

# ***Bulletin\*\*\*Bulletin\*\*\*Bulletin***

***February 2008***

## **STOCKS DROP 6% IN JANUARY WITH RECESSION FEARS**

After a partial recovery from a mid-November drop, stocks posted a 10% market correction again in mid-January (the third in the last seven months) before closing down 6% by month-end. The primary culprit was the fear of recession caused primarily by the subprime credit crunch. ***What is a recession? Are we in one? How might it affect our investments? What should we do?*** These and other questions will be addressed in this Bulletin.

***What is a Recession? Are we in one?*** The official definition of recession is when the Gross Domestic Product (GDP) growth rate is negative for two consecutive quarters or more. GDP is the total dollar amount of all goods and services produced. The growth rate is the percentage increase or decrease of GDP from the previous measurement cycle. Last quarter's GDP was up, so we are not in a recession at this time. If the GDP is negative for this quarter and the second quarter of 2008, then we would be in a recession. Obviously, we wouldn't know if we were in a recession for the first two until July of 2008.

***How might it affect our investments?*** The stock market has already anticipated that we are or will shortly be in a recession. Typically lasting six to eight months, a recession is characterized by lower consumer spending, resulting in fewer sales, thus a slower economy. As a result, the unemployment rate will rise, and corporate earnings will generally be lower. The effects of a recession are not universal. That is, the majority of people are not affected by a recession at all: Their jobs are secure, and they will continue to spend and save. However, many corporations experience a decline in earnings, and that will lower their stock prices. Anticipating lower earnings, stock prices are currently off about 10% from their all-time highs.

***What should we do?*** We think you should panic, put all your money in a bank, and hide under your pillow... **NO, NO, NO!!! The average stock market recovery from a recession over the next 12 month period is up 22%! Adding more money to stocks and moving to a more aggressive posture has ALWAYS resulted in MAJOR INVESTMENT GAINS- NO EXCEPTIONS!** Accordingly, we have moved to a more aggressive position in all of our investment strategies. If you have more money sitting on the sidelines, **NOW IS THE TIME TO INVEST.** If you plan on funding retirement plan or IRA's, get some of those funds invested now. This window of opportunity will not be open long.

Our forecast for 2008 stock market gains remains unchanged- up 8%. That's a 14% gain from current levels. Based on earnings, even the volatile Nasdaq stocks are three times cheaper than they were at the end of 1999. If you have any questions about our recommendations to become more aggressive and add money to your investment portfolio, please call us ASAP. We only see this kind of opportunity three or four times in a decade.

**REMINDER- 2007 TAX REPORTS TO BE MAILED BY SCHWAB**

By now, you should have received **2007 Form 1099** interest/dividend reports from Charles Schwab for taxable accounts. For individual stock and bond sales, you will receive a **GAIN/LOSS REPORT**; for mutual fund sales expect a **MUTUAL FUND AVERAGE COST BASIS REPORT**. Partnership or private placement information will be forwarded to you as soon as Schwab receives it-- usually in early March. **Please look for these reports in the mail and give them to your tax preparer.** With the late, end-of-year tax law changes enacted by Congress, you can expect delays in receiving required tax reporting information from banks and brokerage houses, as well as delays in getting refunds from the IRS.

**Tax preparation software issues:** Some tax preparation software programs allow you to download Schwab tax reports into your software. We have received a few reports that the Gains/Loss figures from these downloads are showing that the Total Gross Proceeds are the same as the net Capital Gains. The Schwab printed reports, which you have or will receive shortly, are accurate. If you are using tax preparation software, please check to make certain that the net Capital Gains are the same as on your printed Schwab reports that you received in the mail.

**HOLIDAY REMINDER:** All U.S. stock and bond markets are closed on Presidents' Day, February 18<sup>th</sup> and Good Friday, March 21<sup>st</sup>. Our office will be closed in observance of both holidays.