

## Review for the 1<sup>st</sup> Quarter 2008 and Future Outlook

### **It felt like ‘the sky was falling...’**

According to Wikipedia, the online encyclopedia, “The Sky is Falling; also known as Chicken Little is an old fable about a chicken who truly believes the sky is falling”. There are many versions to the story but the basic premise is that an acorn hits the chicken on the head which leads her to believe that all is lost. There are many endings to the story, but there are two morals that have endured: Don’t believe everything you hear and have courage.

While the 1<sup>st</sup> quarter of 2008 certainly felt like the sky was falling, it’s important to remember that our financial markets can experience severe declines. In fact, according to American Funds market research, a severe decline of 15% or more in the Dow Jones Industrial Average has occurred about once every 2 years since the year 1900. The last decline by this measure occurred in 2002 – or about 5 \_ years ago.

### **One for the history books**

The sky was *not* falling but the 1<sup>st</sup> quarter was the worst in recent memory. In fact, the Dow Jones Industrial Average lost 1001.93 points making it the largest single quarter point decline in the history of the index. In percentage terms the Dow finished down 7.6%, the S&P 500 declined 9.9% and the NASDAQ Composite gave up 14% in the 1<sup>st</sup> quarter.

The collapse of Bear Stearns, the investment bank founded in 1923 was the low point for stocks in the quarter. On March 17<sup>th</sup>, the collapse forced the Federal Reserve and the U.S. Treasury to take unprecedented steps to intervene and make sure the markets functioned properly. The aggressive action by the Fed caused a bounce back in stocks from their low point and so far has kept the markets from official bear market territory.

### **Aggressive medicine**

While the official diagnosis of the patient is incomplete (i.e. are we in a recession?), the Fed is administering medicine. Since the start of the year the Fed has cut its key federal-funds rate from 4.25% to 2.25% and it backed up the deal allowing JP Morgan to acquire Bear Stearns.

## **World regions decline**

The aftershocks of the U.S. financial crisis left no region in the world untouched. The Dow Jones World Index fell 8.7% with some high fliers from last year experiencing the worst declines: India and China fell more than 20%. The good news is that according to the International Monetary Fund, the world economy is still expected to grow 4.1% with emerging economies expected to grow 6.9%.

## **Economic outlook pressures bonds**

Only the safest instruments escaped wide spread declines in fixed income assets. U.S. Treasuries were the only fixed income market that did not lose value. The municipal bond market saw declines due to concerns about the bond insurers and reports that several hedge funds were forced to liquidate large quantities of municipals to shore up their capital base. The good news is this created a unique opportunity to capture a higher than normal yield on a conservative bond investment.

## **Our Outlook**

It's still not clear if the worst is behind us or how long the downturn will last. There are many ingredients fueling the fire – like high petroleum costs and the housing decline. A lot will depend on the corporate profit reports coming out soon. Overall we feel that the length of the downturn will be shorter than others due to the aggressive efforts of the Federal Reserve.

If you have a long term perspective we believe you should stay invested. Maintaining a long term perspective means spending time in the market, not timing it. Even if it feels like the sky is falling.

## **Tax time and having a plan**

In addition to investment management services, we can help you establish a comprehensive financial plan that works for you and helps to avoid surprises at tax time. We work with you to review your situation, identify goals and create a plan that works. Please contact us for details or visit our website to learn more about this valuable service at [www.carlpscherr.com](http://www.carlpscherr.com)

We appreciate and recognize the trust you have put in us and your confidence continues to be our highest priority. Please contact us with any questions – or to schedule a review.