



*The right solutions  
at the right moments.*

## ***Alea Iacta Est (The Die is Cast)***

*March 2008  
Investment Commentary*

In 49 BC, as Julius Caesar was about to lead his army across the Rubicon River in Northern Italy in defiance of the Roman Senate in his civil war against his arch enemy Pompei, he uttered the title words of this Commentary. In today's parlance these words mean the point of no return, or simply, there's no going back. Last week's events in the financial markets may have marked that point.

The cascade of downbeat economic and financial news last week, highlighted by Fed Chairman Ben Bernanke's regrettable testimony before Congress, appears to have finally gotten the attention of the gaggle of perma-bulls paraded before the cameras on the daily financial news shows. The major stock indexes broke down sharply, as the credit, housing, and dollar crises finally punctured the veneer of market resilience. The Dow, S&P 500, and the Nasdaq fell 2.5% on Friday, driving these benchmarks through important support areas, leaving them susceptible to declines to their January lows or beyond. Though the weekly declines were merely about 1.5%, for the first two months of 2008, the S&P 500 has slid 9.1%, the Dow has lost 7.1% and the Nasdaq has plunged 14.1%.

The stock market had been rallying since the January 22nd bottom on the expectation that Fed rate cuts and the fiscal stimulus package would place a floor under economic growth, revive consumer confidence and spending, and offer relief to ailing banks, brokers, and hard-pressed mortgage holders. Through Wednesday of last week, the Dow Jones Industrial Average rallied 6% from its January low, sloughing off \$100 oil prices, rising mortgage foreclosures, a parade of weak economic indicators, and more write-downs of troubled credits by financial institutions. The veneer of a 12% gain in non-financial corporate profits for the fourth quarter kept the bulls convinced that valuations on stocks are "compelling" and are selling at discounts to "fair value".

The Teflon was pierced on Wednesday and Thursday of last week. The first dent was Ben Bernanke's semi-annual monetary report to Congress. Instead of discussing the likely positive simulative effects of his 2.25% decline in the Fed funds rate, and the \$150 billion stimulus package, he proceeded to state that economic prospects were worsening, that inflation could be a problem for the Fed, but not now, and the falling dollar was good for the U.S. economy. The U.S. party line had always been a strong dollar is in America's interest. Most damaging was his statement that while large banks would recover from the credit crisis, other banks could fail. The U. S. dollar fell by 1.5% by week's end, the Dow lost 419 points in the final three days of last week, and two-year Treasury note yields plunged by 38 basis points to a four year low of 1.62%. With Bernanke's fall over the markets, American International Group's surprise announcement of a \$12 billion write down of sub-prime mortgages and derivatives, and the margin calls by banks of leveraged municipal bond hedge funds, created a renewed flight to quality.

Chairman Bernanke's ill-chosen comments last week have changed market perceptions and expectations. No longer can market participants discount downbeat economic news, expecting reassuring words from Fed officials. The credibility problem for the Fed is now as worrisome as it was when the Chairman first took over the reigns and talked "off the record" with a CNBC reporter in May 2006 about how the markets had it wrong if they thought the Fed was through raising rates. Stock prices dropped sharply in the aftermath.

One gets the impression that the Chairman just can't get it right. His tolerance for frequent and often contradictory public yakking by other Board members has heightened market suspicions about the coherence of policy-making and Bernanke's grip on events. With credit markets under continuing stress reflecting the pervasive uncertainty over the extent of bank asset write-downs, investor confidence appears close to the breaking point. In such circumstances, the easy trade is to seek safety and liquidity. Withdrawal from risk-taking may now become more pronounced if we have reached the point where market confidence in the Fed has been lost. *Alea Iacta Est.*



*Thomas J. Steffanci, Ph.D.*  
*President and Chief Investment Officer*

---

**Important Information:** This newsletter contains the current analyses, estimates, and opinions of Glencrest Investment Advisors, Inc. at the time of publication and is subject to change without notice. Past performance is no guarantee of future results. Glencrest assumes no duty to update any of the above statements. Any information contained herein is based upon any number of assumptions that may not prove valid. Glencrest makes no warranty, either expressed or implied, as to the accuracy of said information and thus accepts no liability with respect to it. This newsletter is produced for informational purposes only and should not be construed as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources deemed reliable, but not guaranteed. Statements concerning financial market trends are based on current market conditions, which will change. No part of this newsletter may be reproduced in any form, or referred to in any other publication, without express written permission of Glencrest Investment Advisors, Inc.