

One for the Seesaw – An Inauspicious Start To 2008

There are two ways to handle the kind of markets that played out in the first quarter of 2008. You can simply look away, adopting a long-range view that one day the extreme volatility of the first three months of 2008 will be seen as an inconvenient blip on the upward trend of market value. Or you can be caught in a frozen stare as market values suddenly dash upward only to see those gains evaporate in a steady march back down.

Paying no attention to media accounts of the daily volatility was probably the wisest course. This was difficult to do because the first quarter was laced with drama – but it wasn't as disastrous as some feared. The major indices closed the quarter up from their lowest levels. Nevertheless, over the three months, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) lost 5.98%, the NASDAQ Composite (an unmanaged index of all common stocks listed on the NASDAQ National Stock Market) dropped 12.7% and the S&P 500 (an unmanaged index of 500 stocks) lost 8.6%. Observers point out that the market in general has returned approximately 75% over the past five years, a good run from which a strategic retreat was almost inevitable.

Some of the first quarter drama was provided by the Federal Reserve. In an unusual Sunday move in March, the Fed announced it was lowering the fed funds rate by 0.25% and financially backing the takeover of investment banker Bear Stearns by JPMorgan Chase & Co. This was followed two days later by a further 0.75% cut in the fed funds rate, dropping it to 2.25%, which is down a full 2% from the 4.25% fed funds rate in effect when the year began.

A bright spot was the high-quality bond market. As investors tried to avoid risk, Treasuries moved up and developed overseas bond markets performed well, too, partially because of the rise in value of foreign currencies against the U.S. dollar.

Unpleasant as markets like these may be – with daily tales from the subprime mortgage mess, the liquidity crunch and other banking woes – they are reminders that investing is not a risk-free activity, that the assets in portfolios should be allocated carefully, and that the long-term view is usually the most satisfying. If you have questions about coping with uncertain markets or you have specific investment opportunities in mind, please don't hesitate to call us.

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