

# **MONEYLETTER** *Hotline*

## **Welcome to the *MONEYLETTER* Hotline for May 30, 2007**

For all practical purposes, all the eventful activity in the markets since our last Hotline, occurred today. First, the market was tested today. Second, it passed the test and with the Minutes of the last Fed meeting in its hands, it decided the glass was half full. Quite a day. Chinese stocks tumbled today, with the Shanghai Composite down 6.5%. Remember the last time Chinese shares tumbled. Global markets, including our own, tumbled in response, a response we never understood. Today, global markets quivered and then went on their way. With that behind it, the U.S. market was primed for a rally, and the Fed Minutes provided the excuse. Most interpretations of the Minutes, stressed the inflation fighting emphasis in part of the Minutes, an emphasis we already knew about. What the immediate reaction left out was the Fed's acknowledgment that the housing weakness would probably stretch out longer than projected. Moreover the Fed saw risks to the economy as weighted to the downside. This is very important. It means that the inflation concerns, while dominant, have a strong counterweight in weak growth concerns. We believe that this is what the market responded to. We also believe that the Fed will continue very patient, despite the rhetoric coming from one or two hawks. Until the economy shows sustained vigor, this Fed will be extremely reluctant to raise rates. We see rates holding for the rest of this year.

There is no change in our recommended allocations.

**New Fund Ratings** – For domestic stock funds, Neuberger Berman Partners is a new Buy. Janus Enterprise is a new Hold. Two funds are now rates Sell: DJ Wilshire Mid Cap (ETF) and Pin Oak Aggressive Stock. For international stock funds, two funds are now rated Buy: Emerging Markets 50 ADR (ETF) and Fidelity Emerging Markets. There are no other changes.

**The Economy** – We had some strange numbers on housing over the past week. If the numbers are to be believed, it means people are snapping up new homes at fire sale prices. Experts are dubious, and so are we. More solid were the numbers for new orders for business investment and they remain positive. Business is spending. The Fed Minutes also said that auto inventories have been cleaned up. One inventory correction is over, but housing remains. We will know much more by the next Hotline after the employment report coming on Friday.

**The Stock Market** – Eclipsed by the daily noise was China's decision to invest \$3 billion in a hedge fund. This is surely the first of many more such investments by China. This has huge potential for the global equity markets. We continue to see equities as the assert class of choice for some time to come.

**The Select Portfolio** – There is no change for this portfolio.  
The next Hotline is scheduled for Wednesday, June 6th, at 7pm.