

Thank God It's Friday!

June 8, 2007

Don't you hate people who say "I told you so"? Well, here I go again, telling you interest rates were too darn low and had to go higher. And when it finally came true this week, everybody panicked and ran for cover driving stock prices way down. I even drew you a picture last year illustrating our belief that 3% is too low, 15% is too high and 5% is just right. Think: Goldilocks. Remember this graphic showing 40 years of rates?



Now you understand WHY interest rates had to drift higher. Our free-trading bond market beat the Fed to the punch by hiking rates to curb inflation. Because the Fed has kept rates on hold since last Summer, it was time for a new sheriff to take over and cool-off the excesses in our economy especially in real estate which thrives on low rates.

The United States isn't the only country experiencing rising yields right now: Rates in Europe, Great Britain, Japan and New Zealand have recently popped due to intervention by their Central Banks. **We believe the rise in international interest rates is a validation of global growth and not merely a response to inflation.** The most notable exception to this trend is Brazil which has caught our fancy because its rates are falling rather than rising. Stay tuned for a possible future investment with a Brazilian name.

The stock market has been soaring this year primarily thanks to low interest rates. Despite reversal of that trend, we are still NOT worried because we utilize portfolio techniques to **invest safely in a rising-rate environment**. You may recall we initiated this strategy over the past 8 quarters by introducing **floating-rate securities** to our bond portfolios and milking the **qualified dividend tax law** to full advantage. We expect to see rates top-out near 5.5% then retrench to the "just right" level around 5%. This is why our balanced approach works by using BOTH stocks and bonds to meet your investment goals: It's well balanced and holds up well during market sell-offs.

In closing, let me send out hugs and kisses for all my fellow June Babies out there.

By: **Jude Bedell**

INDEX	6.8.2007	12.31.2006	%Change
DOW JONES	13,424	12,463	+7.7%
S&P 500	1,507	1,418	+6.3%
NASDAQ	2,573	2,415	+6.5%
Bond YIELD	5.12%	4.71%	+8.7%*

Bond Prices



Bond Yield %

