

MONEYLETTER *Hotline*

Welcome to the *MONEYLETTER* Hotline for July 25, 2007

The stock market now has something serious to worry about and that is the rise in yields in the bond market for riskier bonds. This year the domestic stock market has been buoyed by vibrant mergers and acquisitions activity. The activity relied on the willingness of the bond market to absorb the junk bonds, that many of the acquisitions relied on to finance the deals. But as the subprime mess mushroomed into something more, involving debt ratings and other issues in the bond market, the bond market has seized up some when it comes to high risk financing.

This is a legitimate concern of the stock market. Surely some deals that would have been made under last month's conditions will not be made now. But, again, it is necessary to keep what is happening in perspective. Notice we are talking about deals and their financing. We are not talking about firms that need money for equipment or expansion. For the average corporate borrower, there has been some but not a significant rise in yields. In other words what we are experiencing is difficulty in the financing of stock market-like activity, but not difficulty in the world of production and earnings. Economic activity proceeds as before, really not affected by the paper shuffling on Wall Street. For this reason, we believe that the current concern will abate over time. It may take some time for investors to appreciate what is actually happening. 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, three funds are now rated Sell: Westport Select Cap R, Aegis Value and Vanguard Value ETF. For international stock funds, two funds are now rated Buy: Driehaus Emerging Market Growth (closed) and Vanguard Emerging Market Stock Index. Fidelity International Small Cap Opportunity is now rated Sell.

Vanguard Value ETF is in the Vanguard Venturesome and Moderate portfolios. In the Venturesome portfolio we will purchase \$8,000 of Vanguard Small Cap Growth ETF and invest the remainder in Vanguard Capital Value. In the Moderate portfolio we will switch all the proceeds into Small Cap Growth ETF. Fidelity International Small Cap Opportunity is in the Fidelity Venturesome and Moderate portfolios. In both cases we will switch the fund into Fidelity Emerging Markets.

The Economy – Today's Beige Book was wholly consistent with the Fed's forecast, strength in some sectors offset by the very real weakness in housing.

The Stock Market – We expect volatility to continue. But we still see the U.S. market as very reasonably valued. We also expect a recovery in overseas markets.

The Select Portfolio – All shares of Janus Overseas are to be sold with the proceeds reinvested in Quantitative Emerging Market.

The next Hotline is scheduled for Wednesday, August 1 at 7pm.