

The Fed came bearing gifts this week, in the form of rate cuts. They lowered both Fed Funds and the Discount rate by ¼ point each. The Market's response: **Bah Humbug!**

Last week, stocks surged in anticipation of this Fed event, but it was clear the Markets wanted more. Investors have been greedy, and expect Bernanke and Co. to come to the rescue and put an immediate stop to the financial crisis in order to prevent recession. Doing so would require significant rate cuts, much more than we got this week. The dilemma here is what's in the best interest of the US economy? Open markets deal with inefficiencies with no bias. Pain from the housing meltdown is felt from bad decision-making led by undisciplined greed. However, one of the Fed's chief roles is to provide stability to the Markets while managing a growing economy. So basically, the kids have been misbehaving and need a stern hand. A government bailout runs the risk of this risky business happening again unless speculative homeowners are left to suffer the consequences. Nobody wishes to see them get into serious trouble but the prudent person would like to see them stopped for the long-term health of our housing market. Tough love is easier said than done.

Hopes for the traditional **Santa Rally** to close out 2007 suffered a setback this week. The uncertainty still has many investors ill at ease. We feel better about it. The Fed has made it clear that our central bank is on duty and will take great strides to maintain stability and navigate the economic slowdown to prevent a recession. Inflationary pressures in the form of high energy and food prices make drastic rate cuts a bad idea right now.

As we start looking beyond this credit mess, towards 2008, things look pretty good. There are plenty of investments that have little impact from the US economy. They're working and will continue to work in this **growing global economy**. Besides, we do anticipate further rate cuts in 2008, and the Market at large is starting to look pretty cheap again. So, perhaps it wasn't the Fed that provided the gift this week after all, but rather, a worried investor who sold-off on any rumor of bad news and cut way back on stock purchases allowing stock prices to drift lower. We expect the selling to abate soon, and potential buyers step-up to capture bargains on Wall Street and in the shopping malls across America. Consumers SAY they are spending less this Christmas, but we predict....in the end....they'll succumb to the magic of the season and fill those **stockings** with joy. One thing is clear: This volatility won't go away anytime soon but will prove well worth waiting for.

By Mike Frazier

INDEX	12.14.2007	12.31.2006	%Change
DOW JONES	13,339	12,463	+7.0%
S&P 500	1,468	1,418	+3.5%
NASDAQ	2,635	2,415	+8.3%
Bond YIELD	4.23%	4.71%	-10.2%*

Bond Prices



Bond Yield %

