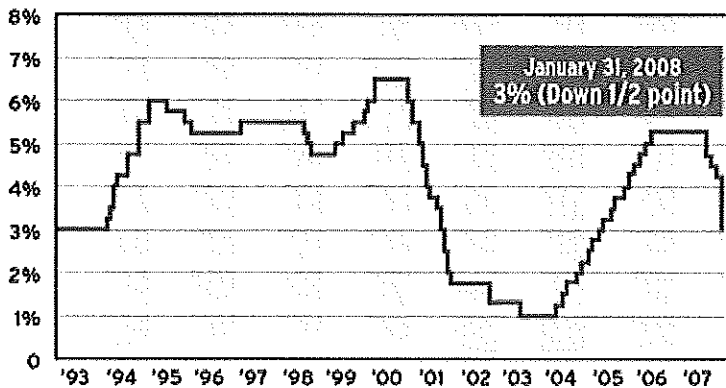


Indecisive Dow Down After 50-Basis-Point Fed Funds Rate Cut

The Federal Open Market Committee (FOMC) made its predicted 50-basis-points cut in the fed funds rate January 30th, but skittish investors weren't sure what to do with the news. At first the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) raced nearly 200 points into positive numbers. But investors evidently had second thoughts. As the bell rang on the day's final trades, the Dow settled for a 37.47-point loss for the day. Other indexes were down, too.

FEDERAL FUNDS RATE



SOURCE: Federal Reserve

MSNBC

The cut, while widely anticipated – the debate had been whether it would be 25 or 50 basis points – couldn't erase the negative economic news of the day. Earlier, the Commerce Department had reported a worsening housing slump and greater caution in spending by consumers and businesses. The annualized gross domestic product (GDP) growth rate of 0.6% in the fourth quarter was the worst since the end of 2002. For 2007 overall, the GDP grew 2.2%.

It may not have helped that former Federal Reserve Chairman Alan Greenspan was quoted in a German newspaper saying the U.S. will "probably" fall into a recession and expressing doubts about whether central banks and financial policymakers can actually do anything about it. It wasn't all doom and gloom, however. The government also reported a surge in orders for U.S.-made durable goods of 5.2% in December, far outstripping the expected gain.

The FOMC action brings the fed funds rate to an even 3%, a level not seen since the spring of 2005. In a practical sense, it will mean a continued decline in mortgage and loan interest rates while savers will take another drop in income from interest in savings accounts, money market funds and some other fixed income investments.

You may ask, "Are we done yet?" Probably not. But during this past week, the market has shown only mild volatility. Perhaps that's the best that can be expected in the short term. We continue to believe our long-term, disciplined focus should be maintained. However, if you would like to review your portfolio or have questions about your allocations, we would be happy to hear from you.

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