



# 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 April 4, 2008

### Market Matters...

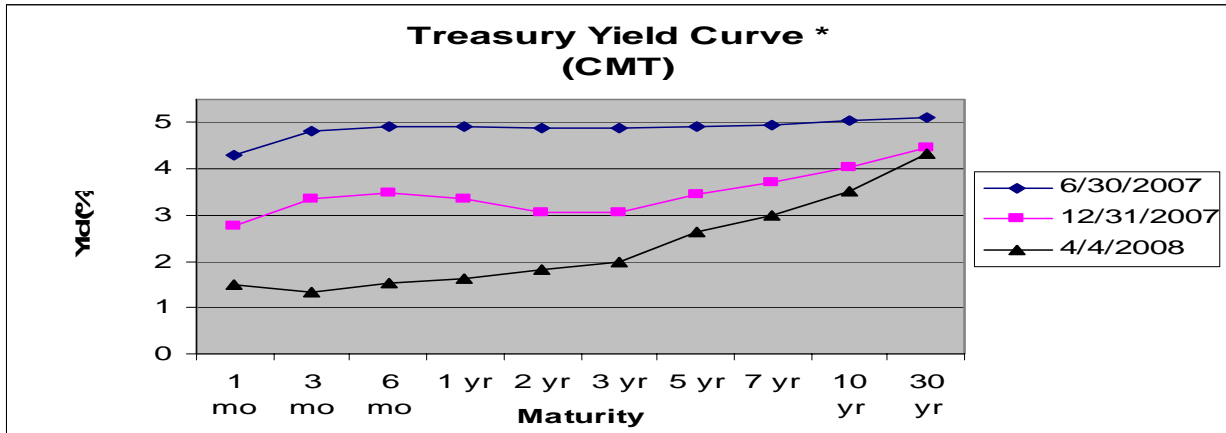
Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (03/28/08)	Current Week (04/04/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,216.40	<b>12,609.42</b>	<b>-4.94%</b>
NASDAQ	2,652.28	2,279.10	2,261.18	<b>2,370.98</b>	<b>-10.61%</b>
S&P 500	1,468.36	1,322.70	1,315.22	<b>1,370.40</b>	<b>-6.67%</b>
Russell 2000	766.03	687.97	683.18	<b>713.73</b>	<b>-6.83%</b>
Fed Funds	4.25%	2.25%	2.25%	<b>2.25%</b>	<b>-200 bps</b>
10 yr Treasury (Yield)	4.04%	3.43%	3.47%	<b>3.48%</b>	<b>-56 bps</b>

What the heck is going on? This week, “black seems white;” “up seems down,” “conservative seems liberal,” “bearish seems bullish.” For starters, the Republican Administration outlined a plan for more government oversight over the financial markets. Within the 200+ page “riveting” document, the Federal Reserve will be granted greater powers; new regulatory bodies will be created; and additional licenses will be required for some professionals. (Now, aren’t these guys/gals supposed to be the party of LESS government?) Then again, the proposal represents more fluff than substance as these folks will be out of office long before any of it is approved.

On the surface, the financial news of the week was less than favorable. **UBS** said goodbye to its Chairman and announced its intent to issue new stock to compensate for the anticipated quarterly loss (and the \$19 billion in mortgage write-downs). Likewise **Deutsche Bank**, Germany’s largest financial institution, expects to write-down over \$4 billion of assets as the credit crisis turns even more global. **Lehman Brothers** looked to shore up its balance sheet (and avoid becoming the next **Bear Stearns**) by offering a new class of convertible preferred stock and further diluting current shareholders’ interests. Bernanke was forced to vehemently defend the Fed’s actions in the Bear “bailout” before a bloodthirsty gang of political grandstanders. He also admitted (for the first time) that the economy is dangerously close to experiencing the dreaded “R” word. The labor picture (see below) is looking bleaker with each passing month. **Celent**, a financial research and consulting firm, reported that 10% of the 2 million domestic commercial banking jobs will be lost (does “downsized” sound better?) over the next year-and-a-half. Energy prices climbed (again) as the weekly inventory report revealed that supply is shrinking just as demand is increasing. In fact, retail gasoline prices soared to an all-time high of over \$3.30/gallon.

The 1<sup>st</sup> quarter 2008 came to a close and none too soon for most investors. The Dow suffered its worst three-month loss (in terms of points) in its history and experienced its most negative quarter in 5.5 years; likewise, the S&P 500 fell in March for the fifth consecutive month, its longest losing streak in over 17 years. At quarter-end, both the tech-heavy Nasdaq and the small-cap Russell 2000 had fallen about 20% from their October 2007 highs, a significant percentage that typically signifies a bear market. And yet, investors seemed to take all of the news of the week in stride and sought out any bargains that existed in the aftermath of the past (negative) quarter. Stocks surged on Tuesday (the first day of the quarter) and never really looked back. Some analysts claimed the aggressive UBS and Lehman actions to increase capital indicated managements’ confidence that the credit crisis is nearing an end. Others believe labor statistics lag certain economic indicators and the negative employment data represents the “beginning of the end.” Still others trust Dr. Bernanke and remain confident that he will lead the economic rescue efforts. Whatever the reasons, this week was a welcome relief from the dismal 1<sup>st</sup> quarter. If widespread negativity is what investors desire, good news may be on the way. Earnings season is just around the corner and most analysts expect feeble results. Further, the next GDP release may reveal economic contraction. Bring it on...after all “negative is positive” these days.

*Economically Speaking...*



\* Reflects changes in interest rates over various time frames.

**Weekly Economic Calendar**

Date	Release	Comments
April 1	Construction Spending (02/08)	24 <sup>th</sup> straight month of lower home building activity
	ISM – Manu (03/08)	Sector contracting but at a slower pace
April 2	Factory Orders (02/08)	2 <sup>nd</sup> consecutive monthly decline
April 3	Initial Jobless Claims (03/29/08)	Highest level of claims since Sept. 17, 2005
	ISM – Services (03/08)	Better than expected though slight sector contraction
April 4	Unemployment Rate (03/08)	Highest rate since September 2005 (post-Katrina)
	Nonfarm Payroll Additions (03/08)	3 <sup>rd</sup> straight month of job losses
<b>The Week Ahead</b>		
April 7	Consumer Credit (02/08)	
April 8	Fed Policy Meeting Minutes	
April 10	Initial Jobless Claims (04/05/08)	
	Trade Balance (02/08)	

So who can be trusted more for calculating economic statistics: the public or private sector? This week, investors got a look into the labor market from two independent sources and the results seemed to be quite different. According to payroll consultant **ADP** and research firm **Macroeconomic Advisors**, 8,000 new nonfarm jobs were added to the domestic economy in March, an indication that labor may be weakening, but still is experiencing growth. Conversely, the Labor Department reported that 80,000 related jobs were actually cut last month, the largest contraction in five years and the third straight month of losses. Additionally, the unemployment rate jumped to 5.1% and now stands at its highest level since September 2005. So (over-)analyze the data and pick your poison. Unfortunately, labor is slowing no matter who is calculating.

The other economic releases reflected continued sluggishness, though most of the results were better than predicted. Home construction fell for the 24<sup>th</sup> month in a row, and yet the percentage decline was not as bad as many economists feared. Both the manufacturing and services sectors revealed only slight contraction in March (as measured by their respective ISM indexes).

Chairman Bernanke was dragged before Congress this week to discuss the Fed’s role in the Bear Stearns “bailout” and his views on the pending recession (not his word). While he admitted that the economy “*will not grow much, if at all...and could even contract slightly...*”, he also felt the downturn would be short-lived as the Fed’s aggressive (and creative) actions would combine with the \$168 billion government stimulus package to generate growth in the second half of 2008 and beyond. (Now, that’s a government worker who can be trusted.)

The information set forth was obtained from sources which we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance is not a guarantee of future performance.