

# **MONEYLETTER** *Hotline*

## **Welcome to the MONEYLETTER Hotline for April 25, 2007**

As we said last week, earnings are king during the earnings season and that has been the case so far. The earnings reports as a whole have moderately beaten expectations, and the market has responded. In cases where the earnings trounce expectations, the market response has been king-sized. Witness Amazon today.

Aside from earnings, there has also been the coincidence that the Dow has been hovering close to 13,000. So a touch of drama, provided by the trading community, has been added. We do not attach any significance to this round number fetish, but traders do, and they swing the market on a short-term basis. More important is the evidence, still shaky, that the economy is holding up in spite of the continued weakness in housing. Last week it was March retail sales, this week it is new orders for business investment.

The Fed's Beige Book also added to the sense that the economy is bending, but not breaking, and that is good enough to provide some support for the market. Notice, the market is moving up without expectations of a near-term Fed rate cut. As before, we favor stocks, with a broad tilt overseas. There is no change in our recommended allocations.

**New Fund Ratings** – For domestic stock funds, Wells Fargo Advantage Small Cap Growth is now rated Hold. Two funds are now rated Sell: Aston/TAMRO Small Cap N and Ironwood Isabelle Small Company Stock. For

international stock funds, two funds are now rated Hold: Wasatch International Growth and US Global Eastern Europe. Forward International Small Cos. is now rated Sell. There are no other changes.

**The Economy** – The economic reports over the past week tended to support the Fed’s view that even though housing is truly troubled; the troubles there have not materially spilled over to the rest of the economy. Yes, business investment has slumped instead of at least holding, but today’s new orders report may signal the end of the slump. The latest Fed summary of the economy spoke of modest or moderate growth with stable prices. This echoes the Fed’s own expectations for the first half. We still look for six months of slow growth ahead.

**The Stock Market** – While the U.S. economic news has been so-so, Europe’s news has been very positive. German business confidence is close to a record. Confidence is rising despite concerns over the U.S. slowdown. Growth forecasts are rising as exports rise. Asian growth is now powering the European economy. It is that growth that is keeping the world markets buoyant. It is why we advocate a strong tilt overseas.

**The Select Portfolio** – There is no change for this portfolio.

The next Hotline is scheduled for Wednesday, May 2<sup>nd</sup>, at 7pm.