

**MARKET COMMENTARY**

**John C. Clifford**

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**The Jobs Report and Recession:**

With the worst jobs report in 5 years, the U.S. Government delivered significantly negative news to the financial markets today and individual investors should take notice.

Consensus estimates for the report were for no change, but the private sector delivered a loss of 101,000 jobs, more than half from the manufacturing sector. The report's net loss of 63,000 jobs was buffered by the government adding 38,000 jobs.

Perhaps the worst news in today's report was that the numbers for January and December saw negative revisions. December's gain of 82,000 jobs was cut in half.

Most troubling is what the consecutive months of job losses in January and February might signify – recession upon us. At no time in the past 40 years have there been such consecutive months of jobs lost outside of a period of recession.

**Risk and Opportunity:**

With the strong likelihood that the risks and impact associated with the real estate and credit markets remains negative, the logical progression is to conclude an overall negative impact on economic growth that solidifies a period of recession, leaving questions of how long and how deep?

Despite the risks associated with the real estate and credit markets, and the impact already realized in equities (the financial sector especially), valuations appear to be reasonable, tempting even. But with a pervasive lack of confidence in the Federal Reserve, pressure from the price of oil, the Dollar hitting all-time lows against the Euro, price risk and volatility in US equities (the financial sector especially) isn't likely to ease.

In terms of opportunity, the bullish case is for the Bush stimulus in May and June capping a recession to the first two quarters of the year. During that time period, from a technical perspective, the equities markets likely need to test the January lows. From a historical perspective, any such test which holds, or in a better case scenario subsequent tests of those lows, could propel stocks to a bullish turn in the latter half of 2008.

## The Individual Investor:

So with that assessment of risk and opportunity in mind, an individual investor might best be served to focus on adjusting allocations to the following areas:

1. The big multi-nationals that can take advantage of the weak dollar (large-cap US equities).
2. Investment grade (emphasize rating) municipal bonds (or bond funds) – the Fed is not done having its work cut out for them.
3. Commodities (sector specific funds or ETFs) – hedge against inflation fears and achieve diversity in asset classes.

All three adjustments intend to shift emphasis to protecting principal during a more challenging market, while still attempting to achieve positive returns. When the economic landscape changes, compelling investment opportunities might become more plentiful and more aggressive actions and adjustments to asset allocation might be justified.

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50 CONGRESS STREET • SUITE 740 • BOSTON, MA • 02109  
617-228-5700 • 866-228-5700 • FAX 617-228-5715  
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