

MONEYLETTER

Hotline

Welcome to the *MONEYLETTER* Hotline for June 27, 2007

We are going through a nail-biting time in the markets as Wall Street works at getting its arms around the full measure of the financial fallout from the woes of the subprime mortgage market. What is giving Wall Street the jitters is not the outlook for housing- in some ways that is a minor matter right now-but the outlook for the financial markets. With the Bear Stearns hedge fund mess, the lid was lifted on what could potentially be a greater mess, namely losses in the huge markets for mortgage-based securities. Our view here is the same as Pimco's Bill Gross: Wall street is scaring itself needlessly on this issue.

The real problem with mortgages will come next year and the year thereafter as the rates on variable-rate mortgages are reset. The numbers are huge and the consumer will feel it as more income goes to mortgage payments. But that is a far different issue than the fears now agitating Wall Street. When all is said and done, we still see this period as a correction. A tremendous amount of profit has been gained this year. Investors also have the sense that the ground is shifting, as interest rates have increased globally. The ground has shifted, but we think the shift is minor. The fundamentals of the global advance have not changed.

There is no change in our recommended asset allocations.

New Fund Ratings – For domestic stock funds, two funds are now rated Buy: Janus Venture (closed) and Wells Fargo Advantage Discovery. Three funds are now rated Hold: Westport Select Cap R, Matrix Advisers Value, and Neuberger Berman Partners. Two funds are now rated Sell: T. Rowe Price Mid Cap Value and Vanguard Selected Value. There are no changes for international stock funds.

In the last issue of *MONEYLETTER*, we reported that for the *MONEYLETTER* Conservative portfolio we switched Fidelity International Real Estate into Hodges Fund. The recommended switch was into Robeco Boston Partners Mid Cap Value, as originally stated in the June 8th issue. Details of that switch will appear in the next issue. We regret the error.

The Economy – Last month was a difficult one for the housing market as we learned from the latest results for May new and existing home sales. Housing will be a drag for months to come. The numbers contained one positive bit, the inventory of unsold homes did not expand. Here at home we see moderate growth ahead, with reasonably low inflation.

The Stock Market – Investors here are naturally focused on the American market and forget that some developments in the U.S. have very little effect globally. In the midst of all the worries here, much of the world is not concerned. China and India's growth is not affected by our subprime mortgage problems. Growth remains strong there, and that is the key to world growth. We remain positive on equities.

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

Due to the holiday, the next Hotline is scheduled for Tuesday, July 3rd at 7 pm.