

# **MONEYLETTER** *Hotline*

## **Welcome to the *MONEYLETTER* Hotline for August 1, 2007**

The stock market is absorbed by one topic and one topic only, the state of the capital markets. New economic data arrives daily, but the market really doesn't care. What captures the market is whether another hedge fund is forced to sell some or all of its holdings. We are in market that is focused on itself. As we have said more than once, on a day-to-day basis we live in a hedge fund world. The last two days are perfect proof of that.

But let us concentrate on today's action, which we think is significant. All during the day today, the short sellers (mainly hedge funds) were banging away at stocks every time they tried to rally. But buyers came back in every time. Finally, the short sellers began covering their shorts, since they had failed to drive the market down enough to create panic selling. Why do we think this is significant? Because we saw that that institutional investors were prepared to buy despite yesterday's 300 Dow-points reversal.

We have not believed and do not believe that the very serious period we are going through is the start of a bear market. We do believe that we have entered a new phase of the market, where gains will come more slowly accompanied by increased volatility. But the fundamentals of the domestic and global economies have not substantially changed. 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 Hold: Fidelity Small Cap Independence, Legg Mason Opportunity Trust and Fidelity Value Strategies. For international stock funds, Emerging Markets 50 ADR (ETF) is now rated Hold. Two funds are now rated Sell: MSCI Pacific ex-Japan (ETF) and Wasatch International Growth.

**The Economy** – The question now is how much will the credit market turmoil affect the economy's performance? Our answer is somewhat. Credit has tightened. We believe that consumer spending will be affected marginally. Business investment spending should remain untouched and, of course, export demand does not depend on activity here. We now see growth this second half less boomy than expected only three weeks ago.

**The Stock Market** – After the market drops over the last two weeks, and the decline in the 10-year Treasury yield, value in the U.S. market is even more attractive. Although volatility will remain we see the U.S. market making a slow recovery for the rest of this year. We still favor overseas markets, but our tilt overseas is smaller than previously.

**The Select Portfolio** – There are no changes for this portfolio

The next Hotline is scheduled for Wednesday, August 8 at 7pm.