



Remember Donna Summer, the Bee Gees, Saturday Night Fever? If so, you'll remember the word "**stagflation**" coined during the disco era. "Stagflation" is resurfacing in headlines again... and like the disco era it dominated, the theme has a distinctive beat: slowing economic growth, rising inflation and high oil prices.

**Economic growth** has undoubtedly slowed in the latest quarter, as real GDP grew by only 1.7% (annualized). **Inflation** appears to be heating-up, led by food prices, which grew at a 19% annualized rate over the past three months! Ouch! And although crude oil prices have leveled off in the low \$60's, you wouldn't know that by visiting your corner **gasoline station, where prices are up 32% in the past three months!**

But to put things into perspective, inflation in 1979 was over 7% per year not including food and oil! We gripe when we fill up our gas tanks, but oil prices have a long way to go before rivaling 1979 in **real dollar terms**, ie, adjusted for inflation.

Another plus in the current economy is **low unemployment**, currently 4.4% (the figure topped 10% in 1983) and although it has slipped a bit in recent months, **worker productivity** has grown in the US at a blistering pace for the past few years. Another glaring difference is that today's Fed has made it clear that they will not let inflation get out of control—and has shown in the past 30 or so years, they have fine-tuned their skills at controlling the feared inflation demon.

In the 1970's we rarely considered what was happening in places like China and India . Today, the 10% plus economic growth rates of countries like these are pushing the world economy steadily along, as they pull millions out of poverty.

Yes, the world has made some progress since ABBA ruled the radio waves and Fonzie ruled TV. We still have risks, but we have opportunity. What hasn't changed is the need for diligent research and constant vigilance. Although the next few months may bring a bumpy ride, we're expecting both our equities and fixed income to be stayin' alive and growing at a respectable rate.

INDEX	04.20.2007	12.31.2006	%Change
DOW JONES	12,963	12,463	+4.0%
S&P 500	1,484	1,418	+4.7%
NASDAQ	2,526	2,415	+4.6%
Bond YIELD	4.67%	4.71%	-0.8%*

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\*If Yield then Prices