

# **MONEYLETTER** *Hotline*

## **Welcome to the *MONEYLETTER* Hotline for September 26, 2007**

The U.S. market is still living in the glow of the Fed's rate cut one week ago. It is also the case that we are in the last week of the quarter and portfolio managers are involved in the grand old game of window dressing, as they buy to make their portfolios look better than performance would indicate. This game will last through the end of this week, so we must discount some of the action as having no significance for your portfolios' actual value – here today, but gone in October.

In general, the economic news over the past week has not been positive. The housing news has been uniformly terrible. The indicators for consumer spending have been feeble with the expectations for the Christmas season restrained, to say the least. Still the market keeps marching on. In some ways this is typical. This is similar to a recession scenario after the Fed starts to cut rates to pull the economy out of a recession. Of course, we haven't had anything resembling a recession. But we do have the Fed apparently working now to bolster the economy after the credit crunch shock. And we do have the market relying on lower interest rates to fend off further trouble.

It is the hope of lower rates that is now moving the market. As long as that hope prevails, the downbeat economic results will ultimately be shrugged off. At the moment, we think the economy is sturdy enough that the Fed will not do much more, maybe one or two ¼% cuts. We do not look for lower rates to send the market soaring. Valuations here are still appealing. Lower rates and appealing

valuations add up to further modest market gains as we look ahead over the next 6-9 months. 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, TCW Small Cap Growth is now rated Buy. Two funds are now rated Sell: Gabelli Asset and Champlain Small Company. For international stock funds, two funds are now rated Hold: American Century Emerging Markets and Driehaus Emerging Markets Growth.

**The Economy** – In looking at the numbers for last month and this month, remember that these are the months of the credit crunch. The last employment report made clear that business was hesitant to make commitments in August. Consider today's weak durable goods new orders in that light. Much is now uncertain, but Wall Street looks for a sluggish – though not recessionary – economy ahead. That is our view. The economy will remain slow at least through early next year.

**The Select Portfolio** – There is no change for this portfolio.

The next Hotline is scheduled for Wednesday, October 3rd at 7pm.