

Commentary

We are witnessing a very interesting time in the financial markets. The market is having difficulty digesting record oil and commodity prices coupled with the deleveraging of our financial system.

When the Federal Reserve cut rates in late April, there were signals at the time that it might be the last rate cut for a while. It appeared as if the Fed's efforts to help get credit flowing was working as it helped to improve the financial markets, albeit temporarily. We saw modest gains in the market averages in April and May, but equities were progressively weaker during the month of June. Continued earnings trouble seen in large financial issues related to the credit crisis, rising oil prices, and inflation worries all contributed to broad declines in the major equities indexes.

The good news for stocks is that economic growth has not turned negative and that corporate profits appear to be strong, especially in energy and technology. On a day-to-day basis, many sessions bring the combination of good and bad news, but it tends to be offset by news about worrisome issues such as high oil prices, unpredictable dollar and/or rising inflation.

The unwinding of the housing bubble is still killing the economy. Consumers continue to be under pressure as house prices fall, mortgage equity withdrawals decline, and people are faced with four dollar a gallon gasoline. Food and fuel costs have been a bigger negative than we expected, as consumers are pulling back spending, especially on big ticket items. We are witnessing the worst environment for the auto industry in decades as seen in the decline in General Motors stock price.

The stimulus checks that were mailed in the second quarter provided only a temporary boost to the overall economy. Some economists are wary about what short term future the economy will be after the effects of the stimulus checks. Economists are looking toward a decrease in home inventories and a rebound in home prices to signal a rebound in the overall economy.

I see a lot of opportunity here and abroad for the future as many well known stocks have been beaten down, not always justifiably. Here in the United States, technology and financial stocks offer opportunity, and when the market does rebound, there will be some issues that have very attractive valuations. Abroad, markets in Brazil offer opportunity also, as the country just received its first investment grade credit rating and there is a thriving middle class that is in its infancy.

With the current markets we need to be very careful, as we are not out of the woods yet.

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