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Another wild week on Wall Street. After staging a solid rebound beginning January 23, the Dow and other stock price indexes took a pounding again on Monday and Tuesday of this week. We are still above the January 22 lows, but not by much. Rereading this last sentence, I see that my focus has shortened a lot, which tends to happen when stock markets become highly volatile. In my experience, that is when about half of investment mistakes are made. The other half usually happen when jumping on bandwagons at market peaks with eyes closed. As one of the great investment gurus, Sir John Templeton, put it – “To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest reward.”

I have always considered that to be great advice. With bearish sentiment high and psychology on another downswing, I think this is not the time to be selling the market. But it is a good time to review the portfolio and look for opportunities being created by what I view as indiscriminant selling. Also, I think we are in the midst of a change in economic and market leadership. Obviously housing and easy credit are out. But on the other side, rising exports and lower interest rates are in. Also, it looks to me (and may be wishful thinking) that we are finally getting lower oil prices and a rising dollar exchange rate.

I think these developments, if sustained, will really help the U.S. economy and financial markets over 2008. The rise in exports and the fall in interest rates should mitigate the hit from housing and tighter credit. Lower oil prices help everybody. Compared with 2000 when crude oil prices averaged about \$30 a barrel, we are spending about \$200 billion more per year for the same amount of imported oil. If we could stop sending that extra \$200 billion overseas, then we would have a real stimulus package for the economy! The dollar exchange rate index (against a major currency basket) hit a record low back in early November and has staged a ragged recovery. While a low dollar benefits U.S. exports, I think a flat to rising dollar would help shift international investment to U.S. equity markets.

Finally, with the fourth quarter earnings “season” drawing to a close, it’s time to check on company earnings. Amazingly, given all the angst in equity markets, earnings are generally good outside of financials. With 340 of the S&P 500 companies having reported, 225 are reporting higher earnings averaging 26.6% gains, with 99 reporting lower earnings, but the average change there is a whopping 128% decline (mostly due to financial sector write-downs). For the ten economic sectors, only three are reporting earnings declines (consumer discretionary, financials and materials). The other seven are up, so the earnings hit is concentrated, not reflecting a broad based decline associated with an economy in recession. Consequently, I remain optimistic that we can avoid recession this year, or if we do get one, it will be mild. I also think we can avoid a sustained slide in U.S. equity markets. As always, please call me with any questions or concerns.

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