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AND THAT'S THE WEEK THAT WAS... For the Week Ended July 3, 2008

Market Matters...

Market/Index	Year Close (2007)	Qtr Close (06/30/08)	Previous Week (06/27/08)	Current Week (07/03/08)	YTD Change
Dow Jones Industrial	13,264.82	11,350.01	11,346.51	11,288.54	-14.90%
NASDAQ	2,652.28	2,292.98	2,315.63	2,245.38	-15.34%
S&P 500	1,468.36	1,280.00	1,278.38	1,262.90	-13.99%
Russell 2000	766.03	689.66	698.14	665.78	-13.09%
Fed Funds	4.25%	2.00%	2.00%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.98%	3.99%	3.97%	-7 bps

Good bye and good riddance. That general sentiment was shared by investors and traders of all shapes and sizes as the 2nd quarter came to a close (and none too quickly). Many folks expected the market negativity to shift after a dire 1st quarter as the Fed worked its magic to resolve the credit crisis; unfortunately, the past three months brought more of the same and the outlook for the remainder of the year does not look much stronger. (Then again, contrarians relish those periods when everyone is so negative...from their perspectives, now may represent an excellent time for some bargain basement shopping.) The Dow suffered its worst 1st half of the year since 1970, while the performances of the S&P 500 and Nasdaq brought back memories of the dot.com bubble collapse in 2002. Likewise, certain emerging markets (Shanghai and India) plunged in value, leaving equity investors few attractive options in the global marketplace.

Thus far, the new quarter brings a continuation of those same “tired” themes: financials and energy. **Lehman** actually moved to the backburner as investors focused on competitor **UBS** and a Justice Department investigation into the potential tax fraud of several key clients. To date, the Swiss banking giant has reported over \$35 billion in asset write-downs, while reshuffling its board and revising certain governance policies to appease disgruntled shareholders. Meanwhile, **S&P** downgraded much of the banking and financial services sectors as losses become the norm and many firms search for significant capital infusions. (Do those sovereign wealth funds still have money to invest here?) **Bank of America** advanced its leadership position in the mortgage origination and servicing markets (is that really a good idea these days?), as it completed its acquisition of **Countrywide**. At closing, the transaction was estimated at \$2.5 billion, down significantly from the initial \$4 billion proposal (when B of A's stock price was higher). In non-financial news...apparently, **Starbucks** is feeling the pain of a sluggish economy and its customers' inability to pay \$5 for a cup of joe as the company announced the closing of 600 stores during the next year. **GM's** liquidity struggles continued as a key analyst even threw out the term “bankruptcy” in a recent report. **Microsoft** still has interest in **Yahoo** and opened discussions with **NewsCorp** and **Time Warner** about potential partnerships in such a deal.

The markets took their clues from surging oil again as supply concerns and tensions between Iran and Israel helped push prices to a new record near \$146/barrel. Since the beginning of the year, oil has jumped by over 50% and gas prices have followed closely behind. A CNN poll reported that over 30% of Americans have changed 4th of July plans because of record (\$4.098) gasoline. The Dow and Nasdaq both tumbled into “bear” territory as the indexes have fallen in excess of 20% since the highs set last year. On the international front, the markets struggled in Britain, Germany, and Paris (among others) as escalating inflationary fears in Europe prompted an ECB rate hike (much to the chagrin of the Fed). By Friday, many domestic investors woke up early to survey the latest (depressing) labor statistics (see below) and then called it a week in advance of the 4th of July long holiday weekend. (Then again, those contrarians in the bunch stayed until the close of the abridged trading session to hunt down those bargains wherever they may exist.)

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
July 1	Construction Spending (05/08)	5 th decline in 6 months
	ISM – Manu (06/08)	1 st month of sector expansion in 5 months
July 2	Factory Orders (05/08)	Worst showing in 3 months
July 3	Initial Jobless Claims (06/28/08)	Highest level of claims since March
	Unemployment Rate (06/08)	Unchanged at 5.5%
	Nonfarm Payroll Additions (06/08)	6 th consecutive month of job losses
	ISM – Services (06/08)	Surprising sector contraction
July 4	Independence Day	Markets Closed
The Week Ahead		
July 8	Consumer Credit (05/08)	
July 9	Initial Jobless Claims (07/05/08)	
July 10	Balance of Trade (05/08)	

While Bernanke and friends fret over their (near impossible) mission of guiding a struggling economy through a period of inflation, the European Central Bank increased its short rate by 25 bps to counter its own price concerns. That move just made Dr. B's job much harder as the higher rate abroad puts new pressures on the dollar and subsequently the domestic economy.

On the economic front, all eyes and ears were on the Thursday (early) release of unemployment and nonfarm additions as investors got a quick glance into the labor picture before heading out for the long weekend. As expected, the jobless rate held steady at 5.5% and the economy lost more jobs for the 6th consecutive month. Clearly, businesses (and not just financials) remain nervous about the immediate future and have issued pink-slips (and offered early retirement) in an attempt to lower their cost structures. Construction, manufacturing, and retail were among the sectors that reported payroll contraction in June.

The manufacturing sector got some good news in the form of a higher ISM survey release, though the euphoria was short-lived as a closer look inside the numbers revealed that higher prices contributed more to the increase than rising demand for US-made products. Likewise factory orders rose less than expected, another bad reflection on the state of manufacturing. As has become the norm during the housing slowdown, construction activity declined again in May for the 5th time in the past six months. Additionally, the ISM Services (non-manufacturing) index revealed sector contraction in June, surprising analysts who were calling for a 3rd straight month of growth.

On the Horizon...Alcoa is officially on the clock (for Tuesday July 8). Can it possibly be earnings season again already? Thomson Reuters now projects average earnings to have declined by 11.1% in the 2nd quarter, a significant decrease from the negative 2% prior projection made back in April. Of course, financials lead the charge in terms of these dire expectations followed closely behind by consumer discretionary (which reflects the lagging confidence measures). Technology is also expected to struggle; these days management must think long and hard about investing in any major systems upgrades. On another pessimistic note...in recent quarters, many multinational companies have weathered the domestic storm because of the substantial earnings generated overseas as a result of continued growth in emerging markets and the weak dollar (which increases demand for the "cheaper" U.S. goods). Unfortunately, this trend may be coming to an end as global inflation heats up and slower international growth means that multinationals may be losing their safety net. Investors get a bit of a reprieve (and time to recover from 2nd quarter hangovers) as few economic releases of substance are on the calendar. So have a nice holiday (even if you had to revise your plans to accommodate the increase in gas prices).