

MONEYLETTER

Hotline

Welcome to the *MONEYLETTER* Hotline for June 13, 2007

As we said last week, stocks have been ripe for a correction, and the near-panic in the bond market since this month began provided the trigger. The question is how far will this correction go? Nobody ever knows when it comes to corrections, but the market action today in both the stock and bond markets was encouraging. The bond market settled down, and that is key. The reason for the bond market's rally today was the economic news, just as the reason for that market's ten-day swoon was also economic news. Sentiment, not anybody's action, has driven most of this whole nasty episode.

Bond professionals have now surrendered all thought of Fed rate cuts. In fact, many have made a quick about-face and are now open to the idea of Fed rate increases. Such is the ever-jittery bond market. We think the idea of rate increases over the next six months is just as unlikely as was the idea of rate cuts. With the increase in long-term rates that we have just experienced, the bond market has produced the equivalent of a rate increase without any Fed action. We must add that we see long-term rates retreating over time back to 5.0% and a little below. We believe stock markets, both here and abroad, can live with this slightly higher level of U.S. interest rates. We also believe that the complacency that prevailed earlier this year is over, but that is all to the good. World growth continues, and stocks are still the asset of choice.

There is no change in our recommended asset allocations.

New Fund Ratings – For domestic stock funds, Janus Orion is now rated Buy. Fidelity Large Cap Value is now rated Sell. For international stock funds, three funds are now rated Buy: Driehaus Emerging Market Growth (closed), T. Rowe Price Emerging Market Stock and SsgA Emerging Markets.

Fidelity Large Cap Value is in the Fidelity Conservative model portfolio. We will switch into Fidelity Convertible Securities in the portfolio.

The Economy – The markets today keyed off the Fed's Beige Book report on May activity, as seen by the various Fed banks, and the May retail sales report. Both told us that the economy was doing all right despite the continuing drag from housing. In addition, the Beige Book also told us that inflation was not busting out all over. We continue to see moderate growth ahead, with reasonably low inflation.

The Stock Market – Despite the modestly higher level of long-term rates that we see, U.S. stocks are still attractively valued. Profit growth should come in better than originally expected. Growth remains solid overseas. After the gains of the last three years, expectations need to be lowered, but good gains will be available.

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

The next Hotline is scheduled for Wednesday, June 20th, at 7 pm.