

# **MONEYLETTER** *Hotline*

## **Welcome to the MONEYLETTER Hotline for June 6, 2007**

We are recommending an allocation change. We are eliminating our 10% international real estate allocation and increasing our domestic stock allocation by the same amount. This advice applies to Venturesome, Moderate and Conservative investors. The model changes will be, **Moneyletter** Venturesome: Sell Fidelity International Real Estate. Purchase Hodges Fund; Moderate: Sell Fidelity International Real Estate. Purchase Hodges Fund; Conservative: Sell Fidelity International Real Estate. Purchase Robeco Boston Mid Cap Value. **Fidelity** Venturesome: Sell International Real Estate. Purchase Disciplined Equity; Moderate: Sell International Real Estate. Purchase Convertible Securities; Conservative: Sell International Real Estate. Purchase Convertible Securities; **Vanguard** Venturesome: Sell Vanguard REIT Index ETF (VNQ). Purchase Vanguard Value ETF (VTV); Moderate: Sell REIT Index ETF. Purchase Value ETF; Conservative: No change.

As for the markets, stocks have been ripe for a correction, as we pointed out in the Hotline of May 23<sup>rd</sup>, and the rise in the 10-year Treasury yield to 5.0% has provided a convenient trigger for one. The U.S. market is still reasonably valued, and if we are in a correction, we believe it will be moderate.

**New Fund Ratings** – For domestic stock funds, two funds are now rated Buy: Bridgeway Aggressive Investors 2 and Undiscovered Managers Behavioral Growth. For international stock funds, T. Rowe Price Emerging Markets Stock is now rated Buy. Two funds are now rated Hold: MSCI Pacific Ex-Japan (ETF) and Wasatch International Growth. There are no other changes.

**The Economy** – Last Friday's employment report told us that business is still hiring despite the early weakness in the economy. It also told us that the weakness in housing is relatively confined to that sector and to the industries that supply it. Other reports confirmed that business investment has turned up and is offsetting some of housing's weakness.

Consequently, some Wall Street holdouts on rate cuts have thrown in the towel. Mr. Bernanke's talk yesterday implied they were right to do so. We see moderate growth ahead

**The Stock Market** – We see the interest rate jitters as overdone. As long as inflation stays tame, and we believe it will for some time, we do not see rates moving much higher before retreating. We also see the labor cost numbers that spooked Wall Street today improving as activity picks up. Goldilocks is no longer with us but we still see equities, here and abroad, 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 13th, at 7pm.