

MONEYLETTER

Hotline

Welcome to the **MONEYLETTER** Hotline for May 9, 2007

The Fed met today, held rates stable, and issued a press release that gave nothing away. Wall Street grumbled, but when the day was over, the Dow rose again. In effect, Wall Street did not get much of anything, but then, as its final reaction showed, it did not expect much. That expectation was sensible. What the Fed wants before it gets off its inflation hobby-horse is evidence that slack is building in the economy, particularly in the labor force. There is not much evidence of that yet. True enough, the unemployment rate rose by 0.1% in April, but the absolute number, 4.5% unemployment rate, is still quite low. It is going to take more such increases before the Fed relaxes its stance.

Many on Wall Street think the increases are on the way, and relatively soon. We are less certain. We look at the overall numbers coming in the past week, and we see strength as well as weakness. New orders for both manufacturing and services rose last month to encouraging levels. This not an economy, so far as we can see, that is rolling over. Perhaps the worst is yet to come from housing, as some predict, but until then we prefer to reserve judgment. The economy has underlying strength.

There is no change in our recommended allocations.

New Fund Ratings – For domestic stock funds, Janus Enterprise is now rated Buy. Four funds are now rated Hold: Federated Kaufmann Fund, Vanguard Selected Value, CGM Focus, and Wells Fargo Advantage C&B Mid Cap Value. Loomis Sayles Value (Retail) is now rated Sell. For international stock funds, two funds are now rated Hold: Janus Overseas and Forward International Equity. Two funds are now rated Sell: T. Rowe Price Emerging Market Stock and US Global Eastern Europe.

The Economy – For the moment it appears to us that the data continues to support those, including ourselves, who see rates moving up from here rather than down. But we are not stubborn on this issue. It all depends on how badly housing performs. Certainly the latest commentary from the industry is very gloomy. In the end it will depend on the consumer. We see the chances rising of higher interest rate ahead, some months down the road.

The Stock Market – Except for the Chinese A share market, which is in a casino world of its own, the American market is leading the pack. Merger and acquisition activity is the reason. How long the activity will continue is anyone's guess. We still believe overseas growth is the force to invest in.

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

The next Hotline is scheduled for Wednesday, May 16th, at 7 pm.

We wish you a memorable Mother's Day.