Delta Financial Advisors

November 2008

Economic Comments

The most profound economic news since our last letter is the election of Barack Obama to become our next president. With an increasingly strident position on re-distributing wealth and increasing national health insurance coverage, Obama's economic and tax policies will have enormous consequences on both the economy and financial markets in the years to come. The early days of the Obama Administration should provide insight into how aggressively he plans to pursue these initiatives.

Amidst the final days of the presidential campaign, the existing Bush Administration and our central bankers have had their hands full trying to ameliorate the current global credit crisis. The Federal Reserve lowered interest rates twice during October with two rate reductions of ½ percentage point each. In addition to the un-scheduled meeting in early October, the FOMC at its regularly scheduled meeting in late October made its second rate reduction, leaving rates at a historically low level of 1.0% for overnight borrowings. Driving the rapid fire rate cuts was the central bank's increasingly sharp concerns over domestic and overseas economic activity. With inflation expectations having sharply lowered in recent weeks, Chairman Bernanke felt there to be sufficient leeway to take the second rate action to fight the continued freeze in the capital markets.

In an effort to stimulate lending, the Treasury Department agreed to allocate up to $250 billion of TARP monies (the $700 billion Troubled Asset Relief Program recently approved by Congress) to help re-capitalize U.S. banks in exchange for preferred stock and equity warrants. Despite these unprecedented Federal moves, banks remain very hesitant to lend. In a recent survey, 85% of banks had tightened their lending standards as compared to 60% increasing underwriting standards in the prior quarter.

Consistent with our recent thoughts, economic data has turned sharply worse in recent weeks. Manufacturing activity slowed sharply in October to its lowest level since 1982 as the ISM's Manufacturing index dropped to 38.9 for the month. To put this number in context, any index reading beneath 41 has historically indicated that the U.S. economy is in recession. After providing this sector support for the last 6 years, exports dropped sharply during the month as global demand softened and the dollar strengthened.

Slowing demand was also reflected by an increase in inventory levels for the month of September. One forward looking indicator of business spending, which excludes aircraft and military sales, showed a 1.5% decline in September – a further sign that companies are slowing their purchases.

Critical to raising our national wealth is increasing labor productivity. Unfortunately, the 3rd quarter's report showed an unremarkable 1.1% increase for this statistic. The drivers behind this tepid improvement were the meaningful decline in total economic output coupled with a large drop in hours worked.

In fact, U.S. unemployment hit a 14-year high in October as 240,000 jobs were cut and the unemployment rate climbed to 6.5%. With this recent increase, unemployment levels now exceed the levels last seen at end of the 2001/2002 recession. With the October job losses, employers have now reduced payrolls for 10 straight months. The job cuts have been widespread across many sectors and not primarily confined to the construction market as seen earlier in the year. Unfortunately, unemployment expectations continue to rise with unemployment now expected to peak at around 8% during this ongoing downturn.

While helpful to the currently troubled situation, the Fed's actions have by no means fixed the current capital market problems. In the face of the continued capital market crisis, the International Monetary Fund yet again slashed its projection on global growth for 2009 down to 2.2%. This level is well below the 3% level the fund considers to be the threshold for worldwide recession. In fact, their current projection is that the developed world's economies will contract for all of 2009, the first full year of negative growth since World War II.

What all of this information boils down to is that the global economy is at best going to see some of its worst growth in years. Although not yet officially declared, the U.S. has entered into recession. The question at this stage is how severe will the current economic downturn be. We believe that the fiscal and monetary tools already deployed will partially mitigate the current slowdown. Despite the many fiscal and monetary tools already used to fight the current crisis, we feel that the odds are sharply in favor of a recession lasting at least 3 quarters.

Performance as of 10/31/08				
	Close	***Month***	***YTD***	***1 Year***
DJIA	9336.93	-13.89%	-28.18%	-31.24%
S & P 500	968.75	-16.79%	-32.83%	-36.08%
NASDAQ Comp.	1720.95	-17.35%	-35.11%	-39.80%
	Month end yld.	***Prior Yr. end yld.***	***12 mo. prior yld.***	
10 yr. U.S. Treasury	3.978%	4.03%	4.47%	

Market Comments

October's markets were virtually unprecedented in modern financial times. At one stage, the broader U.S. market was off almost 28% before recovering to end down 16.8% for the month. Fear ruled Wall Street as market volatility hit sharply new highs. Outside of U.S. Treasury securities, there was no safe place for an investor to hide. Heavy losses were even incurred in recent strong performers such as high quality fixed income and commodities.

A common volatility index, the VIX, climbed from its September end reading of 39 to a mid month high of 89. In comparison, the VIX's prior record high was slightly less than 47. As a result, the October market had only several quiet days with the month being filled with days of 3%, 5% even 10% moves from the day's opening.

Recent market turmoil is causing a sharp re-evaluation of the former Federal Reserve Chairman's tenure. Mr. Greenspan was renowned for his strong belief in the merit of financial derivatives and his fierce stance to not have these instruments regulated. With the market's turmoil being driven by derivative related losses, his true legacy is now being viewed as one of financial excess and insufficient oversight.

One of the key supports to the stock market, dividends, has been under strain in recent weeks as financial companies have sharply lowered their dividend payouts. In the face of recent reductions, financial companies now contribute approximately 20% of S&P 500 dividends as compared to more than 33% of all payouts in early 2007. However, even with the sharp reduction of the troubled sector's payout, the average yield for the S&P 500's dividend paying stocks has climbed sharply and now hovers in excess of 3.5% as compared to the yield of 2.02% in October of 2007. Unfortunately, the increase is largely due to share price declines as only 218 firms have increased their dividends year to date by a total of $18 billion.

As we look forward, we anticipate continued high levels of market volatility. While the capital market crisis has started to abate, market fears are now focused on the global economic slowdown. More so than ever, challenging market times such as these highlight the need for prudent and well founded investments.

Analyst Corner

With the current market turmoil, we have been putting a renewed emphasis on well capitalized companies. Although the materials sector has been particularly hard hit recently, we feel that Nucor Corporation (*NYSE: NUE*) has a number of attractive attributes.

One of the largest steel makers in the United States, Nucor runs an extremely lean operation. Key to its success is its highly motivated and flexible workforce. Moreover, despite having meaningfully increased its debt to finance new plants, Nucor's debt levels remain sharply beneath its peers. Although its share price is likely to be volatile for the near future, we believe that Nucor could be a valuable addition to appropriate portfolios.

We are moving!!

After 6 years on Poydras Street, we will be moving to 228 St. Charles Avenue, Suite 1100 in the Whitney Bank Building. We will be moving on December 11th-12th. If on these days you are unable to reach us through our regular phone number, please call us on our cell phones:

Ainsley Bishop:	(225) 572-2333
Clifford Favrot:	(504) 481-3520
Gerard Plauché	(504) 473-7026
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In addition, email service may be temporarily interrupted. Thank you for your patience with this move.

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