

MONEYLETTER

Hotline

Welcome to the *MONEYLETTER* Hotline for May 23, 2007

It should come as no surprise to anyone that the powerful rally we have enjoyed since March took a breather over the past week. The earnings season is behind us, and the white-hot merger activity cooled down some. Now it is only hot. The week since the last Hotline has been sparse with regard to economic news. Nothing about the economic outlook or Federal Reserve policy about interest rates has been resolved.

As for the U.S. stock market, despite the gains, the valuation numbers are still very reassuring. What is happening is that the earnings estimates coming from the analysts have moved up in line with the market. This is not what anyone, including us, expected as the weakness in the economy became apparent. The economy is picking up some this quarter, but last quarter it almost stopped in its tracks. Nevertheless, it is now estimated that last quarter's profits rose 12%, at an annual rate, from the quarter before.

There are many reasons for this profit surprise with a prominent one being earnings from foreign operations. Our global firms are performing. Overseas, the Chinese this week took further steps to slow their racehorse economy. Among the steps are one or two that point to a revaluation of the Chinese yuan. A revaluation will be very helpful.

There is no change in our recommended allocations.

New Fund Ratings – For domestic stock funds, three funds are now rated Hold: Gabelli Asset, Aegis Value, and Pin Oak Aggressive Stock. Three funds are now rates Sell: Vanguard Windsor, Federated Kaufmann, and Janus Venture. For international stock funds, MSCI EMU (an ETF) is now rated Hold. Metzler/Payden Europe Emerging Markets is now rated Sell.

Metzler/Payden Europe Emerging Markets is in the MONEYLETTER Venturesome and Moderate portfolios. In the Venturesome model we will swap T. Rowe Price New Asia for the fund. In the Moderate model we will swap Quant Emerging Markets Ord. for it. Vanguard Windsor is in all three Vanguard family portfolios. We will swap Vanguard Windsor II for Windsor in all three portfolios.

The Economy – As gas prices rise, the consumer spending numbers weaken. We see this as temporary. The market expects gas prices to ease off after Memorial Day, as supplies of gas improve. There was further indication from the Philadelphia Fed that manufacturing is improving. Nothing of the sort is coming from housing. The economy does appear to be picking up this quarter.

The Stock Market – Do not be surprised if a moderate correction occurs. The market is ripe for profit taking. The numbers continue to favor equities both here and abroad.

The Select Portfolio – Cohen & Steers International Realty is to be sold and replaced by S&P 40 Latin America (ETF, Ticker symbol ILF)

We wish you all a restful and thoughtful Memorial Day. The next Hotline is scheduled for Wednesday, May 30th, at 7 pm.