

Markets, Financial Firms Stage Third Quarter Wild West Show Friday, October 3 2008

No matter where your attention was focused on the financial stage during the third quarter, there was something astonishing going on. As the curtain descended, it was clear only that the economy remains at low ebb and the financial skyline has been reshaped.

Disaster hit several financial service firms. Lehman Brothers Holdings, Inc. declared bankruptcy and parts of it were sold. Merrill Lynch was absorbed by Bank of America. Washington Mutual disappeared into JPMorgan Chase. Wachovia is gone either in part to Citigroup or in whole to Wells Fargo (it is unclear as the fourth quarter begins). Giant conglomerate AIG is busy selling its parts after an \$85 billion bailout from the Federal Reserve, and Fannie Mae and Freddie Mac, government sponsored enterprises, suspended their dividends as they were placed in conservatorship.

As the quarter ended, Congress rejected a \$700 billion economic stabilization bill, sending the Dow into a historic tailspin. But the legislators reconsidered and passed a revised bill Friday. It not only authorizes the Treasury to purchase "troubled" mortgage-backed securities, it raises the FDIC insurance limit to \$250,000 (from \$100,000) for bank deposits, relieves millions of taxpayers from alternative minimum tax concerns for this year and provides numerous tax credits for energy research and development.

During the quarter, oil went on its own wild ride. After a record high of \$147.27 a barrel on July 11, it hit a low for the quarter of \$90.51 on September 16. That's a phenomenal \$56.76 swing. That was good news, because decreased demand gave futures traders pause, and gasoline prices per gallon descended into the \$3.60 range after topping \$4.

Surprisingly, money market fund safety also came into question. No one had ever lost a dollar in one, but the industry was shaken when massive withdrawals from The Reserve's Primary Fund forced it to declare a value of 97 cents a share in September, thus breaking the buck. The U.S. Treasury quickly stepped in with a guarantee program for money market funds of firms subscribing to its program. As the quarter ended, money seemed to be returning to the money market sector – an inflow of approximately \$40 billion, according to iMoneyNet.

There is no disguising the gloom that compressed market values. For the record, from the close on June 30 to the close on September 30, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) fell 4.39%. The NASDAQ (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) was off 9.18%, while the S&P 500 (an unmanaged index of 500 widely held stocks) dropped 8.87%.



This quarter offers a sobering lesson in just how important a role confidence plays in the growth of investments and wealth. We invest because, although it is by nature risky, we are confident of favorable results. Investors send money into a money market fund because it is said to have low risk and a dollar will always be a dollar, even if the return, historically, at least, is likely to be less than equities produce. When confidence is questioned – consider that the two-day run on The Reserve’s \$60 billion fund drained more than two-thirds of its assets – chaos follows.

No one can predict where the market will go from here. Even passage of the \$700 billion rescue bill was hardly a panacea. Investors seemed more concerned about pervasively lackluster economic conditions. At Friday’s closing bell, the Dow had settled at 10,325.38, its lowest point since October 27, 2005. NASDAQ and S&P 500 indexes were down similarly.

Although what the markets and the economy will look like at the end of the fourth quarter is unknown, there is positive action you can take as we all wait for calmer markets and a return to growth. Check the details of your portfolio, evaluate your asset allocation mix – and remain alert for investment opportunities.

You may have general market questions or queries about the stability of your portfolio, we always welcome your call.

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