

## One Year Later....

What a difference a year makes. This time last year, financial news was bad. The world financial system appeared to be in a melt down that would cripple the US economy for years to come.

Lehman Brothers, Bear Stearns, AIG, Merrill Lynch and a number of banks were collapsing under the weight of bad debt and complex securities. For the first time ever a money market fund went under a dollar. Confidence was lost in the stock and bond markets world wide. The economy officially entered into a recession.

The Federal Reserve chairman, Ben Bernanke, and Secretary of the Treasury, Henry Paulson, were in emergency meetings with Congress, the President, various committees, business leaders and the press. They were explaining what was happening to the financial industry and working on ways to stop the bleeding. You couldn't turn on the news, look at a newspaper or magazine without reading an article about how bad things were.

Over the past year the federal government has stepped in to do as much as they can to get the economy going in the right direction. It appeared that many firms were going bankrupt so congress passed the Troubled Asset Relief Program (TARP) to advance much needed capital and helped companies merge to stabilize financial institutions.

The Federal Reserve lowered the federal funds rate to almost zero. This made it less expensive to borrow and forced returns on short-term bonds and money markets near zero. As a result it became cheaper to borrow money, made banks more profitable and lowered the cost to purchase homes.

Congress felt that the lower interest rates put in place by the Federal Reserve was not enough to jump start the real estate market. To help the real estate market even more, lawmakers passed a bill giving first time buyers an \$8,000 tax credit to entice individuals to purchase homes.

When unemployment started rising, individuals slowed their spending and companies braced for the worst. Congress again acted and passed the Term Asset-Backed Securities Loan Facility (TALF) and Cash for Clunkers bill to help individuals feel confident enough to start spending again.

Even with all of the federal government's intervention, the stock market continued to drop. It went down an additional 41% from when Lehman declared bankruptcy through March of this year.

Then, the market began to rebound as abruptly as it started its fall. At first it seemed as though the rebound was a respite before it continued its decline. There were still worries that the economy would continue to decline and the banking and housing industry would continue to slump. Every time the market looked like it was going to turn negative, it would once again move forward. One year later it is back to the same level it was before Lehman Brothers declared bankruptcy. The market is still down from its high in October of 2007 but, it is going in the right direction.

As it turns out, things didn't get as bad as was expected. Most large banks are back on firm footing and are paying back the TARP funds. New home sales have increased four months in a row for the first time in history and companies are reporting earnings better than expected. In September, Ben Bernanke even stated that he thought the recession was ending.

We are not out of the woods yet, but one year later this is a much different market. It is shifting to a market where fundamentals matter. As we stated in our Spring newsletter: we will use this time to position ourselves for when the economy starts to grow again.

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