MONEYLETTER hotline

Welcome to the *MONEYLETTER* Hotline for October 17, 2007

As we said in last week's Hotline, we expect a choppy, trendless market over the immediate weeks ahead, and that is what we have been getting. The reason for that is not hard to find. The economy is weakening. We know, that is not news. But for Wall Street, where earnings are primary, above all, the weakening is only now threatening to show itself in disappearing earnings growth. So far, and it is early, the earnings and the guidance have not been as gloomy as feared, but we have along way to go.

While concerned with earnings, Wall Street is also focused on the potential for another interest rate cut. As we read the speeches of the various Fed officials, what is notable is their emphasis on the damage to growth that is carried by the credit difficulties. Chairman Bernanke reviewed the economic situation in a speech this week on Monday. What struck us was his statement that "since Mid-August the functioning of the financial markets has improved to some degree." In other words, despite what the Fed has done, and one month after they had cut rates by ½%, the financial markets are still a source of concern.

We conclude that the odds favor another, smaller, dose of ease at the end of this month. We believe the market will react favorably to such a cut. The recent economic indicators, in general, support the view that growth this quarter will be very slow. But we do not see a recession as world economic growth continues firm. 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: Oberweis Emerging Growth and Fidelity Growth Company (closed). For international stock funds, five funds are now rated Buy: FTSE/Xinhua China 25, Matthews China, U.S. Global Investors China Region Opportunity, Fidelity China Region, and Oberweis China Opportunities.

The Economy – We are developing a split economy. Part of the manufacturing sector is doing well as evidenced by the latest N.Y. Fed manufacturing survey. But another part, particularly anything related to housing, is doing poorly. And there is a general sense of softening elsewhere. Now oil prices threaten to once again hit the consumer. We are going through a rough patch for the economy. Recession is not the issue, as we said, but just how slow activity will be over the next few months.

The Stock Market – The Asian markets have been going through a mini-correction of their own. This comes as no surprise. But profit taking at this stage is relatively healthy. Here at home, we do see growth, however slow, and we do see lower interest rates. This will keep the U.S. market flat for the immediate month or two ahead.

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

The next Hotline is scheduled for Wednesday, October 24th at 7pm.