MONEYLETTER hotline

Welcome to the *MONEYLETTER* Hotline for July 3, 2007

The week since our last Hotline was a case where what did not happen was more important than what did. The attempted car bomb attacks in London and Glasgow could well have set off a wave of selling in response. They did not. We did see some safe-haven buying in U. S. Treasury paper, but even that was limited. The markets generally shrugged off the attempted terrorist attacks. At the very same time, despite a constant drumbeat from the financial press, market worries about the financial fallout from the sub-prime mess did not intensify. Of course, it is foolhardy to say that the markets have moved on, but, for the moment, the sub-prime fears are not dominating Wall Street's thinking.

While Wall Street has been acting better, the overseas markets are continuing their run, despite an environment of rising interest rates. The reason is that even with central bank rate increases, interest rates are deliberately not being set at harshly restrictive levels. Central banks everywhere, including the U.S. are walking a fine line. They want to see growth restrained, not halted. This is an environment that is positive for stocks. Growth will continue, while interest rates remain neutral if no longer supportive.

There is no change in our recommended asset allocations.

New Fund Ratings – For domestic stock funds, four funds are now rated Buy: Wells Fargo Advantage Small Cap Growth, Old Mutual Growth, Neuberger Berman Manhattan and Sit Small Cap Growth. Three funds are now rated Hold: Royce Value, Longleaf Partners Smallcap and Hodges Fund. Fidelity Value is now rated Sell. For international stock funds, Vanguard Emerging Markets ETF is now rated Buy. MSCI EMU (ETF) is now rated Sell.

Fidelity Value is in the Fidelity Conservative model portfolio. We will switch the fund into Fidelity Growth Discovery.

The Economy – Manufacturing is on the move. The latest national monthly survey confirmed what the regional surveys told us, manufacturing has turned around. Also inflation is now in the Fed's comfort zone. The Fed is wary that this is just a head-fake. It has a point. But the consumer appears to be weakening. If that continues for any time, and it well could, the Fed may come around. We think the chances of a rate cut this year are very low, but they are not zero. It all depends on the consumer. Overall growth has slowed some lately.

The Stock Market – The Asian markets continue to shine, mostly reflecting the continued red-hot growth in China. China's influence is now pronounced on the smaller equity markets. Here at home the market appears to be overcoming the jitters, but now there is the issue of earnings. We do not see any great push for the market coming from earnings. We remain positive on equities.

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

The next Hotline is scheduled for Wednesday, July 11th at 7 pm.