



# BROADWAY INVESTMENT MANAGEMENT GROUP

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## REVIEW AND OUTLOOK *Second Quarter 2008*

### Market Overview

Market performance in the second quarter was defined by the month of June. The total return for the broad market for the month of June was -8.43%. This was in contrast to the first two months of the quarter when equities performed quite well, attaining a total return of 6.23%. News of oil prices above \$140 per barrel, increased fears about inflation and rumors of bank failures resonated with investors resulting in a sharp decline in equities for the month.

For the quarter the Dow Jones Industrial Average posted a return of -6.85% and was pulled down by poor performances of the major bank and financial companies and fewer components in the energy industry. The broader S&P 500 index fared better with a return of -2.73, bolstered by a larger weighting in the energy sector. International equities slightly outperformed domestic equities for the quarter with a return of -1.92, but were definitely not immune from higher energy and other commodity prices that have challenged growth across the globe.

The top performing sectors of the U.S. equity market in the second quarter included: Energy (+17.3), Utilities (+8.0%), Materials (+4.4%) and Information Technology (+2.5%). The financial sector (-18.3%) was the worst performing sector of the quarter as banks and mortgage related firms continued to write down the value of loans on their financial statements in response to a continued rise in loan delinquency rates.

Increased concern about inflation caused the yield on the 10-year Treasury note to rise from 3.45% to 3.97% during the second quarter. The rise in yields tempered the performance of bonds with the benchmark Lehman Bros Intermediate Gov't/Credit index posting a return of -1.5% for the quarter.

### Economic Review

It was easy to get discouraged the past three months if you read the financial news or watched the business cable channel as the mainstream financial media bombarded us with headlines about \$140 oil, a higher unemployment

rate and increasing fears of banks on the brink of closure due to bad bets on the housing market. While there is no denying the U.S. economy has slowed; pockets of economic resilience do exist.

Even though it has been reported that consumers are as upset with economic conditions as any time since the Great Depression, their spending habits reflect a different story. A report by Argus Research Company forecasts that second quarter spending may have increased by up to 1.7%. If realized, this would result in 66 consecutive quarters of positive consumer spending. A positive rate of spending is important for growth of the economy as it accounts for approximately 70% of economic activity.

Another positive report for the economy was an increase in the ISM Manufacturing index which measures activity in the manufacturing sector. Index levels above 50 indicate economic expansion and levels below 50 signal contraction. In June the index increased to 50.2 from 49.6, easily beating a consensus expected drop to 48.0. The increase is a bullish sign for the economy and represents the sixth month in a row the index has beat more negative consensus estimates.

Lastly, the export boom continued this quarter and is adding substantially to real GDP growth. Exports of goods and services to foreign consumers have increased 17.8% through May compared to last year. While we understand that rising food and energy costs affect us all and have caused wide spread pessimism about the economy; these pockets of strength imply an economy that is considerably healthier than the headlines would lead one to believe.

Index	YTD	1 Year	3 Years
Dow Jones Industrials	-13.38%	-13.28%	5.82%
S&P 500 Index	-11.91%	-13.12%	4.40%
EAFE*	-10.50%	-10.05%	13.44%

\*EAFE = Europe, Australia, & Far East International Index

2 Year Treasury Bond Yield as of 6/30/08	2.62%
2 Year Muni Bond (AAA) Yield as of 6/30/08	2.63%

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