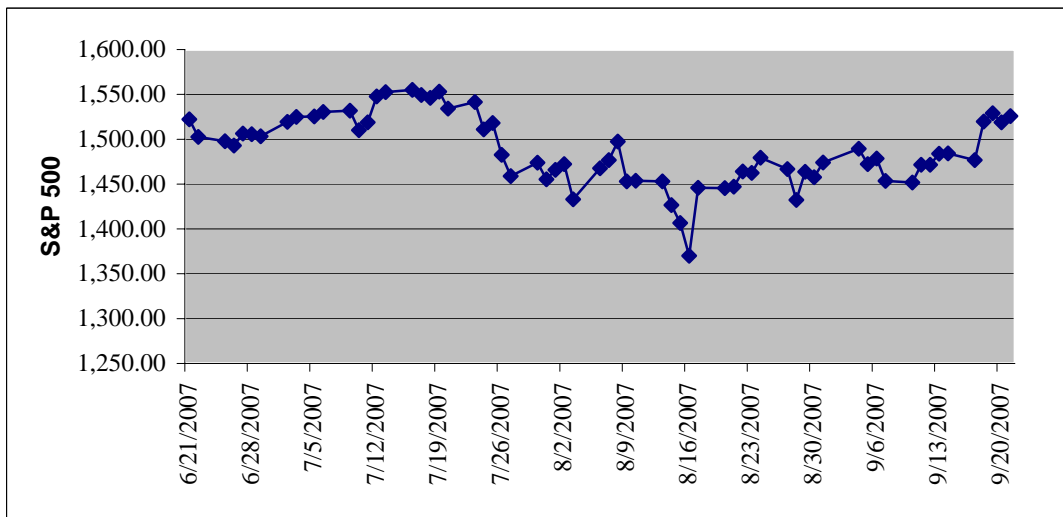


## Who Said Summers are Dull?

“Sell in May and go away” is an old adage that has been applied to the stock market in years past, but anyone who took this summer off missed some wild swings in the market. While the press had a grand time reporting on the slumping housing market and the accompanying credit mess, stock prices went through a period in which daily price swings were among the most extreme ever. From a record closing high of 1553 on July 19<sup>th</sup>, the S&P 500 fell almost 12% to an intraday low of 1370 on August 16<sup>th</sup>, a dive that unnerved many investors. What is of greater importance, however, is the net result of all of the daily gyrations, and we think it worthwhile to look a little closer look at the numbers.

On June 21<sup>st</sup>, the first day of summer, the S&P 500 stood at 1522.2. At summer’s end, September 21st, the benchmark index closed at 1525.8. Think about that - all that anxiety and the net result was a gain of  $\frac{1}{4}$  of 1% over the three-month period. Indeed, if one had spent the entire summer on a remote island (without a laptop and satellite internet coverage of course), the market action looked pretty dull. The graph below shows that this was certainly not the case. We are always amazed at how dramatic the press makes stock market fluctuations appear, be they either up or down. At days end, or in this case, summers end, it’s the final results that really matter.



Perhaps of greater importance is the September 18 gift that the Federal Reserve Board gave all investors. In response to rising home foreclosures and the prospect of soon-to-come sharply higher adjustable rate mortgages, the Federal Reserve board lowered both the discount rate and the fed funds rate by  $\frac{1}{2}$  percent. It is clear that the Fed is concerned that the slow housing market could ripple over to other sectors of the economy and result in a recession, and the half point reduction in both rates is a significant and reassuring step signaling their intention to keep the economy moving forward. The chairman has said on numerous occasions that the fed will take whatever steps are necessary, and this latest action backs up those words.

Third quarter earnings reports will begin arriving about the same time this note is being read. While the growth in earnings has slowed along with the economy, gains are still in the forecast. The robust global economy will benefit many of the companies in your portfolios as they have large components of foreign sales. Technology, materials and energy will particularly benefit and will offset weakness in financials caused by credit and mortgage issues. As this piece is being written, the ten-year treasury note is yielding 4.60% and the 30-year T-bond is comfortably under 5.0%, still quite low by historical standards. In this environment as long as earnings can continue to grow, albeit at a more modest pace than recent years, the outlook for equities looks favorable.

### **Q3 Scoreboard**

<b>Dow Jones:</b>	<b>+11.5%</b>
<b>S&amp;P 500:</b>	<b>+ 7.6%</b>
<b>NASDAQ:</b>	<b>+11.8%</b>

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October 5, 2007

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