

>: Mr. Credit Crunch ...

Tuesday, August 21, 2007 / Jason Jovine

I will be brief and to the point this

First things first. Take a look at what



The market opened last week at about 13,238 and closed for the week at about 13,079; down about 159 points when all was said and done. **What a crazy ride,**

The market hit an intraday low last Thursday (8/16) of about 12,455 and then on Friday (8/17), the very next day, the Federal Reserve issued this statement (**please read it**):

Federal Reserve Release



Press Release

Release Date: August 17, 2007

For immediate release

Financial market conditions have deteriorated, and tighter credit conditions and increased uncertainty have the potential to restrain economic growth going forward. In these circumstances, although recent data suggest that the economy has continued to expand at a moderate pace, the Federal Open Market Committee judges that the downside risks to growth have increased appreciably. The Committee is monitoring the situation and is prepared to act as needed to mitigate the adverse effects on the economy arising from the disruptions in financial markets.

Voting in favor of the policy announcement were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Richard W. Fisher; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Michael H. Moskow; Eric Rosengren; and Kevin M. Warsh.

The **red circle** in the graph above marks activity that occurred shortly after the Fed released this statement and subsequently cut the **discount rate** by half a point to 5.75% from its previous rate of 6.25%. When we hear that the Fed cut interest rates, we normally think of the **federal funds rate** (the interest rate that banks charge each other for overnight loans), not the discount rate (the rate the Fed charges banks to borrow money from it).

Historically, banks haven't liked to borrow money from the Fed because it makes them look weak, and if you are in the business of holding people's money for them, you cannot afford to look weak.

After the Fed announced the cut and released the statement, the market shot up, as you can see from the red circle above.

OK, Jason, that was last week, and this is this week. What should I do now and in the future?

If you have read anything from me in the past, you know that I always say that risk and reward go hand in hand. The reason that we are in this jam right now is because of greed, but more specifically, because risk was incorrectly assessed. **Get it?**

The reason why stocks have fallen, and there is a credit crunch that has led the Fed to take this unprecedented action, is that the suppliers of money

are saying to themselves, "**Hey, wait a second. I need to make sure that if I lend people money that they can really pay me back.**"

Before now, they didn't do their jobs; they weren't being prudent. Neither the financial companies nor our regulatory officials did their jobs. The semester is over, and they have all received a big fat **F** as a grade.

Where should your money be right now?

We have not heard the last of Mr. Credit Crunch; the market will remain volatile for a while. I would not buy any new investments here for now. Yes, you heard me. I would not make any new investments here yet. The key word is 'yet'. Some great companies will fall further, and then you can buy them. Buy the big names on the big dips.

I just told you not to invest here because you could buy these same companies for better prices soon (**get your shopping list ready**). It is OK from my perspective, however, to trade. There is a big difference between investing and trading, you know.

Volatility is a trader's friend. Riskier investments such as options are actually more valuable when the underlying security (stock) that it derives its value from has a high variance (trades all over the place).

Your job is to pick the right options to make money with, and for that I will defer to my colleagues, Mr. Christopher Rowe (www.thetrendrider.com) and Mr. Teeka Tiwari (www.pointandprofit.com). However, I can only lead you to the water, folks; it's up to you to take a drink.

Until the next time, folks, spend your hard-earned money wisely.



Jason Jovine
Chief Investment Officer

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