

# **MONEYLETTER**

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## *Hotline*

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### **Welcome to the *MONEYLETTER* Hotline for October 24, 2007**

We have been projecting a choppy, trendless market for the rest of this year. We should have added the word "whipsaw" to the description. This last week the market has whipsawed us unmercifully. On Friday the market suffered a huge drop, with all the averages down by more than 2.5%. Then calm set in early this week. Today it looked as if the market was about to repeat Friday, when a rumor about a Fed rate cut swept the market and the Dow almost closed even.

The action is caused by two large forces pushing the market in opposite directions. First there is the miserable news about third quarter earnings and the equally miserable guidance coming from many, but not all, companies. Last quarter's earnings growth will be close to zero compared to a year ago. This was expected. What was also expected was a strongly improved comparison when it comes to this quarter's earnings. That expectation, we believe, has now been discarded. The earnings outlook, and the continuing fallout from housing and the ensuing credit problems, represents the force sending the market down.

But then there is the force of expectations for further interest rate cuts. This force is sending the market right back up. The market is expecting an interest rate cut next week, and we agree with the market. We see this stalemate, weak economy vs. the Fed, lasting for some time and into next year. But we do believe patience will be rewarded as the weakness slowly fades and economic growth picks up as next year proceeds. The U.S. market represents good value despite current problems. We remain positive on equities.

There is no change in our recommended asset allocations.

**New Fund Ratings** – There are no changes for domestic stock funds. For international stock funds, Janus Overseas is now rated Sell.

American Century Investments has effectively closed a number of its funds to the do-it-yourself retail investor such as *MONEYLETTER* readers. One of the funds affected is American Century Heritage. The fund is in our *MONEYLETTER* Venturesome and Moderate portfolios. Following our practice with closed funds we are removing Heritage from our portfolios and will replace it with Fidelity Growth Discovery. Please note this is not to be taken as a Sell recommendation for American Century Heritage. If you own it, the fund remains a Buy and we will continue to track and rate it until further notice.

Janus Overseas is in the *MONEYLETTER* Venturesome model portfolio. We will switch the fund into Quant Emerging Markets.

**The Economy** – The credit woes made their appearance today in the large 8% drop in existing home sales. Homes are also taking a large number of months to sell. We see another rate cut as insurance against even further weakness from the credit problems. Revived growth is two quarters away.

**The Stock Market** –

**The Bond Market** –

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

The next Hotline is scheduled for Wednesday, October 31st at 7pm.