

**AND THAT'S THE WEEK THAT WAS...****For the Week Ended May 9, 2008***Market Matters...*

Market/Index	Year Close (2007)	Qtr Close (03/31/07)	Previous Week (05/02/08)	Current Week (05/09/08)	YTD Change
Dow Jones Industrial	13,264.82	12,262.89	13,058.20	12,745.88	-3.91%
NASDAQ	2,652.28	2,279.10	2,476.99	2,445.52	-7.80%
S&P 500	1,468.36	1,322.70	1,413.90	1,388.28	-5.45%
Russell 2000	766.03	687.97	725.74	720.05	-6.00%
Fed Funds	4.25%	2.25%	2.00%	2.00%	-225 bps
10 yr Treasury (Yield)	4.04%	3.43%	3.85%	3.77%	-27 bps

What a difference a few days can make. Just last week, a stronger dollar appeared to put a cap on energy (and other commodity) prices and “nervous” consumers breathed a (brief) sigh of relief as the summer travel months rapidly approached. Suddenly, **Goldman Sachs** chose to make that bold prediction that oil could reach \$150 to \$200/barrel over the next six to 24 months and prices skyrocketed over five consecutive record-setting sessions. (Any chance the company went “long” before offering that prognostication?) In any case, despite a weekly inventory report that revealed greater than expected oil and gasoline supplies, crude prices pushed beyond \$126/barrel. On a year-to-date basis, crude has surged about 30% and has virtually doubled from last year’s level. Energy analysts claimed that \$150 crude would suggest gas prices of over \$4.50/gallon, quite a run-up from the record of \$3.67 the average consumer is now paying at the pumps.

For now, OPEC seems content to maintain its current production output and blames failed US economic policies for the dire domestic conditions. The cartel next meets in September and only recently gave slight overtures that an early consultation may be in the cards. (Don’t hold your breath.) Now comes news that Venezuelan President Chavez may be supporting rebel forces in Colombia, a move that could bring sanctions against his country (and prompt retaliation in the form of reduced oil sales). Meanwhile, presidential hopefuls Clinton (a woman can still dream) and McCain continue to push for a “gas-tax holiday,” despite consensus economic views that such policy would benefit oil companies far more than consumers. (Any chance they both went “long” **Exxon-Mobil** before offering those proposals?) Finally, a bit of good energy-related news. In an attempt to boost sluggish sales, **Chrysler** introduced its “*Let’s Refuel America*” gimmick in which new car purchasers can lock in the price of gasoline at \$2.99/gallon for the next three years. (Of course, they have to buy a Chrysler, Jeep, or Dodge to participate.)

Earnings season did little to reverse the negative mood set by the energy sector as a few big financials (**Fannie Mae**, **UBS**, **Wachovia**, and **AIG**) reported poor quarters with few optimistic signs for the months ahead. Even **Berkshire Hathaway** took a significant hit on certain derivatives, though Warren Buffett claimed such contracts ultimately will prove profitable. (Interesting how Buffett criticized everyone from regulators to politicians to investors for the credit crisis and then revealed some “challenges” in his own house last quarter.) The **Yahoo/Microsoft** deal appears to be dead in the water (for now), as Gates and Ballmer (Microsoft) head back to the drawing board in the ongoing competition with **Google**, and Yang (Yahoo) tries to find another white knight while explaining to shareholders why he may have taken money out of their pockets.

Equity investors took a break (hopefully short-lived) from the recent optimism and focused on the negative energy and earnings news. In reality, the week brought little substantive corporate or economic developments, so many took the opportunity to lock in profits from the recent bullish run. As those tax rebates hit their mailboxes (see below), consumers soon should have a few extra bucks to take to the malls, put a down-payment on a Chrysler, or pay for a few tanks of gas.

Economically Speaking...

Weekly Economic Calendar

Date	Release	Comments
May 5	ISM – Services (04/08)	Surprising sector expansion
May 7	Consumer Credit (03/08)	Best showing in 4 months
May 8	Initial Jobless Claims (05/03/08)	Level of claims declined more than anticipated
May 9	Balance of Trade (03/08)	Larger than expected decline
The Week Ahead		
May 12	Treasury Budget Statement (04/08)	
May 13	Retail Sales (04/08)	
May 14	CPI (04/08)	
May 15	Initial Jobless Claims (05/10/08)	
	Industrial Production (04/08)	
May 16	Housing Starts (04/08)	

With little in the way of economic data released this week, the talking heads captured the limelight with some (contrasting) views on the state of the times. The European Central Bank president revealed his “significant” concern about inflation and, subsequently, left the ECB’s primary interest rate unchanged at four percent. Likewise, KC Fed Prez Hoenig warned of “troublesome,” “serious,” and “unacceptably high levels” of price pressures (though as a non-voting Fed member, no one much cares what he has to say). Meanwhile, Treasury Secretary Hammerin’ Hank Paulson indicated that the Administration believes the “worst is likely behind us,” while his boss praised the economic stimulus package in which 130 million folks will soon be receiving tax rebates to help boost consumer spending. And to lead the way, the Bushes will be contributing a great deal to the economy of Crawford, Texas, when they drop a pretty penny at the first daughter’s wedding this weekend. (At least now she doesn’t need a fake ID.)

The economy got a surprising shot-in-the-arm from the services sector as the non-manufacturing ISM index revealed expansion for the first time in four months. About 80% of economic activity is derived from the services sector, so the data may have offered further proof that Paulson and friends may be right. Consumers took advantage of the lower interest rates (thanks Dr. B.) last month as April borrowing (particularly auto loans) climbed at its fastest pace in four months. Retailers experienced mixed results during April as shoppers continued to favor discounters and wholesale clubs like **Wal-Mart** and **Costco** over apparel stores like **Limited Brands**, **Gap**, and **Nordstrom**. Meanwhile, the UBS–International Council of Shopping Centers retail sales survey showed that activity in April far exceeded expectations.

On the Horizon... Retailers stay in the news next week with **Wal-Mart**, **Macy’s**, **JP Penney’s**, **Abercrombie & Fitch**, and **Nordstrom** all scheduled to report quarterly earnings. Likewise, the April retail sales data will be released as economists and investors alike get a good look at the current mindset of the consumer. Bear in mind, consumer activity accounts for two-thirds of the growth of the economy. Of note, the (over)analysis of that number must consider the escalating price of gasoline and attempt to factor out the sales from gas stations which are sure to skew the overall reading. With the Fed and ECB expressing serious concern about inflation, all eyes will be on the CPI release which helps reveal just how quickly and significantly energy prices are working their ways to other sectors of the economy. Listen closely as certain economists try claiming that “core” inflation is more telling than the overall number because *food and energy components are highly volatile*. These days, no legitimate conversation about the economy or price pressures can take place without serious mention of oil and gas (and any new word from OPEC or Chavez). Finally, Memorial Day is just around the corner and summer vacations are being planned in earnest (or are they?). Can travelers afford those family driving excursions or international trips given the status of the dollar and gas prices? Only time will tell.