

MONEYLETTER

Hotline

Welcome to the *MONEYLETTER* Hotline for August 22, 2007

The markets have calmed down somewhat this week ending with today's substantial rally. The primary cause of the rally, of course, was the action taken by the world's central banks to provide liquidity to the fixed income markets, which had become frozen by fears caused by the subprime loan meltdown. For our market, and perhaps for markets everywhere, the most important move was made by the Federal Reserve last Friday when it cut its discount rate and issued a statement indicating that it was aware of the markets' problems and the impact on the economy. We see the statement as being equally important — if not more so — than the rate cut.

In any case both actions, the rate cut and the statement, turned market psychology around, as we saw in Friday's rally and now today's. The rallies have come in the face of much skepticism about the Fed's actions by many Wall Street professionals. We believe they are wrong. We believe the Fed will succeed in restoring confidence. The question then is what damage to the economic and profit outlook will the turmoil do. We think the outlook here and in Europe has dimmed some. On the other hand, we do not see that the outlook in Asia and the emerging markets has changed all that much. Still, we do believe that the fierce and forced selling has created opportunities in all markets. We have not changed our view that equities are the asset class of choice. 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, Jordan Opportunity is now rated Buy. Three funds are now rated Sell: Kinetics Paradigm, Fidelity Value Strategies, and USAA Capital Growth. For international stock funds, two funds are now rated Hold: DWS Latin America Equity S and Fidelity Latin America.

Kinetics Paradigm is in the MONEYLETTER Conservative model portfolio. We will switch the fund into Fidelity Growth Discovery. Fidelity Value Strategies is in the Fidelity family Venturesome and Moderate model portfolios. In the Venturesome portfolio we will switch into Fidelity OTC Portfolio. In the Moderate portfolio, we will switch into Fidelity Growth Discovery.

The Economy – The latest housing numbers and reports are miserable. Housing will hurt the economy more than expected. The mortgage turmoil will take its toll here. The question is what effect will all the disruption that has occurred have on the consumer. It certainly will not help. We look for cautious consumer spending for the rest of this year. Wall Street is already cutting its forecasts modestly for activity over the next six months. We agree. We also now see at least one Fed rate cut between now and year-end. With the Fed on the alert we do not see a major slump in activity.

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

The next Hotline is scheduled for Wednesday, August 29th at 7 pm.