

March Madness

As the leaves are beginning to return to the trees and the daffodils begin to poke their heads out of the ground, we know too that the college basketball season is at the end as we wait to find out who will win the venerable NCAA Basketball Tournament often dubbed, "March Madness". The term "March Madness" this year not only applies to the NCAA Tournament, but seemingly the financial markets as well.

Just this month we have seen Crude Oil push to \$110 per barrel, Gold trade hands for \$1,000 an ounce, and the US Dollar hit multi-decade lows against many major currencies. All of this after the market recorded a fourth straight negative month for only the third time in the past 15 years! This action has left many investors wondering what in the world is going on in the equity markets as one day the financial news programs are saying that the Fed's policies are likely to fuel a market bottom, and the next day those same policies are said to cause rampant inflation. This and other news releases have helped fuel this "March Madness" in the markets.

Undoubtedly most have heard of the "credit crunch" that we are currently in, but few of us know exactly what it means. It started with investment banks: they sold complex securities backed by risky debt. The realization that banks had failed to manage this risk sparked concern among investors and other financial firms. Investors found they could not put as much value on what the banks were selling. As a result, the lending markets that keep Wall Street going seized up because people feared they would not get paid back.

At first, some thought the problem would be contained within just the mortgage industry. But within a few months, it spread through the debt market because people lost faith in the banks' ability to manage risk. Investors are hesitating to put money in the securities backed by everything from student loans to government guaranteed mortgages backed by Freddie and Fannie. And banks do not want to enter new relationships where they are owed money for fear of the borrower not being able to honor the obligation.

The Federal Reserve is putting up billions of dollars and slashing interest rates to try and calm the financial markets. As a result the Fed is getting involved in the rescue of the big Wall Street banks.

The Federal Reserve made a 75 basis point cut of the Federal Funds Rate on Tuesday the 18th. The reduction in the funds rate was designed to lower borrowing costs and boost spending by consumers and businesses thus increasing economic activity. The funds rate cut quickly triggered announcements from commercial banks that they were cutting their prime lending rate to 5.25 percent from 6 percent. This rate is the benchmark for millions of business and consumer loans. With rates going lower and lower, inflation is becoming more and more of a threat.

Besides the standard monetary policy of controlling interest rates the Federal Reserve is using other options to help the economy. The Federal Reserve bypassed its own emergency-lending policies to let securities firms borrow at the same interest rate as commercial banks as the central bank sought last weekend to stave off a financial-market meltdown. This marks the first time since the Great Depression that the Fed has extended financing to non-banks. Though this does not remove the underlying credit issues the Fed is hoping that this increase in liquidity transcends beyond the balance sheets of these securities firms and into the market as a whole.

The Fed surprisingly also stepped in directly to give some aid to Bear Stearns. The investment bank's shares had plunged Friday, March 14th, on reports that it was unable to meet its current obligations. The Fed stepped in with emergency aid to prevent a complete failure and worked over the weekend with the company and JP Morgan.

The question weighing on everyone's mind is how Bear Stearns, which was founded in 1923 and

2008 Year-to-Date

Market Numbers:

Dow Jones: - ↓ 7.2%

S&P: - ↓ 9.7%

NASDAQ: - ↓ 14.0%

As of March 27th

has managed to live through many chaotic markets, could be bought for a paltry \$2 per share. Last week, Bear CEO Schwartz said that the company had a book value in the \$80-a-share range. Then on Monday the 24th, JP Morgan Chase hiked its bid for Bear Stearns, quintupling its initial offer to a now relatively high, \$10 a share. While this did give a lift to the financial sector and broader market, shareholders are still left disconsolate. This Bear Stearns issue played into the bearish week that followed the debacle and has left many people uneasy about the nature of the balance sheets of other big financial institutions which is part of the reason why the Fed enacted both monetary and policy changes.

With so many big stories and so much volatility in the market, the title "March Madness" for college basketball is undoubtedly a fitting title for the financial

markets as well. Similar to a basketball game, when the coach feels as though the game is getting a little out of control, he calls a timeout. He forces his players to step back and take a minute to refocus their efforts on their game plan. Instead of getting caught up in the media hype surrounding the financial markets' daily whims, perhaps its time we call a "timeout" here and assess the situation to be sure we are following our own game plan.

As you know our game plan is founded in the laws of supply and demand, which we analyze by using a variety of technical analysis, one being Point & Figure. By using the Point & Figure charts as our guide, we are able to navigate your portfolio through seemingly volatile times with the help of the most basic economic principle. The most important aspect of navigating through volatile markets is having tools that are unemotional, tools that are objective.

A benefit of the Point and Figure Methodology is that it offers a common language. The same tools we would use to analyze a company as widely held as General Electric (GE) can be used on a little known company like Kuala Lumpur Kepong BHD (KLK-KU).

Even though (KLK-KU) trades on the Kuala Lumpur Stock Exchange in Malaysia, supply and demand is universal and that allows us to use the same tools on Malaysia as we would on Wall Street. It does not matter if traders speak Farsi or Portuguese, or whether they do business in Pesos or Japanese Yen; the concept of supply and demand applies to any free market. For this reason the Point & Figure Chart can be successfully employed to identify the same prevailing trends overseas as we do here. Whether you

want to know about GE, Kuala Lumpur Kepong, gold prices, or the US Dollar, we have the tools at our disposal to help you with any and all asset classes.

All told, the majority of the indicators that we follow both domestically and internationally are suggesting that we are likely to continue to see a little more selling pressure in the equities market, and heightened volatility, but the good news is

that these same indicators are still operating with fairly attractive field position. What this means is that there is a lot of potential on the upside and demand becomes the driving market force. This generally sets up great buying opportunities, which we will continue to seek. Rest assured that we are taking all the necessary actions to manage risk in your account, and keep your portfolio inline with your investment goals.

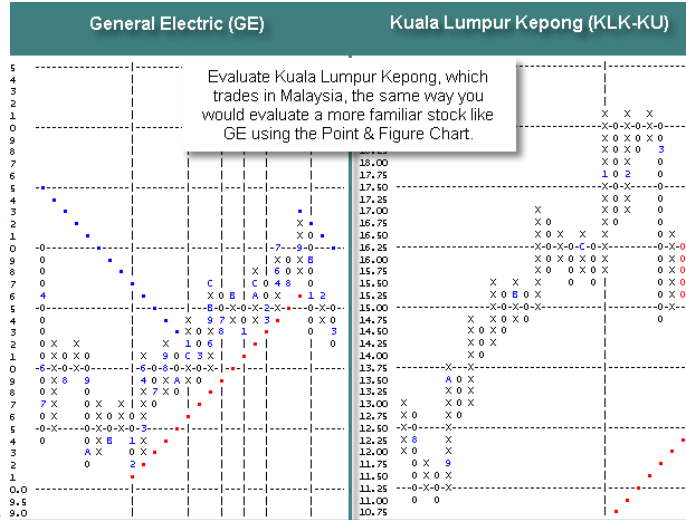
Thank you for your business and support,

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