

Market Commentary

October 27, 2008

Weathering the Storm

News and financial reports might lead one to think it's all "doom and gloom", but at Bremer, we believe we are well positioned to weather the market volatility and help you with your short-term needs as well as long-term strategies. Let's take a closer look at what's been happening:

The Markets

Equity markets continued a downward spiral this past week as mutual fund redemptions and forced selling from hedge funds drove prices to lower levels. The S&P 500 declined 6.8% for the week, as volatility reached record highs. Foreign stocks were down as well, as problems in the credit markets spill over into the emerging market countries. Unfortunately, we expect high levels of volatility to persist for the foreseeable future.

Investor Uncertainty

While most investors believe a global financial meltdown has been averted, they are realizing that we are moving toward a global economic slowdown. We expect uncertainty about future corporate earnings to add to investor uncertainty for the foreseeable future.

Encouraging Signs

Despite these trying times, we believe investors should be encouraged by the massive, coordinated U.S. government intervention to unfreeze credit markets and strengthen financial institutions, including:

- The creation of the Troubled Asset Relief Program (TARP) which authorizes the U.S Treasury to purchase up to \$700 billion of distressed assets, thereby helping banks improve their capital positions. The program also allows the government to make direct capital investments in banks through purchase of preferred stocks.
- The creation of a Federal Reserve program to make direct loans to corporations through purchase of commercial paper.
- A program that insures money market funds was established to prevent panic and a run on money market funds.
- Essentially, a government guarantee on new debt issued by financial corporations for up to three years, and an increase in deposit insurance for non-interest bearing accounts.
- Coordinated efforts to cut interest rates by central banks worldwide. In addition, European governments have implemented a \$1.8 trillion rescue package with many similar measures.

These programs will take time to get established, but we believe they have served their purpose: to stop the panic. In fact, we are seeing signs that some of these steps may be beginning to help; for example, lending rates between banks have eased in recent days. The outcome? We believe it will be the need for greater government involvement to fill the shortfall of the private sector.

Perspective and Guidance from History

As stocks continue to plummet, investors want to know:

- Are we nearing an end to indiscriminate selling?
- When can we expect the market to bottom out?

The fact is, we can never know a bottom has occurred until after-the-fact. However, we can rely on historical precedents for perspective and guidance.

- History shows markets tend to bottom while a recession is in progress, and begin to move up about 2/3 of the way through the recession; that is, before good news is widely reported. For example, the last four recessions have lasted an average of 13 months, with stocks as measured by the S&P 500 hitting bottom eight months into the recession. So, the trick is defining when the recession began and how long it will persist.

- We tend to agree with expectations for economic recovery to begin late in 2009. Based on this projection, we may see stocks bounce along the bottom for several months before beginning to advance.
- Note that current troubles in the housing and credit markets could extend the duration of the current recession compared to the “averages.”
- Market conditions are driving stocks to very attractive levels. As Warren Buffet pointed out in his October 17 letter to the public, buying stocks is typically a good long-term strategy during times of extreme market pessimism.

We all know that trying to time the market is risky. And when stocks recover, they will likely do so dramatically. For example, stock prices enjoyed significant double-digit rallies the year following the end of the last ten bear markets. Those investors that flee the market now will most likely miss the upside, because it is virtually impossible to perfectly time re-entry into the market. Consequently, **we recommend clients maintain asset allocations that are appropriate for their financial goals.**

Sources: the Vanguard Group, Federated Investors

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