

MONEYLETTER

Hotline

Welcome to the *MONEYLETTER* Hotline for September 12, 2007

Last Friday's employment report which reported that the economy had lost 4,000 jobs last month left little doubt that the economy has been hit by very strong headwinds. The August numbers painted a gloomier picture than is the case, but even after ballpark adjustment the reality is bad enough. The U.S. economy is sputtering. Some of the causes of the sputtering are very real, namely all of the factors associated with a concerned credit market and the consequent difficulties faced by borrowers. But some of the cause of the sputtering is due to uncertainty, with business spending and hiring suffering as a result.

Here is where the Federal Reserve can cut the uncertainty by cutting interest rates. An interest rate cut is what everyone expects, and a cut is what we will get. Wall Street is split over whether the cut will be $\frac{1}{4}\%$ or $\frac{1}{2}\%$. We are in the $\frac{1}{2}\%$ camp, but it will not matter. This first cut will not be the last for this turn in policy. Our volatile domestic market also expects a cut in rates, and that explains this week's performance after the 250-point loss on Friday from the employment shock. We see the coming rate cuts as crucial to keeping the U.S. market stable, if not better.

Economic growth over the next twelve months, maybe longer, should continue subpar because of the housing woes, including declining home prices. We also expect the consumer to turn cautious over the coming months. Subpar domestic growth is not the key to strong profit growth. The profit outlook will not favor many segments of the U.S. market. Still, lower rates and a lower dollar will boost other segments such as manufacturing. We do not see a bear market, nor do we see a recession. We have not changed our view that equities are the asset class of choice. We remain positive on equities with a tilt abroad.

There is no change in our recommended asset allocations.

New Fund Ratings – For domestic stock funds, three funds are now rated Buy: Bridgeway Aggressive Investors 2, Brandywine Advisors and Janus Twenty (closed). Hodges Fund is now rated Sell. For international stock funds, DWS Latin American Equity S is now rated Buy.

Hodges Fund is in the *MONEYLETTER* Venturesome and Moderate portfolios. In the Venturesome portfolio we will invest \$6,000 of the proceeds from the sale in American Century Heritage, already in the portfolio, and invest the balance in Janus Research, also already in the portfolio. In the Moderate portfolio we will switch Hodges into Janus Orion.

The Economy – Expect two developments as interest rates decline. One, the dollar will continue to slide. Second, our exports will continue to grow. The latest trade numbers show strong growth in exports and we believe that will continue. That is why we expect good numbers from manufacturing. While the dollar will slide, we do believe the decline will be orderly and that the dollar will continue to be supported by exporting countries.

The next Hotline is scheduled for Wednesday, September 19th at 7 pm.