

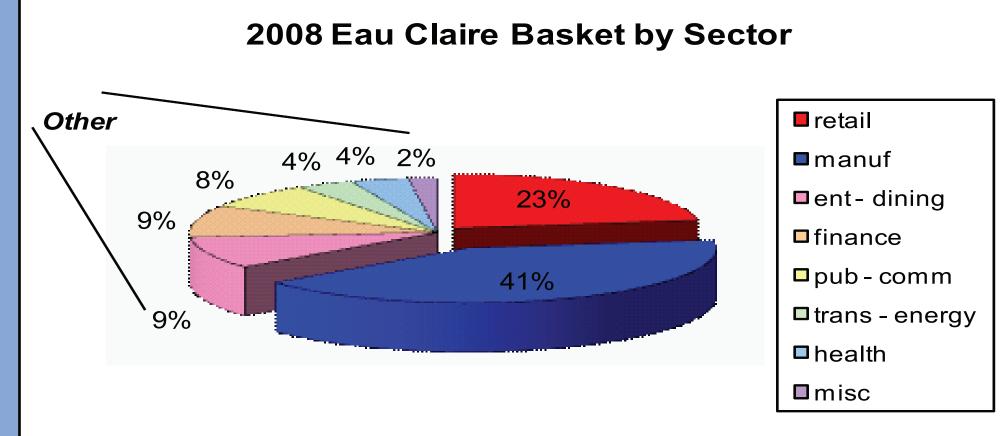
Recessionary Pressure Impacts on the Stock Market Local Analysis on the Eau Claire Basket

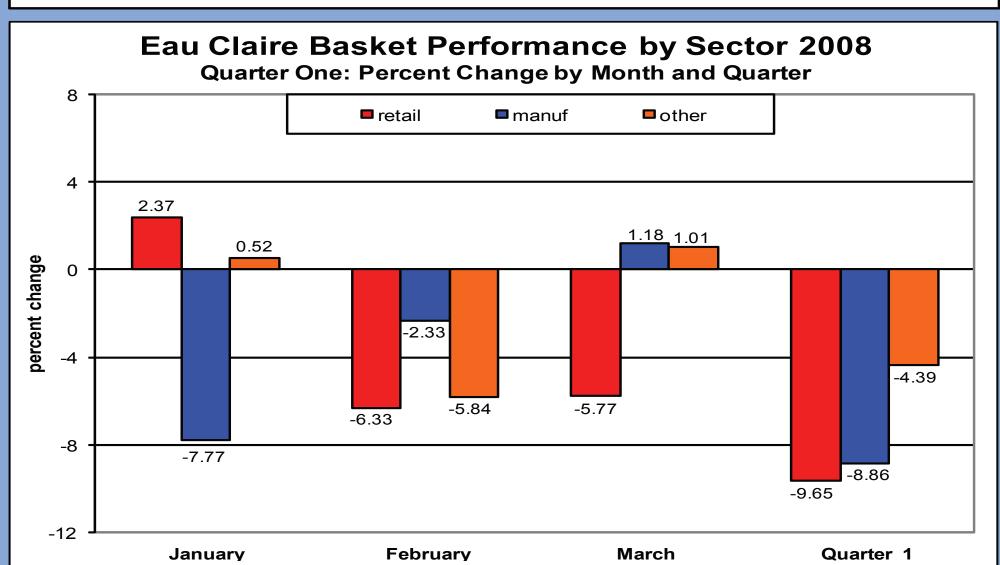
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EAU CLAIRE BASKET BREAKDOWN

The basis for doing this research is not to see what impact the performance of companies with a local employment presence has on the stock market, but to track the stock market and determine what kind of implications it could have on the locations of these businesses in the Eau Claire area. To better assess the overall market, we compare our investment track, the Eau Claire Basket, to three other tracks: the Dogs of the Dow (DOGS), the Rydex S&P Equal Weight ETF (RSP), and the Street Tracks Gold Shares ETF (GLD). This analysis gives us a perspective of how other investments with both similar and different strategies are performing. In addition to analyzing these investments, we look into economic data and trends that help explain why stocks are performing the way they are. Utilizing these tools, we can better understand and explain the impacts of the stock market on the Chippewa Valley.





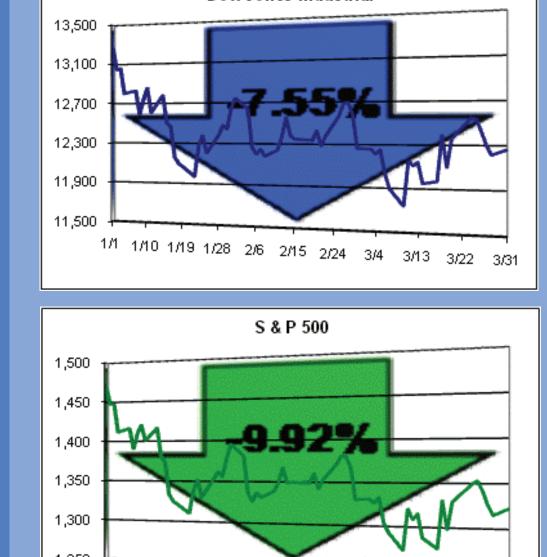
The Eau Claire Basket (ECB) consists of 53 stocks in which the underlying corporations have an employment presence in the Eau Claire area. The basket of stocks is more heavily weighted in retail and manufacturing sectors with positions of 23% and 41% respectively. The other sector, as seen above, consists of entertainment and dining, finance, public communications, transportation and energy, health, and miscellaneous, making up 36% of the basket in total. At the beginning of the year we hypothetically invest \$100,000 in the track, evenly distributed among the 53 different stocks. When a company pays a dividend, that money is re-invested in the company's stock at the close price on the day it is paid. Each quarter the ECB is re-balanced to emulate the operation of the RSP investment, which re-balances daily. We do not re-balance the ECB every day due to the time requirements necessary to do so.

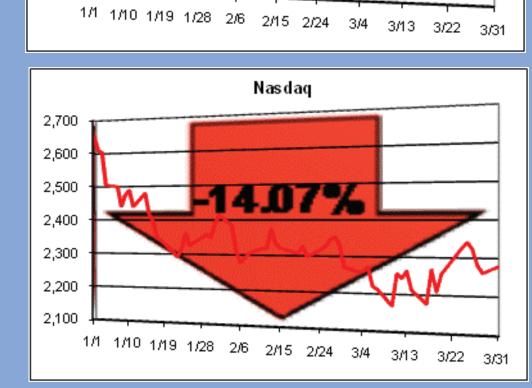
As seen above, the retail sector was the worst performer in the ECB. This is to be expected in times of uncertainty, as consumers tend to tighten up their spending on non-necessity goods; these goods make up a large part of the retail industry. Manufacturing was also down substantially in the first quarter. This can be linked to the PPI graph in the column to the right. When producer prices are on the rise manufacturers are forced to cut their production. Cutting production leads to less revenue and less profit, in turn driving stock valuation down. The other sector seemed to be better shielded from economic downturn in the first quarter, primarily due to the diversity of industries within it. Although the financial segment of the other sector took a large hit in the first quarter, it only makes up 9% of the total ECB. Therefore its impact on the performance of the other sector was not too drastic. This is part of the reason why the ECB was able to outperform the RSP in the first quarter; the S&P 500, the basis of the RSP, has a much larger weight in the financial sector.



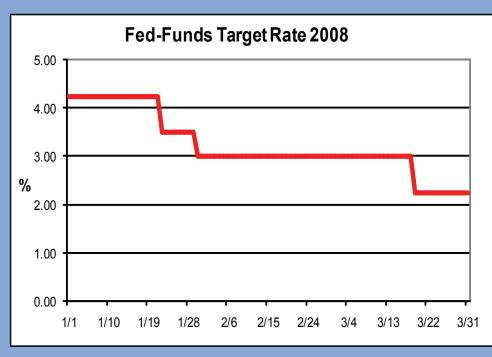
Due to the uneven weight of the ECB, it often times varies from the performance of the overall stock market. However, the weights represent the distribution of businesses in the Eau Claire area. With such a large amount of local firms in the manufacturing sector, if producer prices continue to increase Eau Claire residents may find their jobs in jeopardy. This will only boost the already increasing unemployment rate.

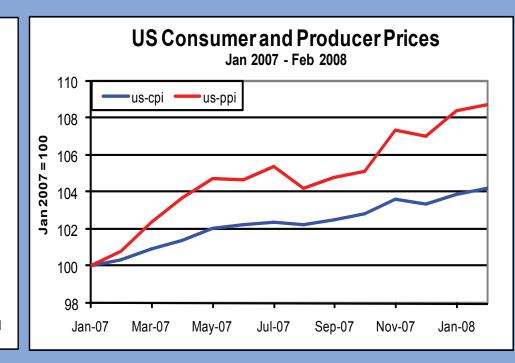
ECONOMIC ANALYSIS - MARKET TREND

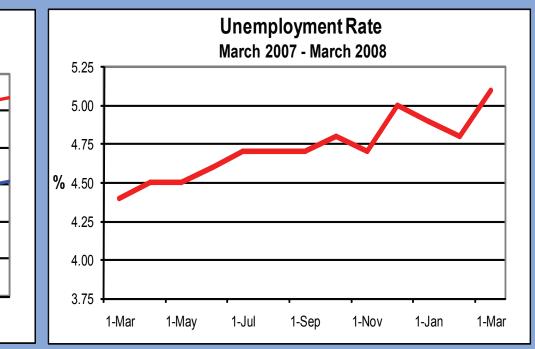




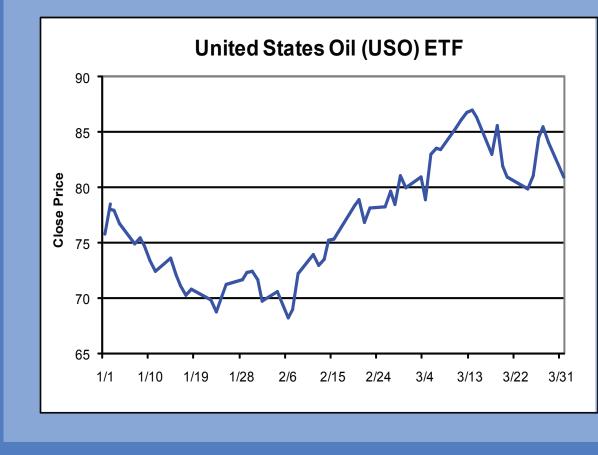
The stock market is a tool highly correlated with economic activity, both present and expected. It is no surprise then, that as our economy waivers on news releases to the tune of tightening credit, inflation, and increasing unemployment, major stock market indexes are experiencing one of the worst first quarters in their history. The Dow, S&P, and Nasdaq all saw losses of more than 10% at some point during the first three months of 2008. The Dow Industrials, comprised of 30 blue chip stocks (stable and proven companies), have fared the best in this onslaught due to their inherent capacity to absorb losses. Investors see these equity securities as some of the safer havens in the stock market because of their sheer size and seeming credibility. The S&P 500, on the other hand, is comprised of 500 stocks and represents a broader mix of firms. Because these firms do not all have the history and prestige of those in the Dow, their cumulative value dropped closer to 10% for the quarter. This figure may be the most relevant, as the S&P is often times considered a good market barometer in that it accounts for a larger and more diverse basket of companies than other indexes. Therefore it can reasonably be assumed that the 'stock market' in its entirety was down 10%. The final major index to assess is the Nasdaq, which is made up primarily of tech sector stocks. These investments tend to be more volatile on average than those in the other indexes due to the nature of their industry. The tech arena tends to move fast and often based on releases of new technological equipment and the occasional failure of such products. It is to be expected that in times of uncertainty and crisis, when the overall market is performing poorly, techs will experience some of the most significant losses.



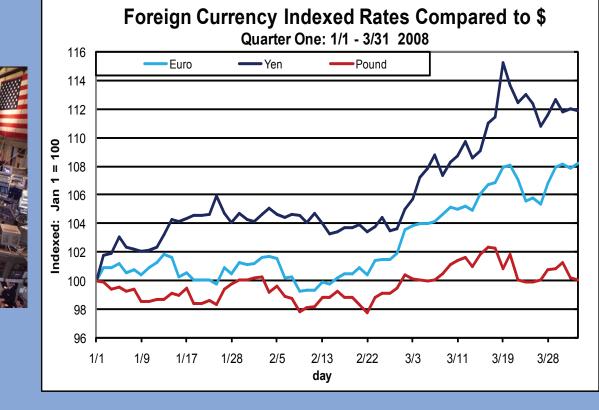




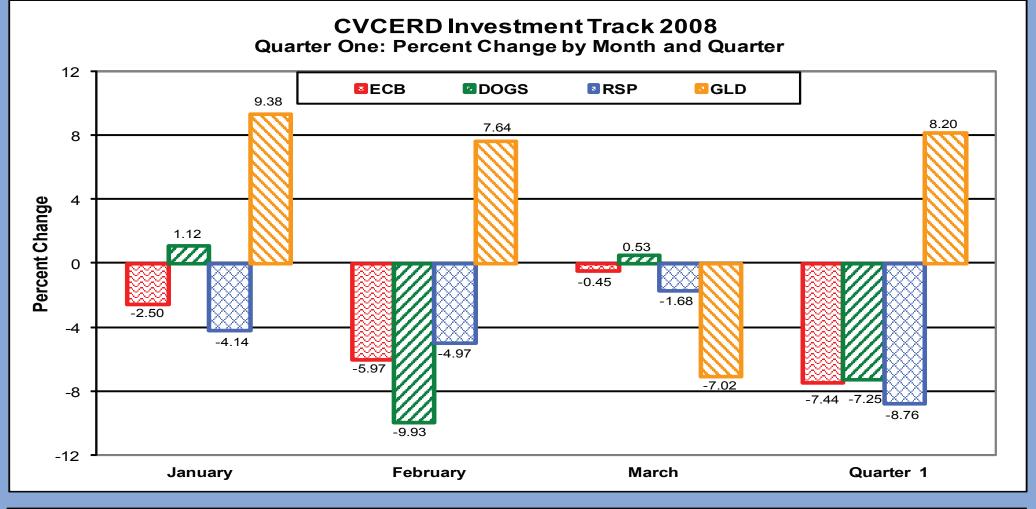
Economic data during the first quarter of 2008 has no doubt hindered stock market returns. The three graphs directly above depict interest rates, inflation, and unemployment. All three of these figures point toward recessionary pressure on the U.S. economy, in turn leading the major market indexes to significant declines. Looking at the Federal Funds Target Rate, it is distinctly apparent that the U.S. Federal Reserve is attempting to increase spending by cutting interest rates on loans they provide to banks. The rationale is that by lowering this rate banks will be more apt to borrow money from the Fed, increase their loans, and in turn help to boost consumer spending. However, this strategy puts pressure on inflation, as increased demand leads to increased prices; hence, higher inflation. This is evident in the CPI v. PPI graph above. Consumer prices have risen 4% in the past year, while producer prices are up more than 8%. Such inflation reciprocates poorly on the economy, specifically on producers. With such a drastic increase in the PPI, firms are tying up more of their revenue in material expenses. In turn, this leads to a lower profit margin and smaller net income. The end result is a firm that does not generate consistently growing income, which causes their stock price to decline, as seen above in the market indexes. A second consequence to the increase in producer prices is a rise in the unemployment rate. Because firms are tying up a lot of their cash in materials, they cannot afford to retain employees at current wage levels. To add insult to injury, minimum wages are increasing nation-wide. These increased costs in materials and wages are leading firms to cut their level of employment and charge higher prices to consumers, bringing our economy into a realm known as stagflation, where both inflation and unemployment are on the rise. These signs point directly to recession. A final element to note with significant repercussions on the U.S. economy is the value of the dollar. Currently the dollar is at record low levels. Looking at the indexed exchange rates below, it is evident that just in this first quarter of 2008 the U.S. dollar has lost a substantial amount of value in world markets. This tends to place upward pressure on commodity prices, especially the price of oil. This occurs because oil is always quoted in relation to its dollar value. Therefore, as the dollar decreases in value it becomes more costly to purchase products manufactured with oil. However, for people transacting in other currencies, the price of oil is remaining constant. This phenomena explains the correlation between the USO graph and the increasing value of foreign currencies in relation to the U.S. dollar.

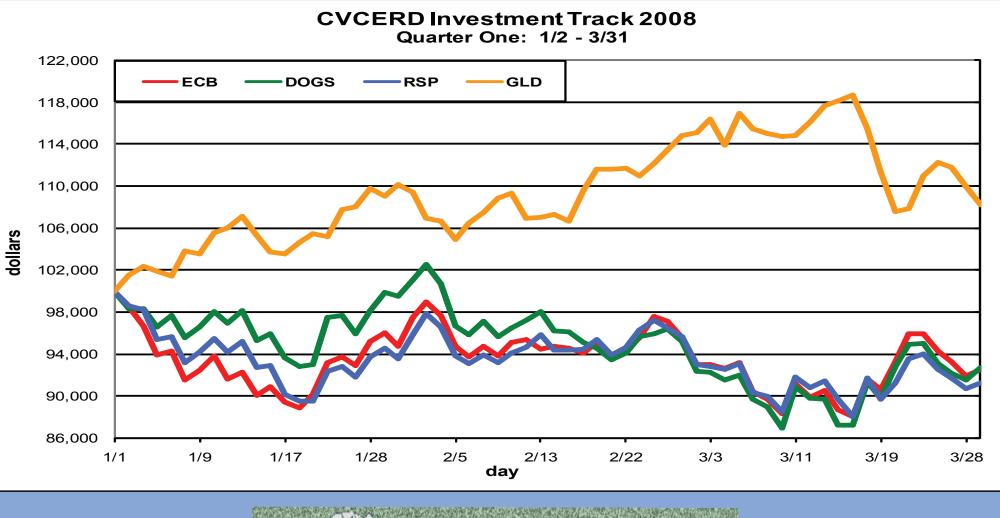






INVESTMENT TRACK ANALYSIS





DOGS OF THE DOW

The Dogs of the Dow (DOGS) are the ten stocks in the Dow Jones Industrial with the greatest dividend yield. At the beginning of the year we hypothetically invest \$100,000 in this investment track, with one tenth of the amount being distributed to each of these ten stocks. When a dividend is paid by one of the companies it is re-invested at the closing price on that day. These stocks are termed, 'income stocks', due to the income they pay out through dividends. Typically they are sought out by risk averse investors who want to participate in the market but wish to do so through a well established corporation that will maintain in any economy. However, since the DOGS investment is only spread across 10 stocks, it can still experience a significant degree of volatility. This occurred quite substantially in February, as General Motors (GM) and Citi Group (C) stocks performed poorly due to their large credit market exposure, in turn dragging down the cumulative value of the DOGS investment.

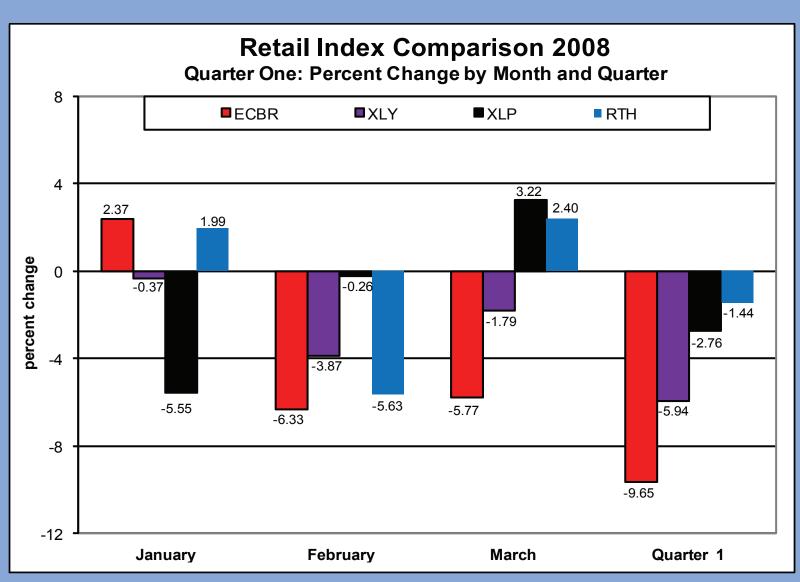


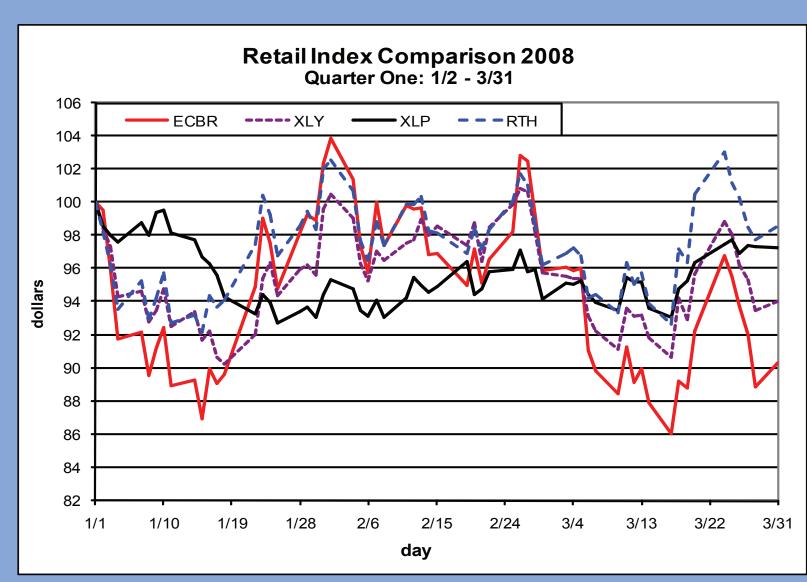
The Rydex S&P Equal Weight (RSP) investment is an Exchange Traded Fund (ETF) that maps the performance of the S&P 500 Index, with equal investments in all 500 companies that get re-weighted at the end of every day. We hypothetically invest \$100,000 in this ETF at the beginning of the year, reinvesting all dividends at the close price of the RSP on the day they are paid. This investment track serves as a dependable market barometer, as the S&P is spread among all industries and all sizes of publicly traded companies. It can be predicted then, that this investment will be the least volatile of the four investments that we track. However, in times of economic hardship the RSP is destined for substantial declines in par with the declines experienced market wide. This was the case in the first quarter of 2008, as recessionary pressures led the majority of stocks down, in turn bringing the RSP down with them. If the economy continues to struggle in the coming months it is unlikely that the RSP investment will perform any better.

The Street Tracks Gold Shares (GLD) investment is another ETF, which trades at one tenth the cost of an ounce of gold. Once again, we hypothetically invest \$100,000 in this investment at the beginning of the year. GLD does not pay dividends, so no reinvesting or re-weighting occurs with this investment. Commodities such as gold were some of the few bright spots in the economy over the first quarter of 2008. This is a common occurrence when investors are uncertain of the market and shield their portfolio by investing in defensive stocks. The decrease in the value of the dollar has also contributed to the increase in the price of gold, much like the circumstance with oil prices. Some analysts are suggesting that GLD and other commodity investments are overvalued due to investor pessimism in the market. This correction can be seen in March, where GLD saw a significant decline. However, if recessionary pressures continue with the release of disappointing economic data, it is likely that GLD will hold strong.



RETAIL INDEX COMPARISON





The retail sector of the economy tells a descriptive story about consumer sentiment through the first quarter of 2008. We can compare the performance of the Eau Claire Basket Retail sector (ECBR) to other retail investments to help explain the impact of economic data on consumer sentiment and overall stock market performance. XLY is an Exchange Traded Fund (ETF) based on the value of stocks in the consumer discretionary sector; that is, non-necessity consumer goods. This investment will perform well when the economy is in a phase of steady growth; during these times consumers have the capacity to spend more money on non-necessity goods. However, with current economic data signalling a recession, consumers are becoming tighter with their disposable income, hence driving down the value of XLY. XLP, on the other hand, is an ETF derived from consumer staples. These are necessity goods that don't vary significantly in consumption with changes in economic conditions. Therefore, it is a defensive investment that runs in negative correlation with market trends. As seen in the two graphs to the left, when other measures performed well the XLP was down; when the other investments were down the XLP performed well. RTH is the final ETF to analyze. This investment tracks the performance of large retail corporations, specifically discount retailers like Wal-Mart and Target. When the economy is lagging this investment tends to hold its ground, as consumers will spend more of their money at discount retailers rather than high-end stores. However, if the economy goes into a full fledged recession and consumers begin to cut necessity purchases from discount retailers, this ETF will experience a drastic decline. The ECBR has a mix of all these strategies, yet it will typically perform worse than the other measures during recessionary periods and better during times of economic growth due to the fact that it holds fewer stocks and therefore will inherently be more volatile.

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