

Market Challenges on St. Patrick's Day 2008

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JPMorgan Chase bought Bear Stearns (brokerage firm) for \$2.00 per share over the weekend (when the stocks traded for over \$160.00 per share 15 months ago). And the mortgage crisis ("Where's Waldo") goes on. There is progress being made, despite what it seems.

To be brief, we expect more actions by key financial intermediaries in addition to the upcoming release of \$160 billion of stimulus checks starting in May.

- The Fed will ease Fed Funds by 75 basis points (Tuesday) to 2.25% (down 3% since they started).
- Congress will certainly institute greater regulation on financial institutions, especially hedge funds, derivatives and leveraged investment structures. Exotic financial structures (non-traditional investments) with limited transparency and marketability will experience a difficult future way of life. Earning power of financials may be limited via a modern-day Glass-Steagall act to be passed.
- Pressure will grow on the Administration and Fed to create a "fund" to buy mortgage securities to assist with bank balance sheet restoration. Financial institutions need to rebuild their financial balance sheets.
- Currency intervention will be taken by the Administration and Fed to strengthen the US dollar, which should go a long way to reducing "irrational exuberance" in oil and commodity prices.

We're continuing to hold above-normal levels of cash in client portfolios until we anticipate the markets have found a base. We continue to watch for an opportunity where we can begin to re-deploy cash in cheaper investments; we would reinvest in stages as we look for brighter days in the markets.

P.S. Capital gains realized during 2007 will not likely be repeated in 2008, reducing tax implications in personal accounts for next year. The current market environment will instead, likely create loss carry forwards which mutual funds will use to offset future gains.