

Tim Hummel and Steve Newman Present

Weekly Economic Update for the Week of August 11, 2008

Quote of the week. “A clever man commits no minor blunders.” – Johann Wolfgang von Goethe

Fed holds rates, stocks soar. Stocks were already rallying Tuesday as the Federal Reserve issued a confident opinion on the economy. Explaining its decision to leave interest rates alone, the Fed said that “economic activity expanded in the second quarter, partly reflecting growth in consumer spending and exports.” While conceding that inflation “has been high”, the Fed also felt it would ease later in 2008. The big three indexes gained almost 3% on the day.¹

Woes at Citigroup, Fannie Mae. Fannie Mae reduced its dividend by 86% on Friday in the wake of its fourth straight quarterly loss (\$2.51 per share).² Thursday, Citigroup moved to buy back or help clients sell \$19.5 billion in auction-rate debt, and faced \$100 million in fines to settle regulatory claims.³

Dollar gains, oil falls. After the European Central Bank held interest rates at 4.25% in response to inflation, the dollar rocketed north and oil prices went south again. Oil futures fell to \$115.20 on the New York Mercantile Exchange Friday afternoon, the lowest close since May 1.^{4,5}

Pending home sales up 5.3%. This was some great news from the real estate sector, courtesy of the National Association of Realtors. June pending home sales were still 12% below June 2007 levels.⁶

Big gains. The core indexes rallied nicely last week, helped by surprising earnings reports, the Fed statement and falling oil prices. The S&P 500 rose more than 2.8% and has gained 6.7% since July 15; the NASDAQ gained almost 4.5% for the week, and the DJIA rose 3.6%.⁷

| % Change | Y-T-D | 1-Year | 5-Yr Avg |
|--------------------|---------------|---------------|--------------|
| DJIA | -11.54 | -16.39 | +5.53 |
| NASDAQ | -8.98 | -8.24 | +9.37 |
| S&P 500 | -11.72 | -15.52 | +6.52 |

(Source: CNBC.com, CNNMoney.com, 8/8/08)^{8,9}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Riddle of the week. Mike buys two cigars for \$1.10. One cigar costs one dollar more than the other. What are the prices of the individual cigars?

Contact my office or see next week's Update for the answer.

Last week's riddle: Is it legal in Wales for a man to marry his widow's sister?

Answer: No, because the man is dead - it is not legal or possible.

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- Citations.** ¹ cbsnews.com/stories/2008/08/05/business/main4323232.shtml [8/5/08]
² bloomberg.com/apps/news?pid=20601103&sid=a1Q.uMr71kSY&refer=news [8/8/08]
³ chron.com/disp/story.mpl/business/5931313.html [8/7/08]
⁴ money.cnn.com/2008/08/08/markets/oil/?postversion=2008080810 [8/8/08]
⁵ guardian.co.uk/business/2008/aug/08/interestrates.bankofenglandgovernor [8/8/08]
⁶ ap.google.com/article/ALeqM5jYhsxaJOLCURko2JR8R6NUDHRW2wD92DG9BO4 [8/7/08]
⁷ bloomberg.com/apps/news?pid=20601103&sid=aYTzJVf6lua4&refer=news [8/8/08]
⁸ cnbc.com/id/26097567 [8/8/08]
⁹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=8%2F8%2F07&mode=add&symb=DJIA [8/8/08]
⁹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=8%2F8%2F03&mode=add&symb=DJIA [8/8/08]
⁹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=8%2F8%2F07&mode=add&symb=COMP [8/8/08]
⁹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=8%2F8%2F03&mode=add&symb=COMP [8/8/08]
⁹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=8%2F8%2F07&mode=add&symb=SPX [8/8/08]
⁹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=8%2F8%2F03&mode=add&symb=SPX [8/8/08]