

MONEYLETTER *Hotline*

Welcome to the *MONEYLETTER* Hotline for October 10, 2007

The markets marched on to new highs over the past week (thank you Federal Reserve), and then finally hit some profit taking today. Well, there was more than profit taking at work today. Earnings season has begun, as the third-quarter earnings reports started this week. The news was not expected to be good, and so far the news has lived up to expectations. It has not been good. Of course, hope springs eternal and despite the fact that expectations have been marked down, we are seeing selling when the expected poor earnings are announced.

The point is economic growth has slowed, mainly because of the credit squeeze, and profit expectations have come down as a result. Wall Street is now marking down its expectations both for the economy and for profits. It is not only Wall Street marking down the growth outlook, but the Federal Reserve as well, as was noted in the Minutes of the September 18th meeting. As we look at the outlook, we have a period of about six months of very slow growth ahead of us. Notice we said growth, not recession. Earnings are going to reflect that slowing, but the multi-national firms earnings will do better as world growth continues powered by China and India.

Meanwhile, we now expect one more rate cut sometime over the next six months as slack in the economy increases. The result we expect will be a choppy, relatively flat U.S. market between now and the end of the year. But then the

market will look ahead to faster growth, with valuations attractive. The U.S. market has appeal. We remain positive on equities.

There is no change in our recommended asset allocations.

New Fund Ratings – For domestic stock funds, Holmes Growth is now rated Buy. Vanguard Windsor II is now rated Sell for Conservative investors. For international stock funds, two funds are now rated Hold: DWS Latin America Equity S and Fidelity Emerging Markets.

Vanguard Windsor II is in the Vanguard family Conservative model portfolio. We will switch the fund into Vanguard Growth Equity.

The Economy – Last Friday's September employment report was reassuring as it showed that employment growth, while slowing, was not collapsing as the original August numbers suggested. Still the trend of private employment growth is a cause for concern. The private sector has clearly pulled back. At the same time, income growth continues and that is the major support for the economy.

The Stock Market – We would not be surprised by a period of correction both here and in Asia. The markets have come a long way in the last three weeks. But it will only be correction.

The Select Portfolio – There is no change for this portfolio

The next Hotline is scheduled for Wednesday, October 17th at 7pm.