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# Market Update

## January 2008 Review

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The month began with the theme of uncertainty thoroughly entrenched in the minds of the investors and was supported politically with upsets in the Iowa caucus. Oil topped \$100 for the first time, unemployment rose to its highest rate in two years at 5%, and while existing homes sales were up slightly, the ISM Manufacturing Index dipped to 47.7; a level indicating contraction for the first time since January 2007. The Fed's minutes revealed the potential for more cuts as an impending recession became an increasing concern. The traditional definition of a recession has been back to back quarters of negative GDP growth; however more economists are looking to a broader definition of a significant decline in economic activity spread across the economy, lasting more than a few months, visible in real GDP, real income, employment, industrial production and wholesale retail sales. As investors pay close attention to economic data, volatility would be expected to continue throughout the upcoming months.

January continued with retailers expressing disappointment in holiday sales, U.S. trade deficit widening more than forecast, and the credit crunch expressing itself through the announcement of Bank of America acquiring Countrywide Financial and Citigroup and Merrill Lynch talking with foreign capital for major infusions. Through this, Fed chairman Bernanke raised the possibility of further rate cuts. As it became increasingly clear that the economy was in trouble as existing home sales slipped 2.2% in December and the foreign markets were reacting in a panic fashion, the Fed stepped in and unexpectedly cut the target interest rate by 75 basis points and a federal economic stimulus package was announced aiming to provide tax rebates to most Americans; making mortgages more affordable and providing tax breaks on corporate investment spending. At its regularly scheduled meeting, the Fed continued its message of attempting to relight the economic fire by lowering rates by another 50 basis points.

Throughout January, the investor faced the uncertainty of whether the economy would sink into recession or somehow skirt it, and whether stocks had bottomed out or were ready to go lower, whether to pay more attention to a weakening economy and trouble with the banking system or to the interest rate cuts by the Fed in their effort to keep the economy out of recession. There was a continued conflict between the fears of a recession and the prospect of some very attractive valuations given the possibility that the economy could improve over the next 12 months. Any piece of good news was met with increases in the markets, while bad news brought the opposite effect. These swings were large; often 2% or more and often intraday.

The net effect for the month was losses of 4.6% for the Dow; the worst January since 2000 and the lowest of any month since December 2002. January was the first time there has been three consecutive months of decline since 2004. Since the record high of 14,164 on October 9, 2007, the Dow is off 11.0%; however over the past 12 months the Dow is only off .2%. The low point of the month occurred on January 22<sup>nd</sup> when the Dow finished below 12,000, or 15.5% from

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its record high. The S&P 500 was down 6.1% in January; the worst January for this index since 1990. The NASDAQ index was down 9.9%; the worst since its inception in 1971. Growth stocks were hit the hardest in January with small growth stocks down 9.7%, mid growth down 9.0% and large growth stocks down 8.8%. Value stocks, coming off a weaker 2007, fared slightly better as large and mid value stocks were down 4.7% and mid value stocks down 4.4%. All economic sectors were negative for the quarter with the worst performers being the technology sectors with hardware off 13.7%, information stocks off 11.0% and software stocks down 9.2%. As oil prices dropped during the quarter, energy stocks were off 10.6%. The best performing sector were financial stocks, off .2%, but still off 17.0% over the past 12 months.

As uncertainty continues through the spring and summer months, both economically and politically, expect the volatility to continue for the balance of the year.