



# Recessionary Pressure Impacts on the Stock Market

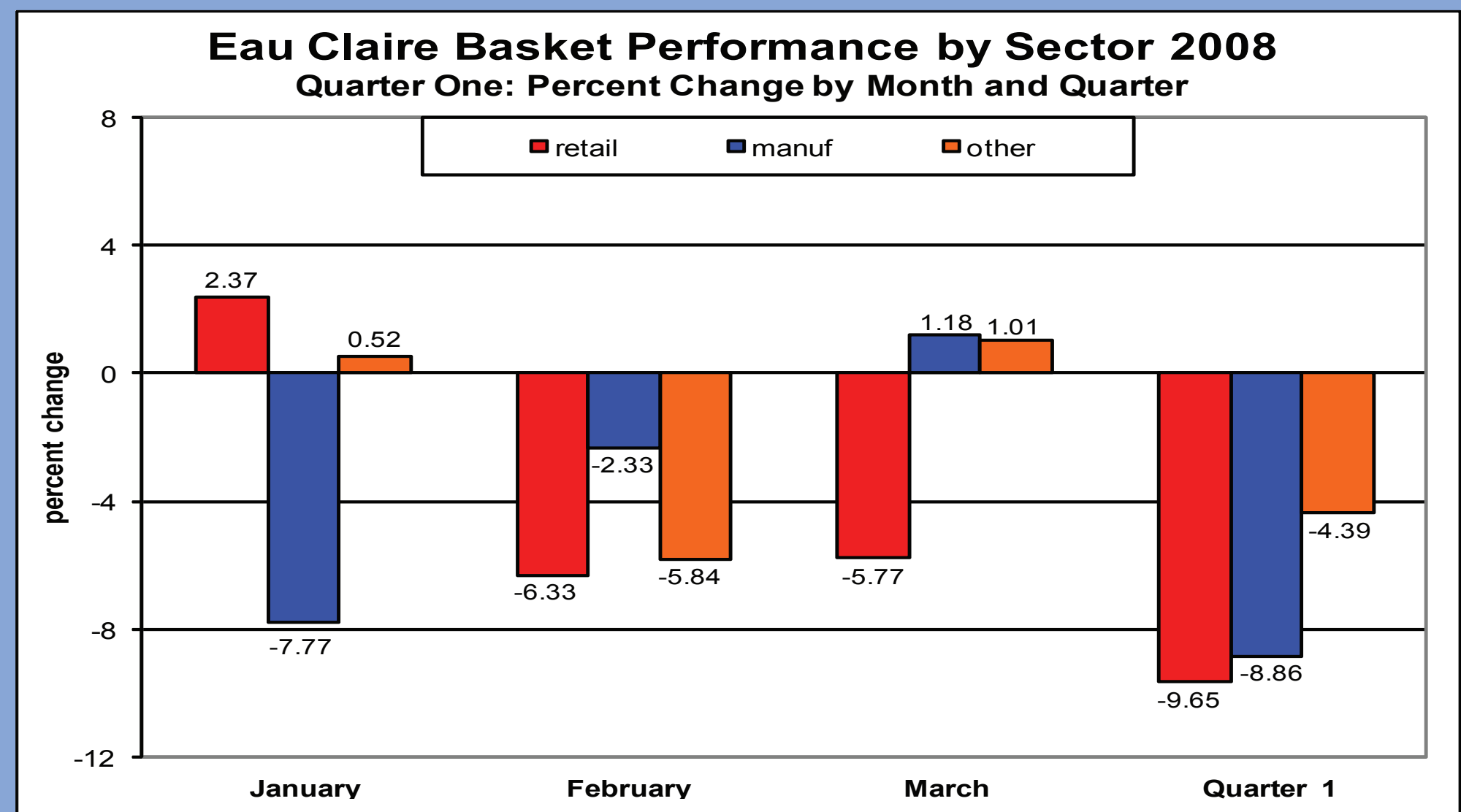
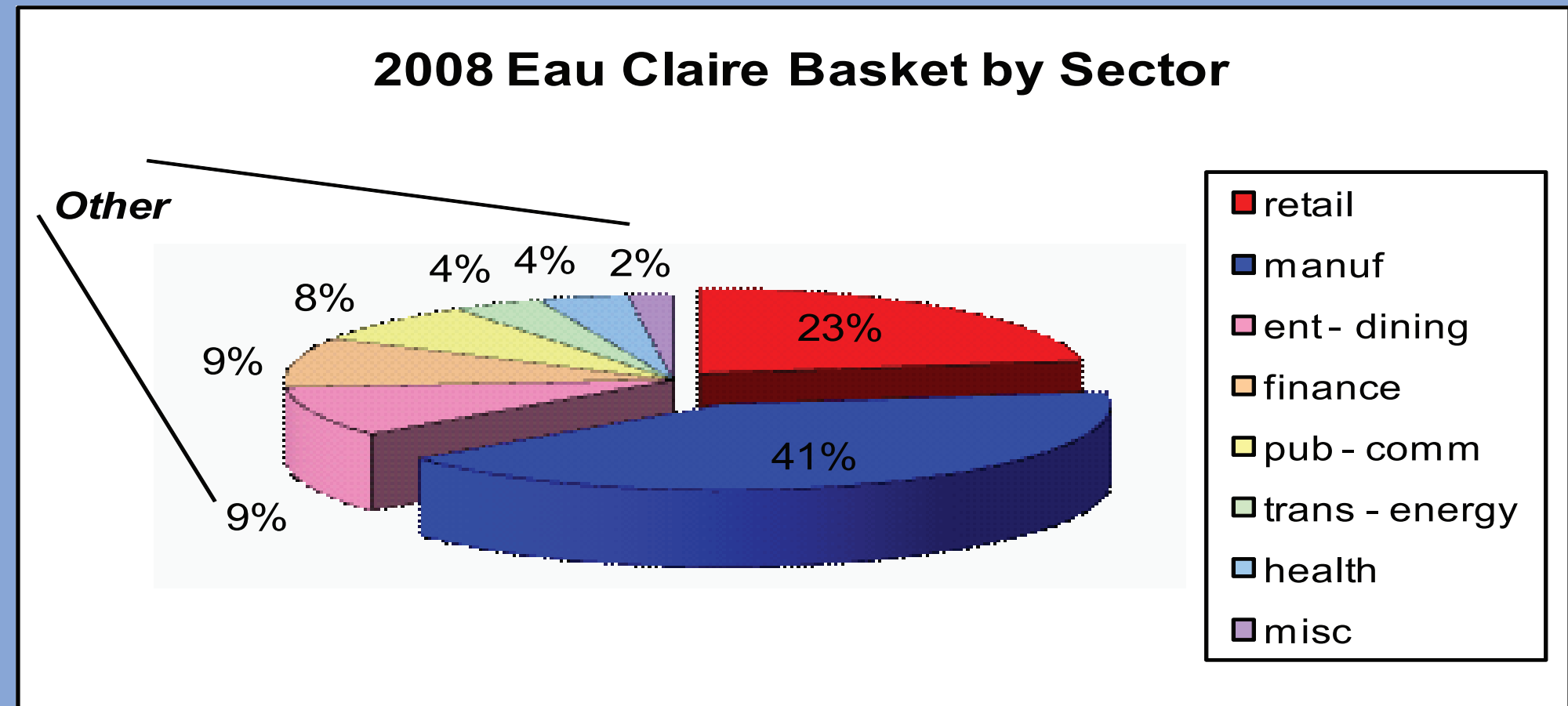
## Local Analysis on the Eau Claire Basket

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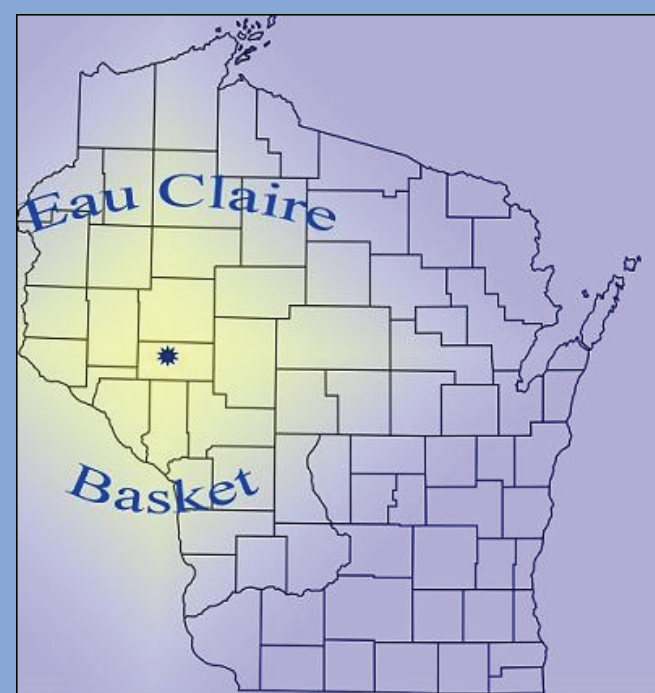
### EAU CLAIRE BASKET BREAKDOWN

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.



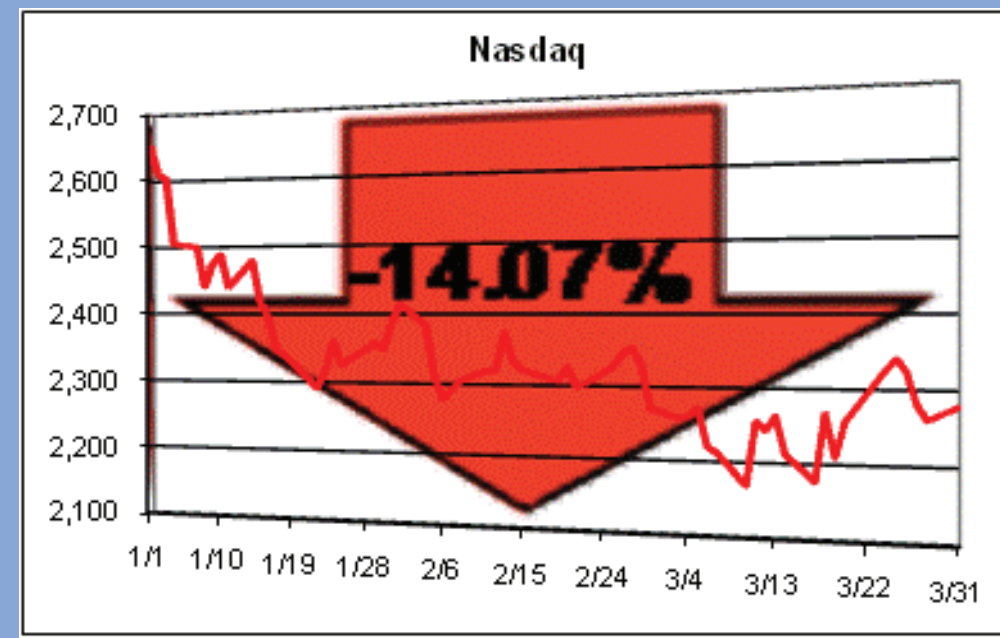
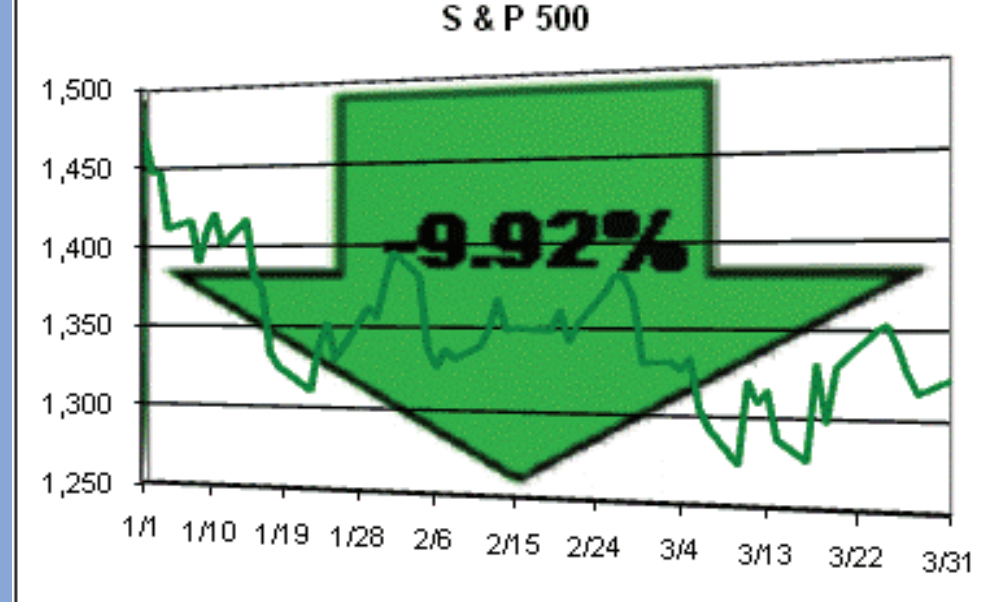
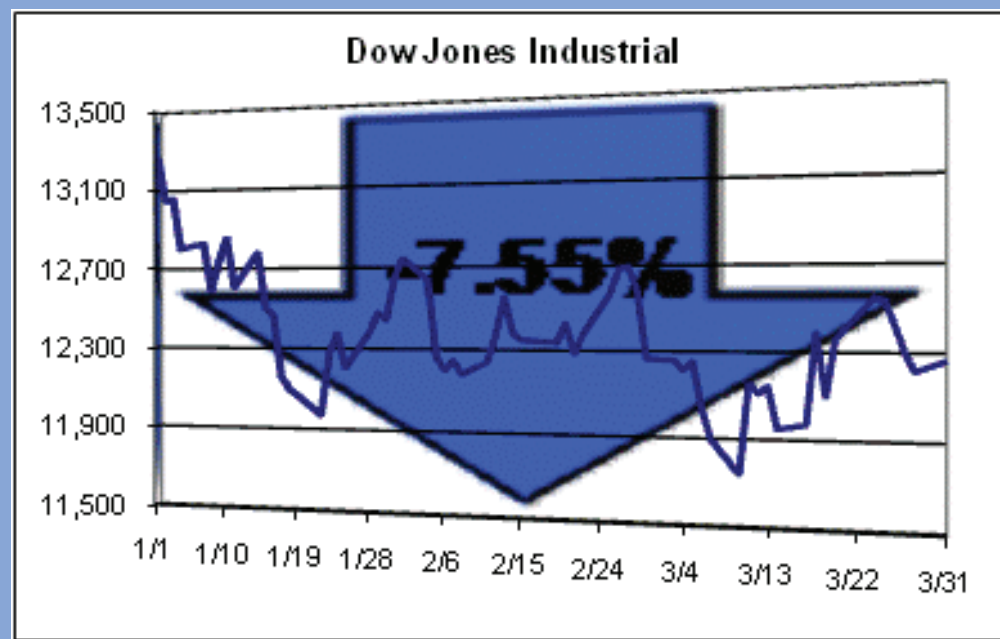
The Eau Claire Basket (ECB) consists of 53 stocks in which the underlying corporations have an employment presence in the Eau Claire area. The basket of stocks is more heavily weighted in retail and manufacturing sectors with positions of 23% and 41% respectively. The other sector, as seen above, consists 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.

