Welcome to the *MONEYLETTER* Hotline for July 18, 2007

There appears to be something about Wednesdays that sets the market on edge. Wednesdays and subprime fears go together. Today was another day when the market was all aflutter, and for a while it looked as if we were in for a truly nasty selloff. The Fed Chairman gave the Fed's semiannual report to Congress, and said nothing that had not been said recently by other Fed members. He reported that the economy is growing more slowly, and attributed that as caused by housing to a considerable degree. But the market wasn't interested.

What was affecting the market today and for much of this week was the bond market. The bond market has been in a tizzy as bond houses are finding it more difficult than before to sell the bonds generated by all the takeover activity at the prices originally set. Credit flowed easily until recent weeks; it flows somewhat more sluggishly now. To read some of the hysterical commentary at midday today, one would think some financial crisis was occurring. No, it was just that Wall Street margins were being cut. Something is happening, and it is that the credit markets are getting religion. This will cut back on the premiums we have seen being paid for acquisitions. But all in all we believe the current turmoil will slowly diminish. Meanwhile, the economy moves on adequately enough, with the foreign markets effectively unaffected. We remain positive on equities both here and abroad.

There is no change in our recommended asset allocations.

New Fund Ratings – For domestic stock funds, Fidelity Aggressive Growth is now rated Buy. Three funds are now rated Sell: Longleaf Partners Smallcap, Matrix Advisors Value, and Artisan Mid Cap Value. For international stock funds, two funds are now rated Hold: T. Rowe Price Emerging Markets Stock and American Century International Opportunity.

The Economy – The Fed forecast sees the economy growing somewhere a touch below its speed limit this year and next. It's clear the Fed now expects housing to weigh on the economy into next year. We would call the Fed's forecast a little gray. Also the extended warning about inflation left little reason to believe that the Fed is even thinking about a rate cut nowadays. We see the short-rate staying at 5-¼% as far as the eye can see. Meanwhile, back at the economy, the latest NY Fed survey has manufacturing thriving. The numbers are startlingly good. We may have a two-track economy going now, housing down, manufacturing up.

The Stock Market – The Asian markets continue their slow grind upward. Our jittery market is radiating into Europe and into the emerging markets to some extent. We think today's late-day action was significant as the selling seemed intense, but then led to bargain hunting. We think the devaluation of the dollar is a significant plus for U.S. stocks. American stocks are cheap for foreign investors. We remain positive on equities.

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

The next Hotline is scheduled for Wednesday, July 25th at 7pm.