

MONEYLETTER *Hotline*

Welcome to the MONEYLETTER Hotline for May 16, 2007

We learned a great deal about the economy this past week. First, the Fed-engineered slowing of the economy appears to be getting results where it counts, in the inflation numbers. The April price numbers were released over the week and they both pointed to slowing inflation, after accounting for energy, especially gasoline. Also today's industrial production numbers told us that business is apparently coming out of its funk. Manufacturing output rose 0.5% last month. More important this followed a 0.6% increase in March.

Looking at the numbers, it appears that the business investment drought is over, and investment spending is on the rise. This was the hoped for scenario at the beginning of the year, with business coming to the rescue of a very weak housing sector. Of course, what was really moving the markets this week was the continued acquisition activity with Bausch & Lomb being purchased today. These are very large firms going private in this rash of acquisitions. It was not all positive. The retail sales numbers are disturbing. If the economy is to avoid difficulty down the road, they have to pick up. All in all, though, this was a positive week both for the market and the economy. The economy has underlying strength.

There is no change in our recommended allocations.

New Fund Ratings – For domestic stock funds, six funds are now rated Buy: Hodges Fund, Westport Select Cap R (closed), Legg Mason Special Investment Trust, American Century Vista, Rainer Small/Mid Cap Equity

(closed), and Pin Oak Aggressive Stock. Five funds are now rated Hold: Artisan Mid Cap Value, USAA Capital Growth, Janus Venture, Kinetics Paradigm, and Royce Value Plus. Two funds are now rated Sell: CGM Focus and Wells Fargo Advantage C&B Mid Cap Value. For international stock funds, Wasatch International Growth (closed) is now rated Buy. There are no other changes.

Wells Fargo Advantage C&B Mid Cap Value is in the Moneyletter Venturesome and Conservative portfolios. In both cases we will switch the fund into Janus Research (formerly Janus Mercury).

The Economy – Every week we find ourselves modifying our view on the rate outlook for later this year. We have leaned toward a rate increase as the economy picked up. But if the inflation numbers continue favorable, no rate increase will occur. At the same time, housing's problems now look to be stretching further than we expected. This week's conclusion: rates appear likely to hold steady all this year.

The Stock Market – The large number of domestic fund changes this week is a reflection of the fact that growth has in general been outperforming value. Also mid-cap is outperforming small cap. With the acquisition boom, risk is returning to favor. If the economy continues to perform adequately, these trends should persist. We still believe overseas growth is the force to invest with.

The Select Portfolio – There is no change for this portfolio. The next Hotline is scheduled for Wednesday, May 23rd, at 7pm.