

# MONEYLETTER

## Hotline

### Welcome to the *MONEYLETTER* Hotline for October 3, 2007

The market roared ahead over the past week but it is dubious that the advance had any lasting significance. We say that not to rain on anyone's parade but because we think that technical factors played a large part in the strength we saw, especially the opening days of this week. Last week's moderate gains were dominated by quarter-end window dressing, and this week's roaring gains on Monday, in our opinion, came from reinvestment demand at the start of a new quarter.

The real market we believe will stand up on Friday as the September employment numbers will be released. No more window-dressing games after that. The expectation now is that the employment numbers will be somewhat neutral at around 100,000 new jobs. By neutral we mean that number neither demands a rate cut by the Fed, nor discourages one. Turning to the recent economic releases, they are depicting an economy, outside of housing, that is sagging. Add in housing and the picture gets worse; not grim, but certainly not comforting. One surprise is that the consumer is still not buckling, as last month's auto sales showed.

The bottom line is that we see things tilting toward a small rate cut, but if the Fed did nothing it would not surprise us. It would upset the market, but we think only temporarily. The real action as you know has been overseas, and by that we mean Asia and the emerging markets. We think the Asian markets, particularly China, are due for a correction. The emerging markets are looking better than that, though they too have had a good run. Here in the U.S. valuations are still appealing. Lower rates and appealing valuations are making the U.S. market look better than it has on a relative basis. We remain positive on equities.

There is no change in our recommended asset allocations.

**New Fund Ratings** – For domestic stock funds, two funds are now rated Buy: Fidelity Independence and Kinetics Paradigm. Two funds are now rated Sell: Vanguard Small Cap Growth ETF and Vanguard Small Cap Growth Index. For international stock funds, PowerShares Golden Dragon is now rated Buy. Two funds are now rated Hold: Vanguard Emerging Markets Stock Index and Vanguard Emerging Markets ETF. American Century International Opportunities is now rated Sell.

Vanguard Small Cap Growth ETF is in the Vanguard family Venturesome and Moderate portfolios. In both cases we will switch the fund into Vanguard Mid-Cap Growth.

**The Economy** – This week's releases tell us that the economy is showing resilience aside from housing. But housing is exceedingly weak, with home prices sliding according to the latest surveys. Pending home sales are down almost 22% from last year. That is why we think the Fed will tilt toward another rate cut. We see the economy remaining slow at least through early next year.

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

We wish you all a pleasant Columbus Day. The next Hotline is scheduled for Wednesday, October 10th at 7 pm.