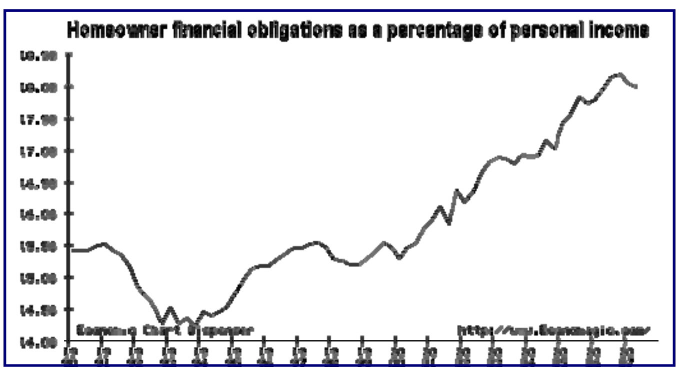
The Federal Reserve to the Rescue!

Your Most Trusted Advisor

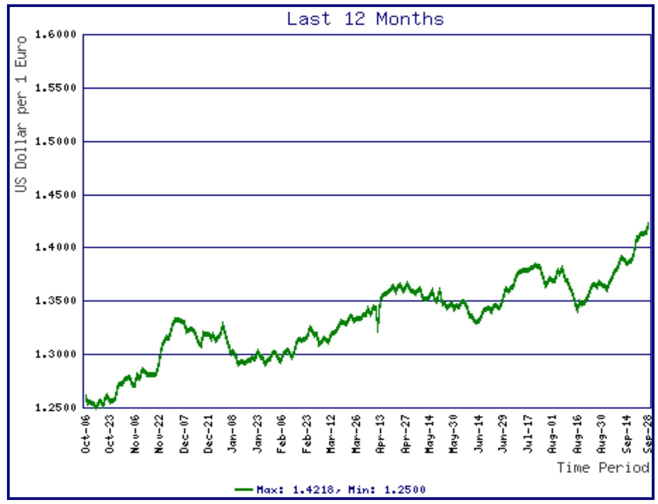
The 3rd quarter of 2007 delivered a positive performance for most of the major indices, despite the 9% slide witnessed in late July and early August. The Dow Jones Industrial Average finished ahead 3.6% for the quarter leaving a YTD return of 11.5%. The S&P 500 Index and NASDAQ Composite Index finished in the black as well with returns of 1.6% and 3.8% respectively. The Russell 2000, a small company index, continued to show signs of weakness posting a -3.4% return for the quarter.

The Federal Reserve made a surprise move on September 18th by cutting rates 50 basis points instead of the predicted 25 basis points. The statement "..the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally" was key to the Fed's justification. Subprime mortgage news continues to be a driver of most of the headlines and many with connections to the housing industry do not see any turn around in sight. The Fed's comments implied that the housing debacle may be a greater threat than previously anticipated and has taken the place of inflation as their primary focus. The market adjusted favorably to the news and drove most indices higher for the quarter.



The 10-Year Treasury continued its volatility and retreated once again to finish with a yield of 4.579% compared with 5.034% at the end of June. As the subprime difficulties became more widespread, the fear of risk drove investors into safe, high quality investments pushing Treasury prices up and yields down. All of which has been contributing to a more "normal" yield curve. The Fed is expected to continue their reduction of the short-term, prime rate in an effort to support a slowing economy.

Oil continues to bounce around the $80/bbl, but gas prices have been able to stay below $3 per gallon. The U.S. dollar continues to slide against most foreign currencies. However, this is a positive thing for exporters of U.S. goods because products become cheaper overseas.



With the latest U.S. GDP reading of 3.8% annualized, one could debate the need for the Federal Reserve to cut (and continue cutting) interest rates. A potential problem lies in the coming months as we watch to see if the consumer will be able to continue spending throughout the all-important holiday season.

We believe that the 4th quarter will turn out to be a positive one for the broad equity market. History has shown that most periods of easing by the Fed equate to an upward movement in stocks. We still favor Large Cap, multinational names as our core spotlight.

Happy Fall, Ya'll!

B. Keith Sproles
Chief Investment Strategist

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We sincerely appreciate the business and trust you've placed with us!

Please know that we grow our business through referrals and would never be too busy to speak with a friend or family member if you think we could be of assistance.

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