Thank **G**od **I**t's **F**riday!   November 16, 2007

Timing is everything in life! November was the perfect time for me to take time off to have my Achilles repaired. I avoided the past few weeks of market histrionics.

To welcome me back to work on Tuesday, stocks racked up the largest one-day gain in over four years. That's right: 4 years! Although stocks grab most of the headlines, bonds have been topsy-turvy. YIELDS have FALLEN 20% since July on the safest US Treasuries while yields on bonds bearing even a little more risk have RISEN sharply. Ditto preferred stocks. Why so? It's called a flight to quality. Investors got spooked by stories about sub-prime and headed for the hills. They changed their attitudes and became more willing to accept a lower return for the safety of US Treasuries.

Many of you have asked what really happens when a big bank like Citi or WAMU takes write-offs? It's an accounting expression wherein the bank REDUCES its loan-loss-reserves. Simply put, the raison d'etre of such "reserves" is simply that losses are EXPECTED by banks. Loan losses are normal occurrences in the daily business of lending money: some borrowers renege on their promise-to-pay back the loan on time....or pay back at all. Foreclosure ensues if collateral backs the loan in the case of home mortgages....then the bank WRITES OFF the bad loan. The bank gets some payback when it sells the house. Yes, the home owner loses her EQUITY but the bank ends up with something of value, namely her house.

This chain of events has been played out since home mortgages were invented, but are wreaking havoc in the financial markets now because of the rampant speculation and reckless loans that have ruled the housing market since 2001. NOW the homeowner has little to no equity because she had a mortgage that was way over her head to begin with, and the bank is left with losses because the foreclosed house can't be sold for the value of the loan. No one really knows how many of these loans will not be repaid. The financial structures of the issuers, dealers, and holders of these loans are so complicated that even seasoned Wall Street analysts like us have no idea who is holding the ultimate risk. Witness Citigroup's candidate for the CEO job demanding an estimate of just how bad the mortgage write-downs will be and discovering nobody really knew YET.

Here's the rub. Bond investors shake in their boots yet DO NOTHING in times of uncertainty ....WHERAS stock investors are by nature more pro-active so they SELL any security that smells of bad mortgage loans. That said, NOVEMBER 30th is when many big NY investment banks and brokers close their books and count their profits. These guys are certainly not going to BUY anything before the end of November. This causes a buying vacuum, affecting the prices of your preferred stocks. However, the cash flow from these investments is intact and budgetable for investors.

Both stock and bond markets will recover-as they did on Tuesday when Bank of America announced another leg of their loan losses: ugly, but not as bad as expected, and the market stabilized. As the real mortgage monster takes shape, it is turning out to be less frightening than the imagined monster that investors are currently pricing.

By Judith Bedell

INDEX	11.16.2007	12.31.2006	%Change
DOW JONES	13,176	12,463	+5.7%
S&P 500	1,459	1,418	+2.9%
NASDAQ	2,637	2,415	+9.2%
Bond YIELD	4.15%	4.71%	-11.9%*

Bond Prices ↓   Bond Yield % ↑

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