

Weekly Commentary

January 7, 2008

The Markets

With 2007 in the history books, we'll use this week's commentary to review some of the key stories over the past quarter and year. The chart below shows it was an up year for the major stock indexes.

Returns through 12/31/07	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	6.4	7.1	9.7	5.3
Nasdaq Composite	9.8	6.8	14.7	5.4
Standard & Poor's 500	3.5	6.6	10.8	4.2

Sources: Yahoo! Finance, Barron's. 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.

STOCKS SLIDE ON LAST DAY OF 2007, BUT INDEXES POST ANNUAL GAINS

Wall Street closed out a bumpy 2007 on a down note as the Dow Jones Industrial Average fell 101 points on the last day of the year. However, solid first-half advances enabled the Dow to post a respectable 6.4% annual gain. Significantly, the Dow recorded the increase in spite of its worst fourth-quarter drop in two decades. The Standard & Poor's 500 Index and the Nasdaq Composite Index also took hits on December 31, but still managed to post annual gains. The S&P 500 fell 10.13 points to close the year with a gain of 3.5%. The Nasdaq fell 22.18 points to post a 9.8% annual gain, its best since 2003.

HOUSING WOES CONTINUE

New-home sales remained mired in a downturn in the fourth quarter. A Commerce Department report released on December 28 showed U.S. new-home sales plunged 9% in November. In fact, over the last 12 months, tougher to come by credit and increasing home inventories have caused new-home sales nationwide to decline by 34.4%, the biggest annual slide since early 1991. One bright note: the National Association of Realtors said existing home sales rose 0.4% in November, the first increase in nine months. However, sales remain 20% below last year's level, and the median existing home price has dropped 3.3% over the past 12 months.

CONSUMER CONFIDENCE UP SLIGHTLY

The Conference Board Consumer Confidence Index, which has been declining since the summer, posted a slight increase in December. The Index now stands at 88.6, up from 87.8 in November. The Present Situation Index, however, decreased to 108.3 from 115.7 in November, indicating our economy is losing momentum. Specifically, consumers claiming conditions are "good" decreased to 20.3% from 22.5%. Those saying conditions are "bad" increased to 20.0% from 18.9%. Consumers' assessment of the job market was also less positive than it was last month. Those saying jobs are "hard to get" rose to 23.5% from 21.4%, while those claiming jobs are "plentiful" declined to 22.7% from 23.3% in November.

CEOs SEE STEADY ECONOMIC CONDITIONS

The leaders of America's top companies showed a slight uptick in their expectations for the economy over the next six months, according to Business Roundtable's fourth quarter 2007 CEO

Economic Outlook Survey. The CEO Economic Outlook Index, which indicates how CEOs believe the economy will perform in the six months ahead, improved moderately, rising more than two points from last quarter's 77.4 to 79.5.

Interestingly, in response to the annual question regarding cost pressures facing their businesses, a majority of CEOs cited energy and health care expenditures as their greatest fiscal pressures. Business Roundtable, an association of chief executive officers of leading corporations, represents a combined workforce of more than 10 million employees and \$4.5 trillion in annual revenues.

IS THERE RELIEF IN SIGHT FOR INITIAL PUBLIC OFFERINGS? (IPOS)

The subprime mortgage meltdown took its toll on the IPO market in the 4th quarter. According to a recent article in the *Wall Street Journal*, the last three months of 2007 featured steadily deteriorating prices for initial public offerings of stock and a growing list of cancellations. Specifically, in December, 47% of the IPOs that came to market in the U.S. had to cut their proposed price ranges, and in some cases, the amount of shares they sold, to attract investors. In October, just 23% of the offerings trimmed their prices before making their debuts. The number of deals that were withdrawn or postponed during the 4th quarter of 2007 hit 34, compared with just 24 in the same period of 2006, according to Dealogic.

WHAT IS AHEAD FOR 2008?

Well, things didn't start out too well the first week of this year. On the first trading day, the Dow had its largest opening day of the year drop since 1983. It should be noted, however, that the Dow went on to rise more than 20% in 1983—will we see a repeat? Weak employment news from the Labor Department and a contraction in manufacturing from the Institute for Supply Management sent the major indexes down for the week.

Of course, three trading days does not make a trend. We have more than 200 to go before the books will be closed on 2008.

Weekly Focus – A Poem for the New Year

A happy New Year! Grant that I
May bring no tear to any eye
When this New Year in time shall end
Let it be said I've played the friend,
Have lived and loved and labored here,
And made of it a happy year.
--Edgar Guest

Best regards,