

OUTLOOK FOR THE ECONOMY AND MARKETS 08.13.2007

As of today, we are faced with the following economic fundamentals:

- 1. The consumer is heavily in debt.**
- 2. His income is barely advancing.**
- 3. There is no pent up demand for anything.**
- 4. Job growth is barely growing enough to take care of new entrants to the labor source.**
- 5. Companies are having difficulty raising prices (Wal-Mart cut prices on 16,000 items)**
- 6. Profit margins are peaking for business organizations.**

From a financial standpoint, we are faced with the following market conditions.

- 1. The credit markets are in disarray.**
- 2. The stock market appears to be topping.**
- 3. Many hedge funds are in serious trouble.**
- 4. Many financial institutions are facing large losses.**
- 5. Due to the socialization of risk, the Federal Reserve has no bailout target.**
- 6. Banks both commercial and institutional are becoming risk-adverse.**

There are many more one could list both on the economic and financial ledgers. Suffice it to say, there is a new sheriff in town. It is very hard for us to imagine a return to the good ole speculative days of 2004-2006. Governments and cash look pretty good to us. Good long-term buys of corporate bonds and stocks will be available when the dust settles.