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Weekly Market Wrap

July 7, 2008

Review - Week Ending 07/03/2008

Stocks took another drubbing last week as oil streaked towards the \$150/barrel mark. Broad indexes were off 1.5-3.0%, with bonds offering little comfort as markets begin to price in a Fed hike before year-end. Some sort of relief, bargain hunting rally could occur this week as the market focus shifts towards 2Q earnings reports.

Commentary/Highlights

- **Time to go back into small caps.** Small-cap stocks are now doing better than the overall market. Historically they are the first to rise when the economy rebounds and in the year following the end of each of the past 10 recessions, small stocks rose an average of 28 percent compared to 19 percent for large stocks, according to T. Rowe Price.
- **Take the Long View.** "Sentiment is so horrible, you can't help but make money if you take a three- to five-year time horizon," said T. Rowe Price Chairman and Portfolio Manager Brian Rogers at the Morningstar Conference in Chicago.
- **Not much happens or stays in Vegas these days.** Hotel occupancies have fallen from 95% to 80% in the glitter city and gambling revenues are declining 3% monthly. Casino closings will increase by year-end.
- **Things are not that bad. They have been worse!!!** We have noted that consumer sentiment is the worst it's been since June 1980. Lets compare eras shall we:

	<u>CPI</u>	<u>GDP</u>	<u>Unemployment%</u>	<u>30-year Mortgage Rates</u>
June 2008	+4.1%	+1.0%	5.5%	6.45%
June 1980	+14.4%	-7.8%	7.8%	12.71%

- **2nd quarter earnings reports kick off this week** with Alcoa on Tuesday and GE on Friday. Growth is expected from Energy, Technology, and Health sectors, but another disaster in the financial sector is likely. However, **expectations are so low that upside is possible.**
- **Tech reigns again.** Thanks to the sell-off in financial stocks, and improved relative performance, the technology sector is the top weighing in the S&P 500 again at 16.4%, with energy closing at 16.2%. Financials have fallen from 25% to 14%.
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Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.05%	-0.11%	+1.01%
Lehman High Yield	-0.79%	-0.79%	-2.09%
Dow Jones Industrial	-0.47%	-0.51%	-13.71%
S&P 500 Index	-1.18%	-1.31%	-13.10%
Russell 3000	-1.88%	-1.85%	-12.70%
MSCI EAFE Index	-2.02%	-2.52%	-14.90%
MSCI EAFE Small Cap	-4.23%	-4.23%	-13.99%
NASDAQ Composite	-3.03%	-2.08%	-15.34%
Russell 2000	-4.62%	-3.45%	-12.50%