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Weekly Market Wrap January 07, 2008

Review - Week Ending 01/05/2008

Stocks gave up most of their 2007 gains in the early trading days of 2008. Stocks fell 4.5-6.0% on news of slowing job growth was added to the pile of obstacles to an ongoing bull market in 2008. Earnings reports will start next week, and the Fed meets again on January 30th, when they expected to cut interest rates again.

Commentary/Highlights

- **Don't count on this batch of earnings reports to save the market.** Alcoa leads off after Wednesday's close, but they have already lowered guidance from earlier in the year, and positive/negative earnings revision ratios have been trending down for weeks. **Another quarter of negative earnings growth is expected.**
- **The ISM Manufacturing Index dropped to 47.7 last week, indicating the manufacturing sector is now contracting.** This reading coupled with the sluggish jobs report has considerably increased the risk of recession, leading to recent sell-off. **ISM Service (non-mfg) Index continues to show expansion.**
- **Mutual Fund distributions could set a record in 2007.** Five years into the bull market that began in 2002, funds' capital-gains distributions in 2007 may end up exceeding the record \$298 billion paid in 2000, the year the Internet bubble popped, according to Lipper analyst Tom Roseen quoted in the WSJ.
- **The market is pricing in a 68% chance of a 50 basis point cut at the January 29-30th Fed meeting.**
- **Exchange Traded Funds continued their growth in 2007.** There are now 1,053 ETF products across the globe, with asset growth up 32% globally, and up 40% in Europe, where they enjoyed rapid adoption during the year.
- **Year end strategy themes for 2008 can be summarized as Think Big, Think Growth, and Think Global.** Large caps remain attractive relative to small cap stocks, growth should once again outperform value until the financial sector turns around, and foreign stocks remain favored due to the recession risk in the U.S.

| Index/Portfolio Returns | % Change Week | % Change QTD | % Change YTD |
|-------------------------|---------------|--------------|--------------|
| Lehman Aggregate Bond | +1.23% | +0.91% | +0.91% |
| Lehman High Yield | -0.65% | -0.71% | -0.71% |
| Dow Jones Industrial | -4.20% | -3.48% | -3.48% |
| S&P 500 Index | -4.49% | -3.84% | -3.84% |
| Russell 3000 | -4.70% | -4.08% | -4.08% |
| MSCI EAFE Index | -2.00% | -1.97% | -1.97% |
| MSCI EAFE Small Cap | -1.65% | -1.96% | -1.96% |
| NASDAQ Composite | -6.35% | -5.57% | -5.57% |
| Russell 2000 | -6.49% | -5.79% | -5.79% |
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