



# Brounes & Associates

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## AND THAT'S THE WEEK THAT WAS...

For the Week Ended June 6, 2008

### Market Matters...

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (05/30/08)	Current Week (06/06/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,638.32	<b>12,209.81</b>	<b>-7.95%</b>
NASDAQ	2,652.28	2,279.10	2,522.66	<b>2,474.56</b>	<b>-6.70%</b>
S&P 500	1,468.36	1,322.70	1,400.38	<b>1,360.68</b>	<b>-7.33%</b>
Russell 2000	766.03	687.97	748.28	<b>740.37</b>	<b>-3.35%</b>
Fed Funds	4.25%	2.25%	2.00%	<b>2.00%</b>	<b>-225 bps</b>
10 yr Treasury (Yield)	4.04%	3.43%	4.05%	<b>3.91%</b>	<b>-13 bps</b>

Well, it's all over, but the shouting (and the backstabbing, political spinning, name-calling, negative ads, rumors, polls, debates, and everything a good Presidential campaign season needs). With both parties finally making their choices (despite certain people's inability to accept it...that's you, Huckabee), the American people now can begin dissecting the differences between Senators McCain and Obama. **Taxes:** McCain plans to make recent cuts permanent and reduce the corporate rate. Obama will keep cuts in place (unless you make over \$250,000) and probably raise the capital gains rate. **Health Care:** McCain will focus on the individual and incentivize folks to get insurance. Obama will turn to the government and install company mandates to bring costs down. **Gas Prices:** McCain flirted with the idea of a "gas tax holiday." Obama, like most economists, opposed such a measure. So let the campaign season (and partisan bickering) begin.

Financials were again in the news this week (what a shock) with **Lehman Brothers**, **Merrill Lynch**, and **Morgan Stanley** (as well as bond insurers **MBIA** and **Ambac**) suffering the wrath of S&P through rating downgrades. **Bank of America** and **JP Morgan Chase** may not be far behind. Lehman, in fact, seemed to be in the most dire position (memories of **Bear Stearns**?) as rumors have management looking to sources in South Korea for an additional capital infusion of \$4 billion. Write-downs and losses prompted a few executive casualties as **Wachovia** said bye-bye to its CEO and **Washington Mutual** stripped its CEO of his chairman title. From an earnings perspective, **Thomson Reuters** projected that aggregate profits of S&P 500 companies declined by 17.5% in the 1<sup>st</sup> quarter with financials leading the way. On a more optimistic note, transactions seem to be back in favor as **Verizon Wireless** is acquiring **Alltel Communications** for \$28 billion, and **JM Smuckers** will to buy Folgers from **Procter & Gamble** for just under \$3 billion. (Apparently, nothing goes better with some dark roasted java than strawberry jam.)

Oil fell early on declining demand before reversing course on route to a \$16 two-day surge to a new high due to a weak dollar, Mideast turmoil, and a Morgan Stanley prediction of \$150/barrel. As drivers in more states find \$4 gasoline becoming a reality, **RBC Capital** released a survey that showed 90% of Americans are altering their spending patterns to cope with the new price realities. **Cheesecake Factory**, **Brinkers**, (Chili's) and **Starbucks** are among those companies suffering ill-effects of "bargain dining." **GM** plans to cease production at four domestic plants and may be selling its once popular Hummer line of tanks (SUVs). **Continental** became the latest airline to fall victim to the energy crisis by announcing 3,000 job cuts and reduced routes.

For four days, volatility ruled the day as investors experienced drastic mood shifts amid favorable retail data and continued financial company woes. On Friday, however, the bears returned in a big way. The weak May unemployment data and dramatic oil surge instilled widespread panic with the Dow falling almost 400 points. Expect a continuation of the daily volatility throughout the summer as investors try to mix in a vacation (or two), while making heads or tails about these energy and labor trends. But does anyone deserve an extended vacation more than Hillary?

## *Economically Speaking...*

### **Weekly Economic Calendar**

<b>Date</b>	<b>Release</b>	<b>Comments</b>
June 2	Construction Spending (04/08)	Continued weakness in home building activity
	ISM – Manu (05/08)	Better than expected showing, though sector contraction
June 3	Factory Orders (04/08)	Increase in non-durable goods orders like paper products
June 4	ISM – Services (05/08)	2 <sup>nd</sup> straight month of non-manufacturing sector growth
June 5	Initial Jobless Claims (05/31/08)	Decline in claims offered promise for labor market
June 6	Unemployment Rate (05/08)	Highest rate since October 2004
	Nonfarm Payroll Additions (05/08)	5 <sup>th</sup> straight monthly payroll decline
	Consumer Credit (04/08)	Higher than expected borrowing from personal loans
<b>The Week Ahead</b>		
June 10	Trade Balance (04/08)	
June 11	Fed Beige Book	
	Budget Statement (05/08)	
June 12	Initial Jobless Claims (06/07/08)	
	Retail Sales (05/08)	
June 13	CPI (05/08)	

Fed Chair Bernanke returned to the limelight this week with a few Greenspanesque talks that “rattled” economists and investors alike. His surprising mention of the weak dollar seemed to confirm that inflation is higher on his radar screen than recession these days and put prospects for a future rate cut somewhere between “slim” and “none.” While Dr. B. sees price pressures as “*unwelcome*,” he does not expect a repeat of the double-digit inflationary times of the 1970s. Gentle Ben also believes that the \$168 billion fiscal stimulus package as well as the Fed’s own rate cuts will positively impact the economy in the second half of the year (though his “*somewhat better economic conditions*” comment was not quite as strong as many would have liked to hear).

While manufacturing activity increased slightly in May, the ISM index still revealed overall sector contraction. On the other hand, stronger than expected factory orders helped put a positive light on the future of the sector. Housing continued to offer little reasons for optimism as construction spending declined again, while the rate of foreclosures climbed to a record high in the first quarter and potentially claimed another victim, Ed McMahon, who is \$644,000 late on his \$4.8 million mortgage. (Maybe the Publishers Sweepstakes folks will ring his doorbell with some good news soon.) Consumers took those government rebate checks straight to **Wal-Mart** and **Costco** last month as both discounters reported better than expected same-store sales. In fact, the UBS-ICSC sales survey showed that retail activity soared 3% in May, well in excess of prior projections. On the labor front, the unemployment rate surprisingly soared to 5.5%, its highest level since October 2004 and the biggest one-month increase in 22 years. The economy lost 49,000 jobs last month, its fifth consecutive decline and another sign of continued sluggishness.

***On the Horizon...*** The Beige Book release will allow Fed watchers another look into the mindset of Bernanke and Co., though, by now, most “experts” expect the next rate move to be higher (that was, before the weak unemployment report). The recent positive news about consumer activity will be confirmed (or denied) as May retail sales provides more insight into the initial effects of the stimulus package. While discounters will reap the most benefits, the bigger tests will come from department stores and luxury retailers. The late-week CPI release will give economists a good feel for just how much high food and energy prices are impacting the overall inflation picture (so don’t just focus on the “core” numbers). And then there’s the ongoing saga of Lehman Brothers...With Bear Stearns fresh on everyone’s mind, most investors (minus short-sellers) are hoping a new capital infusion can help stave off another significant financial casualty (without calling in Dr. B. to the rescue again). By the way, is there any end to this oil surge?

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