

MONEYLETTER *Hotline*

Special Edition of the *MONEYLETTER* Hotline for June 27, 2008

The market was routed yesterday by another turn of the screw for the factors that have been plaguing the market all year. We won't detail the events, but once again it was oil prices hitting new highs and woes of major financial institutions that propelled the selling. The reason the market reacted so violently is that this further turn of the screw came as a nasty surprise.

While the surprise was nasty, we do not think it completely explains the violent reaction that we saw yesterday. In our opinion, what we saw yesterday was capitulation. Traders were selling and, more importantly, institutions were cutting back their market exposure. Now that we reached capitulation stage can the market fall further? Of course. Capitulation is not necessarily a one-day affair. But it does represent the climactic phase of a bear market. We are calling this a bear market not only because it feels like one, but also because, as of tonight, the S&P 500 is down 18.6% from its high on October 11th of last year. Close enough to a bear market.

As we look at the market fundamentals nothing in the global fundamentals justifies another leg down in this bear market. Of course, with oil anything is possible, as we have seen. But few see these prices as sustainable. We believe that U.S. stocks present good value and probably more.

We want to point out that your portfolios carry a relatively conservative allocation. We came into this year not expecting a great year for the U.S. market.

The Conservative portfolios are only 40% in standard stock funds, the Moderate only 50%. Both have 20% in cash. The Venturesome is more exposed (but with 15% in cash), as it will always be, both up and down. The portfolios are well diversified. Also, all portfolios have a 10% position in a commodity fund that, of course, includes oil. We believe that the portfolios are built to ride out the storm as well as to take advantage of the recovery ahead, which we believe is portended by markets such as today's.

We know this is a difficult time for all. But we believe emotion and not reason is in control right now. In the markets, reason is the ultimate winner.

The next Hotline is scheduled for Wednesday, July 2nd, at 7pm.