
October 29	Durable Goods Orders (09/08)	Surprising surge in orders for big ticket items
	Fed Policy Meeting Statement	2nd 50 bps point cut this month
October 30	Initial Jobless Claims (10/18/08)	Claims flat from prior week's level
	GDP (3rd quarter)	Economy contracted by 0.3% last quarter
October 31	Personal Income/Spending (09/08)	Largest drop in spending in over 4 years
The Week Ahead		
November 3	Construction Spending (09/08)	
	ISM - Manu Index (10/08)	
November 4	Factory Orders (09/08)	
November 5	ISM – Services (10/08)	
November 6	Initial Jobless Claims (10/25/08)	
November 7	Unemployment Rate (10/08)	
	Nonfarm Payroll Additions (10/08)	
	Consumer Credit (09/08)	

For days, weeks, months, maybe even years, analysts warned about the dreaded "R" word and, with each passing weak release, its inevitability grew even closer. The recent announcement of third quarter GDP confirmed that the economy actually contracted by 0.3% during the period, the worst results in seven years. By definition, two straight quarters of negative growth translates into recession, so the economy is officially half-way there (especially since the fourth quarter data is shaping up to be just as depressing). Sluggish consumer activity highlighted the GDP report as spending plunged by 3.1% during the quarter. Such activity accounts for three-quarters of the growth of the economy so the ongoing concerns about future employment, market losses, and housing valuations (among others) have kept consumers out of the malls and threaten to hinder (significantly) the upcoming holiday season. In fact, a recent BDO Seidman survey showed that retail marketing execs believe their November and December sales will fall by 2.7% from 2007. On an even more pessimistic note, October consumer confidence fell to its lowest level ever reported. Almost lost in the negativity, new home sales actually climbed by an unexpected 2.7% in September as bottom fishers found some bargains within the worst housing market in decades. Still, sales remained over 30% below last year's levels.

The central bankers continued their (somewhat coordinated) efforts to stem the global economic slowdown. Bernanke and friends announced a 50 bps cut in fed funds to 1%, the second such move in October. Some Fed watchers believe that policy-makers could drop the rate even lower as conditions seem worse today than when funds last touched this level in 2003. Others feel that such moves have become more symbolic and the Fed needs to halt future actions to let the lower rates work their ways through the system and begin impacting the economy over the next six to 12 months. In other moves, central bankers in South Korea, China, and Norway each reduced their respective rates, and the ECB appears to be leaning toward a similar cut next week as well.

On the Horizon…Hail to the Chief!!! Come Wednesday morning, the United States will have a new commander in chief (and economist in chief), and regardless of the victor, the country will embark on a new direction (that is hopefully well-received by investors). The President-elect will be greeted with a weak economy (ok…recession) and the week's releases will confirm just how dire the situation has become. While data from the manufacturing and housing sectors will be eagerly anticipated, nothing compares to Friday's reports on unemployment and the picture of the ailing labor market. After nine consecutive months of job contraction, few analysts hold out much hope for optimism. In fact, some believe the jobless rate will climb to 7.5% (from 6.1% now) during 2009. Welcome to office, Mr. President. (Be careful of what you wish for.)