

# **MONEYLETTER** *Hotline*

## **Welcome to the *MONEYLETTER* Hotline for June 20, 2007**

Earlier this week we believed that the correction that slammed the market badly last week had ended, but today proved us wrong. Perhaps we should put it another way. The market is jittery about interest rates, and until those jitters dissipate we are going to be in for a very choppy market.

Today's decline is being chalked up by the financial commentary to the small rise in the 10-year Treasury yield we saw today. We believe interest rates were in play today, but it was more than the blip in the 10-year yield at work. Subprime mortgage problems were with us again as a Bear Stearns hedge fund was being liquidated. This was enough to put the bond market on edge. We expect we will see more such episodes over the coming months. But this is the day-to-day stuff that the market deals with.

Offsetting this is the fact that the latest inflation number showed May core inflation being very well behaved. There is a contradiction here between the bond market and the message from the numbers. In the end the numbers will win out. The overseas markets continue to act well as both China and India report rapid growth. We would expect to see some selling overseas in response to the drop here. But we also believe the decline will be limited.

There is no change in our recommended asset allocations.

**New Fund Ratings** – For domestic stock funds, two funds are now rated Hold: Legg Mason Special Investment Trust and Vanguard Capital Value. Vanguard Mid-Cap Index is rated Sell for Venturesome and Moderate investors

only. It remains a Hold for Conservative investors. For international stock funds, Driehaus Emerging Markets is now rated Hold. T. Rowe Price European is now rated Sell.

Vanguard Mid-Cap Index is in the Vanguard Venturesome Portfolio. We will switch the fund into Vanguard Small Cap Growth ETF (VBK)

**The Economy** – Manufacturing, after being a drag on the economy, is now turning into the engine driving the economy forward. The latest report from the N.Y. Federal Reserve survey was astonishing in its strength. A distinct turnaround is occurring. Overseas the authorities are still raising rates to moderate activity. Here at home we see moderate growth ahead, with reasonably low inflation.

**The Stock Market** – The overseas markets have been particularly strong, especially in Asia with the exception of China. The reason is simple, in our opinion, the outlook for economic growth is distinctly positive. At the same time, stocks are not cheap but neither are they overpriced. In that environment good gains will be available.

**The Select Portfolio** – There is no change for this portfolio.  
The next Hotline is scheduled for Wednesday, June 27th, at 7pm.