

## Weekly Commentary February 25, 2008

### The Markets

This up and down stock market may suggest that many investors have weak convictions about which direction they think the stock market will head over the near term.

There seems to be a cross current between investors who are tempted to snap up perceived bargains and other investors who are willing to sell stocks due to inflation fears and credit jitters. This tug of war has resulted in large daily swings and makes for good headlines. So, what could get stock prices out of this pattern and into a new bull market? How about rising corporate earnings.

According to a February 17<sup>th</sup> *New York Times* article, analysts expect corporate earnings to drop 21.1% for the 4<sup>th</sup> quarter of 2007 compared to the year earlier quarter. In the first quarter of 2008, they expect earnings to drop a modest 0.1% from the year earlier period. However, analysts expect the picture to brighten significantly in the second half of the year and they anticipate corporate earnings will grow 15.3% in 2008 compared to 2007. This projected rapid growth is what some people in the business world would call a “hockey stick” projection.

Like all forecasts, nobody knows in advance how accurate it will be. Yet, despite the unknown accuracy of the forecast, making a forecast does serve a purpose. It gives money managers a frame of reference to make investment decisions. Depending on how much credence a money manager places in the forecast, they may adjust their investment decisions accordingly. And just how well they make that adjustment may help determine their success as a money manager.

Returns through 2/22/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	0.3	-6.7	-2.1	5.3	9.5	3.9
Nasdaq Composite	-0.8	-13.2	-8.4	4.3	11.7	2.8
Standard & Poor's 500	0.2	-7.9	-6.8	4.5	10.2	2.7

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.

**PROVIDING THE ECONOMY WITH WHAT HE CALLS** a “booster shot,” President Bush signed the income tax rebate into law last week. The \$168 billion stimulus package of personal tax rebates and business tax cuts could bolster consumer spending later this year, economists say, and minimize the pain of a possible recession.

Your 2007 tax return will determine your eligibility and your rebate amount. In most cases, individuals will receive a maximum of \$600, \$1,200 for taxpayers who file a joint return. Expected minimums? \$300 for individuals and \$600 for taxpayers filing jointly. Parents also will receive an additional \$300 for each qualifying child.

Eligibility for the stimulus payment is subject to income limits. The payments will be reduced for individuals earning \$75,000 or more and for married couples earning \$150,000 and up.

You're likely to receive two notices from the IRS. The first will explain the stimulus payment program. The second notice will confirm your eligibility, the payment amount, and the approximate time table for your payment. Save this notice for your 2008 tax return.

Although surveys show many consumers say they'll save the tax-rebate money, Mark Zandi, chief economist for Moody's Economy.com, notes in a recent article on MarketWatch that it's likely that most of rebates will be spent. He bases his opinion on a recent study that showed Americans spent the bulk of their tax rebates in 2001 and 2003.

Also in the MarketWatch article, "Tax Rebates Really Will Boost Economy, for a While," economist Mike Englund of Action Economics says the rebate, which amounts to a one-time 18% increase in monthly pay, may translate into a "second holiday shopping season" later this summer, even if Americans spend only half of what they receive.

However, in a January 31<sup>st</sup> press release, Mark Johannessen, CFP<sup>®</sup>, president of the Financial Planning Association<sup>®</sup> (FPA<sup>®</sup>), says its "ironic that Washington is telling Americans to go out and spend to help save our troubled economy." Labeling the package "anti-savings and anti debt-reduction," he says it might help the economy, but it won't help Americans dig out of their debt.

He notes, "The problem is that the average American household credit card debt is \$8,400, the national savings rate is minus 1/2 percent and bankruptcies are on the increase. So, spending the rebate may not be in the best interest of many Americans. Not setting up a household budget is how many Americans got into financial trouble in the first place."

### **Weekly Focus – What will they think of next?**

Nature magazine recently ran an article about what it bills as a unique new "power suit." Scientists at Georgia Tech have developed a microfiber fabric that generates its own electricity. If made into a shirt, the fabric could harness power from the movement of its wearer enough to recharge a cell phone or ensure that a small MP3 music player never runs out of power.