



# ALL STAR FINANCIAL

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## Weekly Market Wrap October 27, 2008

### Review - Week Ending 10/24/2008

Stocks fell again last week after bouncing 4% the previous week. All the broad domestic indexes fell 5-10%, with techs and small caps lagging. International stocks were hit again as emerging markets were sold off in the face of wild currency fluctuations in the past week. This week brings more earnings, a full calendar of economic data, and of course the Fed meeting and rate announcement on Wednesday.

### Commentary/Highlights

- **SUNDAY UPDATE:** The good news, no major weekend events to rock markets.
- **Economy: Good News:** Credit markets are gradually healing, especially for municipals as Libor rates fell through the week. Existing home sales were up 5.5% m/m on foreclosure bargain buying. Months of supply fell below 10 months. Oil and gas prices are dropping rapidly. **Bad News:** Jobless claims rose to 478,000, chain store sales fell 1.6%, Chicago Manufacturing Activity fell 2.5%, and Moody's Risk of Recession rose to 48%, highest since April 2008. This week the Fed launches their commercial paper funding facility which should aid corporate bonds. GDP growth for 3Q is expected to go negative this week, joining Japan and Britain in recession. Euro-zone expected to follow shortly.
- **Earnings:** Earnings reports continue to come in largely negative. Operating earnings for roughly half of the S&P 500 have reported and show an 11% decline versus 4% expected decline. Guidance continues to be largely negative or non-existent due to credit concerns. Forecasts for the 4<sup>th</sup> quarter have been reduced to 35% from 47% on Oct 1, and are obviously too high, 1Q 2009 estimates have been halved from 25% to 13% over same time period.
- **Greenspan's Apology (of sorts):** Senator Alan Greenspan testified before Congress last week that he was "shocked" by the breakdown in credit markets. Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity -- myself especially -- are in a state of shocked disbelief," said Greenspan, who stepped down from the Fed in 2006. "I made a mistake," Greenspan said, "in presuming that the self-interests of organizations, specifically banks and others were such as that they were best capable of protecting their own shareholders and their equity in the firms." Unlike, Paulsen and Bernanke at least he apologized.
- **Hedge Fund Redemptions:** There continue to be reports of hedge fund selling to meet redemptions, which has led to increased volatility and downward pressure in recent weeks. TrimTabs last week reported \$43 billion in hedge fund redemptions for September. Hedge fund regulation will no doubt be part of new "financial order".
- **Asia and Europe leaders from 40 nations met in Beijing on Friday** on discussions regarding the global financial systems. **Bush is to host a global financial summit on November 15<sup>th</sup>**, with Europe and China expected to play leading roles.
- **Key market catalyst dates going forward:** October 29<sup>th</sup> –Fed rate announcement, November 4<sup>th</sup> –US Elections, November 6<sup>th</sup> –ECB and BOE rate announcements, and November 15<sup>th</sup> –Global Financial Summit.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.71%	-1.27%	-0.64%
Lehman High Yield	-1.23%	-16.96%	-25.33%
Dow Jones Industrial	-5.31%	-22.61%	-35.35%
S&P 500 Index	-6.73%	-24.57%	-39.23%
Russell 3000	-7.39%	-25.95%	-39.88%
MSCI EAFE Index	-9.75%	-26.76%	-19.52%
MSCI EAFE Small Cap	-9.86%	-28.20%	-50.95%
NASDAQ Composite	-9.31%	-25.47%	-41.48%
Russell 2000	-10.52%	-30.62%	-37.82%