

This week a steep slide in the value of the US dollar and sky-high oil prices joined forces with credit market uncertainty to precipitate a sell-off in stocks. The stock market fell 3.2% this week. Yes, it's been a rough ride on Wall Street, but take a look at our Box Score before you cry the blues.



The price of oil has topped \$97, which adjusted for inflation is just shy of the 1979 record. Gold is flirting with a similar feat while the dollar has plummeted to an all-time low against major currencies. Coincidence? Hardly. All are inter-related and are both cause and effect of this week's market turmoil.

Two factors are driving oil prices higher: First, demand is outstripping supply as emerging markets adopt Western energy consumption habits. Second, speculation has increased. Because oil is priced in US dollars worldwide, a falling dollar increases returns from buying oil futures.



The value of the dollar continues to diminish as investors move funds overseas to capture both higher interest rates and better economic growth. The bright side of greenback devaluation is that US exports are soaring. American-produced airplanes, foodstuffs, and technology are on sale abroad, while the price of Chinese toys and Canadian lumber is taking a bigger bite out of Americans' wallets. In fact, the US current

account deficit has fallen steeply to 5.5% of GDP from 7%, even as crude oil, which accounts for 1/6 of imports, has soared.

As for gold, its gain is mainly a reflection of investor sentiment. When investors feel uncertain, afraid of inflation and/or dollar devaluation, they clamber for the timeless precious metal.

We see these trends moderating in the coming months. Oil prices may still spike as oil producers keep supplies tight. The real value of their oil revenues decreases as the dollar devalues, further driving their incentive to keep prices high. Current high oil prices are unsustainable long-term. Demand in the most addicted nations (i.e. the US) is moderating. Oil producing countries must eventually increase output: they know consumers will trade in their SUV's and put solar panels on their roofs if the high prices continue. The dollar may slide further, but no country wants to see its exports to the US suffer. The US is by far the world's largest importer and vitally important to global growth. As trade comes into balance, the greenback will stabilize. Global growth will continue its march, and markets will resume and upward trend.

INDEX	11.9.2007	12.31.2006	%Change
DOW JONES	13,043	12,463	+4.7%
S&P 500	1,454	1,418	+2.5%
NASDAQ	2,628	2,415	+8.8%
Bond YIELD	4.23%	4.71%	-10.2%*

Bond Prices



Bond Yield %



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