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Valuations of most stocks and markets are now historically low, yet impulsive selling continues and it doesn't appear to have slackened off. Investor morale is deeply depressed in just about every market worldwide. The list of negatives is long and the list of positives is hard to see. They are there.

There are many very real problems. To list only a few of the concerns: global recession; fiscal crises; the banking crisis in America; the banking crisis in Europe; sovereign debt problems; hard or soft landing in China; worldwide lack of leadership; etc., etc. The biggest problems, one should note, are *not in the private sector*. Companies globally have responded to the adversity of the last decade by improving their balance sheets, sharpening their business models and seeking out global opportunity. Managements on average have never been more capable or efficient. But corporate futures are shaped by the financial distress flowing from sovereign recklessness and government failure to reform over the last decade.

This is where leadership is important and, at the moment, the area where it seems hardest to be optimistic. But, "For every action there is an equal and opposite reaction." Bear markets (and even though this decline is only two months old, it certainly qualifies as a bear) have a way of forcing change. Because politicians in Europe and the United States have been unable to effect reasonable solutions to the sovereign debt, banking and fiscal crises, the markets now are taking it on themselves to send a distress signal and to force change.

We heard the term "hurricane season for financials" for the period of August to October. That seems apt. We do not know when, or exactly how, Europe will address the undercapitalization of its banks, the U.S. will find more sensible fiscal policies or China begins to reverse its tight monetary policy; but change or response will come. The markets are forcing it. Already both Bernanke and Trichet are trying to talk the markets up. It will take more than words.

A great number of solid stocks have fallen very sharply. As an example, a blue chip like Schlumberger has dropped from \$95 on July 29 to \$56 on October 4. This is an enormous repricing of earnings prospects, discounting a great deal of stress and ignoring financial quality for the time being. In our view, this company and many others like it are approaching their lows. Schlumberger today is in a stronger strategic position worldwide than it was in 2007 as are so many companies. We can't say that there is smooth sailing ahead, but we can say that as and if the Dow Jones approaches the 10,000 mark, which currently seems possible, many stocks will be priced for the worst of the immediate risks, and be ripe for a strong rally.

The lynchpin for global markets, the issue that has raised fears of a global recession, is the credit contraction. The contraction is a failure to resolve the issues of both overleveraged sovereign debt countries as well as the undercapitalization of European banks. These issues need to be addressed and progress towards those goals could change the financial and economic environment. One economist whom we respect believes Europe needs a financial program of four trillion Euros to do the job. The point is that an aggressive, positive step toward these ends could radically change the near-term outlook.