



# CAPITAL MANAGEMENT, LLC

www.smscap.com

Phoenix Tower • 3200 Southwest Freeway, Suite 3300 • Houston, Texas 77027-7526  
Phone 713-623-1534 • Fax 713-589-9496 • Email info@smscap.com

March 2008

By Steven M. Sheldon, CFA

## About SMS Capital Management

SMS provides investment management services to individual investors desiring to preserve and build long-term wealth. As a fee-based firm, SMS has an independent, objective and sound approach to portfolio management. The firm is a Registered Investment Adviser.



## About the Author

Steven Sheldon has more than thirteen years of professional experience analyzing and managing investments. Prior to founding SMS, Mr. Sheldon worked as a senior member of a corporate principal investments group. Mr. Sheldon has an MBA from Tulane University and a BBA from The University of Texas. In addition, he is a CFA charterholder and a member of both the CFA Institute and the Houston Society of Financial Analysts (HSFA).

## Better Days Ahead?

As we approach the end of the first quarter of 2008, investors can't help but feel like they are stuck in an unrelenting "rinse and repeat" cycle. Like clockwork, every attempt the stock market has made to break out of its extended slump has been cut short by more bad news. As a result, the market has fluctuated wildly and now stands at levels not seen since 2006.

Unlike last year when investors that targeted specific sectors (namely energy, materials and technology) could get positive returns, this correction has been deeper and broader than any during the past five years. Virtually every sector of the market (including international) are solidly in negative territory for the year.

Furthermore, after several years of relative calm, stock market volatility is now running at historically high levels. In fact, the U.S. stock market is the most volatile in 70 years! According to a recent study of daily price swings by Standard & Poors, the benchmark for American equities has advanced or declined 1 percent or more on 28 days this year. That's 52 percent of the trading sessions so far, which is the highest proportion since 1938.

## Fear, Fear, and More Fear

Fallout from steep bank write-downs and depreciating home values, the potential for a lengthy recession, record commodity prices, an uncertain presidential election, and the weakening dollar have sent investors running for cover during the last two quarters. At its low point in March, the stock market was down roughly 20% from its highs reached last summer, approaching official "bear market" territory.

To say the least, the market is having a difficult time digesting the reality that we are in an economic slowdown. Adding fuel to the fire are events that would have seemed implausible just a few months ago, like the sudden takeover/bailout of name brand financial institutions like Bear Stearns. All this gloom and doom is justifiably wearing on investors' nerves as they begin to fear the worst is still yet to come.

With the market facing the prospects of a fifth straight losing month, it feels like we will be stuck in this crisis mode forever. While more blowups, bailouts, and bad days are likely ahead, their impact on the overall market is becoming less certain as the market is already factoring in many downside risks at this point.



# CAPITAL MANAGEMENT, LLC

www.smscap.com

Phoenix Tower • 3200 Southwest Freeway, Suite 3300 • Houston, Texas 77027-7526  
Phone 713-623-1534 • Fax 713-589-9496 • Email [info@smscap.com](mailto:info@smscap.com)

## **An End in Sight?**

Despite all the despair, there are some signs that perhaps better days are in the months ahead.

In an attempt to offer some relief, the Federal Reserve has been slashing interest rates to levels not seen for a few years. These rate cuts, which began late last year, will take time to work through the system, but will indeed alleviate some stress on consumers and financial institutions. As a result of lower interest rates, consumers will pay less interest on credit cards and other debt. They may also refinance their mortgages at lower interest rates. Banks will benefit as their cost of funds is lowered, enabling them to earn a greater profit margin, offsetting some of their write-offs from bad loans.

Historically speaking, election years are usually good for the stock market. The reason being that the administration in power wants your vote come November and will do what it takes to prime the economy to keep voters happy. This year is no exception. Keenly aware that the American consumer is feeling the strain, both parties in Congress quickly overcame their partisan issues and passed a \$150 billion stimulus plan that will put money directly in the hands of consumers in the next few months. A good portion of these funds will make its way to retailers that have seen their sales drop off a cliff in the last few months, adding some juice to the economy.

Finally, investor sentiment and expectations have gotten low enough that it won't take much positive news to lift and drive the market higher. This is especially true in the financial sector which has been badly beaten these last few months, leaving room for upside surprises. When the financial sector starts doing better, watch for a broader market rally and an end to these turbulent times.

\*None of the information or data presented herein constitutes a recommendation by SMS Capital Management, LLC or a solicitation of any offer to buy or sell any securities. Information presented is general information that does not take into account your individual circumstances, financial situation or needs, nor does it present a personalized recommendation to you.

Although information has been obtained from and is based upon sources SMS Capital believes to be reliable, we do not guarantee its accuracy and the information may be incomplete or condensed. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

Past performance is no indication of future results.