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Volatility Abounds

What a difference **one week** can make. Last week's wild ride produced the following events:

- The Fed cut the discount rate (the rate banks borrow from the Fed) last Sunday to 3.25% and opened the discount window to non-bank institutions, something it hadn't done since the 1930s.
- The near collapse and bailout of Bear Stearns by the Fed and JPMorgan. The central bank originally agreed to guarantee $30 billion of Bear Stearns assets, including risky mortgage-backed securities. JPMorgan said it will now take on the first $1 billion of losses, while the Fed backs the rest. Also, JPMorgan's $2/share offer equates to a purchase price of roughly $236 million—less than what the Yankees paid to keep Alex Rodriguez! That price has since been revised to $10/share.
- Aggressive 75 basis point cut in the Fed Funds rate (the rate at which banks lend money to each other) on Tuesday. The rate currently stands at 2.25% and this was the sixth rate reduction since the Fed began cutting rates in September 2007.
- Visa went public and its initial price skyrocketed. The $19.1 billion that it ultimately raised made it the largest IPO capital raising in U.S. history.
- The Office of Federal Housing Enterprise Oversight reduced the capital that Freddie Mac and Fannie Mae must hold in capital surplus. This could release up to $200 billion in immediate liquidity to bolster the mortgage-backed securities market. In turn this should make mortgages more available to home buyers and with lower interest rates.
- A plunge in commodities' prices gave investors some hope that lower energy and food prices might boost consumers' discretionary spending and ease inflation concerns. Gold prices fell to $920 per ounce from $1,010 and oil fell to $100 per barrel from $111. Notably, these prices were influenced by a stronger U.S. dollar.

Despite all of these events, we had the largest daily gain (+420) by the U.S. stock market in five years. And, this all occurred in a shortened 4-day trading week. For the week, the major indices finished as follows:

DJIA	+3.4%
S&P500	+3.2%
NASDAQ	+2.0%

While all of this is a breath of fresh air, it doesn't necessarily mean we're out of the woods quite yet. Investors are finally showing signs of relief, but economic jitters are far from alleviated. The every-other-day theory (up one day, down the next) should continue as long as there is concern in the financial and housing sectors. Although it's improving, market sentiment has been crushed and will likely remain fickle over the next few months.

It appears investors believe the worst is behind us and have begun shopping for bargains. Life would be much easier if the financial markets made our shopping experience easier by advertising its sales, much like our weekly trip to the grocery store. But the fact is the market doesn't announce its blue-light specials over the loud speaker. Unlike groceries, when stocks are on sale, most investors do the exact opposite of what they should be doing—they avoid the market out of fear.

Investors who consistently practice sound investment principles and maintain a long-term perspective will, in our view, survive the current setback and in the long run enjoy the results as this market regains solid footing once again. Keep in mind that these times can present long-term opportunities to buy great investments at lower prices.

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Market Watch

	3/26/2008	YTD
DJIA	12,422	-6.35%
S&P 500	1,341	-8.67%
NASDAQ	2,324	-12.38%

2007 IRA Contributions

With April 15th on the near horizon, don't forget that you can still make an IRA contribution for 2007 if you haven't already done so. Contribution limits are $4,000 (under age 50) or $5,000 (50 and over).

Out vs. In

In spite of the fact that the USA had a $709 billion trade deficit in 2007 (imports in excess of exports), we were able to offset that outflow of dollars by attracting $782 billion of foreign capital into our stocks and bonds. Thus, for every $10 that left the USA because of excessive buying of foreign imports, $11 came into the USA as foreigners bought American financial assets (source: Commerce Department, Treasury Department).