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AND THAT'S THE WEEK THAT WAS...

For the Week Ended March 20, 2008

Market Matters...

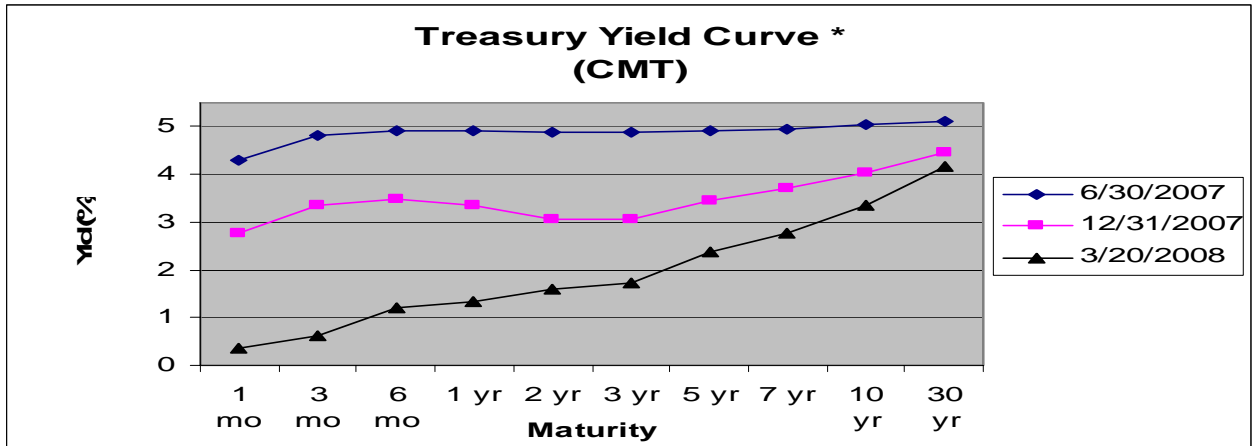
Market/Index	Year Close (2007)	Qtr Close (12/31/07)	Previous Week (03/14/08)	Current Week (03/20/08)	YTD Change
Dow Jones Industrial	13,264.82	13,264.82	11,951.09	12,361.32	-6.81%
NASDAQ	2,652.28	2,652.28	2,212.49	2,258.11	-14.86%
S&P 500	1,468.36	1,468.36	1,288.14	1,329.51	-9.46%
Russell 2000	766.03	766.03	662.90	681.42	-11.05%
Fed Funds	4.25%	4.25%	3.00%	2.25%	-200 bps
10 yr Treasury (Yield)	4.04%	4.04%	3.42%	3.33%	-71 bps

These days, corporate execs remain worried about how the economic downturn (OK...recession) will affect their bottom lines. Over the next few weeks, they may just see the overall productivity of their workers decline...as *March Madness* 2008 begins in earnest. According to a survey by consulting firm, **Challenger, Gray, and Christmas**, companies may lose up to \$1.7 billion in productivity as over 37 million individuals (from the mailroom to the executive suite) participate in Final Four pools. As many as 1.5 million will be watching games online (thank goodness for the Internet). Staffing company **Spherion** reports that 10% of workers may be inclined to take a sick day (or two) to cheer from the comfort of their living rooms (or in person). On a bright note, while productivity may drop, office morale may climb (at least, among the winners of the pools).

In reality, the NCAA tourney may be just the tonic needed to relieve some of the daily stress of the credit crisis. About a year ago, few seemed overly concerned when subprime specialists like **Novastar, Accredited**, and **New Century** highlighted the daily business news with negative reports about their financial woes. However, when the one-time fifth largest investment bank goes belly-up, investors (and virtually everyone) surely must take notice. This week **Bear Stearns** was sold to **JP Morgan-Chase** in a deal arranged by the Federal Reserve and valued at \$236.2 million, or just slightly less than Heather Mills' divorce settlement (thanks **Krueger Catalano Capital Partners** for the comparative analysis). More than most of its competitors, Bear had ridden the mortgage game to great profitability before crashing in its wake as the market dramatically deteriorated. The bargain-basement price represented about 1% of its valuation from just two weeks before. With other banks, investment houses, and hedge funds financially interconnected to the eight-decades old firm, Bernanke and Co. realized that its outright failure was not an option and a "bailout" was in order. The Fed also started a direct lending program for investment banks, lowered the discount rate for commercial banks (and now investment banks), and dropped the fed funds rate (see below) for good measure. (Hopefully, Dr. B. found a spare moment to fill out his brackets.) The departure of Bear left many concerned about who may be next. Rumors about **Lehman** were most prominent, though the company's 57% decline in quarterly earnings was actually quite well-received by investors. Likewise, the poor showings by **Goldman Sachs** (-53%) and **Morgan Stanley** (-42%) still beat the more pessimistic estimates.

Oil, gold, and other commodities tumbled late in the week as "speculators" analyzed the lower than anticipated rate cut and realized that the Fed was serious about fighting inflation. Still, prices stand much higher than what the basic laws of supply and demand would otherwise dictate. Equities suffered from immense volatility as investors tried to make heads or tails about the Bear collapse, the Fed moves, and the implications for the global financial system. By week's end, they showed confidence in Bernanke's creative actions and pushed stocks (cautiously) higher. A few courageous analysts even proclaimed the Bear transaction as a defining moment that marked the end of the crisis (talk about eternal optimism). A long holiday weekend gives folks an extra day to survey the times (or relieve stress by rooting on their favorite teams...Hook 'em Horns).

Economically Speaking...



* Reflects changes in interest rates over various time frames.

Weekly Economic Calendar

Date	Release	Comments
March 17	Industrial Production (02/08)	Worst showing since October 2007
March 18	PPI (02/08)	Largest increase in core inflation since November 2006
	Housing Starts (02/08)	Building permits fell to lowest level in 16 years
	Fed Policy Meeting Statement	¾ point cut in Fed Funds
March 20	Initial Jobless Claims (03/15/08)	Highest level of claims in almost 2 months
	Leading Eco. Indicators (02/08)	5 th consecutive monthly decline
March 21	Good Friday	Markets closed (thankfully?)
The Week Ahead		
March 24	Existing Home Sales (02/08)	
March 25	Consumer Confidence (03/08)	
March 26	New Home Sales (02/08)	
	Durable Goods Orders (02/08)	
March 27	Initial Jobless Claims (03/22/08)	
	GDP (4 th qtr)	
	Personal Income/Spending (02/08)	

With most economists expecting a full percentage point drop in fed funds at this week’s policy meeting, Bernanke and friends pulled off another surprising move and only cut the key rate by ¾ of a percent (to 2.25%). In fact, two voting members believed that smaller amount to be too significant and “*preferred less aggressive action at this meeting.*” While the Fed has now cut its rate by a full three percentage points since September, Dr. B. keeps searching for creative actions that will not elevate the risks of inflation. In fact, the Fed chair is considered one of the country’s foremost scholars of the Great Depression and is intent on doing everything in his power to prevent the downturn from escalating to such disastrous levels. The treasury futures markets now predict that the funds rate will ultimately fall to 1.5% or 1.75% by the end of the year.

The week’s data did not reveal anything too surprising. Housing continues to struggle as residential building permits fell in February to the lowest level in 16 years. Wholesale inflation (PPI) grew by 0.3%, though the less volatile core index (less food and energy) actually experienced its largest increase (+0.5%) since November 2006. The report confirms that the Fed has been wise to keep inflation high on its radar screen and look to measures that will be considered less likely to raise price pressures. Anything new and creative up your sleeve, Gentle Ben? Keep up the good work...no one deserves a day off more than you.

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