

Weekly Market Overview – September 22, 2008

Despite enormous market volatility, the equity markets recuperated somewhat by the end of the week, ending near where they started and offsetting significant losses that had occurred at the beginning of the week. For the week, the S&P 500® Index gained 0.27%, while the small cap Russell 2000® Index finished with a gain of more than 4%.

On Monday, 9/15/08, investment bank Lehman Brothers filed for Chapter 11 bankruptcy protection, while Merrill Lynch agreed to be bought by Bank of America. Financial stocks plummeted worldwide, leading the DJIA Jones Industrial AverageSM (“DJIA”) to its biggest one-day decline since September 2001 (the period following the 9/11/01 terrorist attacks). Just two days later, the government seized control of insurance giant AIG with an \$85 billion bailout package seeking to avoid a potentially catastrophic bankruptcy. One of the largest and oldest money market funds “broke the buck” when its net asset value (NAV) fell below \$1.00 to \$0.97 per share.

On Wednesday, the DJIA again experienced a sharp decline, losing more than 4% while the fixed income markets ground to a virtual halt as liquidity quickly exited the market. Late in the week, the U.S. Government responded to these events by announcing the development and implementation of rules restricting the shorting of financial stocks, the establishment of a \$50 billion fund to provide insurance to retail and institutional money market funds, and a proposed plan to buy up to \$700 billion worth of troubled mortgage securities from banks that continue to hold them.

Quickly responding to the news of the U.S. Government’s intervention plan, the DJIA gained over 7% in total on Thursday and Friday, led by financial stocks, which drove the S&P 500 Index to a modest gain for the week. The rally was the largest two-day gain since the aftermath of the 1987 stock market crash. This extreme volatility highlights the difficulty in timing the market, as investors that sold equities on Wednesday locked in sizable losses and missed out on the substantial market rally at the end of the week.

Returns of Major Indexes

	Week ending September 19, 2008	Year-to-Date 2008
Dow Jones Industrial Average SM (1)	-0.29%	-12.49%
S&P 500® Index (2)	0.27%	-13.18%
NASDAQ® Composite (3)	0.56%	-14.26%
Russell 2000® Index (4)	4.65%	-0.67%
MSCI® EAFE® Index (5)	-0.12%	-24.40%
Lehman Brothers® Aggregate Bond Index (6)	-1.13%	1.75%

Key Business and Economic Events

Government Action: In addition to the bailout of AIG, the federal government announced it will buy up to \$700 billion in distressed mortgage securities in the biggest fiscal intervention in history. The program is designed to restore liquidity to the financial markets and provide a backstop to the economy. The government also established a \$50 billion fund to insure money market funds and announced temporary restrictions on the short sales of 799 financial stocks. The

announcements were music to the ears of Wall Street, and stocks soared on Thursday and Friday. The U.S. Dollar Index weakened by 1.6% last week, partly the result of the inflow of government capital into the U.S. financial system.

Lehman Brothers Bankruptcy: Formerly the fourth-largest U.S. investment bank, Lehman filed the biggest bankruptcy in U.S. history, succumbing to the financial crisis spawned by subprime mortgage loans in which the firm was one of the biggest players. The filing wiped out common stockholders, while Lehman debt traded significantly below par. By the end of the week Barclays agreed to buy Lehman's North American business. Soon after Lehman's bankruptcy, Merrill Lynch also sought a purchaser, as the firm was reportedly hours from bankruptcy itself. Bank of America agreed to purchase Merrill for about \$50 billion.

AIG: Last week AIG was the biggest loser within the S&P 500 Index, declining near 70%, as the biggest U.S. insurance company saw its stock price fall to near \$1 on Wednesday before finishing the week near \$4. AIG was taken over by the government after mortgage-related losses led to credit-rating downgrades that drove the company to the brink of insolvency. The government said it will receive an approximate 80% stake in the Company in return for an \$85 billion loan to be repaid as the Company is liquidated. Food maker Kraft Foods was slated to replace AIG in the DJIA on September 22.

Goldman Sachs/Morgan Stanley: On Sunday evening Goldman Sachs and Morgan Stanley announced they will become bank holding companies, giving them access to the Federal Reserve's emergency lending facilities, in return for subjecting themselves to strict federal oversight. Goldman and Morgan chose this route, rather than risking the fate of Lehman or Merrill, after tight credit markets forced Wall Street's last two remaining independent investment banks to expand their sources of funding.

“Breaking the Buck”: On Tuesday the Reserve Primary Fund became the first money market fund to “break the buck” (have its NAV fall below \$1.00) since the fallout from the 1994 Orange County bankruptcy. The former \$65 billion fund saw \$685 million in Lehman bonds become virtually worthless. On Thursday Putnam Investments announced it was closing and liquidating its Putnam Prime Money Market Fund, a \$12.3 billion institutional fund, on concerns of significant pressure on assets from redemptions.

Treasury Yields Drop: Yields on three-month Treasury bills sank to the lowest levels since World War II on Wednesday, as investors fled to the relative safety of government debt, driving up prices and lowering yields. Following the news from Lehman and Merrill and a money market fund “breaking the buck,” yields on three-month Treasury bills touched lows of 0.02% before rallying on Thursday, but still finished the week down 0.58% to 0.88%. Yields on 10-year notes climbed 0.08% on the week to 3.80%, and 30-year bond yields increased 0.07% to 4.38%.

Oil: Crude oil gained 3.3% during a volatile week, trading to a low of \$90.80 mid-week and a high of \$105.25 before closing the week at \$104.55 on Friday. Oil rallied Friday on the hope that the government bailout plan will repair the financial crisis and ease concerns about further weakness in oil demand.

Foreign Markets: Foreign markets also ended the week on a high note, taking the cue from U.S. markets. Emerging market stocks surged at the end of the week, as did currencies and bonds after central banks pumped liquidity into credit markets. Russia's President pledged \$20 billion to end the nation's worst financial crisis since the 1998 default, sending its stock market to its biggest weekly gain in history following dramatic declines the prior week. Declining inflation also led China's central bank to cut interest rates for the first time in six years.

Federal Reserve (“Fed”): The Fed kept its benchmark interest rate at 2% on Tuesday. Economic data remains mixed, as initial jobless claims rose during the week. U.S. inflation eased somewhat as consumer prices fell for the first time in two years on lower energy prices.

The Upcoming Week: Several economic reports are due this week including existing home sales, crude inventories, durable goods orders, initial jobless claims, new home sales, and final GDP for the second quarter.

Considerations for Retirement Investors

Keep to your plan: Having a well-thought-out retirement plan helps you avoid panicky or impulsive moves. When the market is moving downward, shifting into cash can have the immediately gratifying effect of shielding your portfolio, but the sense of relief can be short-lived as markets have the potential to rebound quickly causing those investors to potentially miss the positive upswing in return.

Continue to invest: Some of the most sophisticated investors believe that those individuals who can weather a bear market will ultimately get rewarded by amassing bigger equity positions at better prices.

Monitor your asset allocation: The old rule of thumb was 100 minus your age to figure out the equity percentage, but many investors nowadays use 110 as the starting point to reflect baby boomers’ increased average longevity.

(1) Price-weighted average of 30 actively traded Blue Chip stocks, primarily industrials, but also including other service-oriented firms; may be used as a benchmark for large cap stocks. (2) Widely recognized, unmanaged index representative of common stocks of larger capitalized U.S. companies. (3) Broad-based index of over 5000 companies, which measure all domestic, and non-U.S. based common stocks listed on the NASDAQ Stock Market, Inc. (4) Unmanaged index representing the performance of small-cap U.S. stocks. (5) Unmanaged index consisting of approximately 1,200 stocks in developed market countries outside of North and South America, and represents approximately 85% of the total market capitalization in those countries. (6) Unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Lehman Brothers Government/Credit Index and the Lehman Brothers Mortgage-Backed Securities Index.

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