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AND THAT'S THE "QUARTER" THAT WAS... For the Quarter Ended June 30, 2008

Market Matters...

Market/Index	Year Close (12/31/07)	1 st Qtr Close (03/31/08)	2 nd Qtr Close (06/30/08)	Qtr Change	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	11,350.01	-7.44%	-14.44%
NASDAQ	2,652.28	2,279.10	2,292.98	0.61%	-13.55%
S&P 500	1,468.36	1,322.70	1,280.00	-3.23%	-12.83%
Russell 2000	766.03	687.97	689.66	0.25%	-9.97%
Fed Funds	4.25%	2.25%	2.0%	-25 bps	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.98%	55 bps	-6 bps

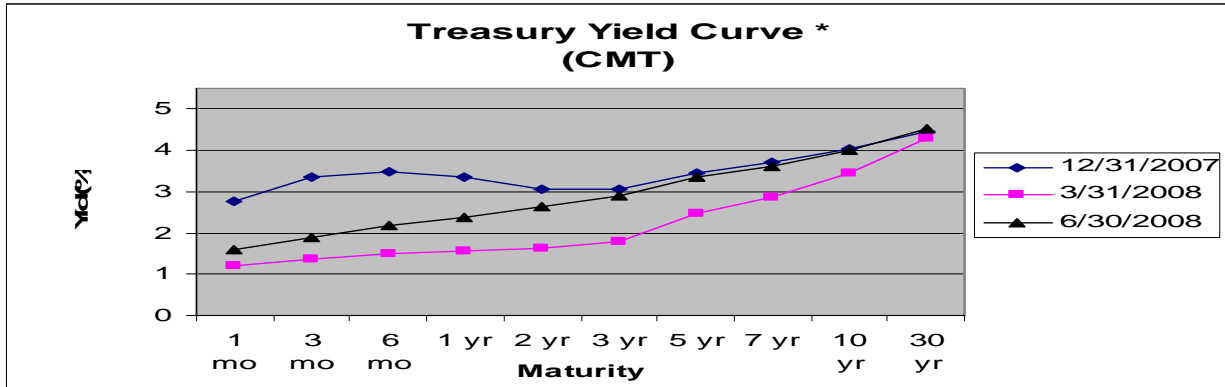
Well, it's all over but the shouting (and the whining and the crying and the "what ifs" and the "I should have known better" and the "it can't get any worse." Needless to say, investors left work on June 30th, licking their collective wounds from another "challenging" quarter and contemplating their next moves: liquidate and bury the cash under the proverbial mattress or buy up all the equity bargains they can get their hands on? (Somehow, the former doesn't seem so outrageous as the new quarter begins....by the way, just what is that mattress paying these days?)

The Tale of the Tape... While the Nasdaq and Russell 2000 managed to squeak out slight gains ("flat" is a better description) in the 2nd quarter, the major stock indexes all have reaped double-digit losses for the year. (Technically, the Russell only lost 9.97%.) The Dow suffered its worst June since 1930 (anyone remember the Great Depression?) and now has fallen right at 20% since the highs set in October 2007. By most every definition, that decline constitutes a bear market. As expected, financials led the devastation with the Dow Jones Bank Index and US Investment Services Index plummeting 26% and 13% respectively during the prior three months. Also, as expected, the energy sector surged by about 20% as commodities reaped the greatest rewards. Overseas, the results were not much better. As a sampling, Shanghai plunged 21%; India fell 14%; Paris dropped 6%. Those investors with the foresight to seek value from our neighbors to the North (Canada) and its commodity-driven economy, saw those stocks rise over 8% in the quarter. Likewise, Japan's Nikkei jumped by 7.6%, but only after losing 18% in the first quarter.

So What Happened? (Do you really need to ask?) In two words...energy and financials. In two other words...inflation and recession (see below). When the quarter began in April, many analysts were convinced (or had convinced themselves?) that the Fed's creative moves would bring the credit crisis to a quick close and the economy would reap the rewards of newfound strength and confidence. Instead the write-downs and losses among financials (thanks **Citigroup**, **UBS**, **Merrill**, etc.) escalated and rumors had **Lehman** following in **Bear Stearns** negative footsteps. (To date, Lehman is still battling.) **Goldman** made news last quarter, more for its call on oil prices than its ongoing financial woes. In May, an analyst made the bold prediction that oil could hit \$200 within the next 24 months and the great debate over fundamental vs. speculation began in earnest. By quarter end, oil had pushed past \$140/barrel and gasoline followed suit, averaging \$4.08/gallon and putting a huge damper on many summer vacation plans (not to mention the auto, airlines, chemical, delivery, transportation and numerous other sectors).

Take This Job and... Who would want to be president these days, anyway? With W's public opinion at rock bottom (a sluggish economy, bear market, and unpopular war will do that), Senator Obama is trying to convince voters that Senator McCain would be a continuation of failed policies. To counter, McCain believes that Obama represents just another "tax and spend" liberal. In reality, the election "winner" may be the real "loser" should these "challenging" quarters (and perpetual whining) continue. Then again, "it can't get any worse...can it?"

Economically Speaking...



* Reflects changes in interest rates over various time frames.

For the past three months, Dr. B. and friends have been hard at work, trying to steer the economy away from the dreaded “R” word, while also contending with the equally dreaded “I” word. While many analysts had expected recession to rear its ugly head by now, some innovative Fed maneuvering and a \$168 billion fiscal stimulus package helped limit the collateral damage (though plenty of folks, including one Alan Greenspan, feel that the weak economy is not out of the woods quite yet). Gentle Ben next turned his attention to surging oil and gasoline and the potential for escalating price pressures throughout other sectors of the consumer-driven economy. The statement from the most recent policy meeting acknowledged...“*The downside risks to growth appear to have diminished somewhat, while the upside risks to inflation and inflation expectations have increased.*” And, the Fed left interest rates unchanged for the first time in 10 months. Many economists (and the fed funds futures market) expect the next rate move to be higher, though the policymakers walk a fine line of moving too quickly to fight off inflation, while the economy is still struggling (and within shouting distance of recession). Additionally, the European Central Bank (ECB) is on target to lift its short rates, which will put added pressure on the Fed to move similarly (or risk more weakness to the dollar and the economy as a whole).

Let's Go To The Numbers By true definition, recession is marked by two straight quarters of negative growth. In the 1st quarter 2008, GDP advanced by 1% (initially reported as +0.6%) so, while still weak, the economy is growing. The housing sector shows no signs of rebounding any time soon as construction and sales data reflect poor conditions and home prices have fallen to levels last seen in 2004. Both CPI and PPI have accelerated as of late, though “stubborn” analysts continue to focus most on the core (ex-food and energy) releases, which depict mild price pressures for now. (At least, the Fed seems to take the food and energy sectors more seriously.) While manufacturing remains in contraction mode, the recent releases lend a bit of optimism that the sector may avoid the worst and is primed for a rebound (well before housing). The labor market also has struggled as jobs have been lost from the economy in each of the past five months, and the unemployment rate jumped to its highest level since October 2004. While retail activity showed that consumers took to the malls in May, many analysts believe that the tax rebates were the primary catalyst and the confidence indexes reflect ongoing concerns.

On the Horizon...The upcoming ECB decision adds more confusion to future Fed actions. Energy prices remain keys to inflation, though demand for gasoline has fallen as consumers modify activities. Financials set the tone for the markets as investors hope (and pray) that those write-downs are nearing an end. And, the politics (spin) of Senators Obama and McCain will be dissected at length, particularly those that affect our pocketbooks (can you say capital gains taxes?). So, bring on the 3rd quarter (but try to limit the shouting, whining, and crying).

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