

MONEYLETTER *Hotline*

Welcome to the *MONEYLETTER* Hotline for September 19, 2007

Stock markets around the world gave a rousing welcome to the Fed's ½% rate cut. We were surprised by the intensity of the welcome. To us, it shows how deep the anxiety was worldwide over the developing credit crunch that appeared in all the major western stock markets. As we read it, the worldwide fears were not over the specific issue of the U.S. housing market, nor even the valuation of various esoteric investment products. Rather the fears were that the American economy was about to go into a credit-induced recession.

The rate cut told the world emphatically that the Fed was not going to allow that to occur. And that, of course, is what the world wanted to hear. We see the Fed action and the message that a ½% rate cut sent as highly favorable for equities beyond the rally of the past two days. As the Fed said in its statement explaining its actions, one objective of its rate cut was "to promote moderate growth over time."

This objective may require more rate cuts. Consumer spending is going to be under pressure from a further fall in house prices. The cut in rates will do little to turn house prices around soon. The Fed sees growth ahead as moderate and so do we. Substitute the word slow for moderate and you have the outlook over the next 2-3 quarters. As for the market, lower rates will allow for reasonable gains in the markets here despite a flat profit outlook. We still see better pickings abroad, including Europe. We feel that the Fed has confirmed our view that equities are still 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, Champlain Small Company is now rated Hold. There are no changes for international stock funds.

With the addition of Vanguard Midcap Growth to our fund list we can now recommend that Vanguard Capital Value in the Vanguard family Conservative model portfolio be sold with the proceeds reinvested in Midcap Growth.

The Economy – As we expected the dollar was pounded yesterday after the rate cut was announced, with a slight recovery today. We expect an orderly decline. Adjusted retail sales last month were weak and we expect the trend in sales to be sluggish for some time. Consumer prices are acting well, and that should continue. The economy will remain slow at least through early next year.

The Stock Market –

The Bond Market –

The Select Portfolio – There is no change for this portfolio

The next Hotline is scheduled for Wednesday, September 26th at 7pm.