

*Year to date through September 26th the S&P 500 returned 9.03%.*

## Why did the Fed lower the discount rate?

It's an interesting thing when the government does something that is generally agreed by many experts to be a good move. We were a bit worried that the recent Fed reduction of the discount rate by .5% (the rate at which the Fed lends money to banks for short term - to 5.75%) could have some long term negative repercussions. There just seems to be something unnatural about being able to add or subtract liquidity to a dynamic market. But in the final analysis, it may allow the US economy to avoid some very unpleasant near term problems and it also shows that the Fed is taking a more hands on approach to the tightening issues we've had.

The truth is that the US economy has an amazing number of moving parts. Each intervention affects every variable in some way. A simple example is this: When the Fed lowered the discount rate, the dollar became weaker. When the dollar becomes weaker, the global economy that does business with the US has to increase their prices to get the same value when it is converted into their local currency. This occurred recently: when the Fed lowered the rates, the price of oil increased by about 10% due to the weaker dollar.

## So, where are the markets going?

Dealing in market predictions is a very difficult game. Some do it just to sound like they know something, and don't. Some do it because they believe in a set of variables and stick to their methodology. Others understand that the best you can do is constantly monitor the global economy and come up with a best guess. That's pretty much where we fall. So here's what we think about the markets.

Housing Market – We believe the housing market will be in tough shape for the next 5 to 6 quarters and in fact will decrease a bit more before it stabilizes.

Interest Rates – We expect the Fed to loosen two more times over the next year or, another .5%, keeping rates lower.

Oil Prices – We believe that we have seen the highest of the oil prices for the next two years and in fact will be below current levels through 2009.

US Stock Market – Throwing all of the variables in the mix we feel that the market will be flat to very slow growth until 2009 when it should pick up its tempo.

Global Markets – There is no doubt that the global economies will continue to outpace the US for a while. The most attractive areas have been BRIC (Brazil, Russia, India and China) recently and we see that continuing for a while.

StraightLine's Duty – As always we use our research tools to try and find the most appropriate managers in every market, and with the ability to stay well diversified, this gives us the best chance at above average performance for the lowest stated risk.

*Morgan Stanley forecasts that housing starts will fall 30% in 2008.*