
Market Update

March 2008 Review

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws, regulations or to address specific client situations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

Securities offered through USI Securities, Inc., Member FINRA/SIPC. Investment Advice provided by USI Advisors, Inc., 95 Glastonbury Blvd., Glastonbury, CT 06033, (860) 652-3239.

Is It Over or Has It Only Just Begun?

March 2008 continued the current investment market slide as all major equity indices were negative for the month. This culminated in a negative first quarter with the Dow Jones Industrial Average off 7.6%, its worst quarter in 5 ½ years, the S&P 500 Index off 9.9%, extending its losses to five consecutive months, its longest losing streak since October 1990, and the NASDAQ Composite Index off 14%. One positive note was the rebound in the second half of March, as all three indices were significantly off their March 10th lows, with the Dow and S&P recovering 4% and the NASDAQ up 5%. In the bond markets, only short term treasuries escaped widespread declines. Fire sales in municipal bonds and mortgage backed securities became rampant as banks continued to demand more collateral from investors.

The environmental backdrop to March continued the trend of the previous months of uncertainty in unsettled markets. This negative sentiment was fueled by concerns about asset write downs of financial institutions, home price declines accelerating and employment weakening, both leading to a slowing economy, and rising inflation. This phenomenon, known as stagflation, crippled the economy and markets in the 1970's. As the Federal Reserve continued its attempt to stimulate economic growth by lowering the Fed Funds rate to 2.25% (down from 3.00%), short term interest rates continued their sharp decline and money flowed out of stocks into Treasury bonds, driving prices up and yields down. Concern about an inflationary impact remains high as food and energy prices continue to climb, with oil now at the same level, adjusted for inflation that we saw in the oil embargo era of the 1970's. The market hit a low early in the month with the news of Bear Stearns on the verge of collapse due to liquidity issues and only the intervention by JP Morgan, with significant support from the Fed, keeping the company solvent. While investors were initially rattled by the Bear Stearns crisis, news that Lehman Brothers and Goldman Sachs reported better than expected earnings and that their liquidity was "never stronger" actually helped the market strengthen in the second half of the month. There is a thought that, pending any further negative news not yet anticipated, the Bear Stearns fallout may have represented a market bottoming.

The markets also experienced positive news for the month as exports on U.S. goods were strong, supported and made more attractive by the weaker U.S. dollar. Consumer spending, which accounts for roughly two thirds of total economic activity, held up better than expected, despite spending being the weakest in the past 17 months and consumer confidence dropping during the quarter.

So, where do the markets go from here? As Fed Chairman Bernanke indicated during early April, the economy is showing signs that it may be entering a recessionary period during the next quarter or so. The investment markets have recognized this; in fact have discounted it

Market Update

over the past several months. The Fed's intervention to stem both a liquidity crisis in the credit markets and to stimulate economic growth, led to a more stabilized market in the second half of March. The impact of the Fed Funds rate cuts are not normally felt in the economy for 6-9 months after they have been lowered, and combined with the stimulus package rebates to consumers to go out over the next three months, should begin to stimulate the economy during the later part of the year or first part of next year. As the markets tend to lead the economy in both downturns and recovery, this could bode well for a recovery in the financial markets in the not too distant future. What to watch out for? Inflationary pressures due to rising commodity prices led by oil and food, stabilization of home prices, impact of the labor markets as companies attempt to shore up their balance sheets and protect earnings, perhaps at the expense of jobs, consumer spending, and whether there will be any other Bear Stearns out there subject to liquidity pressures in the credit markets. Expect market volatility to continue throughout the next quarter, as 51% of the trading days in the first quarter saw a market swing of 1% or more, until the uncertainty of whether it is over or just beginning becomes clearer.

Definitions & Disclosures:

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

The Federal Funds Rate is the interest rate at which banks lend money, usually overnight, to other depository institutions in order that they may meet reserve requirements. It is one of the most sensitive indicators of the direction of overall interest rates.