

# Weekly Commentary

## January 14, 2008

### The Markets

Well, this isn't exactly how we like to start the year.

With the Dow Jones Industrial Average off 5.0 percent, it's the worst opening eight days since 1991. We shouldn't lose hope though. Despite its rocky start in 1991, the Dow ended that year up 20 percent and the Nasdaq rose 56 percent, according to MSN Money. We're not predicting that will happen here, but it does suggest that a poor start doesn't necessarily mean we'll end the year that way.

Additional economic data and corporate writedowns are making investors increasingly nervous that we may be heading toward a recession. Last Thursday, American Express announced that it was, "seeing more delinquencies and less activity from consumers and was reserving \$400 million to cover potential losses," according to MSN Money. At the high end of the consumer market, Tiffany, "cut the top end of its profit forecast because of weak holiday sales," according to *The Wall Street Journal*. And *The New York Times* reported that, "Merrill Lynch is expected to suffer \$15 billion in losses stemming from soured mortgage investments, almost double its original estimate, prompting the firm to raise additional capital from an outside investor."

In our capitalistic society, we can expect the economy to ebb and flow. We will have periods of strong growth and periods of slower growth or even contraction. It's human nature to toggle between unbridled optimism at one extreme (e.g., the late 1990s) and unwarranted pessimism at the other extreme (e.g., the early 2000s.) The government does its best to help smooth these extremes and now there's talk about some type of governmental stimulus plan, which investors may welcome.

As financial professionals, it's our job to monitor the situation, make adjustments as we deem necessary, and always try to maintain the appropriate perspective. We try to do that through thick and thin markets.

Returns through 1/11/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-1.5	-5.0	0.4	6.1	7.5	5.1
Nasdaq Composite	-2.6	-8.0	-2.5	5.5	11.0	4.9
Standard & Poor's 500	-0.8	-4.6	-2.1	5.8	8.6	4.1

Sources: Yahoo! Finance, Barrons. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, 5-, and 10-year returns are annualized. Assumes dividends are not reinvested.

**ARE WE HEADED TOWARD A RECESSION?** According to the Associated Press, an increasing number of economists now say the odds of slipping into a recession are near 50-50. Investment bank Goldman Sachs boldly predicted that we'll enter into a recession in the second quarter of this year, according to a Reuters report.

Whether we enter a recession or not this year, the reality is, economic ups and downs are a natural part of the business cycle. When optimism reigns and the economy is heating up, we typically see

rapid growth with demand outpacing supply, prices increasing, and inflation rising. Conversely, when pessimism reigns and the economy is slowing, we typically see a pullback in consumer spending, rising unemployment, and lower corporate profits.

If there's an upside to recessions, it's that they may help eliminate excessive exuberance, establish reasonable valuations, and often create opportunities to purchase sound companies at a reasonable price.

Technically, an organization called The National Bureau of Economic Research (NBER) is responsible for dating business cycle turning points and determining recessions. According to the NBER, the current expansion began in November of 2001. That means we've enjoyed more than six years of expansion. The prior expansion lasted from March 1991 to March 2001, a 10-year period, which was the longest on record. On a positive note, contractions tend to be far shorter than expansions. According to the NBER, the average contraction since 1945 has been about 10 months long, while the average expansion has been about 57 months.

Only time will tell where we land this year.

### **Weekly Focus – New Habits Take Time**

If you've made some health-related New Year's resolutions, keep in mind that, according to Dr. Mao, an anti-aging expert and the author of *Secrets of Longevity*, "It takes 14 to 21 days of repetitive behavior to form a new pattern in your brain. Once the pattern is formed, it becomes an automatic behavioral response." So allow some time for your new healthy habits to replace old ones.

Best regards,