

MONEYLETTER *Hotline*

Welcome to the *MONEYLETTER* Hotline for October 31, 2007

The Federal Reserve cut interest rates today by the expected ¼%. The cut surely came as no surprise to the market, but nevertheless the market rallied, a good sign. We see it as the market saying, "as long as the Fed is working to shore up the economy we have the wind at our backs."

What was equally important as the rate cut was the Fed's statement that they now see the downside risk to growth as balanced by the upside risk from inflation. Fed statements in August and September emphasized the risk to growth. Introducing the inflation risk this time is a signal from the Fed that the chances of another rate cut are nil *at this time*. We stress the words, at this time. If the economy turns out to be as weak over the next six months as most of us expect, then we will see at least two more cuts over the period.

The pivotal player in the economy now is the consumer. If the consumer holds, in the sense of continuing to spend moderately, then the economy may not turn out to be as weak as expected. The signs are by no means clear. We, and the Fed, are totally data-driven when it comes to the consumer. The other issue is the depth of the credit tightening that is occurring in the financial system. Of course, this is where the Fed steps in by cutting rates.

Looking overseas, the momentum in the Asian markets continued until the last two days. It is hard to believe that these markets are not ripe for some correction. At the same time the underlying fundamentals continue strong.

There is no change in our recommended allocations.

New Fund Ratings – For domestic stock funds, Janus Venture (closed) is now rated Buy. Pin Oak Aggressive Stock is now rated Hold. For international stock funds, two funds are now rated Hold: S&P 40 Latin America (ETF) and T. Rowe Price Emerging Markets Stock.

The Economy – The GDP report for last quarter—out today – is old news. But it did carry some messages. Business investment has held up so far. This is good news since the credit problems were underway in August and September. Non-residential construction was also strong in the summer. The sector looks to continue. There has been recession talk this past week, and we think it is overblown. We see a weak economy over the next six months, acting better in the last half of next year.

The Stock Market – The American market has been performing better than we expected over the past month. Earnings have helped greatly. But analysts now expect a decided slowing in earnings as we go forward. We continue to look for a flattish, choppy market

The Bond Market --

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

Avoid the ghosts and the goblins. The next Hotline is scheduled for Wednesday, November 7th, at 7pm.