# Welcome to the *MONEYLETTER* Hotline for September 5, 2007

The markets reminded us today that the credit crisis jitters are still very much with us, as if we needed any reminding. If you read the commentary about today's action in the domestic market it will be all about the new housing sale numbers and the rather reassuring Federal Reserve report on the economy in August. They were important, of course. But equally important, in our opinion, was the reappearance of the credit crisis in Europe.

Once again interest rates in the short-term money market rose in Europe because the interbank credit markets showed signs of freezing up. As a result the central banks stepped in to provide credit, or indicated they would overnight. This is simply not a healthy situation. The result of this credit squeeze is that interest rates are higher in the marketplace than policymakers believe they should be for the economies to be operating at acceptable levels.

We have not had the same conditions here in terms of rates, but a lower level credit disturbance is occurring here. This is one reason that we believe the Federal Reserve will cut interest rates by ¼% on September 18. Meanwhile the markets have become very nervous about the economy. The housing numbers are outdoing themselves in negativity. The markets ask how bad can they get, before affecting activity. We think they are there. The savings grace is that Asia continues on its growth path. The Asian economies and markets continue strong. 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, Janus Contrarian is now rated Hold. For international stock funds, Emerging Markets 50 ADR (ETF) is now rated Buy. There are no other changes.

**The Economy –** Except for housing, the economic numbers have been good. Manufacturing is doing well. The August survey showed new orders continuing their improvement. Manufacturing is now the growth sector of the economy. As last month's auto sales showed, consumers are holding their own. There is skepticism that these numbers will hold. That is another reason why we believe the Fed will cut rates, as insurance that the numbers will hold.

**The Stock Market –** Until the credit turmoil is on the way to being resolved, expect volatility. But we see lower interest rates as boosting both the markets and the economy.

**The Select Portfolio –** The strength in Asian markets call for rebalancing. We recommend the sale of $7,000 of Guinness Atkinson China & Hong Kong and $4,000 of T. Rowe Price New Asia. With the proceeds we will purchase $6,000 of Quantitative Emerging Markets and $5,000 of S&P 40 Latin America (ETF, Symbol ILF)

The next Hotline is scheduled for Wednesday, September 12th at 7pm.