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TALKING POINTS

A Recap of July 2007

The Economy

GDP growth in the second quarter rose by an annualized 3.4%; 4.0% if you exclude the housing sector. The theory that an inverted yield curve is necessarily a precursor to recession is being disproved. Nonfarm payrolls grew 92,000 in July, but less than the 127,000 consensus estimate. Through the first seven months of this year, nonfarm payrolls expanded by 955,000, or an average of 136,428 a month. The strong consumer confidence number shows that solid indicators such as job growth are trumping the weakness in housing, but this is worth monitoring closely in the months ahead. Both the ISM Manufacturing and Non-Manufacturing indices remain in expansion mode. Capacity utilization is closing in on 82%, which is strong, but not so strong as to be inflationary. Despite the wishes of some pundits, we see the Fed holding rates steady for the rest of 2007.

Consumer Confidence	**112.6** (Jul)	103.9 (Jun)	⇧
Crude Oil (Mo.-End)	**$78.21** (Jul)	$70.68 (Jun)	⇧
Factory Orders	**0.6%** (Jun)	-0.5% (May)	⇧
ISM Manufacturing	**53.8** (Jul)	56.0 (Jun)	⇩
ISM Non-Manufacturing	**55.8** (Jul)	60.7 (Jun)	⇩
Gold (Mo.-End)	**$666.90** (Jul)	$650.90 (Jun)	⇧
Natural Gas (Mo.-End)	**$6.19** (Jul)	$6.77 (Jun)	⇩
Construction Spending	**-0.3%** (Jun)	0.9% (May)	⇩
New Home Sales	**834,000** (Jun)	893,000 (May)	⇩
Existing Home Sales	**5.75M** (Jun)	5.98M (May)	⇩

The Stock Market

The three major indices were down in July with the DJIA, S&P 500 and Nasdaq Composite returning -1.4%, -3.1%, and -2.2%, respectively. Small-cap stocks, as measured by the Russell 2000 Index, fell 6.8%. Some of the top performing S&P 500 industry groups in July were as follows: Gold (+6.9%); Internet Retail (+6.5%); Oil & Gas Drilling (+6.5%); Semiconductor Equipment (+5.2%); Airlines (+5.0%); and Computer Hardware (+3.7%). The top performing S&P sector was Industrials (+1.0%). In July, the dividend-payers (388) in the S&P 500 (equal weight) posted a total return of -4.55%, vs. -4.43% for the non-payers (112), according to Standard & Poor's. Year-to-date, the payers gained 3.36%, vs. 4.79% for the non-payers. For the 12-month period ended July 2007, payers gained 15.87%, vs. 22.32% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 193, lagging the 200 and 207 increases registered over the same period in 2006 and 2005. The dividend yield on the index was 1.92% at the close of July. Don Hays of respected institutional service Hays Advisory remains a "superbull" on stocks and thinks we are now entering the last half of this bull market, according to MarketWatch.com. He believes investors will achieve "accelerated" gains over the next 18-20 months. U.S. multinationals are generating profits at a much faster clip overseas than here at home. In the first quarter of 2007, foreign profits grew by 16.4% (y-o-y), while domestic profits increased just 2.7%, according to the Bureau of Economic Analysis and Bank of America. Corporate America remains flush with cash. The S&P 500 industrials alone have $602 billion sitting in cash and equivalents, according to Howard Silverblatt, senior index analyst at Standard & Poor's. That amount equates to nearly 61 weeks of earnings.

U.S. Dollar (U.S. Trade- Weighted Basket)	**-1.28%** (July)	-4.63% (Y-T-D); $ was down 5.25% in '06	⇩
AAII Sentiment Index Ratio (>70% bearish/<30% bullish)	**55.0%** (7/31)	53.0% (6/29)	⇧
Short Interest (NYSE)	Jul: **12.95B** (+3.8%)	Jun: 12.47B (+6.0%); *Short Interest at record high*	⇧
S&P 500 P-E Ratio (Trailing 12-mo. earnings)	**17.55** (7/31)	17.61 (6/29)	⇩

The Bond Market

Index (Source: Lehman Bros.)	**July**	**12-Mo.**
U.S. Treasury: Intermediate	1.40%	5.65%
GNMA 30 Year	0.82%	5.48%
Municipal Bond (22+)	0.60%	4.60%
U.S. Aggregate	0.83%	5.58%
Intermediate Corporate	0.38%	5.48%
U.S. Corporate High Yield	-3.54%	6.56%
Global Aggregate	2.03%	5.74%
Global Emerging Markets	-0.94%	7.14%

The yield on the 10-Yr. T-Note fell 28 basis points in July closing at 4.74% – 24 basis points lower than a year ago. As the returns in the chart show, speculative-grade debt took a beating in July as bondholders took profits and rotated out of risk and into quality. Narrow spreads in the high yield and senior loan markets, heavy supply and deteriorating credit quality were cited as the reasons for the abrupt shift in sentiment. Defaults, however, were not a factor. The bond market is struggling with the fallout from the ongoing deterioration in the subprime mortgage market. Foreclosures in the housing market rose 58% in the first half of 2007 versus the same period a year ago, according to RealtyTrac. At least 70 mortgage companies have halted operations, gone bankrupt or sought buyers since the start of 2006, according to Bloomberg. The fear in the market today is a lack of liquidity.

Key Rates as of July 31st

Fed Funds	5.25%
2-Yr. T-Note	4.52%
10-Yr. T-Note	4.74%
30-Yr. Mortgage	6.62%
Bond Buyer 40	4.77%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 427 basis points on July 31. The yield on the index was 9.01%. The spread was 361 basis points on July 31, 2006, when the yield was 8.59%.

2007 Debt Issuance through June
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '06
Corporate	$647.3 Billion	+22.7%
Convertible	$48.9 Billion	+57.2%
Asset-Backed	$580.1 Billion	-4.3%
Municipal	$229.4 Billion	+28.8%

The Investment Climate

Net cash inflows to equity funds totaled $5.5 billion in June, up from $1.3 billion in May, according to the Investment Company Institute. Bond funds reported inflows totaling $7.5 billion, down from $21.3 billion in May. Money funds reported inflows totaling $34.6 billion, down from $57.6 billion in May. Y-T-D through June, inflows to equity funds totaled $89.4 billion, vs. $87.3 billion for bond funds.