

Investors Trash Anniversary of All-Time High, Drive Dow Far Below 9,000 Thursday, October 10, 2008

On the one-year anniversary of the all-time high for the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) – the DJIA closed at 14,164.53 on October 9, 2007 – investors pummeled markets for the seventh straight day, driving the Dow down 678 points on the day to close at 8,579.19. That’s a drop of 39.4% in the past 12 months. It was not immediately known what effect the restoration of short selling – essentially a bet that a stock will fall in value – had on the markets. The ban, in effect since mid-September, expired at midnight Wednesday.

In a widely coordinated effort to spur economic growth and inject liquidity back into the marketplace, the Federal Open Market Committee on Wednesday had cut the fed funds rate 50 basis points to 1.5%. At the same time, the European Central Bank clipped its corresponding rate 50 basis points to 3.75%, the Bank of England trimmed its policy rate to 4.5% and banks in Switzerland and Sweden cut their rates to 2.5% and 4.75%, respectively. On Thursday, banks in South Korea, Hong Kong and Taiwan made significant cuts, too, and The People’s Bank of China cut rates, though it wasn’t formally part of the coordinated effort.

Despite these unprecedented actions, the world’s stock markets bounced between positive and negative, most finishing down Thursday. Investors everywhere took an increasingly dim view of the current credit crisis. On Thursday, London’s FTSE 100 Index fell to 4,313.80, and is now down 35.9% compared to its high on October 12 last year. Germany’s DAX dropped to 4,887, down 39.7% from its high in July 2007, and the French CAC 40 index fell to 3,442.70, down 41.3% from its high on October 11 last year. On Wednesday, the CAC had to suspend trading for 15 minutes due to an overwhelming influx of sell orders.

In the United States, other widely followed indices also fell heavily. The S&P 500 (an unmanaged index of 500 widely held stocks) dropped 75.02 points to 909.92, while the NASDAQ composite (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) lost 95.21 points, to 1,645.12. Both are off approximately 40% from their October 2007 highs.

Ironically, as markets fell, two U.S. housing market indicators ticked up a bit. The National Association of Realtors on Wednesday reported its index of sales contracts on previously owned homes rose 7.4% in August compared to July’s level. And the Mortgage Bankers Association reported that a decrease in fixed-rate mortgages last week apparently led to a seasonally adjusted 2.2% increase in mortgage applications. Nevertheless, that was down an unadjusted 28.6% compared to the same week in 2007. Initial jobless claim figures showed a drop of 20,000, said the Labor Department, though overall levels remain high. On the commodities front, Brent crude oil



on the New York Mercantile Exchanged dropped to \$82.40 a barrel. These were the bright spots in an otherwise bleak market picture.

Raymond James Chairman and CEO Tom James said Wednesday that while there is no doubt we are in a recession, there is no evidence it will last until the end of the decade. Investors may wish to watch for opportunities during the recovery, when vigilance pays, as recoveries typically are measured in short spurts.

It is also a time to examine your portfolio to ensure assets are allocated wisely, according to your age and financial goals. No one knows how long it will take for confidence to return to the marketplace – but when it does, if history has any lessons to impart, you may want to be paying attention.

If you have questions about your portfolio or about the current market, please feel free to contact us.

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