



A year that started with great expectations for emerging markets has turned out to be quite the opposite. The headlines of 2008 speak volumes to the effect the series of tumultuous events occurred had, leaving individuals, not only in the US, but worldwide, wondering if or when it will all come to an end. What can be said is that many things that sounded impossible at the start of the year have been accepted as facts by the end.

The bad news never seemed to let up; Bears Stearns in the spring, then after a bit of a summer lull, the Lehman Brothers bankruptcy in mid-September, the government takeover of Freddie Mac and Fannie Mae; Merrill Lynch, the bailout of American International Group (AIG), the collapse of Bernard L. Madoff's business, and the near-bankruptcy of the Big-Three US Automakers. The names say it all for one of the most memorable years in financial history.

Almost no industry was spared as the crisis that emerged in the subprime mortgage market metastasized and the economy sank into what could be a long recession. Bank to bank lending all but halted, and markets went into a tailspin that ended only when governments agreed to spend trillions of dollars bailing out the global financial system.

At times earlier in the year, it looked like investors were going to get a break. After the near collapse and subsequent bailout of 58-year old investment firm Bear Stearns in March, markets found some degree of stability and even gained back some ground until May. But as more Wall Street institutions crumbled, all due to bad investments, and after Lehman Brothers went bankrupt late in September, stock markets worldwide set multi-decade lows.

Stocks lost 42 percent of their value in 2008, erasing more than \$ 29 trillion in value and all of the gains made since 2003. Assets that did prosper through this trying time were government bonds and gold, where prices rose as investors ran for cover.

Employment and household savings will most likely have to climb for some time before consumers have enough confidence to buy homes and enough money for down payments. The level of unemployment claims stands 45% higher than this time last year. Claims stood at 492,000 in December, the highest level in 26 years.

Commodities

After its astonishing surge in July, peaking to nearly \$ 150 a barrel this summer, oil ended 2008 trading near \$ 40. Crude futures dropped more than 60% this year, for their worst yearly performance since futures started trading in the early 1980's. Copper has also tumbled over 50% to near \$ 1.30 a pound, also marking its worst year on record. Commodity weakness has even spread to gold, an asset whose safe-haven appeal usually means its price tends to rise whenever economic growth tumbles. The precious metal had ended last year's trading up only 5.5%, making its eighth straight yearly gain, the longest winning streak since at least 1980.

Market Overview

On November 20, the S&P crashed through the previous low of 776, made in October 2002, to end its lowest close since April 1997. Since the Lehman Brothers collapse, there have been 18 days where the S&P has moved more than 5% in either direction. There were only 17 such days in the previous 53 years. The S&P 500 has lost more than 38% in 2008, ending at 903.25. In a mere 12 months, the Dow Jones Industrial Average plunged 4,488.43, or 33.8%, its most dramatic loss since 1931. The Dow Jones Industrial Average gained 108 points, or 1.2% for December, to end the final quarter of 2008 at 8,776.39. The NASDAQ ended the month up 2.7%, but down 40.5% for the year, finishing at 1,577.03. Yields on 10-year Treasuries closed at 2.244%, while the Russell 2000 Index closed at 499.45, down 34% for the year.

What's ahead? As the new year dawns, Wall Street is looking to Washington, where the balance of financial power has tipped in recent months. Many are focusing on what the incoming Obama administration and the Federal Reserve will do to revive the economy and the financial system. Continuing decline in the US housing market, the struggles of the auto industry and layoffs almost everywhere serve as a reminder that the outlook for 2009 could remain bleak for some time. But, the possibility remains that the market could begin to stabilize later in 2009 if there is evidence that the financial crisis is coming to an end and if there are signs that the US housing market will improve. One thing is for sure—the financial markets closed the books on a year that won't soon be forgotten.

Sources: *MarketWatch*, December 2008; *New York Times*, December 2008, *Wall Street Journal*, December 2008

 **NUMBERS TALK**

Percentage of U.S. congressional members who have degrees in business, economics or finance...15

Percentage of people who don't understand that their credit score affects their cost and ability to get credit...31

Percentage of registered investment advisers who bought or considered buying another advisory firm in the past two years...53

Percentage of baby boomer business owners who plan to exit their business within the next 10 years...53

Percentage of individuals who have at least \$ 50,000 in investable assets or annual income who feel confident about their financial future...49

Percentage of financial planners who believe the current rescue bill will improve the economy...10

Percentage of Americans under 35 who owe as much or more credit card debt than they did last year...75

Percentage of Americans under 35 who use a financial advisor...14

Additional years a 50-year old white male college graduate can expect to live a healthy life versus a white male with less than a high school education...10

Percentage of small business owners who do not offer any type of retirement savings plan...45

Number of times since 1896 the Dow has lost more in percentage terms than the 7 percent decline on September 29, 2008...16

Percentage of Americans who still believe buying a home is the best investment they can make...66

Percentage of Americans who still think it's a good idea to invest in stocks, bonds, and mutual funds...44

Percentage increase in tuition and fees at four-year public universities for the 2008-2009 school year...6.4

Percentage of US consumers who recently said they have splurged on themselves within the previous month...42

****On December 23, 2008, The Worker, Retiree and Employer Recovery Act of 2008 ("the Act") was signed into law. This Act temporarily waives the required minimum distribution ("RMD") rules for 2009, subject to certain qualifications. The provision allows a retirement plan participant or beneficiary to suspend (or skip) their RMD for calendar year 2009 without triggering the 50% excise tax penalty that would normally apply for RMDs that are not distributed.**

Please note that, if suspended in 2009, the RMD would be required to resume in calendar year 2010. If you have any questions regarding this Act, please contact your tax professional.

*If you would like to discuss any of the topics contained in this issue of "**FINANCIAL FOCUS**," contact Pegasus Asset Management, Inc. at 845-369-9422, or via e-mail:*

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