



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 25, 2008

Market Matters...

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (04/18/08)	Current Week (04/25/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,849.36	12,891.86	-2.81%
NASDAQ	2,652.28	2,279.10	2,402.97	2,422.93	-8.65%
S&P 500	1,468.36	1,322.70	1,390.33	1,397.84	-4.80%
Russell 2000	766.03	687.97	721.07	721.88	-5.76%
Fed Funds	4.25%	2.25%	2.25%	2.25%	-200 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.74%	3.87%	-17 bps

Last week, investors disregarded any semblance of bad news (and lately there has been plenty) and instead took the equity markets to the highest levels seen in months. Well, this week they allowed the earnings releases to guide their trading activity, while (not so eagerly) awaiting the results of the upcoming Fed meeting and the accompanying statement. So just what did the recent earnings reports say about the current state of Corporate America? Financials continue to lead the negativity (no surprise there) with **Bank of America**, **Credit Suisse**, and bond insurer **Ambac** reporting more disappointing results. Drug makers, on the other hand, enjoyed a nice quarter with **Merck** and **Novartis** beating expectations. While a sluggish economy can't keep folks out of **McDonalds** (as least in its international markets), it does seem to be impacting coffee intake as **Starbucks** warned that next week's results (and those for all of 2008) will miss earlier projections. Of course, dire times lead to more nervous smoking (and higher cigarette sales) as happy **Philip Morris** shareholders found out this quarter. While cost-conscious folks stayed home and watched more DVDs, **Netflix** warned that future subscriber growth may be limited.

Both **Delta** and **Northwest Airlines** posted sizable losses on skyrocketing fuel costs, leading some analysts to question the wisdom behind the proposed merger. (Perhaps, the whole will be greater than the sum of its parts?) While the world's largest shipper, **UPS**, experienced a rise in profits, management expressed concern about the quarters to follow as consumers don't seem quite as interested in finding out "*what Brown can do for you.*" Even techs, which previously had been a savings grace for the market, turned pessimistic this week. **Apple** and **Texas Instruments** reported decent earnings, but warned about their respective outlooks. Likewise, Bellwether **Microsoft** disappointed with its profit numbers, while investors sit on pins and needles as the **Yahoo** takeover saga moves closer to conclusion. Meanwhile, Yahoo beat Street expectations, though most analysts do not anticipate any sweeter deal with the deadline to accept Microsoft's offer scheduled for next week. **ConocoPhillips** showed that record energy prices are not hurting everyone, as the 3rd largest domestic oil company reported a 17% increase in profits.

Transactions typically imply growing confidence in corporate board rooms as management finds the value in certain acquisition targets. This week, **News Corp** moved closer to buying **Newsday** and giving Rupert Murdoch greater control over the New York press. (Could the **NYTimes** be next?) Insurance giant **Liberty Mutual** agreed to buy **Safeco** in a move that would create the 5th largest property and casualty firm. **Triarc** soon may be adding square burgers and Frosties to its Arby's menus as the company looks to acquire **Wendy's**. (And then there is Microsoft/Yahoo.)

With a mixed week on the earnings front, stocks traded relatively flat as investors took some profits from last week's newfound bullish sentiment, while still searching for a bargain or two. With an active economic calendar (see below) next week, Bernanke and team will take center stage as they (try to) explain their plan to play the sluggish economy against record oil prices and ongoing risks of inflation. (No pressure, Dr. B....any more financial "bailouts" on the horizon?)

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
April 22	Existing Home Sales (03/08)	Decline implied that rise in February was an aberration
April 24	Durable Goods Orders (03/08)	Slide in transportation orders offset other gains
	Initial Jobless Claims (04/19/08)	Large, unexpected drop in benefits claims
	New Home Sales (03/08)	Worst showing in 16.5 years
The Week Ahead		
April 29	Consumer Confidence (04/08)	
April 30	GDP (1 st qtr)	
	Fed Policy Meeting Statement	
May 1	Initial Jobless Claims (04/26/08)	
	Personal Spending/Income (03/08)	
	Construction Spending (03/08)	
	ISM – Manu (04/08)	
May 2	Unemployment Rate (04/08)	
	Nonfarm Payroll Additions (04/08)	
	Factory Orders (03/08)	

For many Fed watchers, the prospect for another rate cut has been a foregone conclusion. After all, Bernanke and clan have let those creative juices flow over the past few months and thrown virtually everything against the proverbial wall to see exactly what might stick and save the struggling economy. Suddenly, some great prognosticators believe the Fed may be “seven and done” as they drop the funds rate once again (by a minimal 25 bps this time) and then go on hiatus to admire the results of their hard work and efforts. With oil prices hovering around the (once unheard of) \$120/barrel level, some policy-makers are sure to claim that inflation should be considered as critical a concern as sluggish housing. Additionally, the European Central Bank seems content to keep its lending rate at 4%, so further Fed actions will continue to have devastating impact on the value of the dollar. Take a vacation, Gentle Ben. No one deserves one more than you. (Hey, W...how about an invite to that ranch of yours?)

The economic calendar was relatively light this week as analysts rested up for next week’s vast array of important data. After a surprising climb (better known now as an aberration) in February, existing home sales plunged again in March, while new homes sales fell to its lowest level in over 16 years. Further, the median price of a new home dropped by over 13% last month, the largest such decline in almost four decades. (Surely, someone recognizes the value in housing out there? Where are those speculators and flippers now...trying to avoid multiple foreclosures?) Durable goods orders fell in March as well, though once the volatile transportation sector was removed from the equation, the results did not look half-bad.

On the Horizon...

Investors and analysts alike should get plenty of rest this weekend as the upcoming economic and earnings calendars will keep them all on their toes. Talk of recession should resume with the release of the 1st quarter GDP which many eternal pessimists believe will show negative growth during that three month period. (Remember, two consecutive quarters of negative growth and you have yourself a recession.) Additionally the manufacturing sector will be highlighted through the much-watched ISM survey, while the unemployment rate and nonfarm payroll data bring labor to the forefront later in the week. On the earnings front, Big Oil gets its day in the sun as **ExxonMobil** and **Chevron** show how their bottom lines have been impacted by record energy prices (and prompt new calls for Congressional investigations over price gouging). Starbucks follows up its recent warning with an actual announcement, while **Office Depot** and **Radio Shack** give investors a look inside the world of retail. And, of course, there is the Fed.