

Best December Market Day Follows Unprecedented Fed Funds Rate Cut

Whether it was irrational short-term excitement or not, both U.S. and world markets reacted positively to the Federal Open Market Committee's (FOMC) action to cut the overnight fed funds target rate to a range between zero and 0.25%, a historic low. The Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks), leapt 359.61 points on December 16 to finish the day at 8,924.14, the second-best close of the month and the best single-session gain in December.

While you can't go lower than zero, and the Fed is more or less out of monetary policy weapons, it is about to pour more liquidity into the system by buying up to \$200 billion in mortgage-backed securities from Fannie Mae and Freddie Mac and up to \$500 billion in mortgage-backed bonds. It is also gearing up to purchase other asset-backed paper (auto, student, credit card and small business loans) in the new year. You'll be hearing a lot about "quantitative easing," which essentially means focusing on the *quantity* of credit. As if to echo that idea, troubled American International Group, Inc. (AIG) on Tuesday sold \$39.3 billion of mortgage-backed securities to a firm owned by the New York Federal Reserve Bank.

Bold FOMC moves have marked a year of enterprising Federal Reserve steps, some of which simply take time to work their way into the system. Mortgage rates have come down, and gas prices have plummeted, putting more buying power in consumers' hands.

Yet, unsettling news pops up daily. Analysts at Credit Suisse reported that 6,100 retail locations (including either all or some units belonging to Office Depot, KB Toys, Circuit City, Mervyn's, Linens 'n Things, Sears and Steve & Barry's) are being closed, the most annually since tracking began in 1995. And Goldman Sachs Group showed a \$2.3 billion quarterly loss, the first red ink for that firm since 1929. And the Big Three automakers are still awaiting possible government action that may help determine their fate.

While the economy waits for no one, a political transition is just around the corner, and along with it, a possibly massive economic stimulus package that, some suggest, could push the economy into a comeback beginning in mid-2009.

For investors, it is important to remember that some of the best investment opportunities emerge from the worst economic times. We're watching the U.S. economy closely as the



various Fed and government measures begin to seep dollars from Wall Street to Main Street.

If you have questions relating to the market or to your specific investments please contact Tim Eyerman or Brian Mezey.

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