

October 30, 2008

Fed Funds Rate Cut to 1% Comes Near End of Volatile Month

Having factored in a likely fed funds rate cut, investors drove equity prices up in a spectacular rally Tuesday, October 28 – sending the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) up 889.35 points, its second-biggest gain ever. Wednesday's announced rate cut of 50 basis points to a flat 1% had hardly any effect. After swinging in and out of positive territory, the Dow finished the day down 74.16 points at 8,990.96, a relatively mild loss considering the huge swings October has witnessed.

Around the world, other central banks also announced cuts. Norway's central bank cut its rate .5% to 4.75%, Chinese banks cut theirs by 27 basis points to 6.66%, and both the European Central Bank and the Bank of England were expected to ease rates during meetings next week. To date, governments and central banks have pledged about \$4 trillion in support of banks and money market instruments to try to turn the financial picture into something positive. Analysts agree these measures must be given time to filter through the financial systems.

Buoyed by Wall Street's Tuesday rally, most market indices around the world gained handsomely Wednesday. London's FTSE 100 index jumped 8.1%, while Japan's Nikkei index gained 7.7% and France's CAC 40 index gained 9.1% on the day. The price of crude oil, which had been falling regularly, rose more than \$6 a barrel Wednesday as Brent crude closed at \$66.42 on the New York Mercantile Exchange.

The Federal Open Market Committee's (FOMC) statement on its rate cut cited declining consumer spending, weakened industrial production and slow economies abroad – which dampens prospects for U.S. exports – as major factors in its collective thinking. The FOMC expects inflation to moderate in the near term.

We are nearly at the end of one of the most tumultuous months in the history of our markets – not just in the United States, but globally. In less than 30 days, the Dow has been astonishingly wild. Closing figures – never mind the intraday swings – show a drop of 2,675 points from September's close to October's lowest close on Monday. With losses this month across nearly every asset class, the effects will certainly be reflected on your monthly statement. It is important to keep any losses in perspective, however, as we close out one of the most difficult months in decades.

As disappointing as the market has been since it peaked a year ago, our carefully designed investment processes and long-term approach remains grounded in reality and should, in time, work to your advantage. Nevertheless, this is an excellent time to review your overall financial plan, reassess your short-term needs and your long-term goals, and rethink your specific asset allocation model. While no changes may be called for, times like these remind us all that specific investments as well as general goals need to be periodically reassessed. And it is worth remembering that investment opportunities often exist, even in the worst markets

If you have questions about your portfolio or about October's market actions, please feel free to contact us.