

MONEYLETTER

Hotline

Welcome to the *MONEYLETTER* Hotline for August 15, 2007

As if you needed to be told, the American stock market is in the midst of what has turned out to be a very serious correction. Corrections, as we have written before, are notoriously difficult to handle. But this one is even more difficult than most we have encountered. The reason is that most corrections are opaque, we are never certain about what triggered them. But we sense the selling has become irrational and the correction will burn itself out. In this case, we know the cause, and moreover we know where the selling is coming from. It is coming from the highly margined hedge funds, who are suddenly finding themselves in a world where all they can do is sell in order to keep their fund from going under. What we don't know is how much selling is left to be done before the hedge funds will feel safe.

There is this great unknown out there, and that is what is creating this selling after selling whenever there is any hint of more financial problems to come. Meanwhile, as the selling goes on, we are focusing more and more on the preservation of your capital. Our view of the market looking out over six months or so is very positive. But the interim period is what is important now. We are watching developments very, very closely and are prepared to take action if that is what is called for. We do not believe that the market is signaling anything but hedge fund problems. But considering the unknown, caution is called for. 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, two funds are now rated Buy: Wells Fargo Advantage Growth and Fidelity Growth Discovery. Three funds are now rated Hold: Fidelity Leveraged Companies, Aston/Optimum Midcap N and Bridgeway Aggressive Investors 2. Legg Mason Opportunity Trust is now rated Sell. There is no change for international stock funds.

Legg Mason Opportunity Trust is in the MONEYLETTER Venturesome and Moderate portfolios. In both cases, we will switch the fund into American Century Heritage.

The Economy – The economic numbers that are coming through are fine, but, of course, who cares? July retail sales were good. The inflation numbers show that inflation is receding as the slower economy has its effect. The Fed is getting what it wants. The market hopes for a Fed rate cut next month. We think the odds of one are low, but we would not rule it out. But we need to see more evidence that the market correction is affecting economic activity. We do not know when the market will right itself, but when it does, the economy should perform well.

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

The next Hotline is scheduled for Wednesday, August 22 at 7 pm.