Stamper Capital & Investments, Inc.

"Focusing on Upside Potential with Downside Protection Since 1995."

January 2008 Market Commentary

First, what happened in 2007?

DJIA:	Up	8.9%
S&P 500:	Up	5.5%
NASDAQ:	Up	10.7%
Russell 2000:	Down	1.56%

U.S. Treasury Rates	01/02/07	12/31/07	Change
3 month bill	5.04	3.24	down 180 basis points
2 year note	4.79	3.05	down 174 basis points
5 year note	4.68	3.44	down 124 basis points
10 year note	4.68	4.02	down 66 basis points
30 year note	4.79	4.45	down 34 basis points

OK, those are the raw numbers but what really happened in 2007?
Bigger capitalization stocks went up while smaller capitalization stocks went sideways. The highest quality interest rates went down dramatically as you can see in the U.S. Treasury Rate table, above; however, interest rates of mid-quality and especially low quality bonds went up (prices down) as "credit quality" yield spreads widened due to concerns about credit quality declines in reaction to the slowing economy.

We see the dramatic drop in interest rates as an indicator that the economy has probably dropped into a recession, as we had previously forecast.

Look what happened from the 10-09-07 stock peak to the recent 1-22-08 bottom:

DJIA:	Down 14.9%
S&P 500:	Down 15.8%
NASDAQ:	Down 18.3%
Russell 2000:	Down 20.3%

(Note: these drops are on a closing basis, inter-day they are percentage points worse)

With those drops it is fairly easy to make the case that the returns earned in stocks in 2007 probably were not worth the risk. These drops also make the case that the economy has slipped (probably "plunged" looking backwards a number of months from now, we will see in the future), into recession.

Let's look at the stock indices performance from **January 2000 (essentially at the top) to 1-24-08** (I do not think that many people are aware of this):

	Annual Average Returns Jan 1, 2000 to Jan 24, 2008	
DJIA:	Made	2.87%
S&P 500:	Lost	0.42%
NASDAQ:	Lost	6.20%
Russell 2000:	Made	5.29%

Wow, you made almost nothing in the S&P 500 on an average annual basis since January 2000 and lost 6.2% on average per year in the NASDAQ. Compare those equity index returns to the average annual pre-tax equivalent returns (using the highest tax bracket) that we earned (see table, below). Remember, the indexes contain no management fees nor trading costs, accounting fees, etc., so their numbers would likely be worse for an actual account.

Our Performance for 2007 is in the table below - You decide if the returns were superior for the risk that was taken. The Fund's average credit quality over the last several years has been AA or higher and its duration (a measure of interest rate risk) has been less than three years (of course there are numerous other risks for all investments that we detail on this site):

Morningstar Rankings

Short-term Municipal Bond Funds
Period ending December 31, 2007

PERIOD	Stamper Capital Sub-advised Fund Rank	NUMBER OF COMPETITORS	CATEGORY AVG. TOTAL RETURN	SCI Managed Fund TAX-FREE TOTAL RETURNS	Fund PRE-TAX EQUIVALENT TOTAL RETURN	SCI Managed Fund Share Class
1-YEAR	47	135	3.31%	3.59%	5.52%	I
3-YEARS	1	130	2.48%	3.66%	5.63%	I
5-YEARS	2	98	2.21%	3.41%	5.25%	I
10-YEARS	7	61	3.24%	3.91%	6.01%	I

The pre-tax equivalents are based on the highest federal tax bracket of 35%.
Please see Disclaimer Section Below.

What about 2008? - With the large drop in high quality interest rates and the recent large drop in the stock market and the decline in real estate that started in 2005 and accelerated downward in 2007 (and all the other reasons we have detailed in our previous forecasts and web logs), we believe we are in recession already and that this recession is likely to last throughout 2008. Unfortunately, when assets plunge below the debt they are financed with, a la Collateralized Debt Obligations (CDO's) and real estate, Home Equity Loans, etc., it normally takes a number of years to unravel it all.

Here is another indicator that makes us believe the "top is in" - The Baltic Dry Index, which tracks global shipping rates, is down 47% from its late October 2007 all-time high peak to January 24, 2007. According to Marketwatch.com, "That sharp decline suggests that the demand for basic goods is slowing and that U.S. weakness is spreading overseas." (Note, we have spent considerable time in our **prior forecasts and weblogs** – viewed here: http://www.risk-adjusted.com/ - detailing why we think the bubbles were global and the decline is/will be global.)

We believe equity prices are still priced far too high and that the stock market has begun the next leg down in the huge topping process that started in 2000. The large "right-tilted, sideways W" structure that we forecast long ago is still intact (see our **prior forecasts & weblogs** - viewed here: http://www.risk-adjusted.com/). The first leg (left down leg) being down from 2000 to 2002, the middle rise being from 2002 to October 9, 2007 and now the next large decline which we believe will be bigger than the initial drop from 2000 (i.e. "right-tilted").

We looked at the **drops in equities from the 2000 top to the 2002 bottoms** focusing on the percent rise of retracements of intermediate drops during the overall downtrends. Here is what we found:

	First Retracement	Second Retracement	Third Retracement	Total Drop
Dow Jones Industrial	76%	76%	50%	38%
S&P 500	50%	62%	38%	49%
NASDAQ	50%	24%	62%	78%

Thus, even though there were huge retracements of large drops, at the end of the period (in late 2002), the DOW bottomed down 38%, the S&P bottomed down 49% and the NASDAQ bottomed down a whopping 78%. In that light we expect large counter-trend retracement rallies similar to those experienced during the drop from the 2000 top. However, given the poorer fundamentals at this time than even at the 2000 top, we are forecasting smaller retracements - probably more like 24% as opposed to 50% or 76%. Still, it will be tough to not think the downturn is over when it is simply a large counter-trend rally.

Of course, if the stock market is dropping precipitously, real estate will be falling hard and low quality bonds will be seeing their interest rates rise (prices drop) rather dramatically. We think the recession will last throughout 2008. We will forecast 2009 next January.

What about the Fed lowering interest rates? We note that from January 2001, the Fed was lowering interest rates all the way through the equity drop to the 2002/2003 bottom (the last cut was June 2003 and the first raise was a year later in June 2004). We don't really know the effect of the Fed lowering interest rates on the stock market or economy over the long run, but we do know that the market continued dropping while they were lowering interest rates (and this is also true in other cycles). Looking at the data, you could make the case that, as long as they are lowering, you don't want to own risky assets.

In line with our forecast for a dramatically weakening economy and lower prices for riskier assets, we are forecasting lower high quality interest rates (similar to what happened to Japan in their recessionary climate that started in 1990 and is still continuing) but rising interest rates for lower quality issuers and borrowers. Of course, correspondingly, we forecast the FED will continue to follow short term U.S. T-bill rates downward as they have done in other cycles and have already started to do in the current cycle.

What about foreigners bailing us out, buying our assets? Well, of course, someone buying will keep prices from falling less than if they were not buying, but, and this is a big but - foreign buying usually takes place near market tops - a la the Japanese buying Pebble Beach and Rockefeller Center at the top of the real estate market - and not near market bottoms. So foreign buying is not usually a healthy sign.

In conclusion, we believe the prices of riskier assets, stocks, low quality bonds, and real estate will continue to drop substantially. Please see our **weblogs and annual forecasts** viewed here: http://www.risk-adjusted.com/ - for more detailed information and to see how well we have been forecasting over the years - our previous forecasts still stand.

As previously, for us "safety" is the watchword for this decade.

(Posted January 24, 2008)

"Our Clients' Past Successes are Not Necessarily Indicative of Future Successes."
