



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 May 2, 2008

Market Matters...

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (04/25/08)	Current Week (05/02/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	12,891.86	13,058.20	-1.56%
NASDAQ	2,652.28	2,279.10	2,422.93	2,476.99	-6.61%
S&P 500	1,468.36	1,322.70	1,397.84	1,413.90	-3.71%
Russell 2000	766.03	687.97	721.88	725.74	-5.26%
Fed Funds	4.25%	2.25%	2.25%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.87%	3.85%	-19 bps

Recession? What recession? For days, weeks, months now, naysayers had been predicting the emergence of that dreaded “R” word with the release of 1st quarter GDP. Additionally, they claimed that the labor picture would continue to worsen, gas prices would hit \$4/gallon by summer, the dollar would be worth next to nothing, corporate earnings would signal more “gloom and doom,” and high net worth investors would be making dramatic allocation shifts from the “risky” equity markets. Not so fast...the data released this week (see below) revealed an economy closer to rebounding, a far from dire business climate, a stronger dollar that may have placed a ceiling on oil (and other commodities) prices, and rich folks looking for bargains in stocks. The next few days, weeks, months just may get more interesting (and, dare we say, more optimistic).

The latest **Fidelity Investment’s** *Millionaire Outlook* reported (mildly) bullish findings among its surveyed investors who have average investable assets topping \$4 million. Instead of decreasing their equity allocations, 27% of these millionaires plan to add stock positions during the next 12 months. Only 7% expect to sell out of equities, which logically deduces 66% will be staying the course. Real estate seems to be another “favored” asset class as 14% of respondents say they will increase exposure to related investments. (Doesn’t quite sound like “gloom and doom.”)

Earnings season pushed forward with energy companies benefiting from the recent surge in oil prices. Though **Exxon-Mobil** only claimed the second best profit ever reported (previously, it experienced the best quarter as well), Wall Street seemed disappointed that a new record was not set. Likewise, **Chevron** and **BP** reported favorable periods. **MasterCard** doubled its earnings last quarter as its international business helped overcome domestic weakness. **Procter & Gamble** also received good news from overseas with higher sales of consumer goods like diapers (Pampers), razors (Gillette), and shampoo (Head & Shoulders) from certain emerging markets. (Must be a big dandruff problem in those developing countries?) Not all was rosy, however, as **Sun Microsystems** and food giants **Kellogg** and **Kraft** each fell prey to the continued economic “challenges” in the U.S. On the transactional front, investor Kirk Kerkorian will up his stake in **Ford Motor**, a nice boost for the domestic auto industry; **Time Warner** will be spinning off its cable operation (a technician will arrive between 8 and 12 or 1 and 5); and **Mars Inc.** (M&Ms) will buy **Wm. Wrigley** (Juicy Fruit) for over \$20 billion in cash with help from famed sweet-tooth junkie, Warren Buffett. (Ready to address the troops/shareholders, WB?)

Oil flirted with \$120/barrel before sliding on a stronger dollar and news that the Fed may play the “wait and see” game (see below). Equity investors again took a “things could have been worse” approach and sought out value in the aftermath of this week’s economic and earnings reports. Some analysts believe that a stronger dollar will mean the end to the rally in commodities, and investors (hedge funds) will take some related profits and move back into stocks. BTW, despite all the recent negativity, the Dow surged over 500 points in April, and the S&P 500 and Nasdaq both rose about 5%...not quite the recessionary tone many had been anticipating.

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
April 29	Consumer Confidence (04/08)	Lowest level in 5 years
April 30	GDP (1 st qtr)	Slow growth, but NOT recessionary
	Fed Policy Meeting Statement	25 bps cut may be last for a while
May 1	Initial Jobless Claims (04/26/08)	Surprisingly high increase in benefits claims
	Personal Spending/Income (03/08)	Lackluster showing for 4 th straight month
	Construction Spending (03/08)	Much greater than expected decline
	ISM – Manu (04/08)	Continued sector contraction
May 2	Unemployment Rate (04/08)	Slight improvement from March
	Nonfarm Payroll Additions (04/08)	Fewer than anticipated job losses
	Factory Orders (03/08)	Rebounded after consecutive monthly losses
The Week Ahead		
May 5	ISM – Services (04/08)	
May 7	Consumer Credit (03/08)	
May 8	Initial Jobless Claims (05/03/08)	
May 9	Balance of Trade (03/08)	

"The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time and to mitigate risks to economic activity." On that note, the Fed just may be embarking on a much-needed summer vacation as its policy meeting statement implied that this week's 25 bps cut would be its last move for a while. After all, Bernanke and friends have lowered the funds rate seven times since September; it now stands at 2%, the lowest level since late 2004. Additionally, the Fed had recently engaged in a few other "creative" actions at a time investors were growing quite nervous about the ever-expanding credit crisis. For now, they seem content to sit back and watch (and speak up when asked), while the stimuli or "methods to their madness" begin to take effect.

Though consumer confidence fell to a five-year low in April, analysts may want to revise their recessionary forecasts for another quarter. With many anticipating negative economic growth in the 1st quarter, the GDP rose (though ever-so-slightly) by 0.6 percent. Remember, by true definition, a recession is marked by two consecutive quarters of contractions so, barring a revision in the months ahead, the 2nd quarter now becomes key for the potential emergence of any real downturn. Suddenly, some "experts" are questioning that likelihood. While the Labor Department revealed a fourth straight month of job losses in April, the results were not nearly as bad as many had predicted. (Only 20,000 nonfarm jobs were lost vs. the 70,000 that had been expected.) Likewise, the unemployment rate actually fell to 5% (from 5.1% in March), another promising sign for workers. On the manufacturing front, factory orders rebounded after consecutive monthly declines and climbed by 1.4% in March. The ISM Index revealed slight sector contraction, though again many economists were expecting a far worse reading. While a weaker than expected construction spending report depicted that housing is not showing any real signs of rebounding, some analysts believe the Fed has laid the groundwork for recovery.

On the Horizon...With earnings season starting to wind down, investors are not anticipating many new surprises. Still, a few prominent players are set to report next week led by **Disney** (entertainment), **Cisco Systems** (tech), and **AIG** (financial services). The **Microsoft/Yahoo** (and occasionally **Google**) soap opera will be worth watching as the word "hostile" begins to creep into related conversations. A slow week on the economic calendar will prompt greater focus on the dollar as investors speculate on whether the run in commodities (and oil) is nearing an end. Dr. B. addresses Columbia Business School on mortgage issues, though surely he will be asked about Fed policy by folks hanging on his every word. (Isn't he supposed to be on vacation?)