

# **MONEYLETTER** *Hotline*

## **Welcome to the *MONEYLETTER* Hotline for August 29, 2007**

It has been little more than a month since the credit problems sent the market tumbling. For investors one month is a long time. Combine that with how the mighty hedge funds have fallen, and you have a market that is prone to run at the very hint of another twist of the credit pressure. We were victims of that yesterday, Tuesday, when the market was routed by fears that made no sense, at least to us. The Fed minutes that came out Tuesday showed to us, and *The Wall Street Journal*, that the Fed was concerned three weeks ago about what was happening. Since then, the Fed has helped avoid a true credit disaster. But the credit markets are very far from normal. At the same time, the data indicate that the housing sector is truly a disaster area. We are almost certain that it is much worse than the Fed calculated in formulating its outlook. Because of housing, we now expect the Fed will cut interest rates by one-quarter percent on or before its next meeting (Sept. 18). We expect at least one more cut before yearend. At a minimum we see these cuts as insurance by the Fed that housing will not in turn cripple the very vulnerable consumer. It is the consumer that we need to keep our eye on. The market gyrations and the tightening of credit do not a happy consumer make. 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, two funds are now rated Buy: Champlain Small Company and Old Mutual Emerging Growth. Janus Venture is now rated Hold. Three funds are now rated Sell: Aston/Optimum Midcap N, Fidelity Small Cap Independence and Vanguard Capital Value. For international stock funds, Vanguard Emerging Markets ETF is now rated Buy. US Global Investors Global Emerging Markets is now rated Hold. There are no other changes.

Vanguard Capital Value is in all three Vanguard family model portfolios. We will retain the fund in the Conservative portfolio. In the Venturesome portfolio we will sell Capital Value and put one-half of the proceeds into Vanguard Growth Equity. The other half will go to Vanguard Morgan/Growth. In the Vanguard Moderate portfolio, again one-half of the proceeds from Capital Value will be invested in Growth Equity. The balance will be invested in Small Cap Growth ETF. Fidelity Small Cap Independence is in all three Fidelity family portfolios. In both the Venturesome and Moderate portfolios we will switch the fund into Fidelity Independence. In the Conservative portfolio, the switch will be into Fidelity Large Cap Stock.

**The Economy** – Housing you know. July business investment new orders were very good. A major consumer survey was weak, but we do not pay much attention to the consumer surveys. They are not very good predictors, but the market pays attention. The economy could use the boost of some rate cuts. Europe and Asia continue to do well.

**The Stock Market** –

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

The next Hotline is scheduled for Wednesday, September 5th at 7pm.