

MONEYLETTER *Hotline*

Welcome To The *MONEYLETTER* Hotline For July 23, 2008

The oversold rally that began exactly one week ago continues. The rally has now taken on something of a life of its own. Stocks are now going up because earnings are turning out not only to be better than expected, but also to be market-reassuring on their own.

Briefing.com reports Bloomberg data show, excluding the financial sector, earnings are up 10% so far. (Including the financials, earnings are down 18%). In the midst of the dreary economic news, this performance is noteworthy. It reminds us that parts of the economy are continuing to function.

Another reason stocks are going up, of course, is the continued decline in crude prices. As we write crude is selling for under \$125 per barrel. We do not pretend to know where crude prices should be, but we would not bet on further sharp declines. We expect that what we are seeing is a correction in an overbought market, and that we will see some rebound in prices. Never forget OPEC.

We said last week that we did not see the rally as the beginning of a new bull market. The economy's travails are still too deep for that. But we see the rest of this year as preparing the way for a better market to come. At the very least, the patience we counseled is now beginning to receive the very first bits of the reward.

There is no change in our recommended asset allocation

New Fund Ratings – For domestic stock funds, Champlain Small Company (closed) is now rated Buy. Two funds are now rated Hold: U.S. Global Holmes

Growth and Brandywine Blue. Neuberger Berman Partners is now rated Sell. For international stock funds, American Century Global Growth (closed) is now rated Buy. Driehaus International Discovery is now rated Hold. Two funds are now rated Sell: Fidelity Europe and T. Rowe Price Emerging Europe & Mediterranean. There are no other changes.

Fidelity Europe is in the Fidelity Venturesome model portfolio. We will switch the fund into Fidelity Worldwide.

The Economy – The Fed's latest Beige Book reporting on the economy was generally bleak. The rebate has helped but its effects will fade. We expect the economy will need another kick-start over the next six months. The call for higher rates from some Fed members makes no sense. Lower oil prices are a definite plus. We see slow growth for the rest of this year.

The Stock Market – Small caps continue to perform well.

Bond Market –

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

The next Hotline is scheduled for Wednesday, July 30th at 7pm.