Repex Investment Management Co., Inc.

A Registered Investment Advisor

550 Durie Avenue PO Box 577 Closter, NJ 07624 USA
Telephone (201) 767-1050 Fax (201) 767-6932 www.repexinvestments.com

MONDAY MORNING MARKET COMMENTS **December 29, 2008**
8:30 AM **DJIA 8515.55, S&P 500 872.80**

Usually strong seasonal factors come into play this time of the year to lift markets but were unable to offset plunging existing home sales for November (-8.6%). Also, holiday retail sales, ex-lower gasoline prices and autos, fell short of estimates but mainly on account of deep merchant discounts, not volume. On the other hand, personal income and spending adjusted for inflation showed modest increases, and mortgage applications jumped 124.6%. Stocks, nevertheless, ended the holiday-shortened week lower:

	DJIA	S&P 500	NASDAQ
Last week	-0.74%	-1.70%	-2.18%
December 1-26	-3.55%	-2.62%	-0.35%
Year-to-date	-35.80%	-40.56%	-42.30%
From October 2007 highs	-39.88%	-44.24%	-46.48%
From November 2008 lows	+12.76%	+16.00%	+16.27%

"History will remember 2008 as the year the financial system stood still" and the economy drifted into recession. We agree this is no ordinary recession and its origin is two-pronged: 1. Record high oil prices that peaked at $145.29 in early July had already slowed both consumer spending and business investment, and 2. The housing bubble deflated, defaults and foreclosures increased exponentially and caused liquidity of mortgage backed securities to dry up, and eroded the capital base of highly leveraged banks and financial institutions. The current quarter GDP is likely to be the worst one in this recession with consensus estimating a decline of -6% and -4.5% for the first quarter, and no growth until the second half of 2009.

We are more optimistic than the consensus, given the government financial programs in place providing capital, loans, and guarantees, and purchasing all types of asset-backed securities to restore liquidity. Credit and loans are tight but there is movement. At its December 16 FOMC meeting, the Federal Reserve pulled out all the stops and signaled moving to an unconventional and aggressive monetary policy. The Fed proceeded to cut interest rates to a range of 0% to 0.25%. Unprecedented and noteworthy, given that former Fed chairman Alan Greenspan was criticized for cutting rates to 1% and allegedly responsible for creating the housing bubble that ended in the financial meltdown. Moreover, the Fed is aggressively growing M2 money supply. At 8.1% growth for the past year, M2 is growing at more than twice the potential growth rate of the U.S. economy and flooding the system with excess liquidity. The new Administration is preparing a fiscal stimulus program in the range of $800 billion, and lower gas prices at the pump are adding near $600 billion to consumer disposable income, annualized.

We foresee government programs kicking in faster than pundits expect, given the financial and fiscal muscle brought to bear to lift the economy out of recession. Those steep declines of GDP forecasted could yet surprise on the upside, and the economy could stabilize by Q2/2009. Compelling valuations and $3.7 trillion sidelined cash, we foresee the "January effect" in place moving stocks higher for the next several weeks, a good start to the New Year. Stocks we find of interest: ADM 28.85, BAYRY 55.08, BK 26.27, CERN 38.54, DD 24.98, DGX 50.18, KOP 18.19, LAZ 26.79, MDT 30.78, NEM 38.85, NSRGY 38.05, PBR 22.55, PLL 26.82, SGR 18.93, SYT 36.40, VLO 20.64.

Happy New Year! **Erich Sokolower**
Next Market Comments, 1/12 **David Sokolower**