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AND THAT'S THE WEEK THAT WAS...

For the Week Ended June 27, 2008

Market Matters...

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (06/20/08)	Current Week (06/27/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	11,842.69	11,346.51	-14.46%
NASDAQ	2,652.28	2,279.10	2,406.09	2,315.63	-12.69%
S&P 500	1,468.36	1,322.70	1,317.93	1,278.38	-12.94%
Russell 2000	766.03	687.97	725.73	698.14	-8.86%
Fed Funds	4.25%	2.25%	2.00%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	4.14%	3.99%	-5 bps

And so the Blame Game continues. Once upon a time, homeownership became much more than the American Dream. It became more of an entitlement as *politicos* grandstanded for virtually everyone to be able to afford a house AND *lenders* offered “less than qualified” buyers some “interesting” rates AND *real estate speculators* took advantage of easy terms, fully intending to flip properties for quick profits AND greedy *investors* bought those complex mortgage securities to enhance the yield in their portfolios AND *credit agencies* failed to recognize the actual risks involved AND *regulators* often turned the other way and allowed the entire debacle to escalate into a full-fledged credit crisis. This week, California’s attorney general sued **Countrywide Financial**, claiming deceptive advertising and unfair competition. Meanwhile, SEC Chairman Christopher Cox has moved onto the hot seat for not doing enough to intervene and attempt to restore confidence in the financial system as the crisis spread out of control. History shows that past SEC heads took far more active roles during such challenging times as the **Drexel Burnham** “bailout” and the aftermath of 9-11; and yet Cox has seemed AWOL throughout, allowing Fed Chair Bernanke and Treasury Secretary Paulson to offer plans and compete for headlines. Which bears the question some on Wall Street are asking...just how relevant is the SEC these days?

Financials took shots at each other this week as **Goldman Sachs** lowered its rating on the whole sector from “attractive” to “neutral;” **Lehman Brothers** and **Bernstein Research** predicted additional write-downs for **Merrill Lynch**; and **Wachovia** downgraded Goldman (perhaps a little tit for tat?). **Citigroup** kept those pink slips flying in their investment banking area as the one-time global giant continued to struggle through billion dollar losses. **Barclays PLC** turned to the Middle East sovereign funds (namely **Qatar Investment Authority**) for a significant capital infusion. And news from the non-financial world was not much better. **UPS** reduced its profit forecast; **Dow Chemical** announced new price hikes; **Research in Motion** (Blackberry) missed on its quarterly earnings and lowered future estimates; and **GM’s** stock price fell to a 53-year low. Oil prices surged further into record territory (over \$142/barrel) on some untimely comments by the OPEC Prez and a widespread run-up in commodities as global equities tumbled.

The bears officially came out of hibernation as the Dow Jones has plunged some 20% below the highs hit back in October 2007 to its lowest level in about two years. (A 20% decline represents the definition of a bear market.) Investors fretted over the weak financial company news (particularly the projections offered by their own analysts) and, of course, the never-ending rise in oil. To some, the current situation resembles a bit of a Catch-22 scenario. Stocks plummet because oil prices keep soaring and, yet oil prices (and other commodities) keep soaring because equities are plummeting. On the international front, the MSCI World index fell to its lowest level since March and is on track for its worst monthly performance in almost six years. Bonds moved higher on a “flight-to-quality” as the yield on the benchmark 10-year once again fell below the 4% level. As the market sentiment grows more negative with each passing day, investors need a few more scapegoats to blame (besides themselves, of course).

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
June 24	Consumer Confidence (06/08)	Lowest level in 16 years
June 25	Durable Goods (05/08)	Flat after 2 consecutive negative months
	New Home Sales (05/08)	6 th decline in past 7 months
	Fed Policy Meeting Statement	Left rates unchanged for 1 st time in 10 months
June 26	Initial Jobless Claims (06/21/08)	Unchanged but still reflects weak labor
	GDP (1 st quarter – final)	Revised to 1% growth, better than initial report of 0.6%
	Existing Home Sales (05/08)	Increase in sales, but decline in median prices
June 27	Personal Spending/Income (05/08)	Increase in spending due to government tax rebates
The Week Ahead		
July 1	Construction Spending (05/08)	
	ISM – Manu (06/08)	
July 2	Factory Orders (05/08)	
July 3	Initial Jobless Claims (06/28/08)	
	Unemployment Rate (06/08)	
	Nonfarm Payroll Additions (06/08)	
	ISM – Services (06/08)	
July 4	Independence Day	

“The downside risks to growth appear to have diminished somewhat, while the upside risks to inflation and inflation expectations have increased.” And, on that note, the Fed left its funds rate unchanged at 2%, foregoing another rate cut for the first time in 10-months. And those talking heads are already focused on the next policy meeting. So, what’s the next move (see below)?

While some analysts believed the country had been mired in recession, the current data dismisses that notion. The final revision of 1st quarter GDP depicted economic growth of 1%, a far cry from the more desired increases for 2.5% to 3%, but still not reflective of negative activity. While existing home sales increased in May, the median home price actually declined by over 6% from last year’s levels. Further, new home sales fell for the sixth time in the past seven months and a Case-Shiller price index showed that single family housing prices have now fallen to levels not seen since 2004. A recent Harvard University study reported that the current housing slump is the worst seen since World War II and record foreclosures will make any rebound quite difficult for the foreseeable future. Consumers hit the malls as personal spending climbed by 0.8% in May, though economists worry that future releases will deteriorate once individuals have spent those tax rebate checks. Two separate confidence measures pointed to persistent problems on the consumer front. The Reuters/University of Michigan survey fell to a 28-year low, while the Conference Board’s consumer confidence index recorded its fifth worst showing ever.

On the Horizon...The economic calendar remains hectic in advance of the July 4th holiday. Traders will have to settle for a mere three-day weekend as Thursday brings the much anticipated unemployment and nonfarm payroll releases and a new view into the struggling labor market. Crucial news from manufacturing (ISM and factory orders) should reveal whether the sector is still contracting. By the way, didn’t the Fed just meet? A new debate rages on with some analysts forecasting an August rate hike, while others expect no activity until after the November elections. The European Central Bank meets in the coming days and is expected to bump up its short-term rate, putting additional pressure on the dollar and the Fed. Bernanke and friends do not have an enviable task these days. On one hand, the economy remains weak (though not recessionary at this point) and higher rates could prove devastating. On the other hand, rising commodity prices could trickle (or free-flow) into other areas, inflation could escalate, and higher rates would be justified (needed) to offset those price risks. (Sounds a bit like another Catch-22.)