RB **Brounes & Associates**

4607 BRAEBURN DR. ▪ BELLAIRE, TEXAS 77401 ▪ 713.962.9986 ▪ ron@ronbrounes.com

AND THAT'S THE WEEK THAT WAS…
For the Week Ended September 5, 2008

Market Matters…

Market/Index	Year Close (2007)	Qtr Close (06/30/08)	Previous Week (08/29/08)	Current Week (09/05/08)	YTD Change
Dow Jones Industrial	13,264.82	11,350.01	11,543.96	**11,220.96**	**-15.41%**
NASDAQ	2,652.28	2,292.98	2,367.52	**2,255.88**	**-14.95%**
S&P 500	1,468.36	1,280.00	1,282.83	**1,242.31**	**-15.39%**
Russell 2000	766.03	689.66	739.50	**718.85**	**-6.16%**
Fed Funds	4.25%	2.00%	2.00%	**2.00%**	**-225 bps**
10 yr Treasury (Yield)	4.04%	3.98%	3.81%	**3.66%**	**-38 bps**

The past week had the potential to be a "perfect storm" for equity market bulls. Hurricane Gustav had very little significant impact on energy platforms in the Gulf and most cities were spared all but some rain, winds, and power outages. (Brownie, you're still doing a heck of a job.) Commodity prices continued their freefall and consumers soon should have a few extra bucks in their pockets (in time for the holidays) as gas and food become more affordable. Republicans, historically the party of Wall Street, kicked off their political pep rally with a one-time Dem leader (turned attack dog) bashing the opposition and a self-described hockey mom rejuvenating the base. (Having a good time, Levi Johnston?) And, yet, the euphoria never came as some weaker than expected economic releases (see below) brought the bears out of hibernation.

Once Gustav was out of the picture (for the most part), oil resumed its decline and even fell to around $106/barrel, a $40+ (and over 25%) drop from the high of $147 hit in July. A stronger dollar and prospects for weaker global demand have contributed to the dramatic price reversal. Other commodities followed suit as gold, copper, aluminum, and steel have experienced similar fates, leading to mixed expectations about the ultimate impact on the domestic economy. On one hand, the lower raw material prices could prove positive for consumers and businesses alike as they lead to lower inflationary fears and the manufacturing of more affordable goods and services. On the other hand, the price plunge could signify lower demand for such goods and services and the stronger dollar makes exports to our global trading partners more expensive at a time when they too are struggling. While both scenarios have merit, diminishing inflation should be well-received at home and could make the Fed's challenging job much easier down the road.

While some analysts expect financials to rebound from their long-lasting doldrums, the news of the past week gave little indication that the worst is behind them. **Goldman Sachs** lowered its rating on **Merrill Lynch** to "sell" on the belief that more write-downs (as if $5.7 billion was not enough) were in the cards. **Ospraie Management** closed one of its primary hedge funds as some bad calls on commodities resulted in almost a 40% decline in value. In fact, hedge funds, in general, are moving more and more out of favor. According to the **Hedge Fund Research, Inc**., during the first six months of the year, only $29 billion in new dollars flowed into these non-traditional assets, compared to almost $120 billion over the same period in 2007. **Lehman Brothers** is still attracting suitors as **Korea Development Bank** and possibly **HSBC Holdings** seem to be among the more interested parties. Outside of financials, **Google** announced the development of Chrome, a new Internet browser to compete with **Microsoft's** Explorer. Autos continued to struggle with **GM** (-20%), **Ford** (-27%), and **Toyota** (-9.4%) all reporting sluggish sales. Despite the good news on the energy and commodities (inflationary) fronts, traders pushed stocks (including Asian and euro markets) much lower throughout the week. Troubling retail and labor data (see below) renewed major fears about the economy. As is often the case, bonds were the beneficiary of a flight-to-quality and the yield on the 10-year fell below 3.70 percent. Can we still blame light summer volume for the exaggerated price moves? No, not after Labor Day.

Economically Speaking…

Weekly Economic Calendar

Date	**Release**	**Comments**
September 1	Labor Day	Market Holiday
September 2	Construction Spending (07/08)	Lowest level in activity in 7 years
	ISM – Manu (08/08)	Revealed no real sector expansion or contraction
September 3	Factory Orders (7/08)	5^{th} consecutive increase in orders
	Fed Beige Book	Slower growth, but with some relief from inflation
September 4	Initial Jobless Claims (08/30/08)	Surprising increase in weekly claims
	ISM – Services (08/08	Slight sector expansion
September 5	Unemployment Rate (08/08)	Highest level since September 2003
	Nonfarm Payroll Additions (08/08)	More jobs lost in August than expected
The Week Ahead		
September 8	Consumer Credit (07/08)	
September 11	Initial Jobless Claims (08/6/08)	
	Balance of Trade (07/08)	
September 12	PPI (08/08)	
	Retail Sales (08/08)	

If it's not one thing, it's another. Just when the one-time frightening inflation picture began to ease up a tad (on declining commodities prices), a few key releases turned investors sour on the economy and prospects for the future. Of key interest, the retail picture remained bleak and back-to-school discounts did nothing to lure consumers back into the malls. Same store sales in August were reported as softer than expected as only discounters like **Wal-Mart** posted promising results. Mall clothiers like **Abercrombie & Fitch**, department stores like **JC Penney**, and luxury retailers like **Nordstrom** each struggled from lackluster activity in August.

Of course, many consumers remained concerned about their jobs as the unemployment rate soared to 6.1%, the highest level in almost five years. Additionally, over 80,000 non-farm jobs were lost in August, bringing the total for the year to about 550,000 vanished jobs. August represented the eighth consecutive month of a declining labor market. Meanwhile, the housing sector is showing no signs of rebounding as construction spending fell for the 16^{th} straight month. Nine percent of borrowers were reported as either delinquent on their mortgages or already in foreclosure. On a positive note, the services sector surprisingly expanded in August, the first such showing in three months. The Fed Beige Book confirmed what most everyone already knew…the economy is slowing across most regions, but falling commodities may bring some inflation relief. Both the European Central Bank and the Bank of England chose to leave their short-rates unchanged, removing some pressure from the Fed to raise fed funds in the near future.

On the Horizon…With oil prices steadily moving down to the crucial $100 level, OPEC meets on September 9^{th} to discuss production output (and badmouth US energy policy). Typically, oil and gas prices decline after Labor Day as back-to-school means fewer vacations and cooler temperatures translates into reduced fuel demand. While the economic calendar initially appears light, Friday brings two key reports. Analysts expect August retail sales data to confirm lackluster consumer activity, though some are hopeful that parents used the last of those tax rebates for some late school shopping. August PPI also will be over-analyzed as investors determine how declining energy costs will impact the overall inflation picture. The core data may not yet reflect lower oil and gas prices working their ways through other sectors of the economy. (Bear in mind, many economists prefer to focus more on the core numbers.) The Fed is set to meet again on September 16 so pundits will begin prognosticating in earnest, though most expect policy-makers to follow the lead of the European central bankers and do nothing. Speaking of doing nothing, how is Congress shaping up in light of the recent conventions?