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THE RAY REPORT

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Calling a Bottom

First quarter was awful. A lack of liquidity in a variety of bonds, mortgage and other fixed income securities led to an inability to properly value these instruments. As a result, banks, insurance and mortgage companies were forced to take enormous write downs, under mark to market rules, which ultimately forced people to question the solvency of some of these institutions. In this environment characterized by fear and uncertainty, opportunities were available for short sellers and others to create rumors about the viability of some of this country's largest institutions.

Against this backdrop, the Federal Reserve belatedly worked in earnest to salvage the financial system, lowering interest rates to 2 1/4% and allowing investment banks access to its discount window (only after the Bear Stearns collapse). These steps were both

justifiable and too late to eliminate the specter of recession and the collapse of this country's fifth largest investment bank, Bear Stearns.

As uncertainty raged, the stock continued its retreat that, in retrospect began in October of 2007 when the Federal Reserve chose to ignore the increasing problems in the United States economy and cut rates only 25 basis points (when 50 basis points was both expected and needed). Subsequent reluctance buy the Federal Reserve to cut rates in the Fall only added to the severe year-end downdraft.

The relentlessness of the stock market decline continued throughout the quarter with the first real bounce after JP Morgan's purchase of Bear. Since then, the market has tried to talk itself out of this rally suggesting among other things that: the March bottoms must, be retested; earnings will continue to be poor; oil and com-

Market Performance For The March 2008 Quarterly Period

| | |
|----------------------------------|---------|
| <i>Dow Jones Industrials</i> | -6.81% |
| <i>Standard & Poor's 500</i> | -9.47% |
| <i>Russell 1000 Growth</i> | -10.46% |

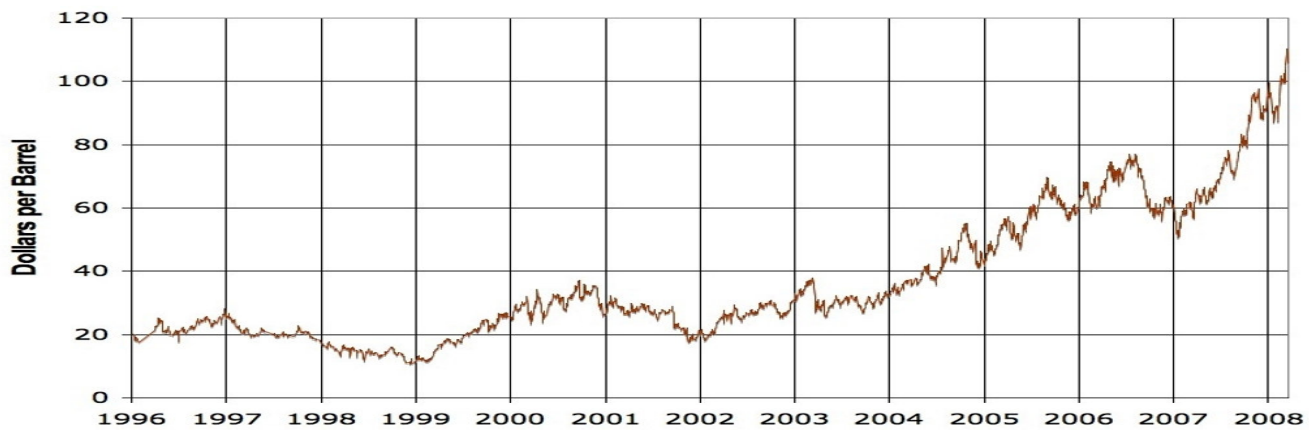
modity prices will kill the consumer; and the dollar will cause foreign investors to shun our stock market.

As doom and despair slowly dissipates, I am more comfortable in the stock market than I have been for some time. While I believe a recovery will be erratic and some companies will not be able to successfully handle the economic headwinds, I suspect a bottom has been put in place and that is an important start for future gains.

Regards,

Joseph H. Ray, President

**Oil Prices, 1994-March 2008
(NYMEX Light Sweet/WTI)**



■ Can Anything Be Done About Oil?

Oil hits new highs with each day. The reasons for its advance are many. Some are justified, some are suspect, but all have a big economic impact as oil approaches \$120 a barrel. It is only the rarest of oil bulls who foresaw oil's advance to these levels, especially in light of the economic slowdown in the United States. The reasons have been many. Oil bulls point to erratic production and strong demand in places like China and India. However, there are other non-fundamental reasons for oil's climb. The declining dollar has made oil a store of value, much in the way gold and other commodities are viewed. Speculators can use great leverage to play the oil option markets and the politicalization of oil can only lead to higher not lower costs as oil companies face more regulation. So is there much hope for lower oil prices? Unfortunately, we are entering the time of year where demand for oil and gas in the United States is at high levels due to the summer driving season, so immediate relief seems unlikely.

There are a few things we can consider longer-term for this country to be more energy independent. First, we can allow for the drilling off the coast of California and in the ANWR in Alaska. These options have been politicized greatly, but the environment risks seem diminished with new technology.

Second, we need to allow for the building of new refineries. We need to also consider the building of more nuclear plants. Wind and solar are other options, but are only practical at the margin.

Third, rescind the ethanol bill. It is uneconomical and absurd to turn food into gas. Has anyone checked cereal prices lately?

Shorter-term relief could be available, looking at the release, or at least not adding to, of the strategic reserves, as well as, raising the margin requirements for oil on the option exchanges to reduce speculation.

Unfortunately, none of these suggestions appear imminent, or even likely, so higher oil prices will likely continue for the near future.

The Stealing of Bear Stearns

A book will be written about this one. On a conference call Friday, March 14, the power players at Bear told us they were liquid with \$17B in cash and would earn a profit of about \$1 per share on approximately 118 million shares. The stock had a book value of \$84 per share affirmed by management. It was trading around 40.

The world learned late Sunday, March 16 a bear-hug from JPM was made. It was a gun-to-their-head, sponsored by the Fed and that was that. JPM was going to exchange .05473 shares of their stock for each BSC, valuing Bear at about \$2 a share.

In this process a lot of institutions have suffered and, in my opinion, needlessly. The Fed opened its discount window to investment banks after the robbery. For the record, insiders own approximately 30% and institutions around 70% of BSC.

There are several very major players

that own in the 9% range of stock, or 10 to 11 million shares. Several have seen their valuations go down by a billion or more dollars. It was not only the retail shareholder or the uninitiated who was surprised at the actions taken by the firm.

I listened to JPM's conference call and, along with others, felt cheated. The following comments by JPM executives were made; (a) a good economic transaction, (b) BSC platforms will be important additions to JPM, (c) BSC oil trading operation in Houston is very exciting and profitable, (d) JPM expects this deal to add \$1B to after-tax earnings in 12-18 months, (e) BSC owns their building, some place its value at \$6 per share, and (f) the word around the street is that the large stockholders were shocked and were trying to see if there are any options.

An 85 year old investment bank, that earned \$10 plus per share, a book value of \$84 per share and a target for a constructive economic merger were just some of the facts that were considered.

Apparently more than a few players questioned the deal and JP Morgan was forced to offer \$10 per share.

The question remains what if the Federal Reserve had opened the window to Bear Stearns as it would later do for others. Did the Federal Reserve feel that someone needed to be "punished" for the subprime/derivatives debacle? No one will ever know, but for its investors and its employees, the reality makes the motives unimportant.

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