

The Peter Dag Portfolio

Strategy and Management

SAMPLE ISSUE

As a subscriber of *The Peter Dag Portfolio Strategy and Management* you will be able to access on our website the following services.

1. Two issues every month of *The Peter Dag Portfolio Strategy and Management*.
2. One issue every month of *The Global Business Cycle*. This report shows the major business and financial trends of all major and developing economies.
3. One issue per month of *The US economy*. This presentation shows the major indicators of the US economy.

The following pages show you copies of these report.

The Peter Dag Portfolio

Strategy and Management

The right advice. At the right time. Depend on it.

Vol. 31 No. 19

George Dagnino, Ph. D. , Editor

www.peterdag.com

10-08-07

Observations. I like to follow what is happening in Italy for several reasons. First of all, of course, it is the country where I spent a substantial part of my life. I understand what makes the Italians click and why.

Although very creative, their economy is going nowhere.

They represent a great case study of how the political system of a nation can become so distorted to turn into a totally unmanageable economic system.

The little booklet by Fromm, bought years ago during one of my trips, made me think. I am not sure I agree with him when he suggests that the concept of property drives people to behave aggressively and basically ruins their life. He suggests we want to own and in the search of owning we fail to see what is exciting in life.

What triggered my interest, however, are his comments about what people seek. What do we want? What do we want to have to be happy?

One of the basic instincts is to achieve a sense of safety. To achieve a state that we can hang on to and feel safe because we are afraid of the unknown. Uncertainty makes us nervous. This is why we are concerned about new ideas. Because they change the status quo.

And we feel insecure because we lose our freedom, or so we think. What is our reaction? We ask the politicians to make the changes needed to make us feel more secure.

The Italians asked the politicians to make them feel comfortable and sheltered. And the politicians obliged. The price paid has been a massive bureaucracy sucking the lifeblood of the citizens. When one class becomes dominant, in any country, the price to be paid is stagnation. This is the price of security.

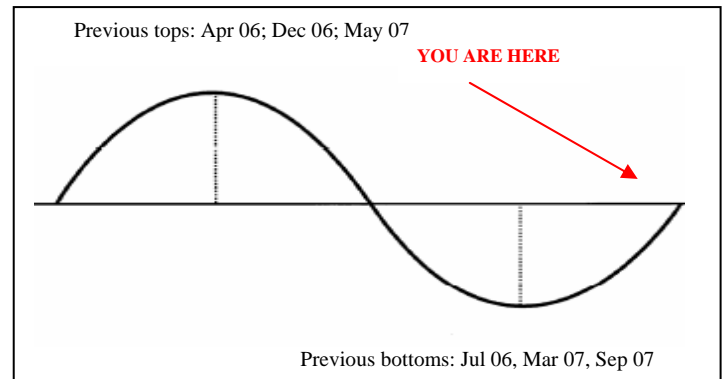
The dollar is sinking in a major way. It represents an incredible loss of purchasing power and reflects an overwhelming loss of competitiveness. Yet, the politicians are addressing our concerns and trying to make us feel secure (physically and psychologically).

No one, however, is even suggesting who and how we are going to pay for our security. As the bureaucracy becomes more dominant to provide us with what we want, the country will fall in an economic gridlock. The weak dollar and the Italians have something in common.

Portfolio Strategy

The stock market. In the issue of September 10 I placed the “**You are here**” arrow at the **bottom** of the cycle shown below. Since then the market has been strong and is making major strides.

12-MONTH STOCK MARKET CYCLE



Our **technical** indicators told us to buy in a very timely fashion. They have been rising gradually and steadily as the market strengthened. They are still well below the levels typically associated with an overbought market (more details after page 12).

How long will the market rise? The simple answer: as long as our **proprietary indicator** rises. The nice feature of this gauge is that it peaks several weeks ahead of the market. There is time to act (see after page 12).

The other answer is based on the **seven month** market cycle. The next bottom will take place around March with the market peaking in January-February.

The **long-term trend** of the market remains up with interest rates being favorable.

Seasonality is also positive and **investors' optimism** has not yet reached the extreme levels typically associated with a market top.

Outlook. I moved the “**You are here**” arrow closer to the top to reflect a **rising market** moving steadily toward the next peak. The dominating sectors remain technology, hard assets, and international.

The US economy. Are we in trouble? Mr. Greenspan and Bill Gross seem to think so. Well, I am not convinced about the demise of the US economy.

The money supply is growing rapidly, the **yield curve** is steepening, and the **stock market** is rising. This is not what you see when the economy is in trouble. These are solid indicators pointing to a **stronger economy**.

Unemployment **claims** have dropped sharply and **backlogs** are soaring. This is good news for manufacturing and employment.

The **housing sector** is in shambles. The problem will be with us for several years. Bottom line: economic conditions are not as bad as reported.

Inflation. Inflation, if you believe the data released by the various agencies, is under control. Consumer prices are up only 2.0% y/y, producer prices up 2.1% y/y, and the broad PCE price index rose only 1.8% y/y.

This level of inflation gives room to the Fed to lower interest rates further.

The Fed. The rate on 13-week Treasury bills keeps sagging. The rate on 90-day prime commercial paper also dropped close to 5% in response to the increase in liquidity.

What does it mean? For the time being the markets are saying conditions reflect less uncertainty and risk. Are we out of the woods? No. Economic slowdowns always uncover the excesses of the previous upswing. This time is no exception. And the markets like it. Investors, meanwhile, are confused and do not know what to think.

Global trends. Global short-term interest rates have not declined as they did in the US. Either foreign economies are much stronger or they have problems not yet uncovered. Or a combination of both. Bond yields have stabilized. Foreign equity markets remain strong. The best performing ETFs are: **FXI** (China), **EEB** (BRICs), **IFN** (India), **EEM** (Emerging markets), **INP** (India), and **EWK** (Hong Kong).

Commodities. Commodities are strong.

Gold and the dollar. The weakness of the dollar is driving up the price of commodities and gold in particular. The odds favor further declines in the dollar according to our models. Bottom line: commodities and gold are more likely to rise than decline.

The yield curve. It keeps steepening. Good news!

High-grade bonds. I am lukewarm about Treasuries.

Low-grade bonds. They are attractive as the Fed adds liquidity to the banking system to cushion it from the subprime debacle.

Portfolio Management

Studying business trends is not a theoretical endeavor. There are solid reasons why corporations and financial institutions spend considerable sums of money to pay economists and strategists to dissect the economic data.

The objective is to understand what is happening and establish the possible economic scenarios. Probabilities are assigned to each scenario. The next step is to recognize the strongest stock sectors for each scenario. Then one selects the best stocks in each sector.

The challenge is to determine the outlook for the economy. In the current business cycle one can make the case that, because of the strength of the global economy (mostly Asia and Latin America), the business cycle will strengthen. Our leading indicators point to more strength ahead. A stronger economic is likely.

Another scenario, equally realistic, is an economic slowdown caused by the subprime fiasco and the weakness of the housing and auto sectors.

What should your strategy be? **The strong economy strategy** should emphasize technology (electronics, telecom, computer software and hardware, internet), metals and mining, and energy stocks.

The weak economy strategy should focus on financials, insurance, utilities, real estate, and defense.

What to do? I listen to the ultimate empire: **the market** itself. I gradually adjust the portfolio to what the markets are saying. And this is what they are suggesting to do right now.

Sell NRP and sell 2% of TLT.

Increase by 2% of your portfolio your investment in AXA.

Increase by 1% of your portfolio your investment in each of ASN, HME, and ETR.

The **healthcare sector** is strong and the **specialized service sector** is acting well. For this reason we recommend you add to your portfolio **DaVita, Inc.** (NYSE: **DVA**). DVA, provides dialysis services for patients suffering from chronic kidney failure. Recent price \$63.94 @ 11:59 am ET, PE 18.37, yields n/a. **Invest 2% of your portfolio in DVA.**

Bottom line. We have increased slightly our exposure to the "weak economy" sectors, and reduced the investment in the "strong economy" stocks.

Dag's Exclusive Picks

Asset class (Allocation)	Company	Symbol	Industry	Date Purch'd	PE	Yield	Price Paid	Curr't price	Change %	Amount %
COMMODITY DRIVEN 31%	Amerigas Partners	APU	Propane	14-Jul-03	15.8	9.60%	26.70	35.85	34.27%	3%
	BHP Billiton	BHP	Ind. Metals&Mining	25-Jun-07	17.1	1.30%	59.35	78.30	31.93%	5%
	Caterpillar	CAT	Machinery	23-Jul-07	15.9	1.80%	86.39	78.13	-9.56%	2%
	Core Labs	CLB	Oil & Gas eq. svcs.	23-Aug-07	31.4	n/a	102.91	126.04	22.48%	7%
	Danaher	DHR	Conglomerates	25-Jun-07	23.1	0.10%	74.29	82.38	10.89%	7%
	Energy Transfer Partners	ETP	Propane	26-May-02	15.6	6.80%	14.84	48.26	225.31%	3%
	Frontier Oil	FTO	Oil \$gas & mktg	9-Jul-07	9.5	0.50%	46.66	42.19	-9.58%	2%
	Natural Resource Partners	NRP	Ind. Metals&Mining	25-Jun-07	22.4	6.10%	37.82	30.00	-20.68%	0%
	Oil States Intl.	OIS	Oil & Gas eq. svcs.	9-Jul-07	12.1	n/a	44.23	48.85	10.45%	2%
DEF.&AERO. 11%	Boeing	BA	Aerospace	9-Oct-06	22.4	1.30%	83.95	104.35	24.30%	4%
	Goodrich Corp.	GR	Services	26-Feb-07	20.7	1.20%	51.72	68.81	33.04%	7%
REITS 6%	Archstone-Smith Trust	ASN	Residential	11-Sep-06	17.0	3.00%	53.54	60.29	12.61%	2%
	Home Prpty's of New York	HME	Apartments	11-Feb-02	17.5	4.90%	33.25	53.50	60.90%	2%
	ProLogis	PLD	Industrial	24-Sep-07	15.9	2.70%	65.93	68.82	4.38%	2%
UTILITIES 7%	ExelonCorp	EXC	Electric utilities	16-Sep-03	26.5	2.30%	22.40	75.95	239.14%	4%
	Entergy Corporation	ETR	Electric utilities	23-Oct-06	20.2	2.70%	85.24	110.16	29.24%	3%
HLTH CARE 4%	DaVita, Inc.	DVA	Spec. services	8-Oct-07	18.4	n/a	63.94	63.94	0.00%	2%
	Merck	MRK	Drug. Mfg.	24-Jul-06	23.8	2.90%	37.32	52.28	40.09%	2%
CONS. GDS 10%	British American Tobacco	BTI	Tobacco	16-Apr-07	17.9	2.10%	63.15	70.15	11.08%	3%
	Carolina Group	CG	Tobacco	16-Apr-07	17.7	2.20%	78.59	85.53	8.83%	6%
	Imperial Tobacco Group	ITY	Tobacco	16-Apr-07	17.6	1.80%	90.14	91.89	1.94%	1%
FINANCIALS 7%	AXA	AXA	Insurance	22-Jan-07	12.1	2.70%	41.92	45.34	8.16%	5%
	DB G10 Currencies Harvest	DBV	Currencies	25-Jun-07	n/a	n/a	29.22	28.64	-1.98%	2%
TECH 19%	American Tower Corp.	AMT	Comm. Services	13-Feb-06	776.2	n/a	31.47	42.69	35.65%	1%
	Cypress Semicondustor	CY	Semiconductor	10-Nov-07	14.5	n/a	26.08	30.00	15.03%	5%
	Hewlett-Packard	HPQ	Div. Comp. Sys.	28-Aug-06	20.3	0.60%	35.37	50.18	41.87%	6%
	IBM	IBM	Div. Comp. Sys.	22-Jan-07	17.8	1.30%	100.00	116.37	16.37%	7%
BONDS 5%	iShares Lehman 20+ Treas.	TLT	Bonds	25-Jul-05	n/a	n/a	92.99	89.06	-4.23%	5%
	iShares Lehman 1-3 Treas.	SHY	Bonds	30-Mar-07	n/a	n/a	80.53	81.02	0.61%	0%
MONEY MKT.										0%
	Total Portfolio %									100%
Notes:	1. Date Purchased is the date of <i>The Peter Dag Portfolio</i> when the stock was recommended. 2. Price Paid is the "Recent Price" as shown on the issue when recommended. 3. Amount % represents the amount of the portfolio allocated to each stock. 4. Change % does not include dividends. 5. Asset allocation is different from that of mutual fund portfolios (see page 4).									

Dag's Exclusive Picks provided a return to our subscribers of **7.4%** in 2002 (S&P 500: -23.4%), **30.4%** in 2003 (S&P 500: +26.4%), **16.9%** in 2004 (S&P 500: +9.0%), **4.1%** in 2005 (S&P 500: +3.0%), and **7.2%** in 2006 (S&P 500: +13.6%) (Source: *Hulbert*). **This portfolio appreciated 82.7%** since 2002 while the **S&P 500 increased 23.5%** (S&P 500 dividends excluded).

To new subscribers: start your portfolio with the stocks with the highest allocation and then gradually increase your investments to match the model portfolio.

Your editor and staff could have positions in the above stocks

Mutual fund and ETF model portfolios

The objective of the following portfolios is long-term capital growth with low volatility of returns. They are “real money” portfolios.

ETF Model Portfolio

Recommendations: No changes are recommended at this time.

The portfolio is now invested in the following ETF funds (allocation is shown in %):

Brazil/Russia/India/China – EEB (30%)
Latin America – ILF (10%)
Emerging Markets – EEM (10%)
Energy – XLE (20%)
Materials – XLB (10%)
Water Resource Portfolio – PHO (5%)
Defense & Aerospace – PPA (10%)
Cash Reserves (5%)

Portfolio performance. This real-money portfolio was started on April 10, 2006. It increased 9.16% in September (S&P: +3.58%).

\$100,000 has grown to \$119,016 as of 9/30/07.

Fidelity Mutual Fund Model Portfolio

Recommendations: No changes are recommended at this time.

The portfolio is now invested in the following mutual funds (allocation is shown in %):

Southeast Asia Fund – FSEAX (30%)
Wireless Portfolio – FWRLX (30%)
Energy Services – FSESX (20%)
Fidelity OTC – FOCPX (20%)
Cash Reserves (0%)

Portfolio performance. This real-money portfolio was started in 1994. It increased 9.09% in September.

This real-money portfolio appreciated +3.1% in 2006 (S&P 500: +13.6%), 8.9% in 2005 (S&P 500: +3.0%), +5.1% in 2004 (S&P 500: +9.0%), +11.7% in 2003 (S&P 500: +26.4%), +1.7% in 2002 (S&P 500: -23.4%), declined -2.2% in 2001 (S&P 500: -13.0%), and gained +3.7% in 2000 (S&P 500: -10.1%). \$100,000 has grown to \$300,078 as of 9/30/07.

Vanguard Mutual Fund Model Portfolio

Recommendations: No changes are recommended at this time.

The portfolio is now invested in the following Vanguard mutual funds (allocation is shown in %):

Windsor II - VWNFX (35%)
Horizon Global Equity - VHGX (20%)
Mid-Cap Growth Index – VMGIX (30%)
High-Yield Corporate Bond - VWEHX (5%)
Prime Portfolio (10%)

Portfolio performance. This real-money portfolio was started in January 1979. The value of the portfolio increased 3.28% in September.

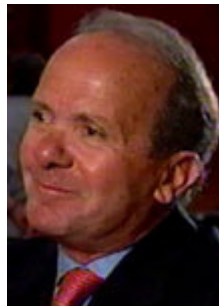
This real-money portfolio increased +14.3% in 2006 (S&P 500: +13.6%), +9.1% in 2005 (S&P 500: +3.0%), +11.2% in 2004 (S&P 500: +9.0%), +16.8% in 2003 (S&P 500: +26.4%), was down -1.7% (S&P 500: -23.4%) in 2002, up +3.4% in 2001 (S&P 500: -13.0%), and gained +0.9% (S&P 500: -10.1%) in 2000. \$100,000 has grown to \$1,322,745 as of 9/30/07.

This portfolio outperformed the Wilshire 5000 Total Return Index (risk adjusted) in the 1987-1994, 1987-1995 and 1987-1997 periods (Source: M. Hulbert). On a risk-adjusted basis, it was ranked No. 3 for total return for 10 years (Hulbert).

The portfolio had only one down year since its inception.

This portfolio was ranked No.4 for its performance over 15 years and outperformed the Wilshire 5000 (timing only, risk adjusted). This portfolio outperformed the Wilshire 5000 Total Return Index for 15 years. Risk: very low (Source: Hulbert).

Past performance does not guarantee future results



George Dagnino, Ph.D.,
Editor & Publisher. Since 1977.

65 Lakefront Dr., Akron, OH 44319
 Phone your orders: **800-833-2782, 330-644-2782**
 E-mail orders: gdagnino@peterdag.com
 Subscribe on our website: www.peterdag.com
 Blog: peterdag.blogspot.com
 ISSN 0196-9323 (24 issues per year)

The next issue will be available on
www.peterdag.com on **October 22, 2007**

The content of this advisory is copyrighted

THE FRAMEWORK OF OUR INVESTMENT STRATEGY

History repeats itself. Why not take advantage of it!

The following information and charts closely reflect the approach to managing portfolios and portfolio risk as discussed in Dr. George Dagnino's book *Profiting in Bull or Bear Markets* (McGraw-Hill), now available in Mandarin from McGraw-Hill Education.

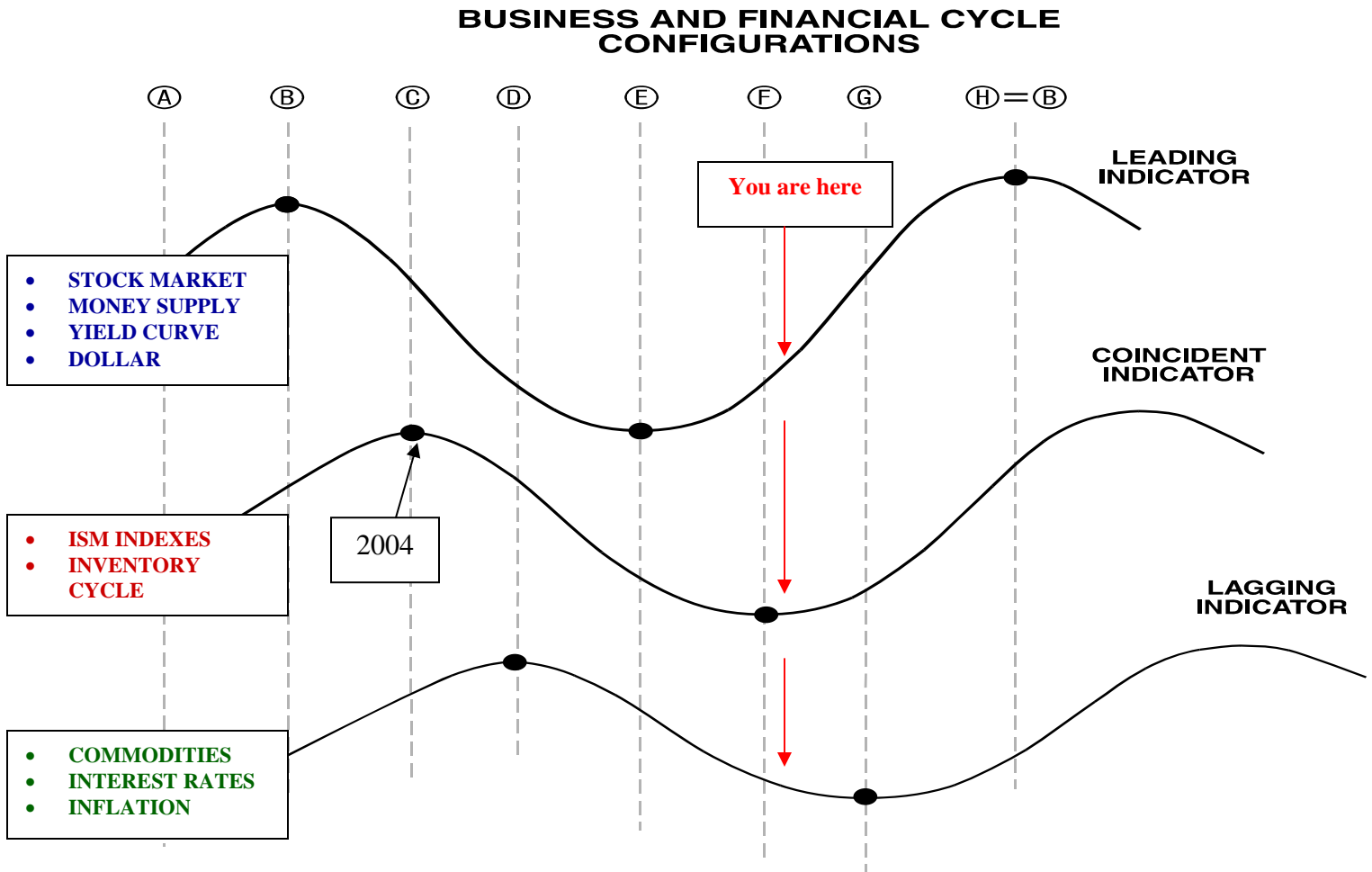


Fig. 1. The positive action of the stock market, the steepening of the yield curve, and soaring money supply point to a stronger economy in 2008. I left the “**You are here**” arrows unchanged. See below for details and strategic implications.

*Please note: The graph on Page 1 represents a hypothetical 12-month stock market cycle. The arrow on the graph is the result of combining the information of all our technical market indicators into a simple and easy to understand format to be used in the near term (about 6 months). This graph is not related to the cycles shown on this page, which represent the outcome of the analysis of economic and financial variables. The graphs in Fig. 1 on this page are used to guide our strategy and choice of asset classes. **The closer the arrow is to a turning point, the higher the probability of that turning point taking place.***

There is a lot of pessimism around. It is very depressing. This is the time to take a fresh look at the data and see if we are missing something. Or, to say it in a different way, could the concern of recent developments make us miss what is really going on?

Let's look at the data and see what they are telling us.

1. The leading indicators are rising...strongly. The **stock market** is soaring (see next section). The **money supply** is growing at a very rapid pace (see Fig. 2). The **yield curve** is steepening and will continue to steepen in the near future (see Fig. 3). These reliable gauges suggest the odds favor **stronger economic growth in 2008**.
2. The leading indicators of the Conference Board, however, declined and the probability of a recession has increased to 39.6% according to the Bank of Tokyo-Mitsubishi. A recession is likely to occur when this probability rises to 95%. In other words, there is **no recession in sight**.
3. The data released by the ISM reflect a **manufacturing sector** expanding at an average pace. Short-term interest rates are more likely to decline than rise under these conditions (see Fig. 3).
4. Improving **orders** for durable goods and the torrid increase in **backlogs** (up 20.9% y/y) reflect a firm economy (see Fig. 4). Quite frankly it is difficult to predict dire business conditions with these trends in place.
5. Unemployment **claims** declined and remain in the 300,000-320,000 range, reflecting a firm labor market.
6. Personal **income** is rising at a nice clip, up 6.8% y/y. **Spending** jumped 0.6% last month. Consumers are doing well, jobs are plentiful, and people are ready to spend the money they make.
7. The **housing market** remains in shambles. The inventory of unsold homes keeps rising and is now at a 10 month supply. Keep in mind that the norm is close to a 3-4 month supply. The point is the housing debacle has a long way to go....years. **Sales prices** of new homes, not surprisingly, keep declining, down 14.4% since March.
8. Headline **inflation**, meanwhile, is declining in response to slower economic growth, up 2.0% y/y (see Fig. 5). In the past three months, however, medical care costs jumped 5.6% at annual rate, and food and beverages were up 4.6%.
9. Slowdowns in business activity have typically been associated with some type of **financial crisis**, lower **short-term interest rates**, and moderation in **inflation**. This business cycle is no exception (see Fig. 6).
10. **Commercial & industrial loans** have soared. It is hard to believe the economy is heading for a recession with business borrowing at the current strong pace, up 16.2% y/y (see Fig. 7).
11. **Short-term interest rates** are declining in the UK, US, and Canada. They are still rising in Japan and Europe (see Fig. 8).
12. **Global bond yields** have stabilized and seem to have reached a bottom (see Fig. 9).
13. **The dollar** keeps sinking. A worrisome trend (see Fig. 10).
14. The decline in the dollar is reflected by soaring **commodities** (see Fig. 11). And the decline in commodities reflects the loss of our purchasing power.

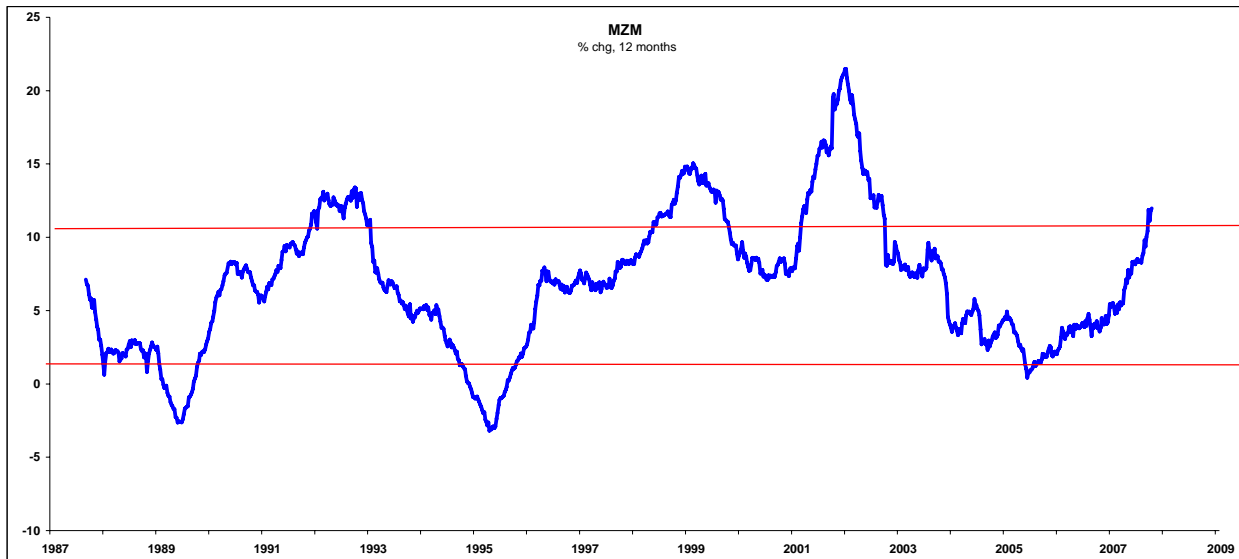


Fig. 2. The growth of the money supply is soaring and will continue to be strong. This type of growth usually anticipates robust business growth ahead.

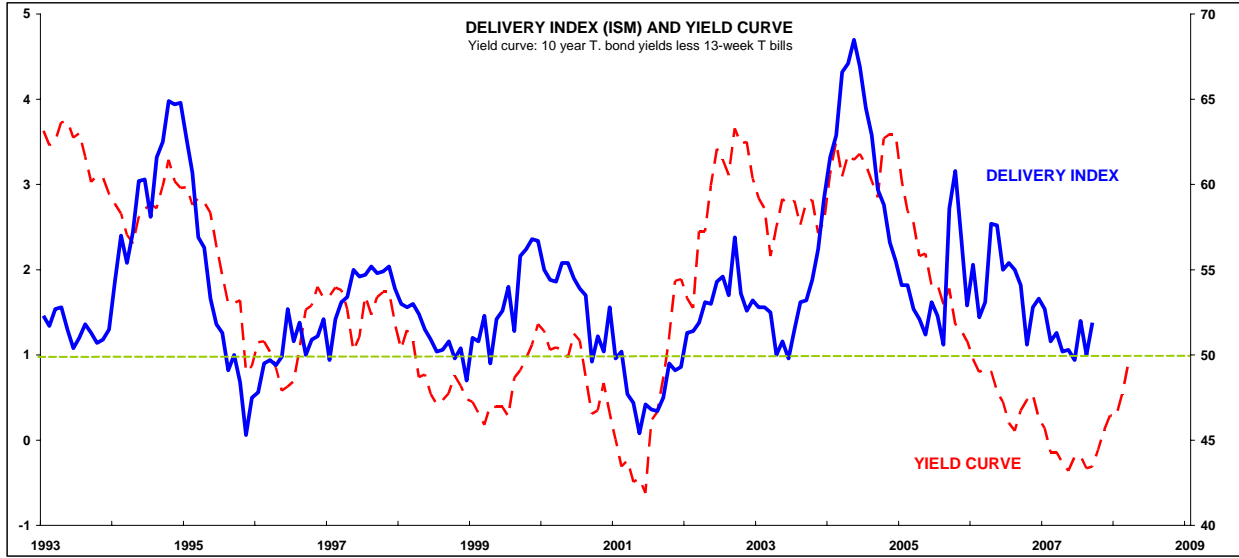


Fig. 3. The indicators released by the ISM reflect a manufacturing sector expanding at an average pace. Our leading indicators, and the yield curve in particular, point to stronger growth ahead.

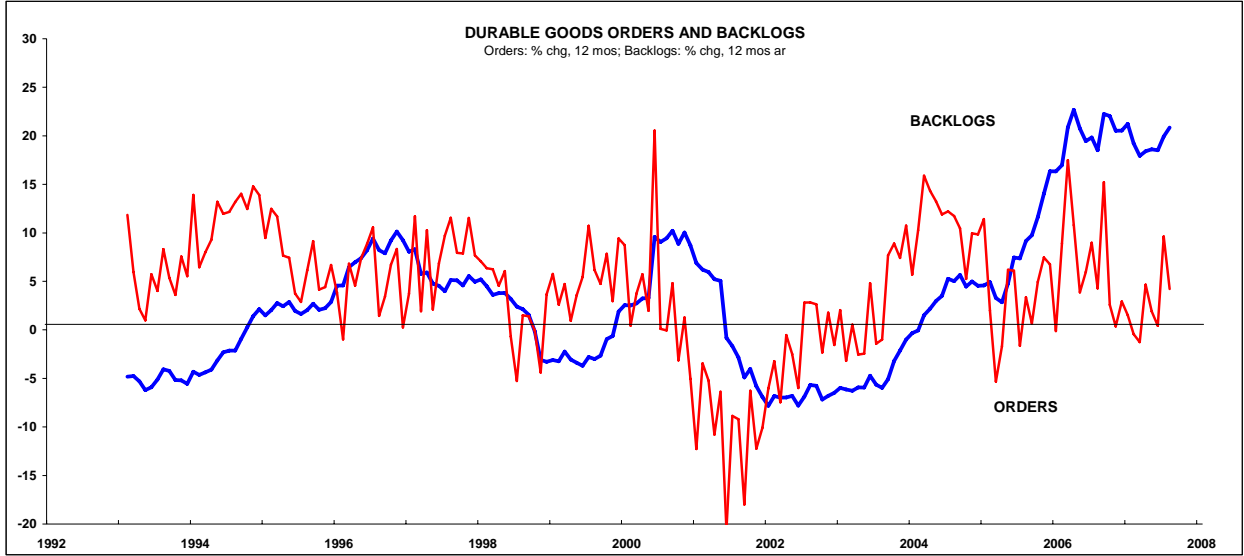


Fig. 4. Orders for durable goods are strong and backlogs are soaring. These trends reflect a sound manufacturing sector.

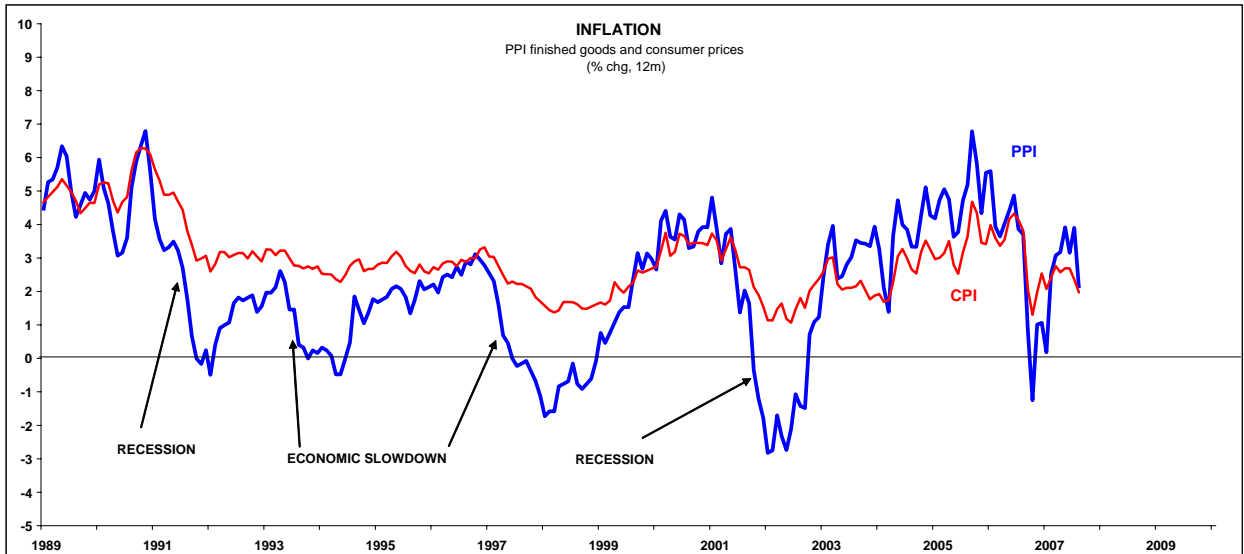


Fig. 5. Headline inflation is declining in response to slower growth in business activity.

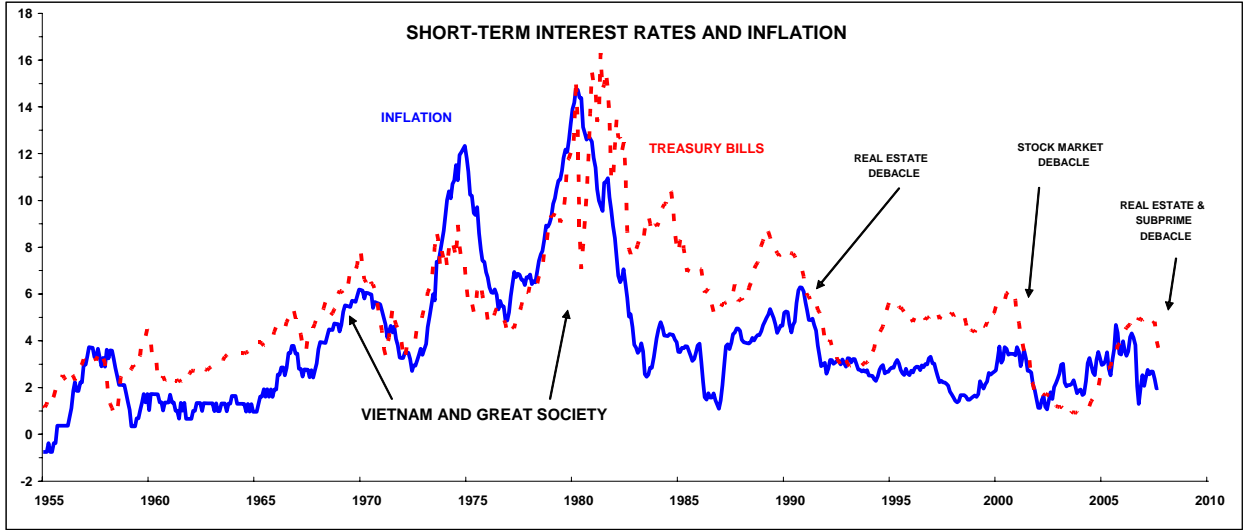


Fig. 6. Inflation and short-term interest rates decline when the economy slows down typically accompanied by a financial crisis.

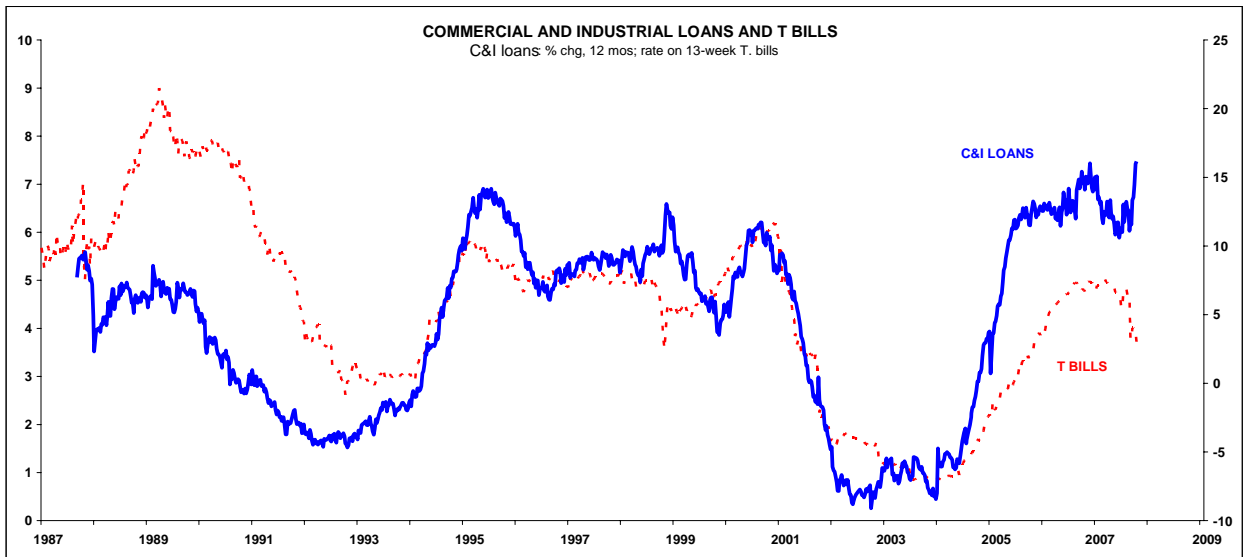


Fig. 7. Commercial and industrial loans are soaring. The economy cannot be as weak as reported when business borrows at the current strong pace.

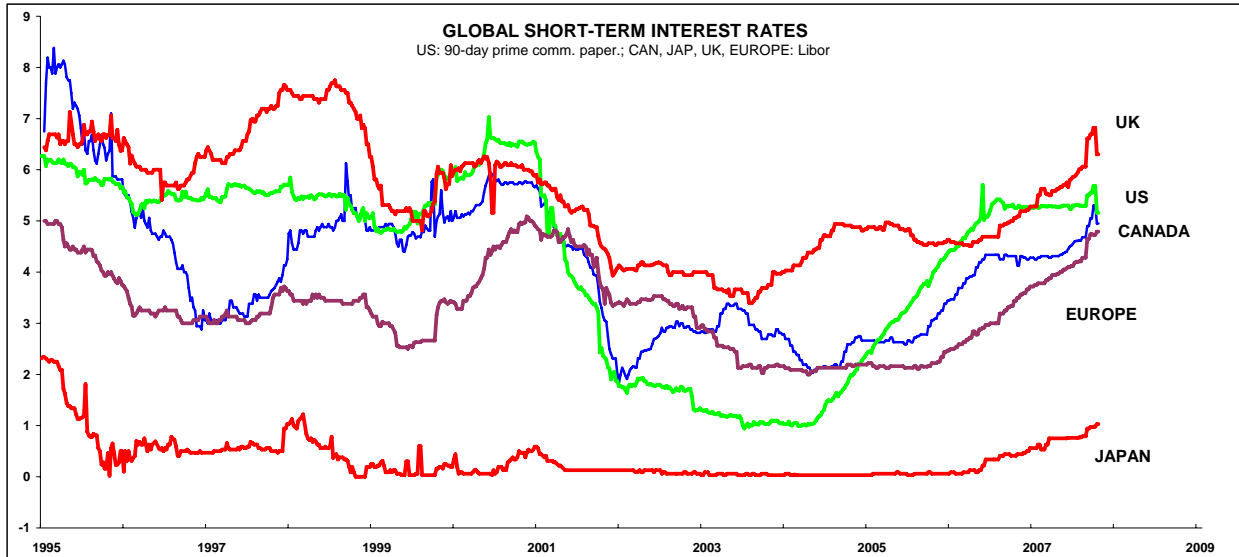


Fig. 8. Short-term interest rates are declining again in the US, UK, and Canada following the recent hiccup due to the subprime debacle. They are still rising in Japan and Europe.

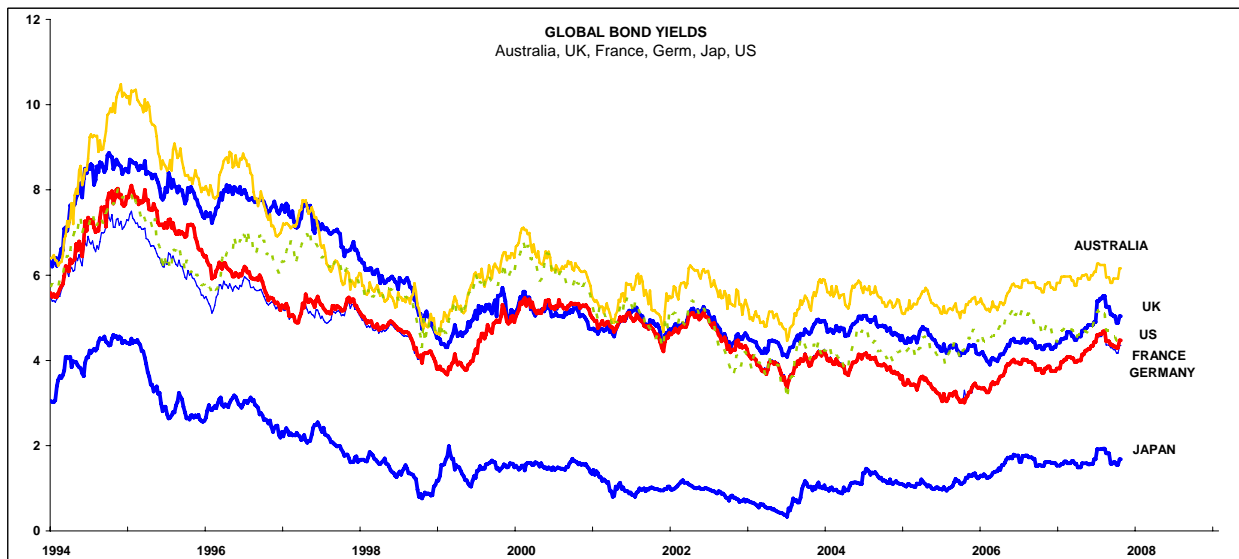


Fig. 9. Global bond yields keep trading in a broad range. They are unlikely to decline from current levels.

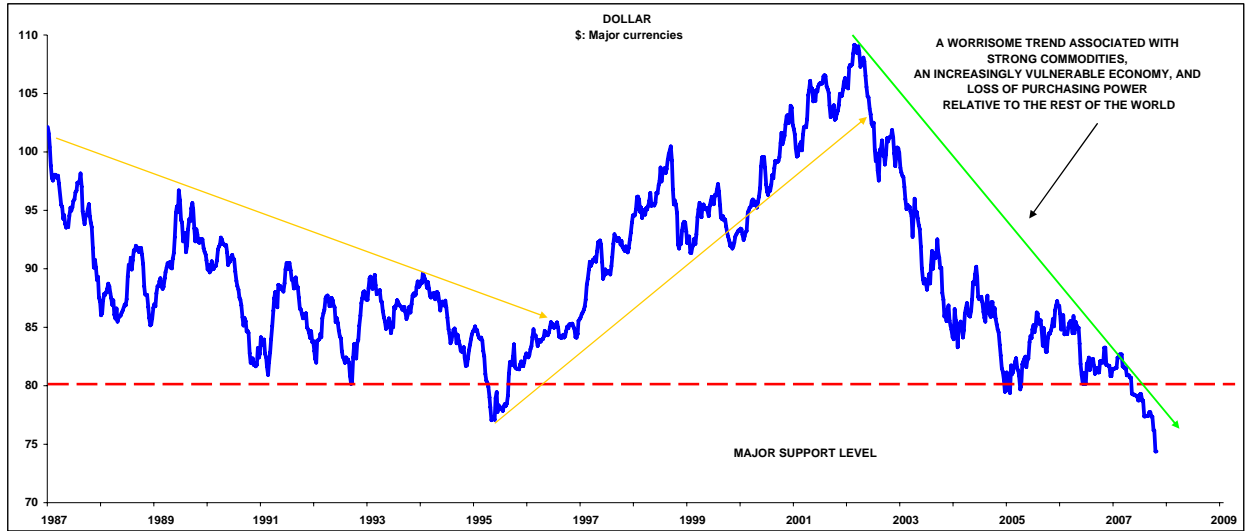


Fig. 10. The dollar continues sinking. Its collapse is bad news.

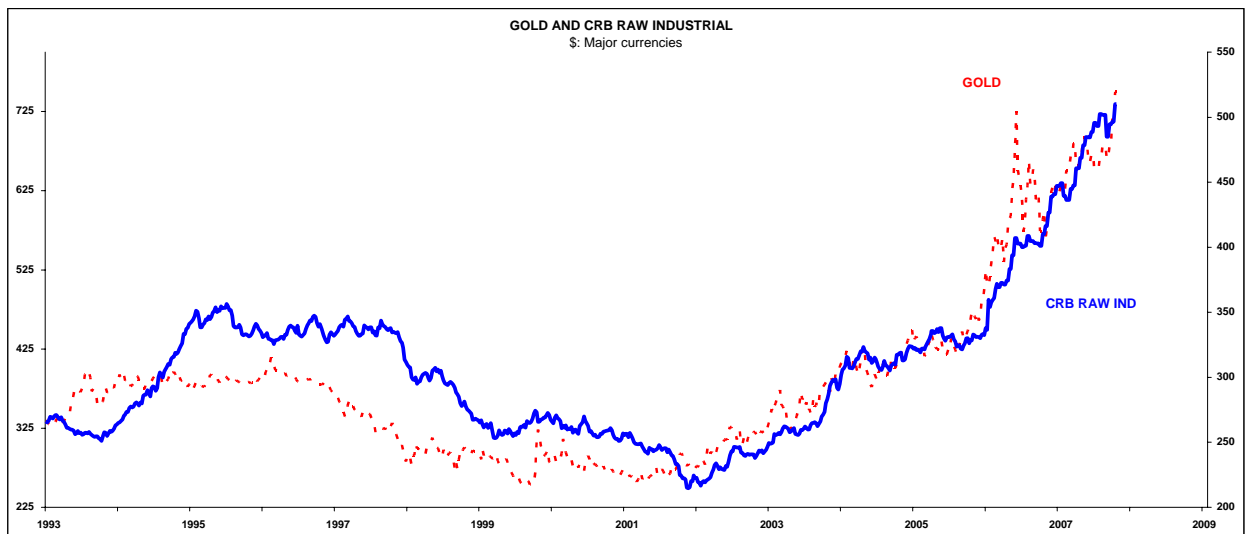


Fig. 11. The rise in commodity prices and gold is the mirror image of the decline in gold. It reflects our loss of purchasing power.

THE BOTTOM LINE

1. The **leading indicators** are rising.
2. **Orders and backlogs** are strong in spite of the weak housing sector.
3. **Consumers** are fine and are spending.
4. The **manufacturing sector** is in good shape.
5. The odds favor a **stronger economy** in 2008.
6. A weak dollar and a firm economy point to stronger **commodities**.
7. **Short-term interest rates** and **bond yields** cannot decline much in such an environment.

THE STOCK MARKET

Long-term fundamental trend

Declining short-term interest rates, stable bond yields, low PE relative to 10-year bond yields, and soaring money supply suggest monetary policy is conducive to **rising stock prices**.

The trend of bond yields remains bullish for stocks. The reason is the market peaks when yields rise for several weeks. This is not the case right now (see Fig. 12).



Fig. 12. Bond yields are stable. Yields will have to move substantially higher for the market to peak.

Technical perspective

Our technical indicators are off their extremely oversold levels, but they are still far from reaching the overbought levels that signaled a market consolidation.

The **advance/decline ratio** is rising again, but is still at oversold levels. The market peaks when this gauge reaches much higher levels (see Fig. 13).

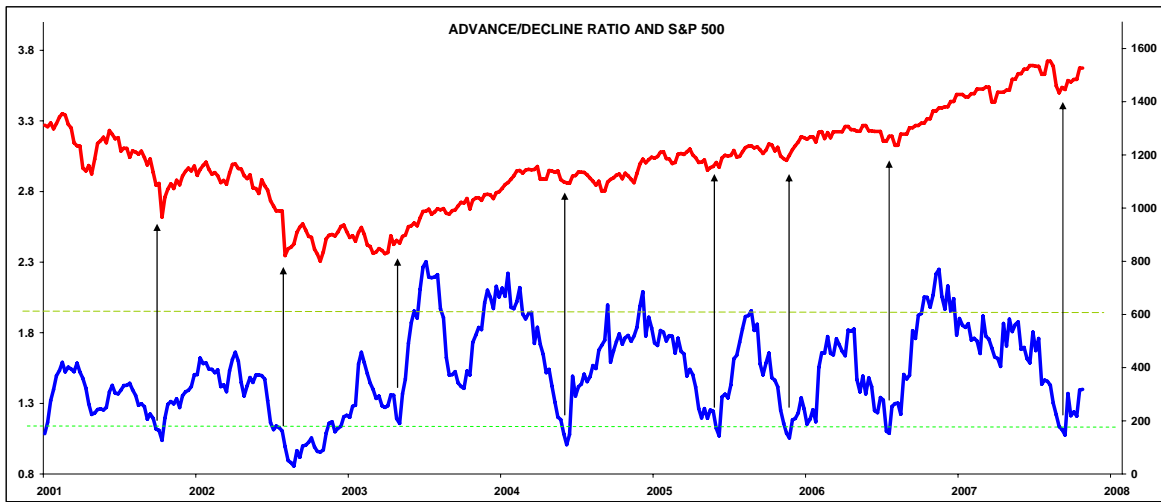


Fig. 13. The advance/decline ratio is still at oversold levels and points to a stronger market in the coming months.

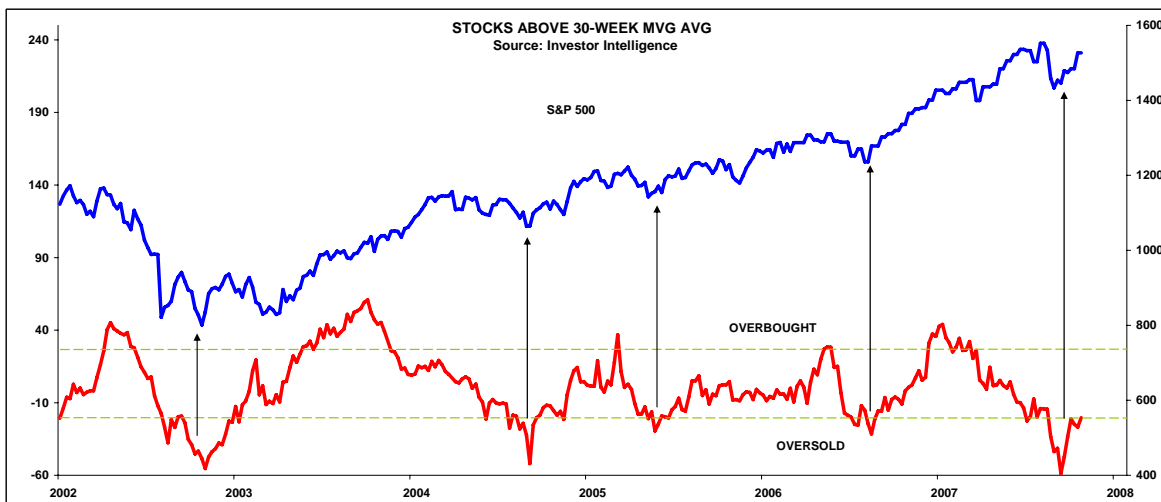


Fig. 14. The number of stocks above their 30-week moving average is still at levels associated with rising stock prices.

The number of stocks above their 30-week moving average remains at oversold levels (see Fig. 14). It will take several months for this gauge to reach bearish levels.

Meanwhile, the market is more likely to move higher. Any correction should be considered as a buy opportunity.

Investors' optimism has improved in the past few weeks, but has not reached the extreme levels typically associated with market tops (see Fig. 15).

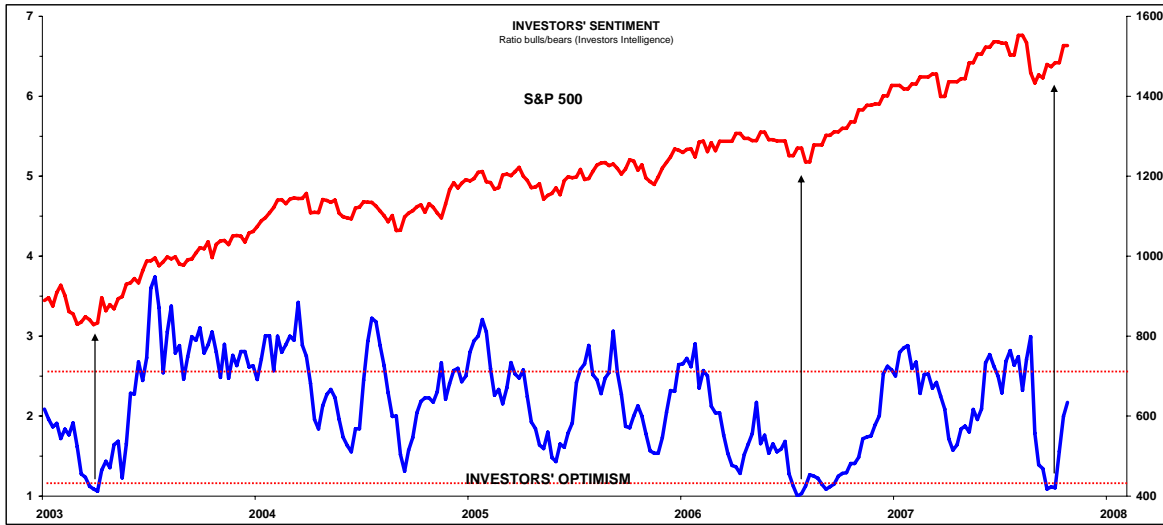


Fig. 15. Investors' optimism is still at levels associated with a strong market.



Fig. 16. The trend is up.

I like to draw **trendlines** to get a feeling of the strength of the market (see Fig. 16). The market will be in trouble when the Dow breaks below the trendline in Fig. 16.

Our proprietary indicator, meanwhile, continues rising, pointing to higher stock prices. The time to worry is when this gauge stops rising and starts declining (see Fig. 17).

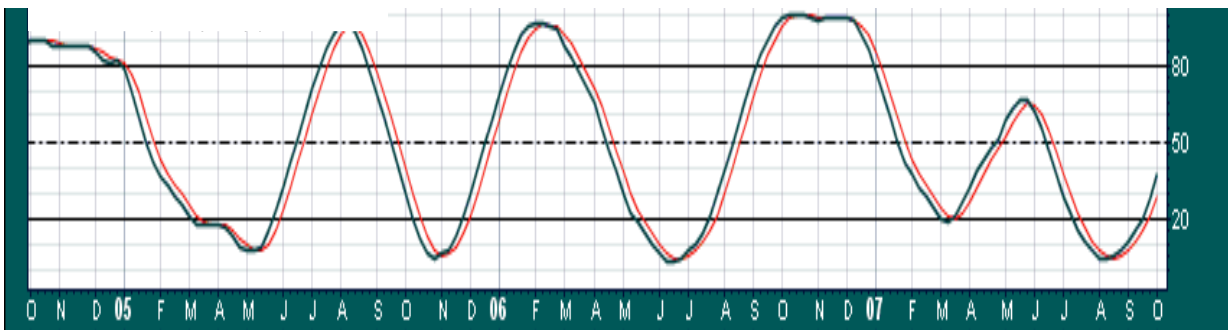


Fig. 17. The trend is up.

SECTOR & ETF RISK ANALYSIS

The purpose of this section is to recognize excesses and opportunities in sectors or leading stocks. We suggest you emphasize those sectors with a strong long-term and short-term momentum.

The strongest sectors in the past three months, in order of strength (1 strongest, 18 weakest), are:

1. **Precious metals (GLD, GDX)**
2. **Energy (XLE, OIH)**
3. **Telecom (TTH, IXP, IYZ)**
4. **Technology (QQQQ, XLK, SMH)**
5. **Materials (XLB)**
6. **Currencies (FXE, DBV)**
7. **Industrials (XLI)**
8. **Water resources (PHO)**
9. **Consumer staples (XLP)**
10. **Utilities (XLU)**
11. **Consumer discretionary (XLY)**
12. **S&P 500 (SPY)**
13. **Healthcare (XLV)**
14. **Finance (XLF, IXG)**
15. **High-yield bonds (PHK, ALD, BNA, NCV)**
16. **Transportation (IYT)**
17. **Treasury bonds (long maturities) (TLT)**
18. **Homebuilders (XHB)**

The strongest sectors are **technology** and **commodity sensitive** stocks. The message of the market suggests **the economy is more likely to strengthen than weaken.**

THE GLOBAL BUSINESS CYCLE

Prepared by: Peter Dag & Associates, Inc.

Dr. George Dagnino, Editor

The Peter Dag Portfolio Strategy and Management

Since 1977

www.peterdag.com

12-24-07

The latest composite leading indicators released by the OECD point to a moderate downturn in economic activity in the OECD area (see Fig. 1). The latest data suggest the major seven countries will slow down appreciably.

The Euro-area is likely to slow down more visibly than the US (see Fig. 2). Considerable weakness should be expected in France, Italy, and Japan.

The latest data for major OECD non-member economies point to continued strong expansion in China, India and Brazil but a weakening outlook for Russia.

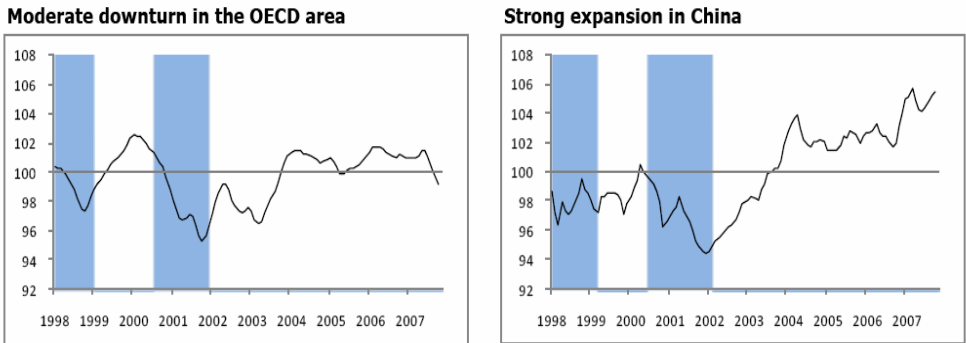


Fig. 1. The economies of the industrialized world are going to slow down in a visible way. The Chinese economy, meanwhile, will continue to expand at a robust pace. The blue areas represent business cycle downswings.

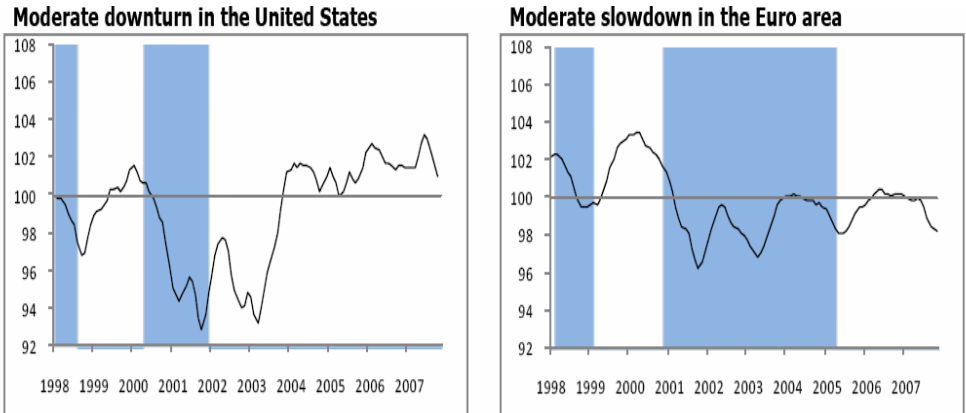
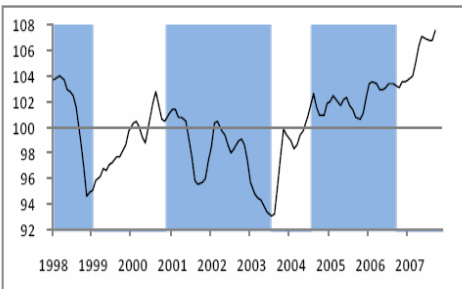
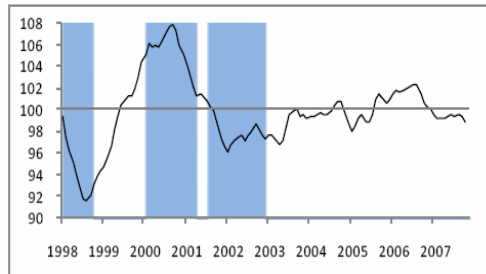


Fig. 2. The US economy is going to slow down according to OECD data. The European economy is likely to sustain a sharp decline in growth. The blue areas represent business cycle downswings.

Strong expansion in Brazil



Moderate slowdown in Russia



Moderate expansion for India

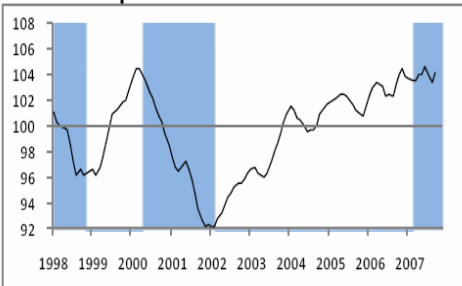


Fig. 3. Brazil and India will continue to grow strongly. Russia, however, will be displaying luckluster growth. The blue areas represent business cycle downturns.

The international purchasing managers reported a slight improvement in the global **manufacturing** sector with the index finishing at 52.2. This level suggests the global manufacturing sector is growing close to 2%.

The global **service sector** continues to slow down, with the index closing at 54.2. Growth has slipped to a four and a half year low.

The **global expansion** (manufacturing and services) has eased to a 53 month low and the index is below its long-term average of 55.7. Overall **global growth** remains below 3%.

This is how the **global markets** are responding to recent business cycle developments.

1. **Short-term interest rates:** Short-term interest rates (libor rates) remain in a rising trend reflecting caution by the lenders (see Fig. 4).
2. **Global bond yields** have shown an up tick (Fig. 5).
3. The **yield curve** remains steep in Europe, a sign of monetary stimulus (Fig. 6).
4. The European **money supply** continues growing at a rapid pace (Fig. 7).
5. **The dollar** has rebounded, but the trend is down (see Fig. 8).
6. **The Baltic shipping index** has weakened, probably reflecting the global slowdown (Fig. 9).
7. Major **equity markets:** the strongest ones are EWZ, EEB, FXI, RSX, FNI, ILF, and EZA.

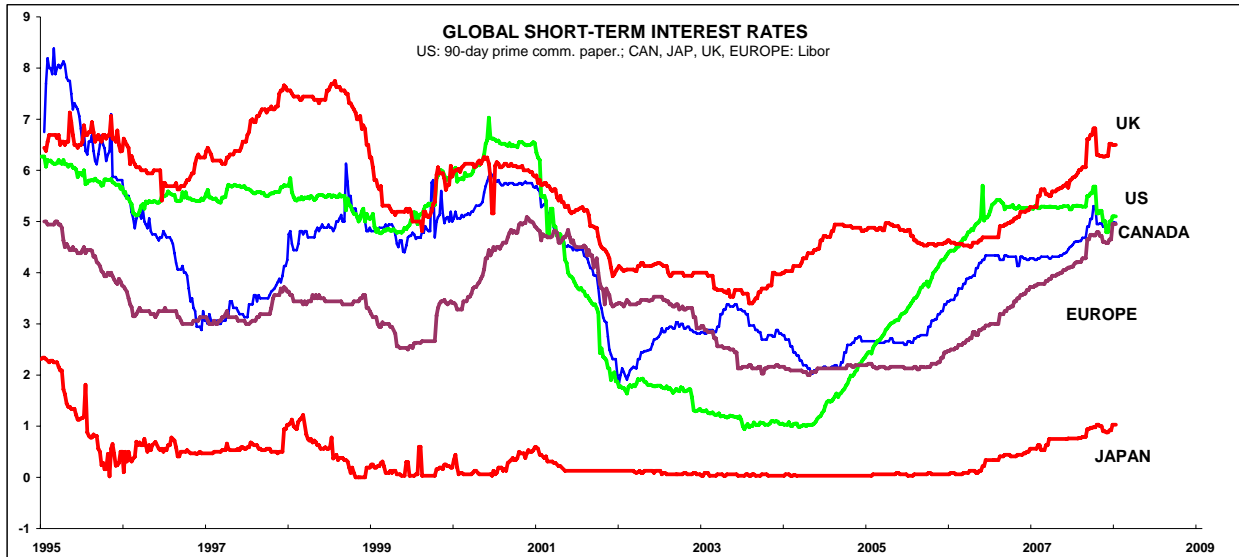


Fig. 4. Short-term interest rates rose again reflecting the cautiousness of the lenders in the midst of the current credit crunch.

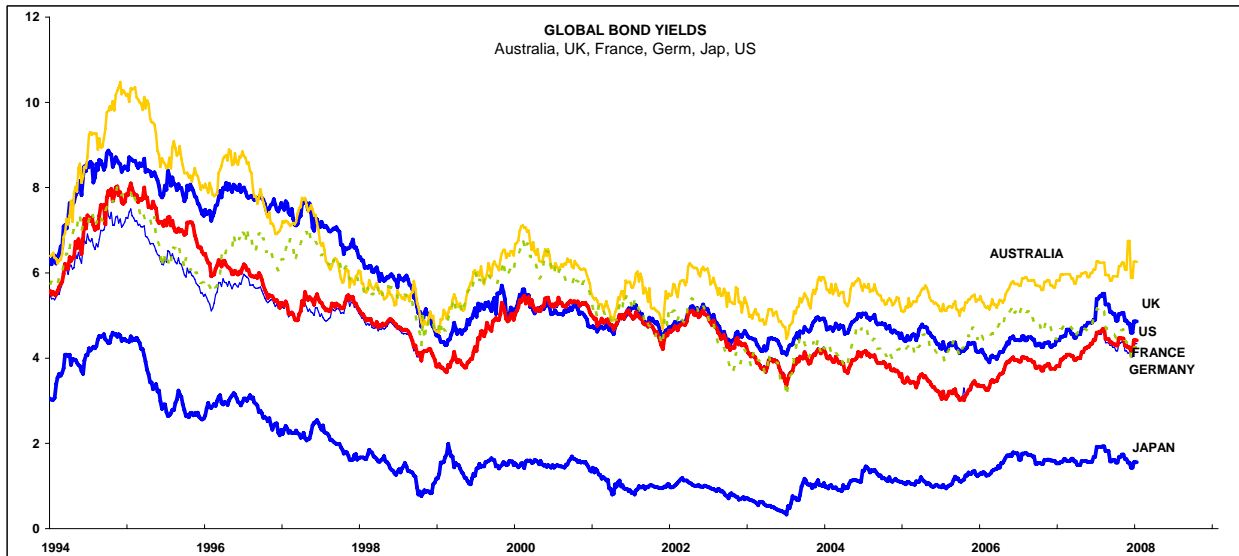


Fig. 5. Bond yields jumped, but remain below the peak reached last summer.

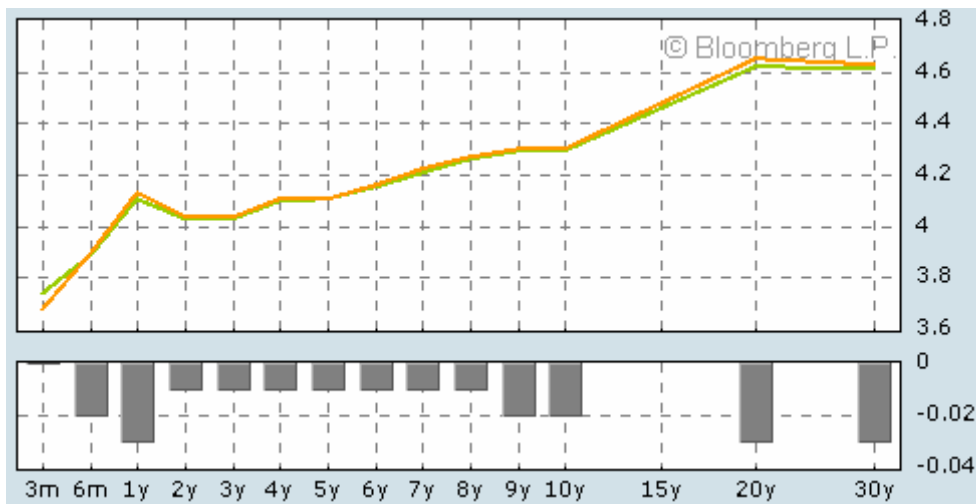


Fig. 6. The European yield curve remains steep and reflects monetary stimulus.



Fig. 7. The European money supply M3 is growing at a strong pace as the ECB attempts to ease the worries of the credit crisis.

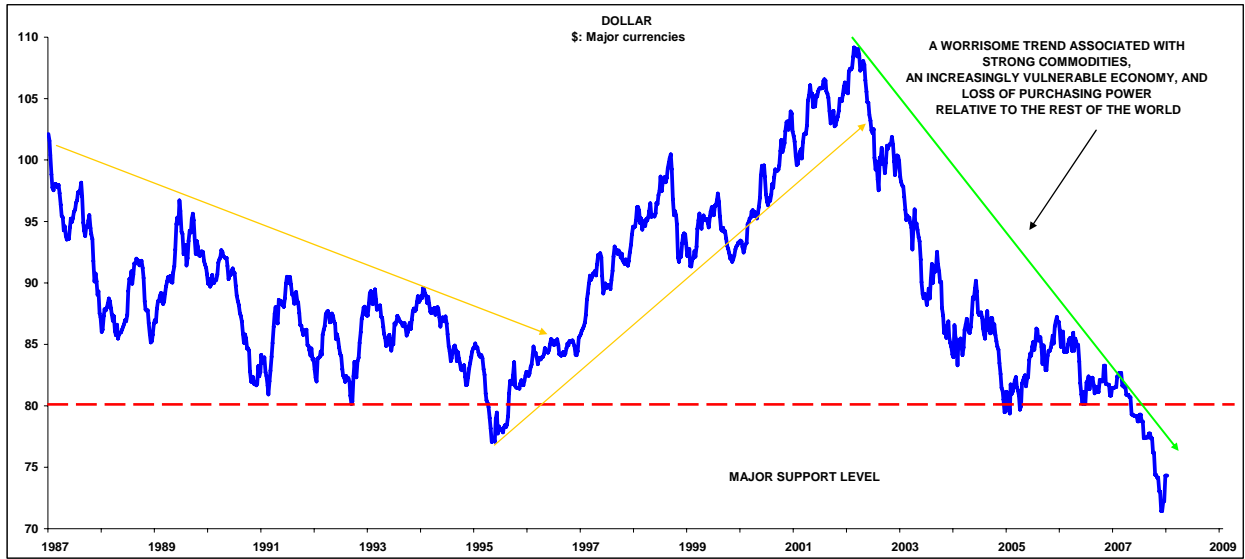


Fig. 8. The dollar has strengthened but the odds favor more weakness ahead.

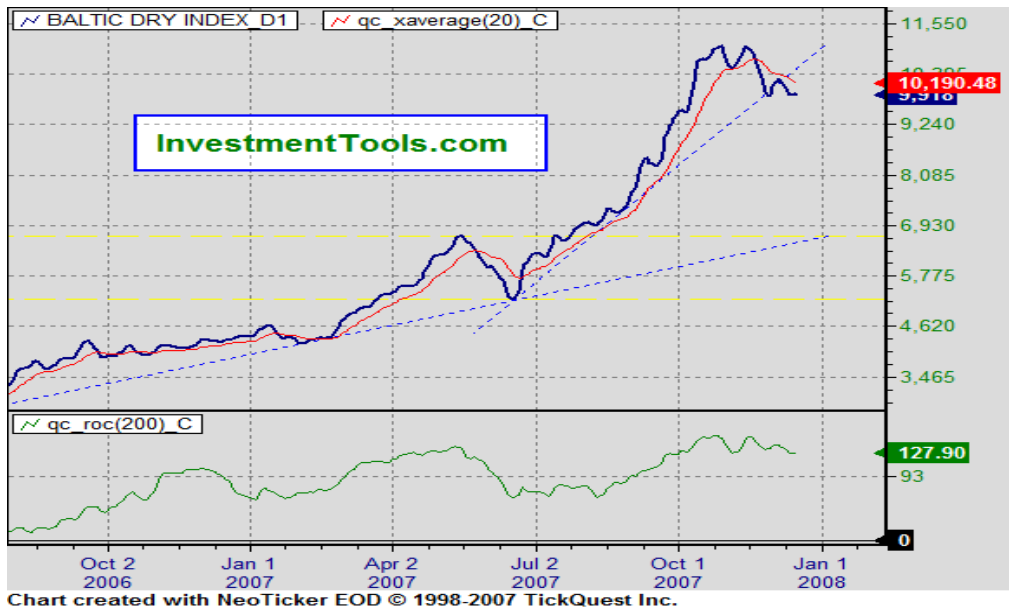


Fig. 9. The Baltic shipping index has been weakening in response to the gradual slowdown of the world economy.

THE US ECONOMY

Dr. George Dagnino, Editor

The Peter Dag Portfolio Strategy and Management

Since 1977

www.peterdag.com

12-07-07



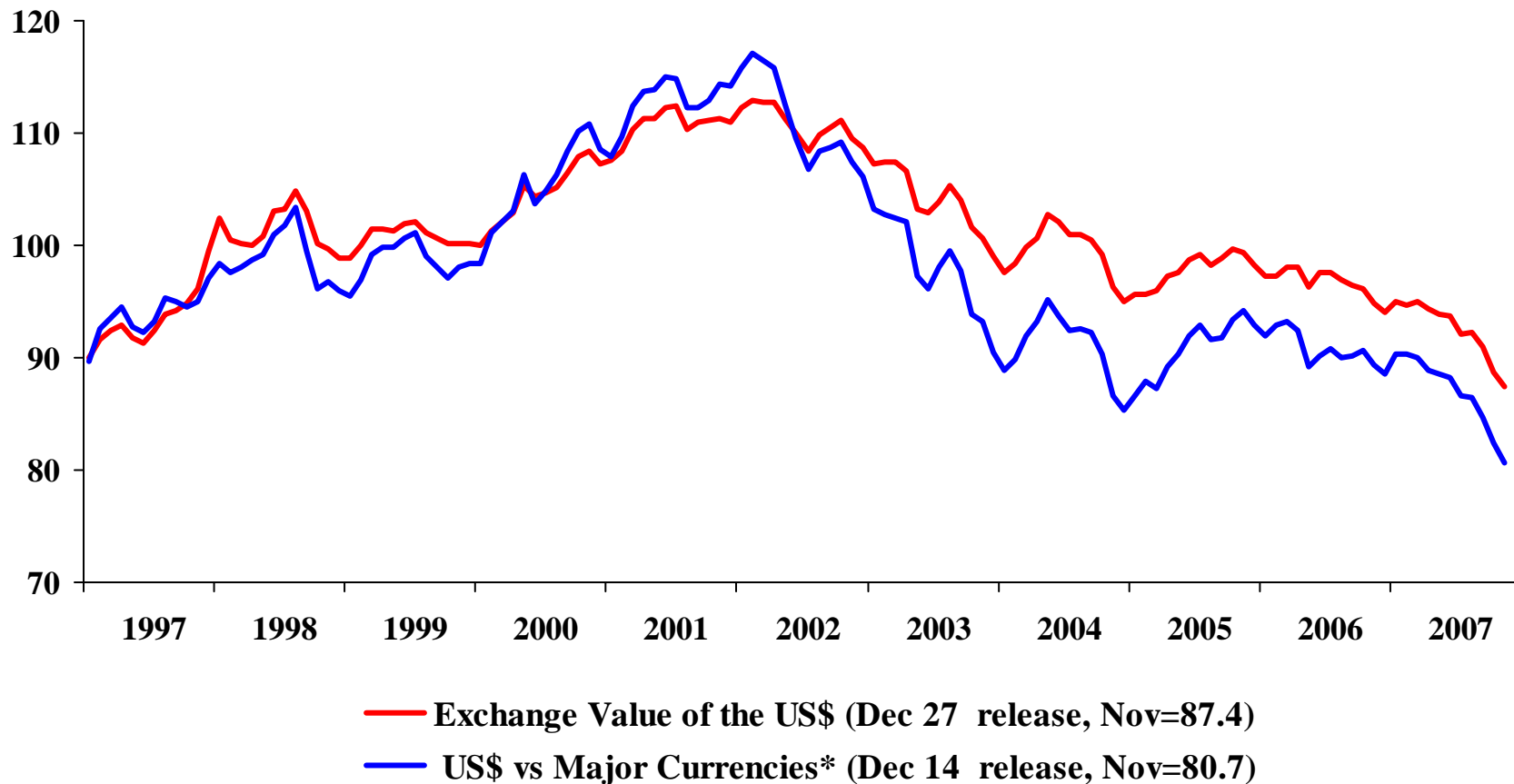
INTERNATIONAL INFLUENCES

<http://www.dallasfed.org>



Real Value of the Dollar

March 1973 = 100



* Euro Area, Canada, Japan, UK, Switzerland, Australia, and Sweden

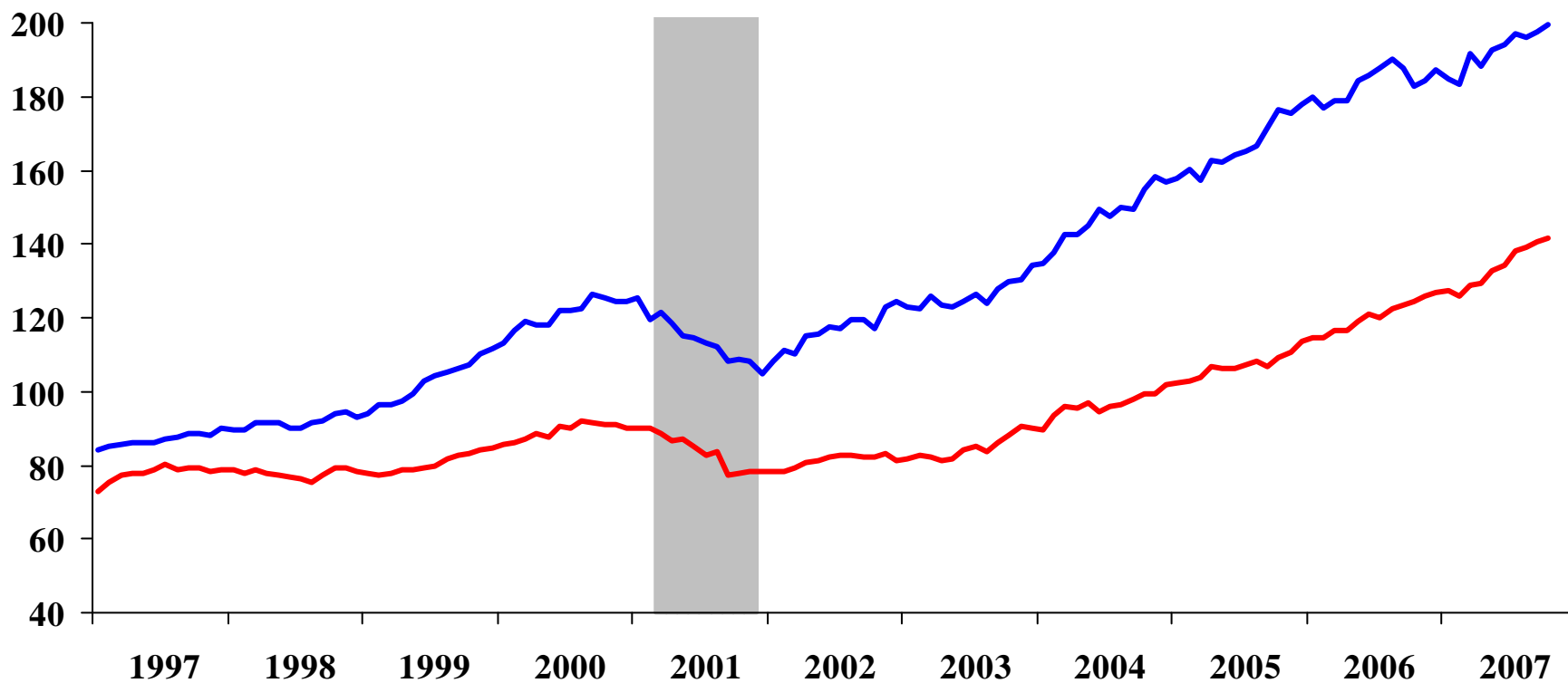
Source: Federal Reserve Board

<http://www.dallasfed.org>



U.S. Imports and Exports

Billions of Dollars



■ Recession — Exports (Dec 12 release, Oct = 141.7) — Imports (Dec 12 release, Oct = 199.5)

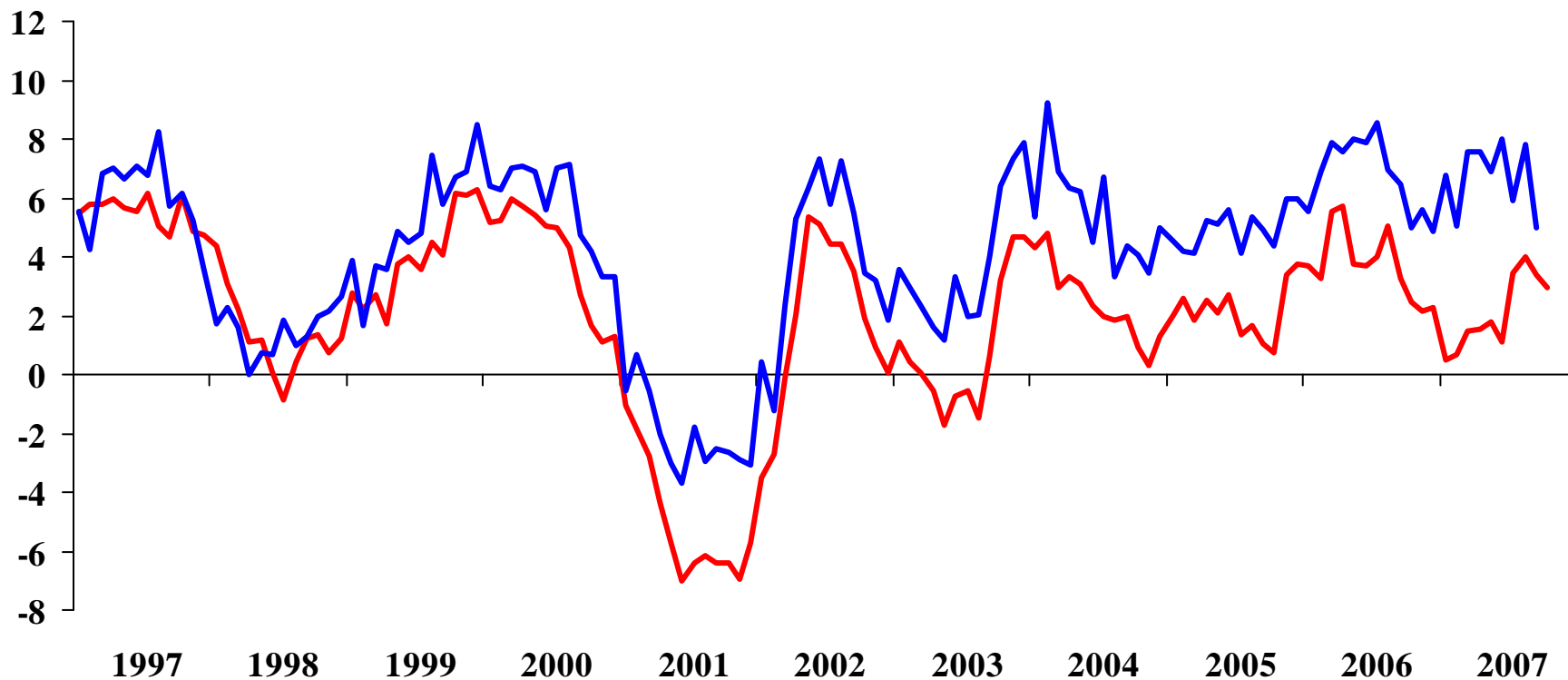
Source: Bureau of the Census

<http://www.dallasfed.org>



6-month % change,
annualized

Industrial Production: OECD Big 7 & OECD + 6



— OECD Big 7 (Dec 10 release, Oct=2.9) — OECD+Major 6 Non-Members (Dec 10 release, Sep=5)

OECD Big 7: Canada, France, Germany, Italy, Japan, UK, U.S.

Major 6 Non-Members: Brazil, China, India, Indonesia, Russia, South Africa

Source: OECD

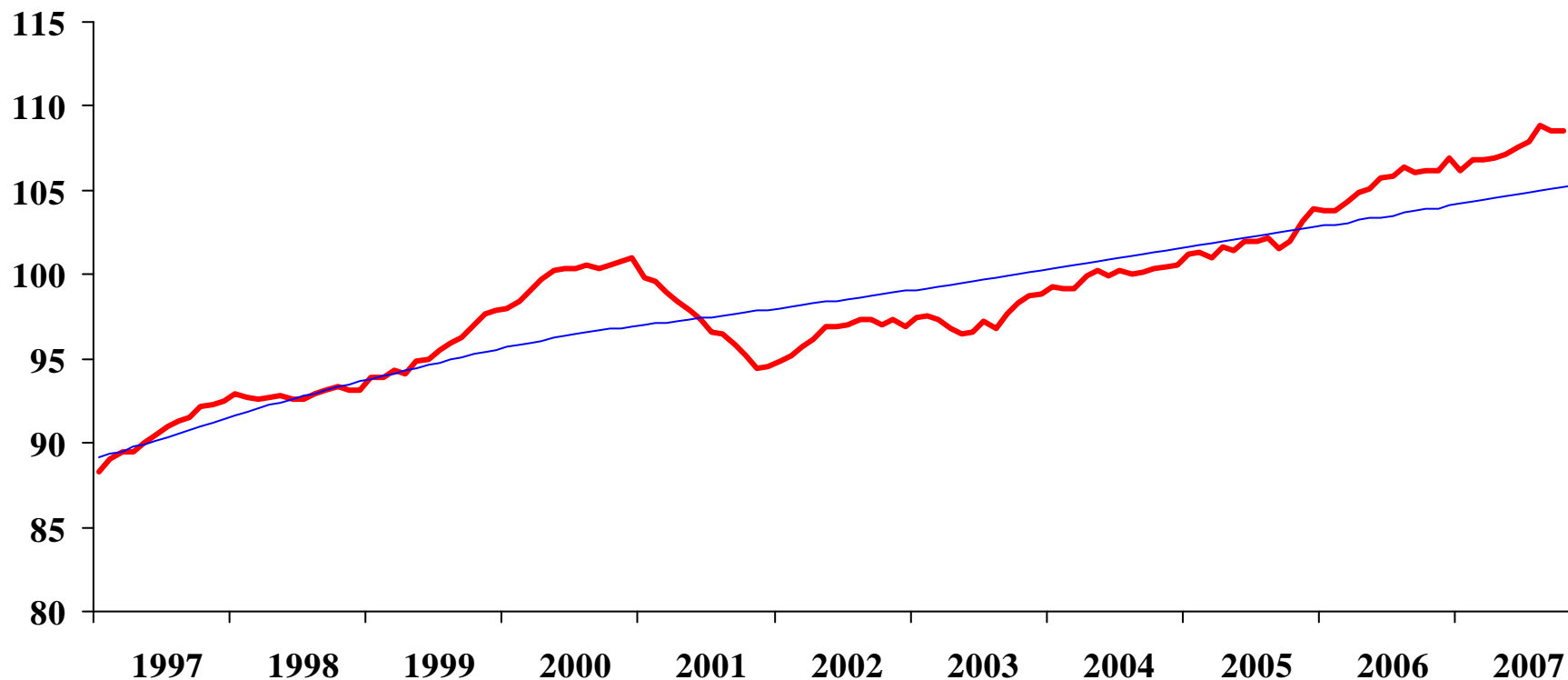
<http://www.dallasfed.org>



Industrial Production & Trend

OECD Big 7

Index 2000=100



— OECD Big 7 (Dec 10 release, Oct=108.5)

— Trend (Dec 10 release, Dec=105.4)

OECD Big 7: Canada, France, Germany, Italy, Japan, UK, U.S.

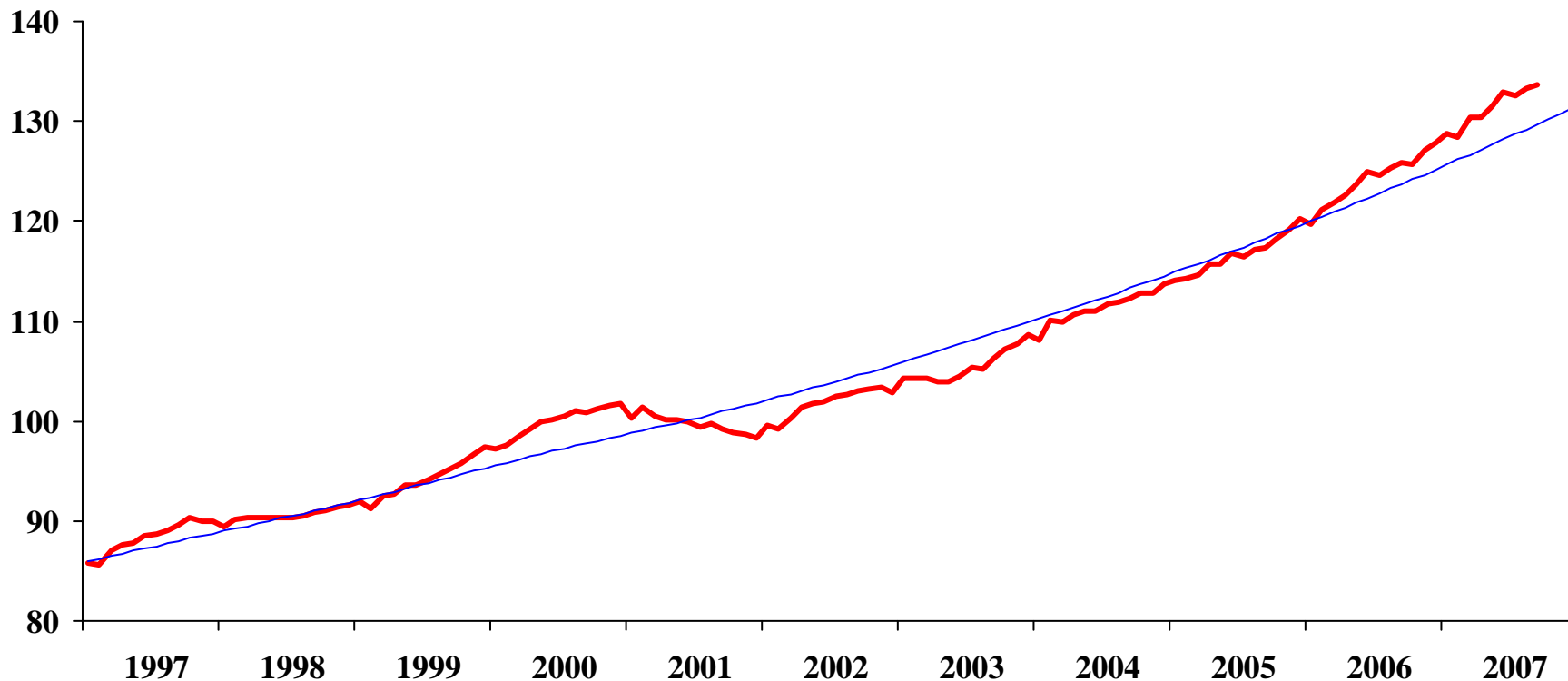
Source: OECD

<http://www.dallasfed.org>



Industrial Production & Trend OECD + 6

Index 2000=100



— OECD + Major 6 Non-Members (Dec 10 release, Sep=133.7) — Trend (Dec 10 release, Dec=131.3)

OECD Big 7: Canada, France, Germany, Italy, Japan, UK, U.S.

Major 6 Non-Members: Brazil, China, India, Indonesia, Russia, South Africa

Source: OECD

<http://www.dallasfed.org>



DOMESTIC ECONOMIC ACTIVITY

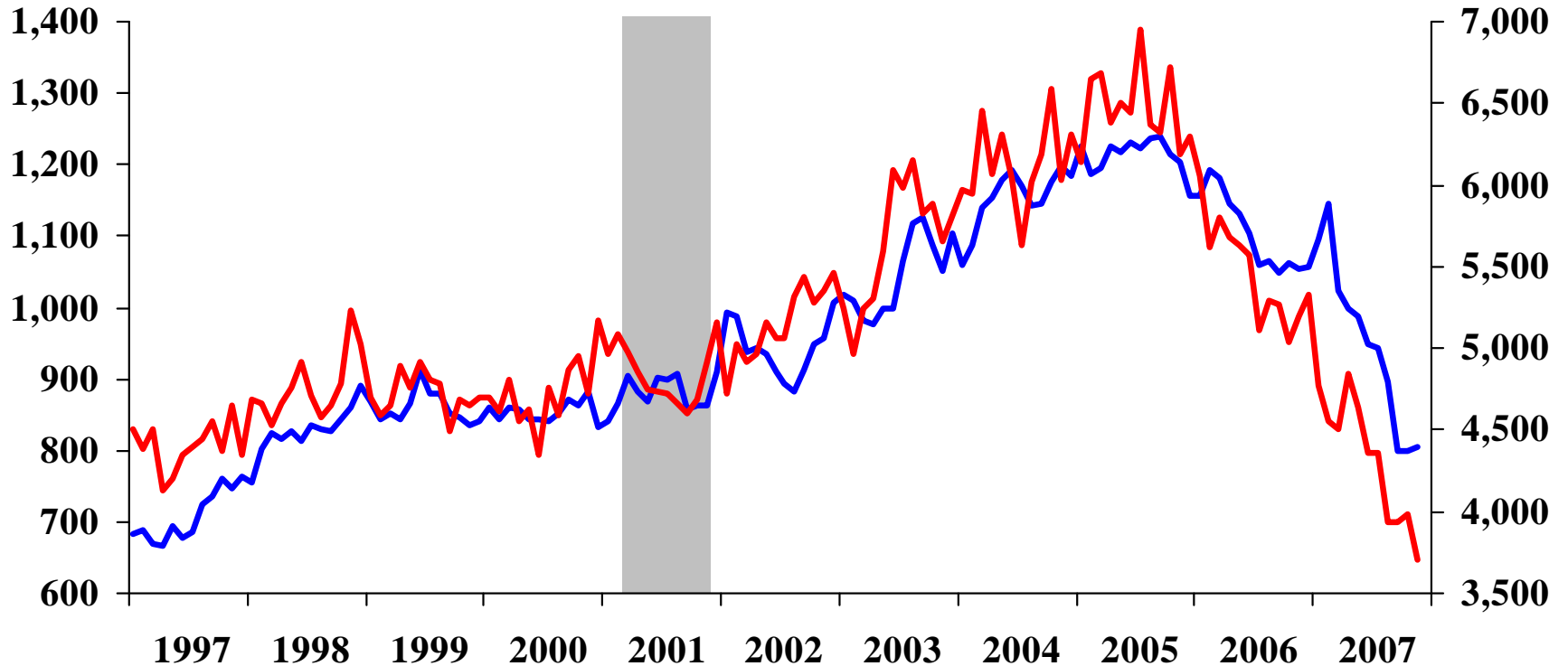
<http://www.dallasfed.org>



Home Sales

Thousands of New Homes

Thousands of Existing Homes



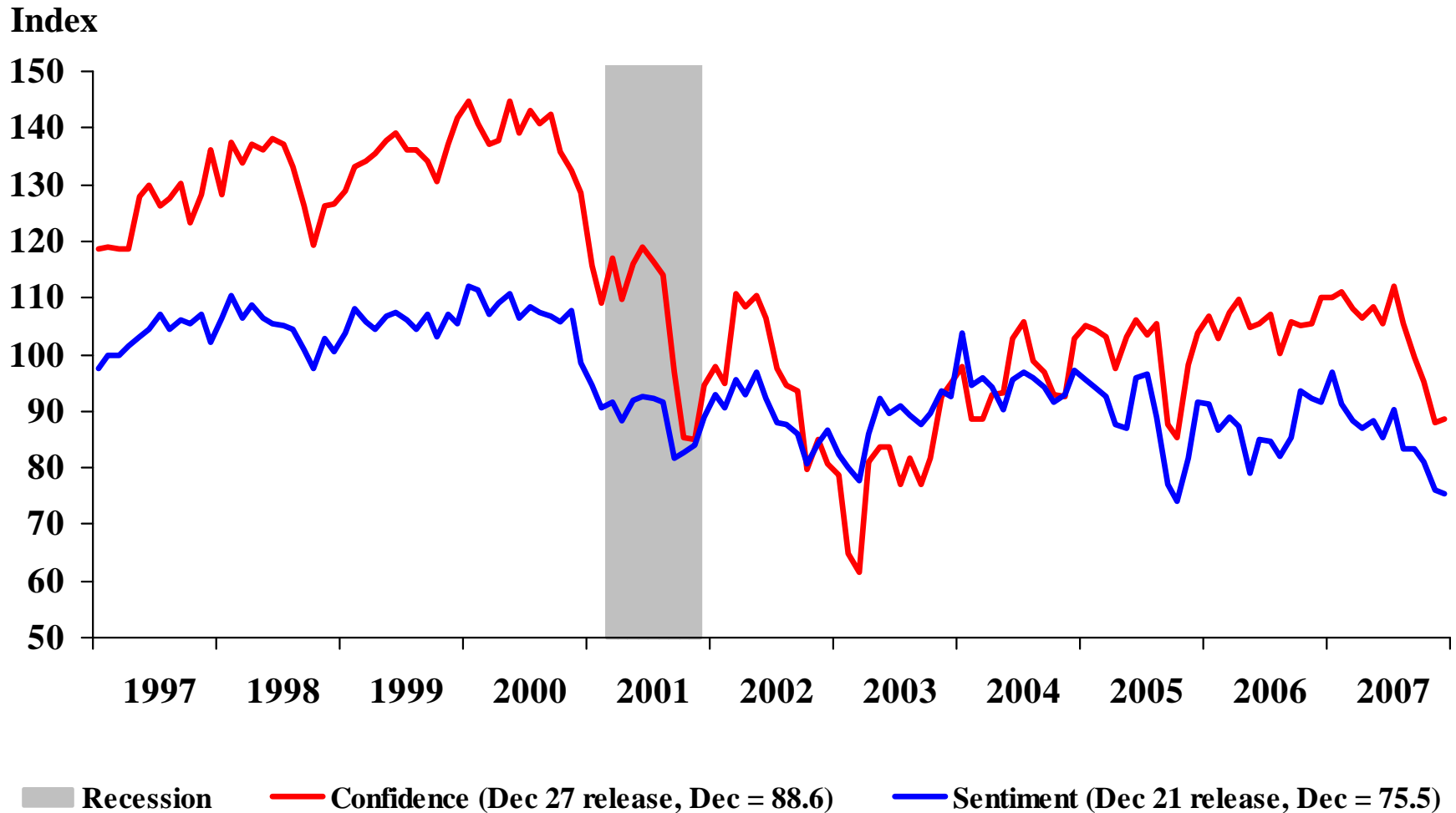
Existing Home Sales (Dec 31 release, Nov = 4400)

New Home Sales (Dec 28 release, Nov = 647)

Recession



Consumer Confidence/Sentiment



Consumer Sentiment: Survey of Consumers, Survey Research Center, U. of Michigan

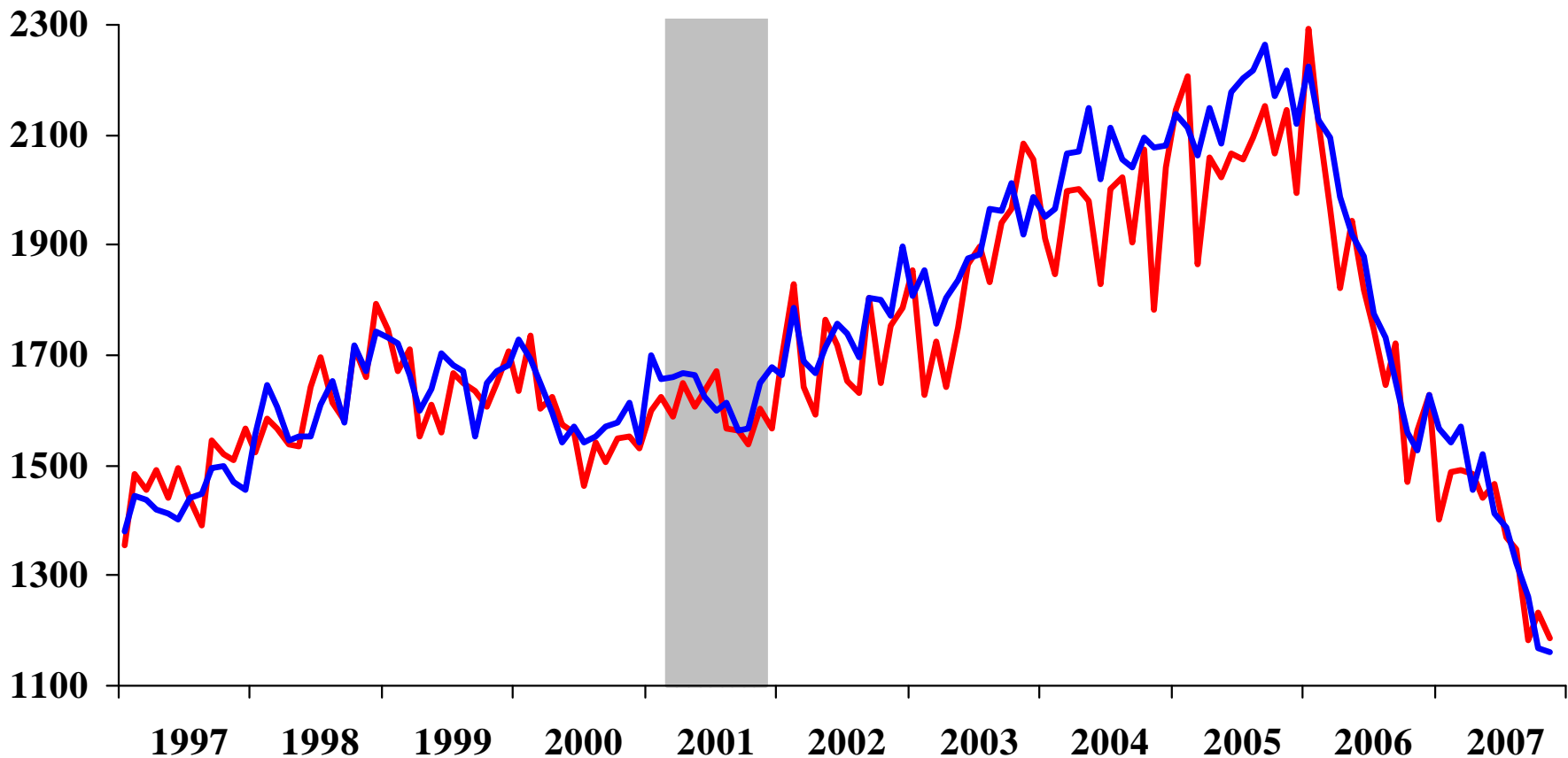
Consumer Confidence: The Conference Board

<http://www.dallasfed.org>



Housing Starts and Permits

Thousands



■ Recession — Housing Starts (Dec 18 release, Nov = 1187) — Permits Issued (Dec 27 release, Nov = 1162)

Source: Bureau of the Census

<http://www.dallasfed.org>

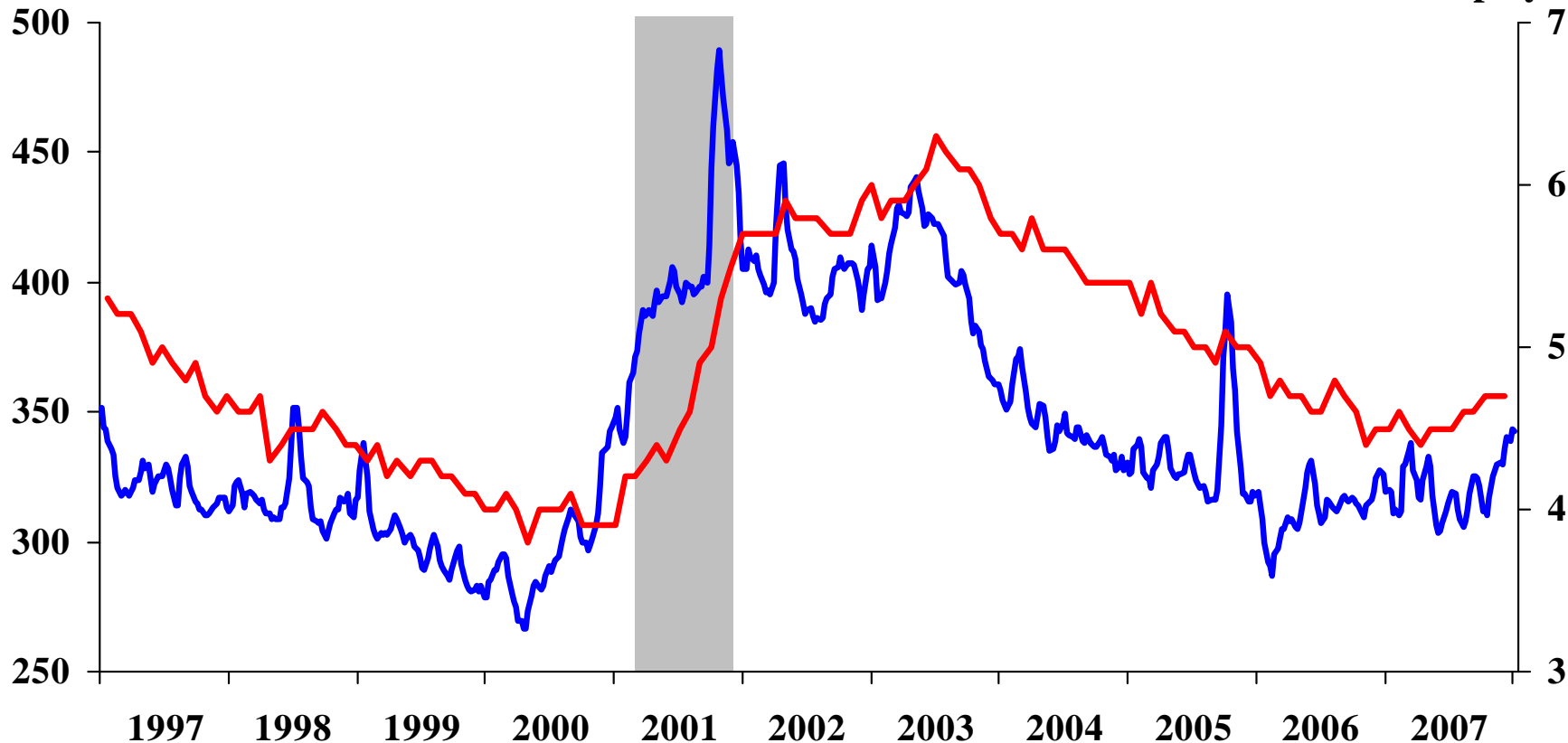


Initial Claims for Unemployment and Unemployment Rate

4-week MA

Thousands of Initial Claims

Percent Unemployment



— Initial Claims (Dec 27 release, 22-Dec=343)

— Unemployment Rate (Dec 07 release, Nov=4.7)

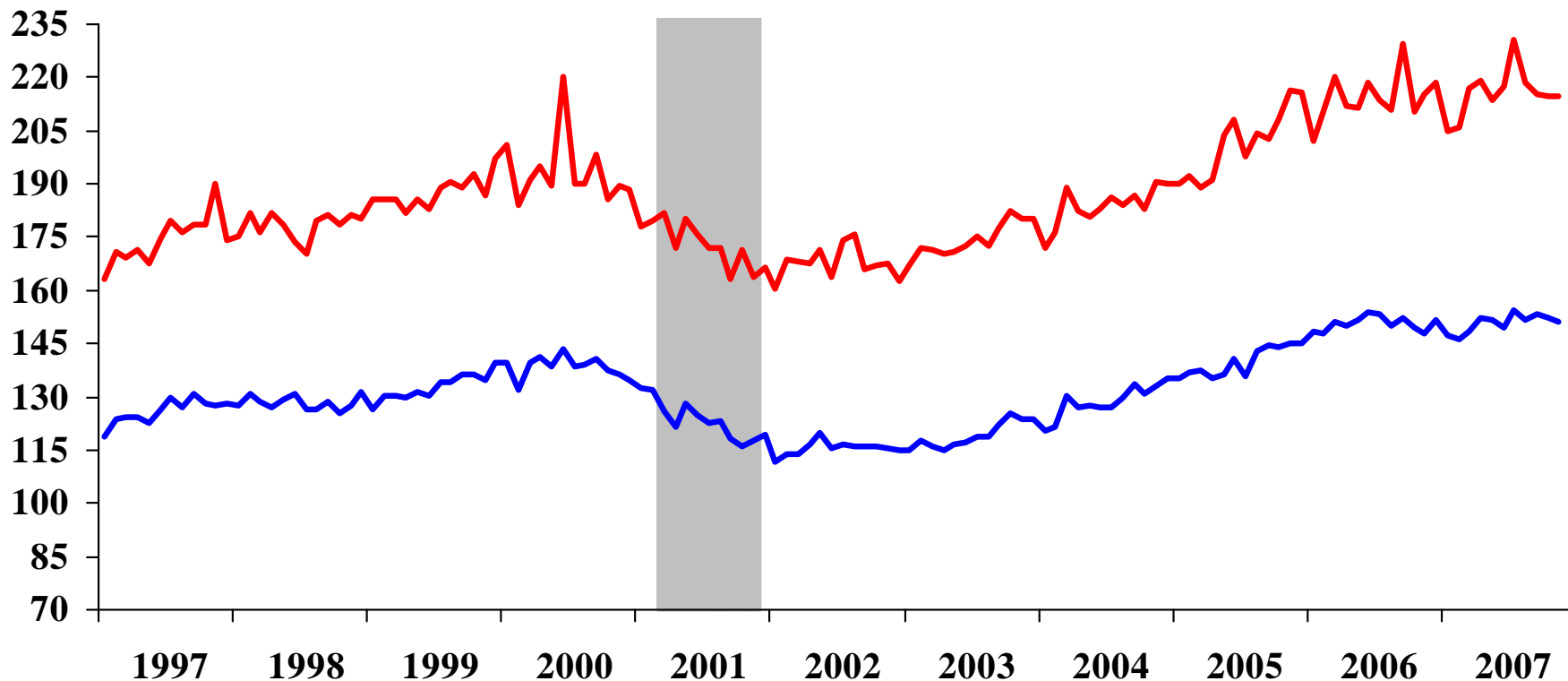
■ Recession

Source: Bureau of Labor Statistics, Department of Labor <http://www.dallasfed.org>



New Orders for Durable Goods

Billions of Dollars



— Durable Goods (Dec 27 release, Nov = 214.7)

— Excl. Transportation (Dec 27 release, Nov = 151)

■ Recession

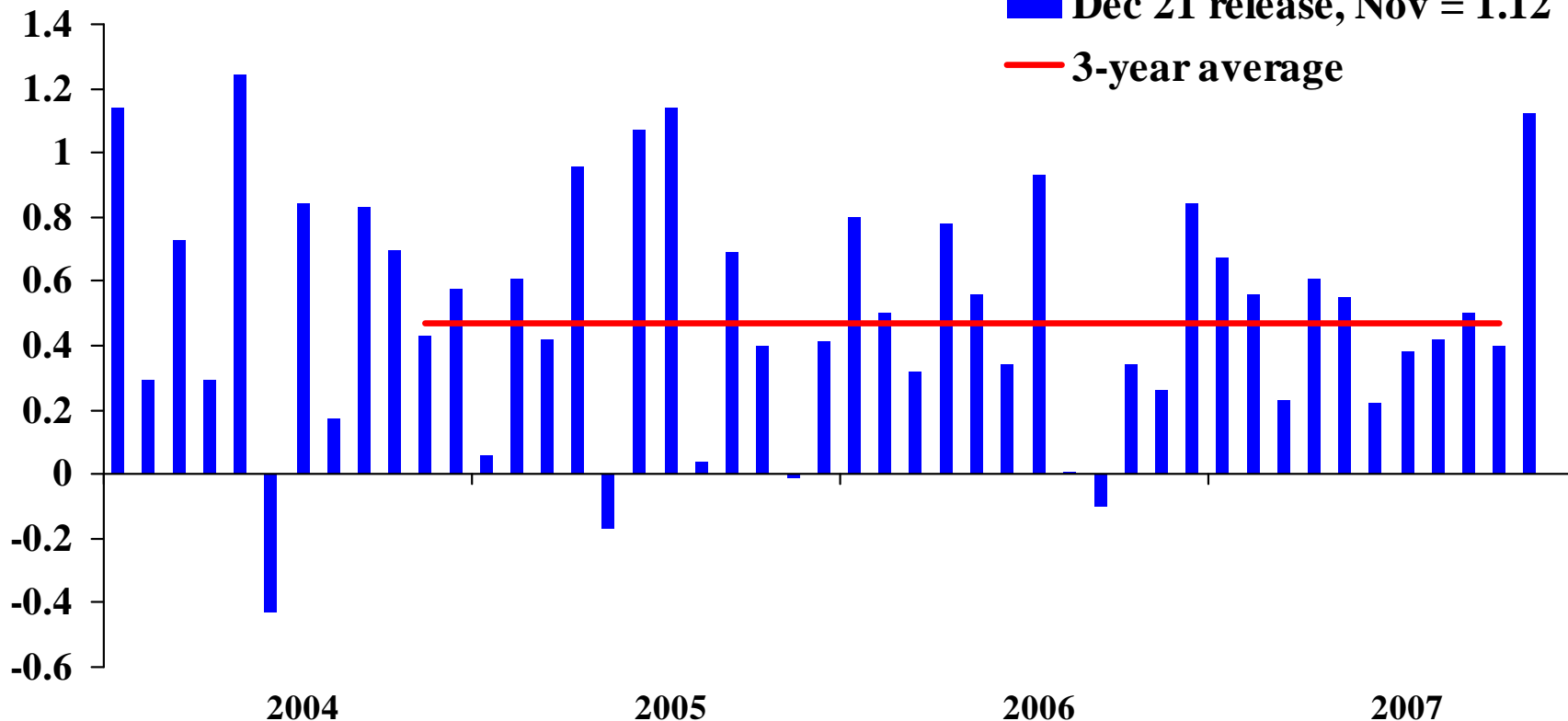
Source: Bureau of the Census

<http://www.dallasfed.org>



Nominal Personal Consumption Expenditures

1-month % change



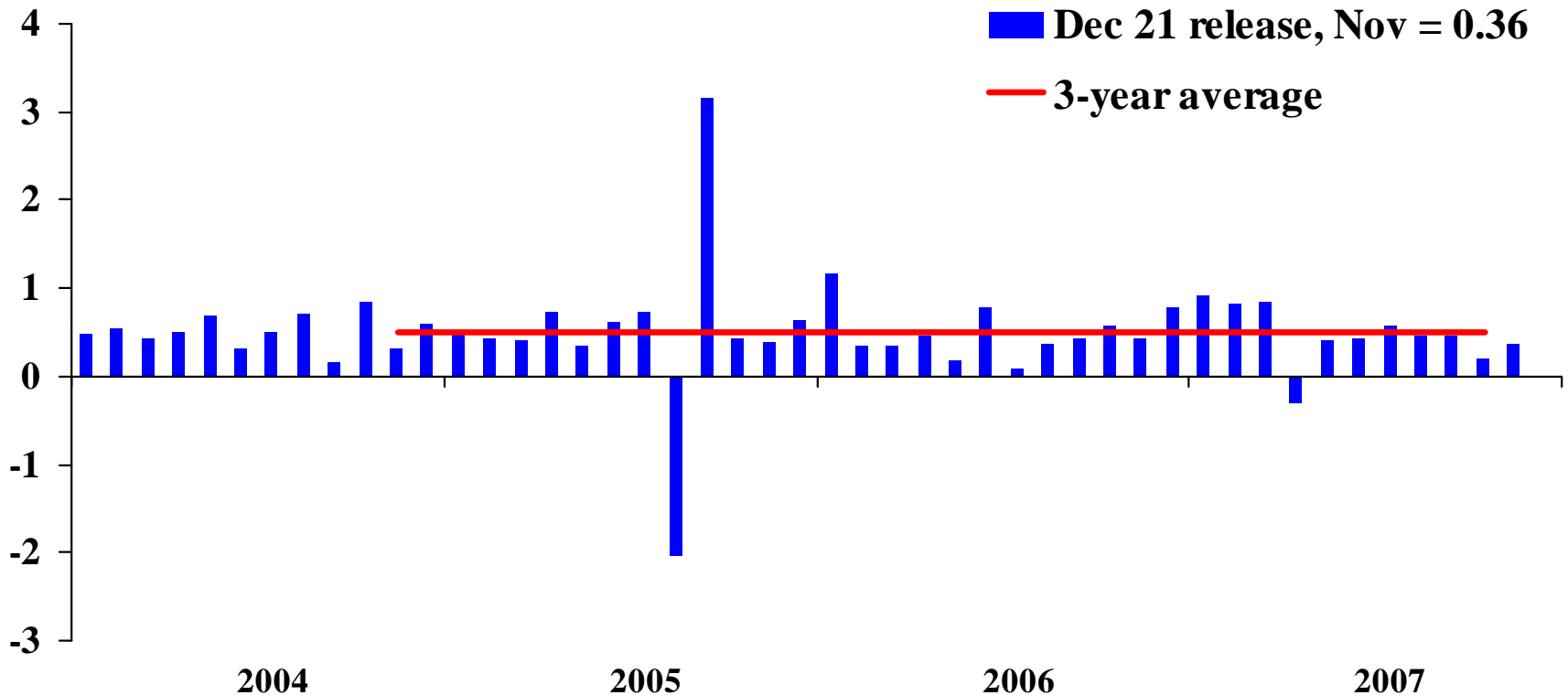
Source: Bureau of Economic Analysis

<http://www.dallasfed.org>



Personal Income

1-month % change



Note: December 2004 and January 2005 numbers exclude payment of special dividend by Microsoft Corp. Including special dividend payment Personal Income growth was 3.7% and -2.3% respectively.

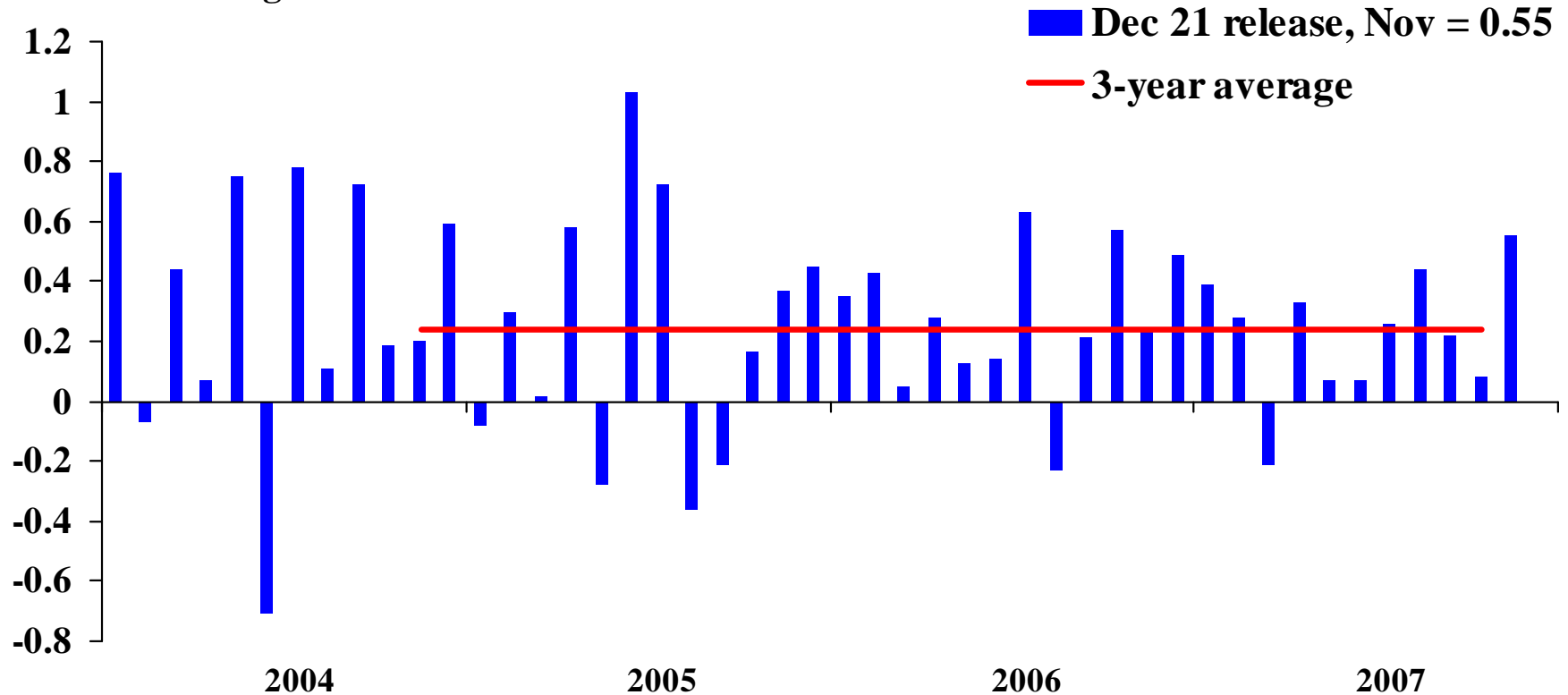
Source: Bureau of Economic Analysis

<http://www.dallasfed.org>



Real Personal Consumption Expenditures

1-month % change

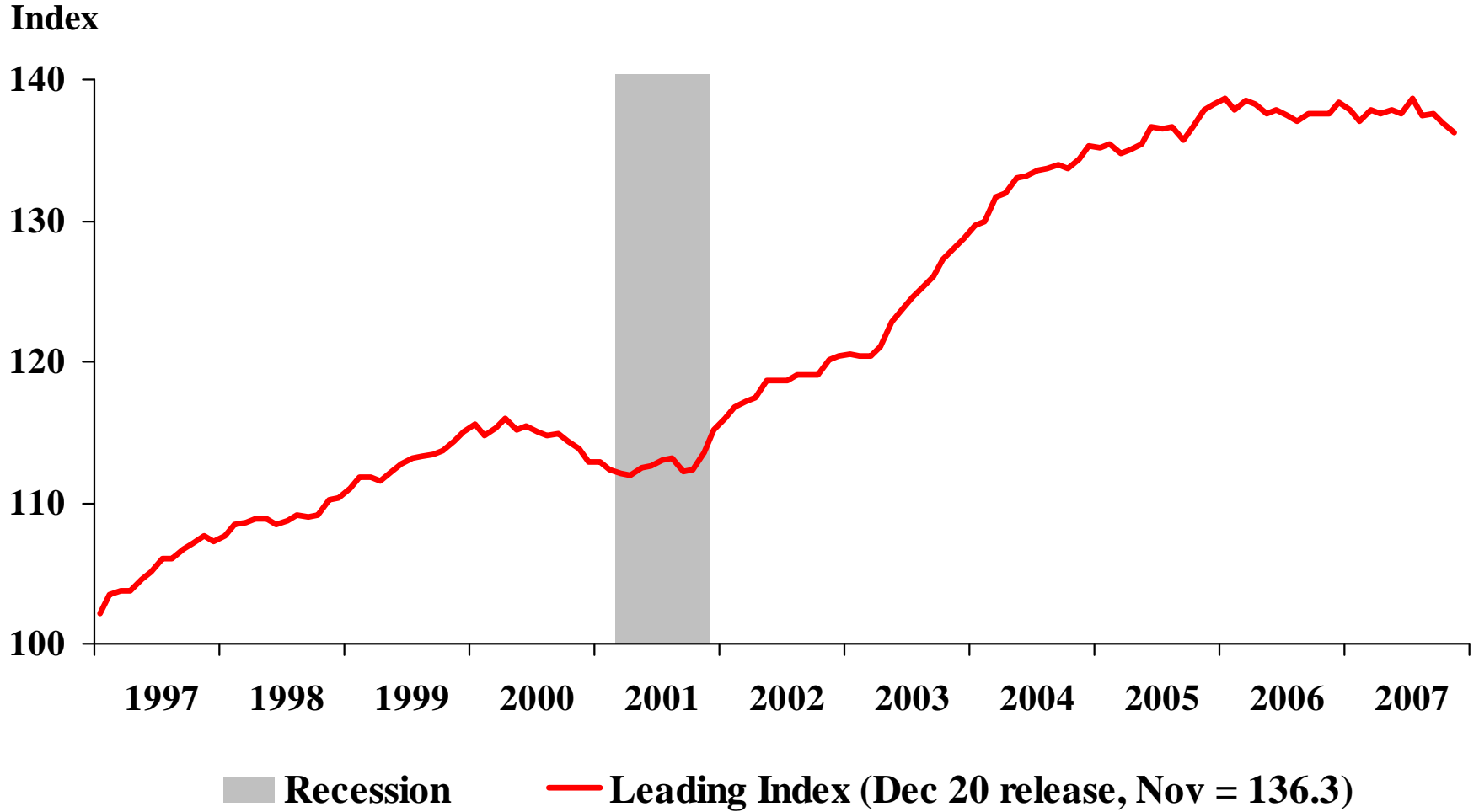


Source: Bureau of Economic Analysis

<http://www.dallasfed.org>



Index of Leading Economic Indicators



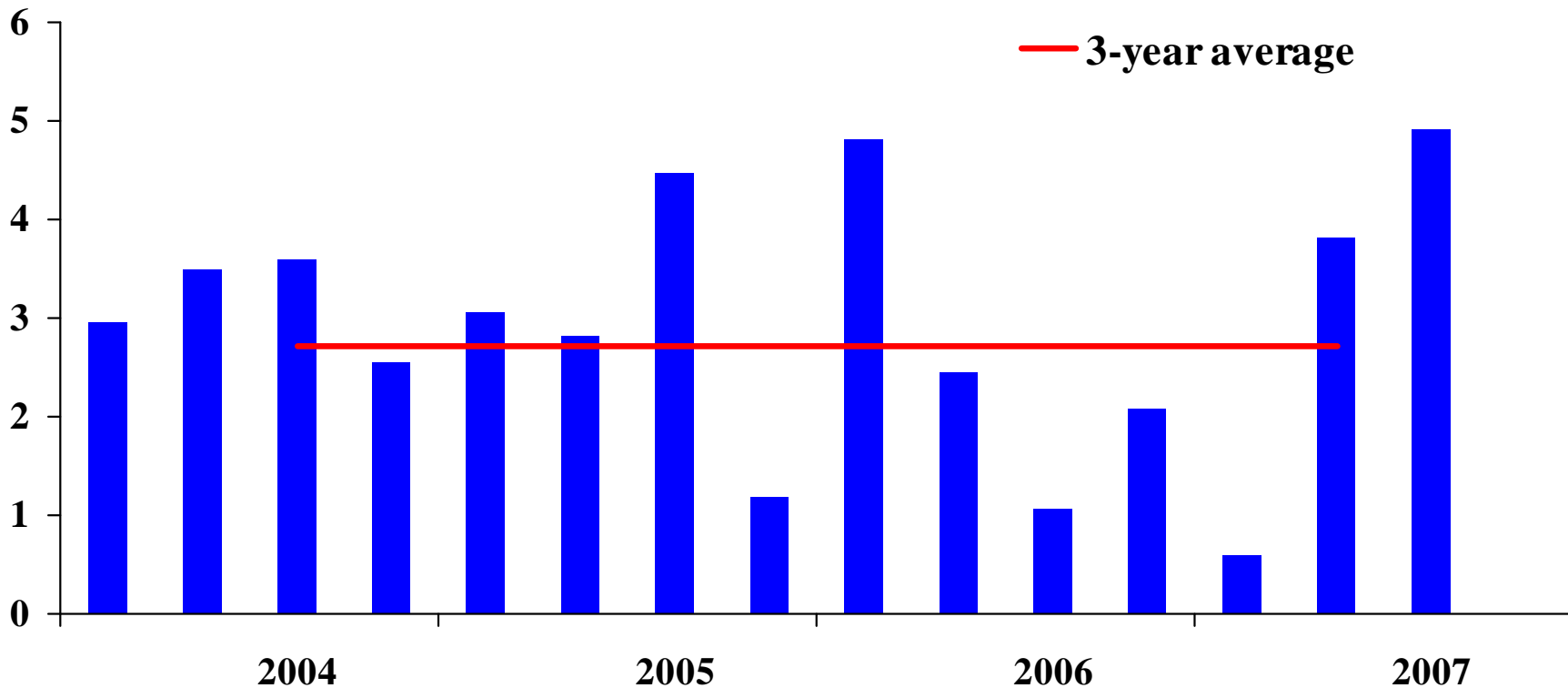
Source: The Conference Board

<http://www.dallasfed.org>



Real GDP

1-quarter % change,
annualized

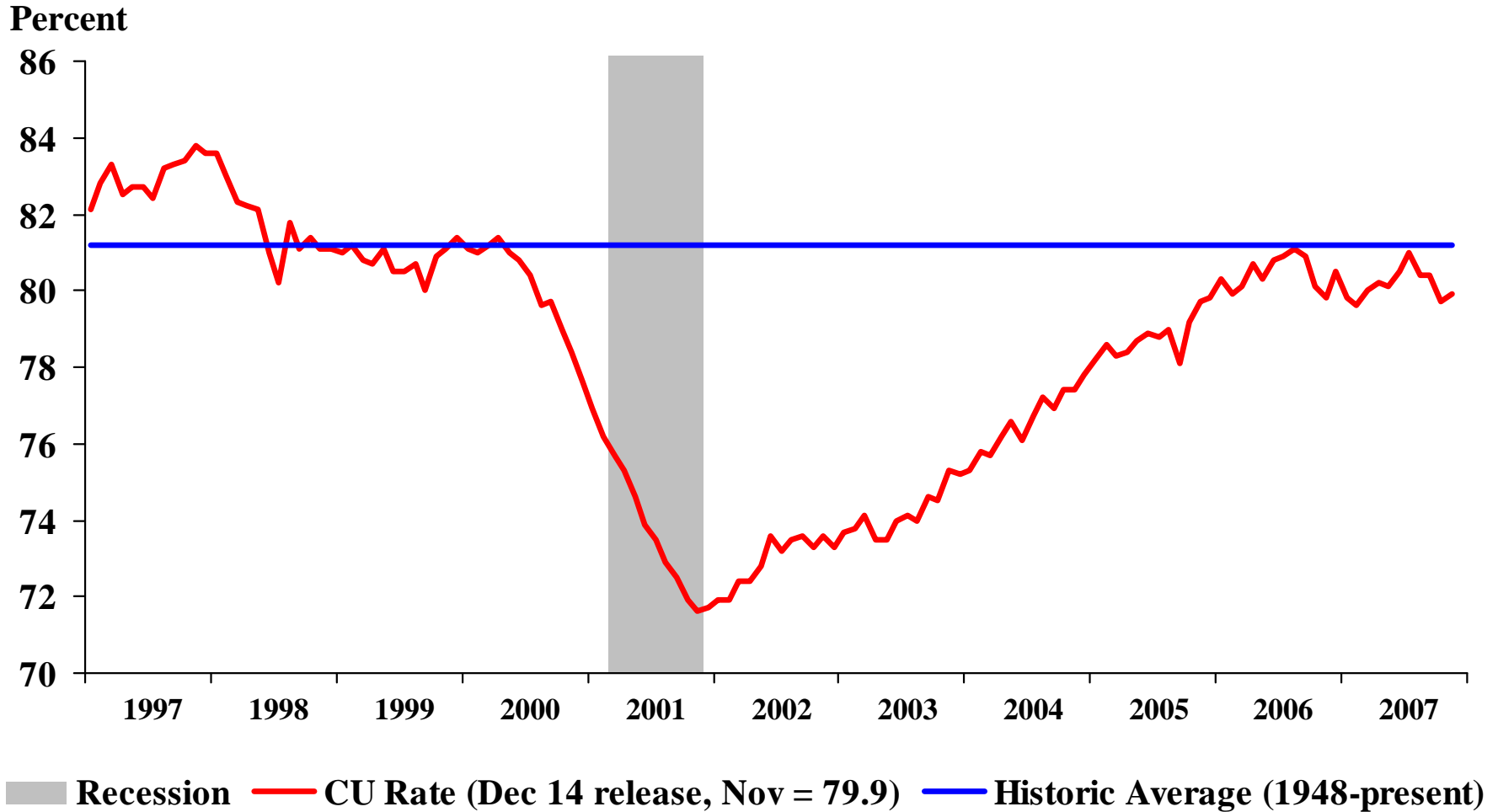


Source: Bureau of Economic Analysis

<http://www.dallasfed.org>



Manufacturing Capacity Utilization Rate



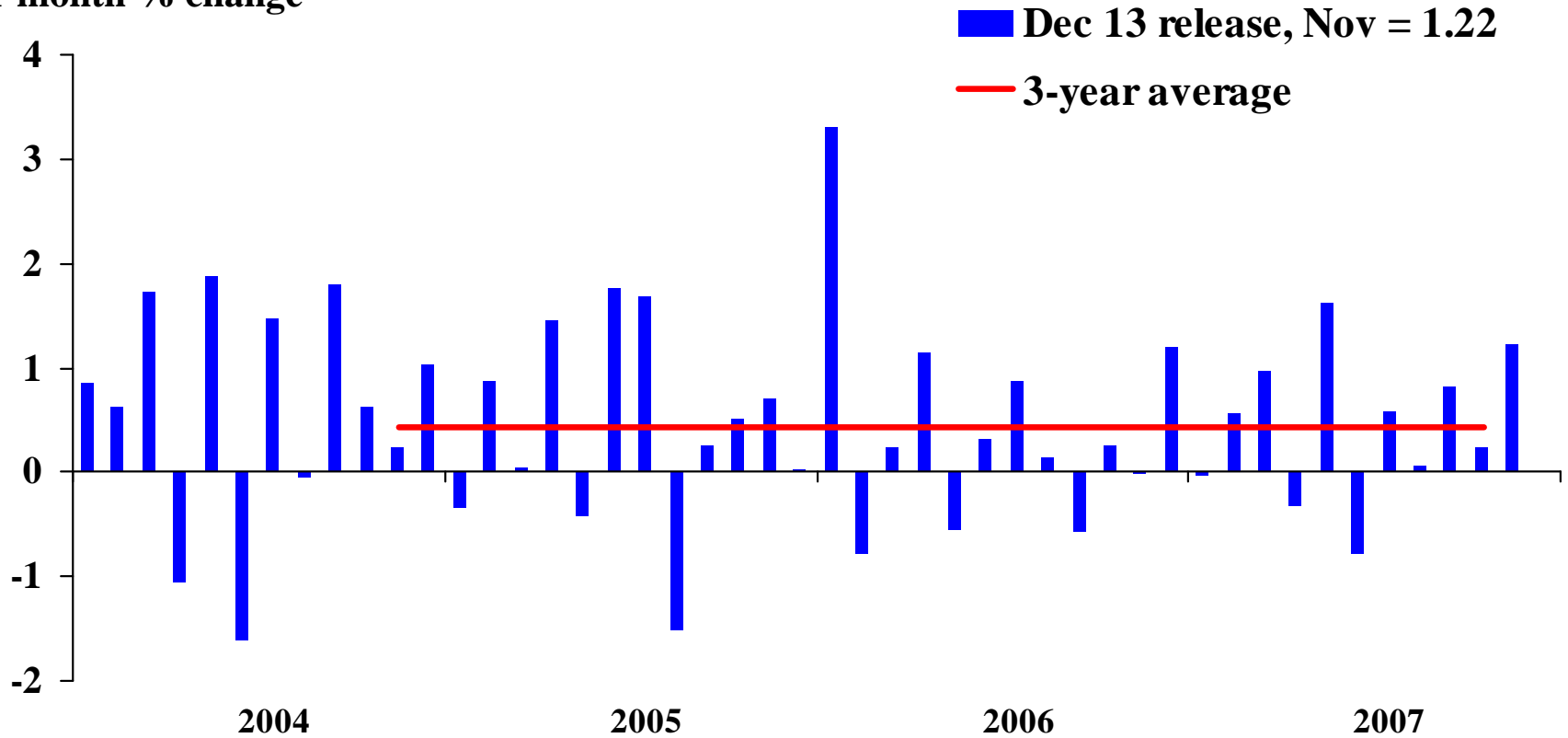
Source: Federal Reserve Board

<http://www.dallasfed.org>



Retail Sales

1-month % change



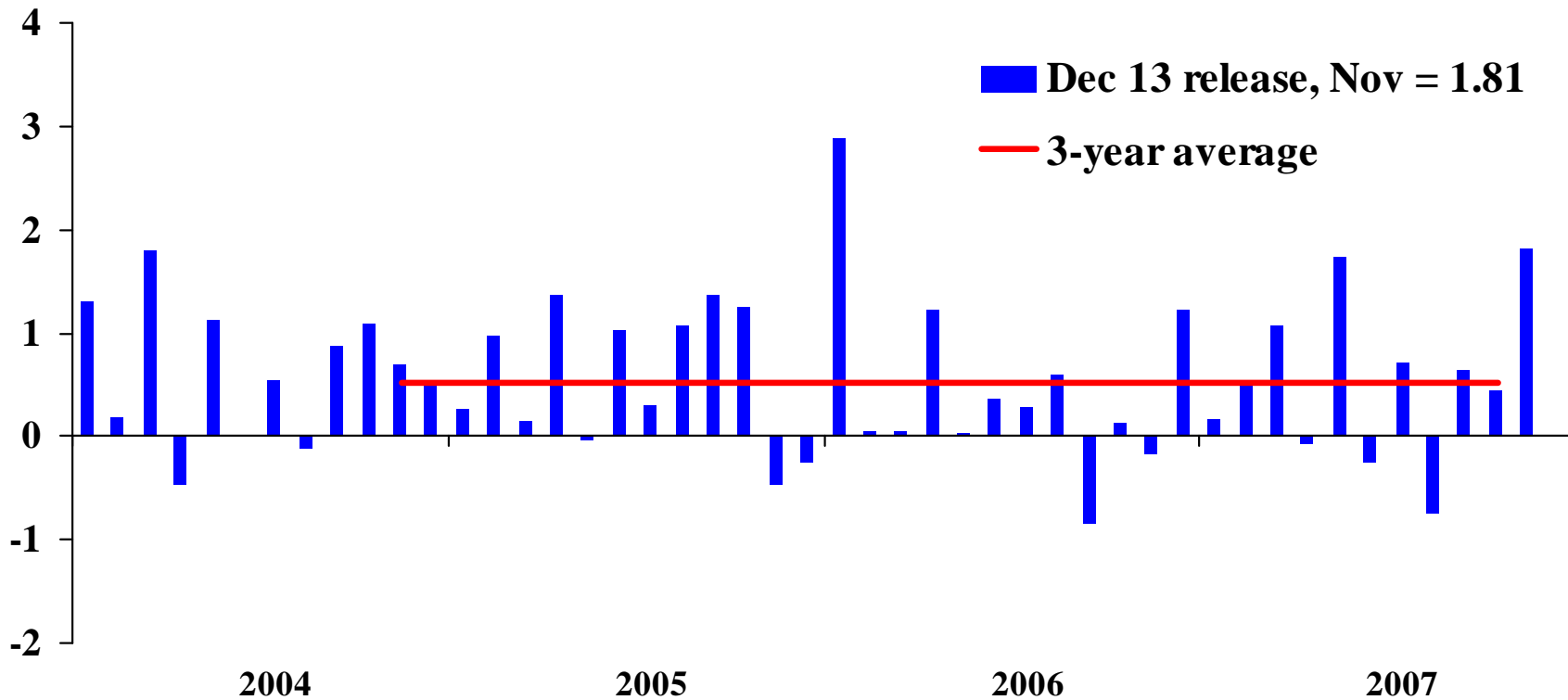
Source: Bureau of the Census

<http://www.dallasfed.org>



Retail Sales, Excluding Autos

1-month % change

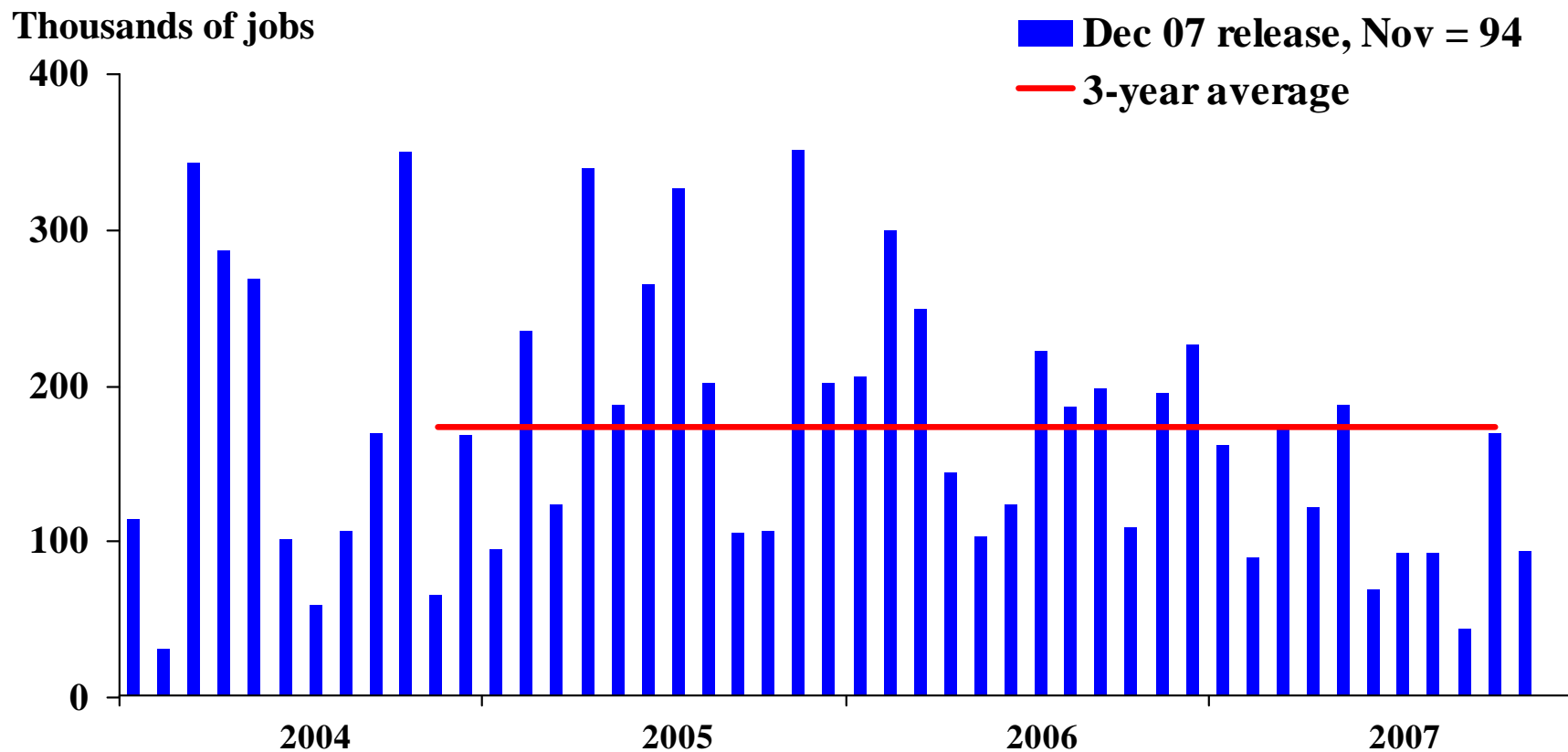


Source: Bureau of the Census

<http://www.dallasfed.org>



Change in Nonfarm Employment

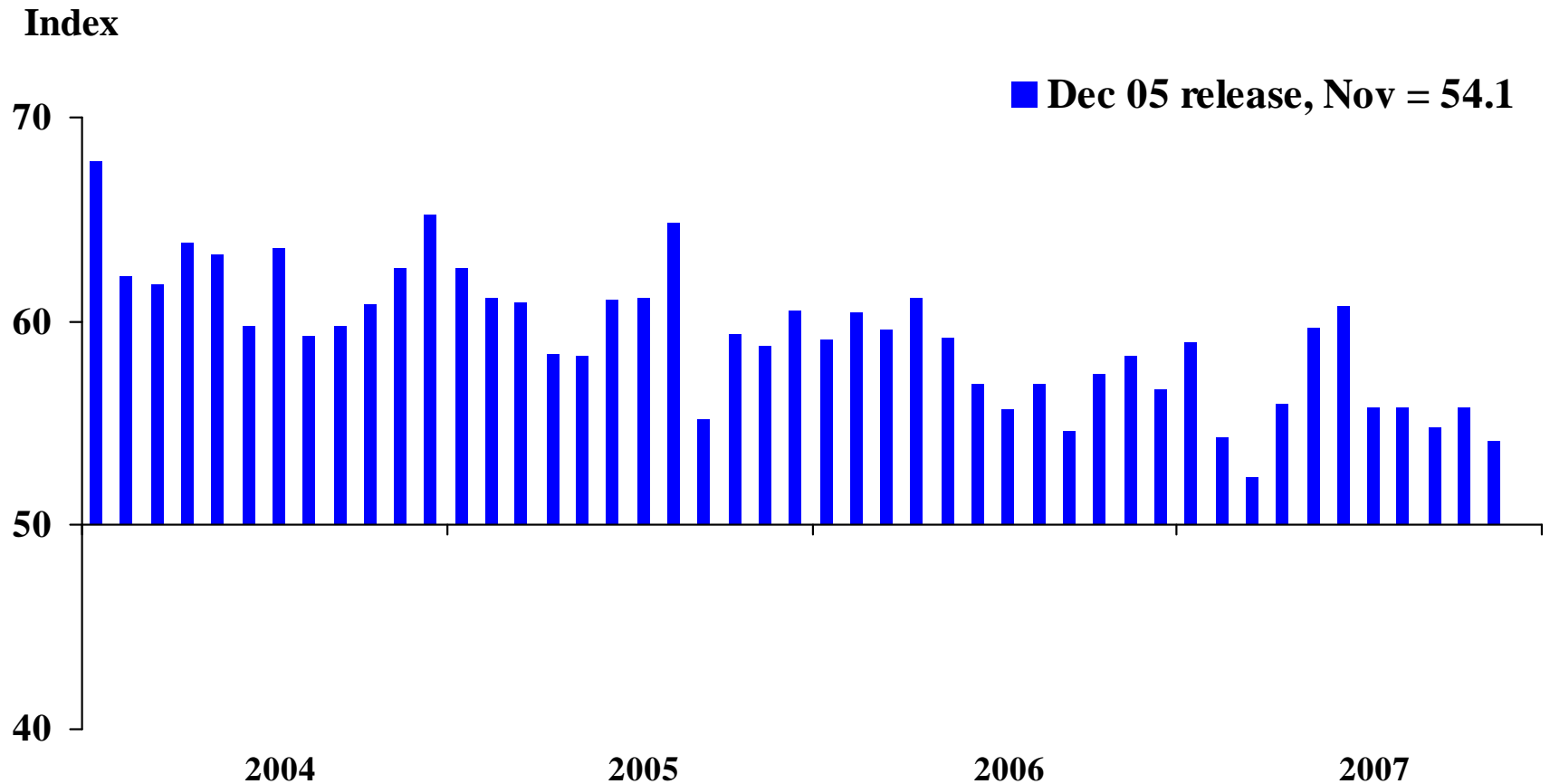


Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



ISM Non-Manufacturing Activity Index



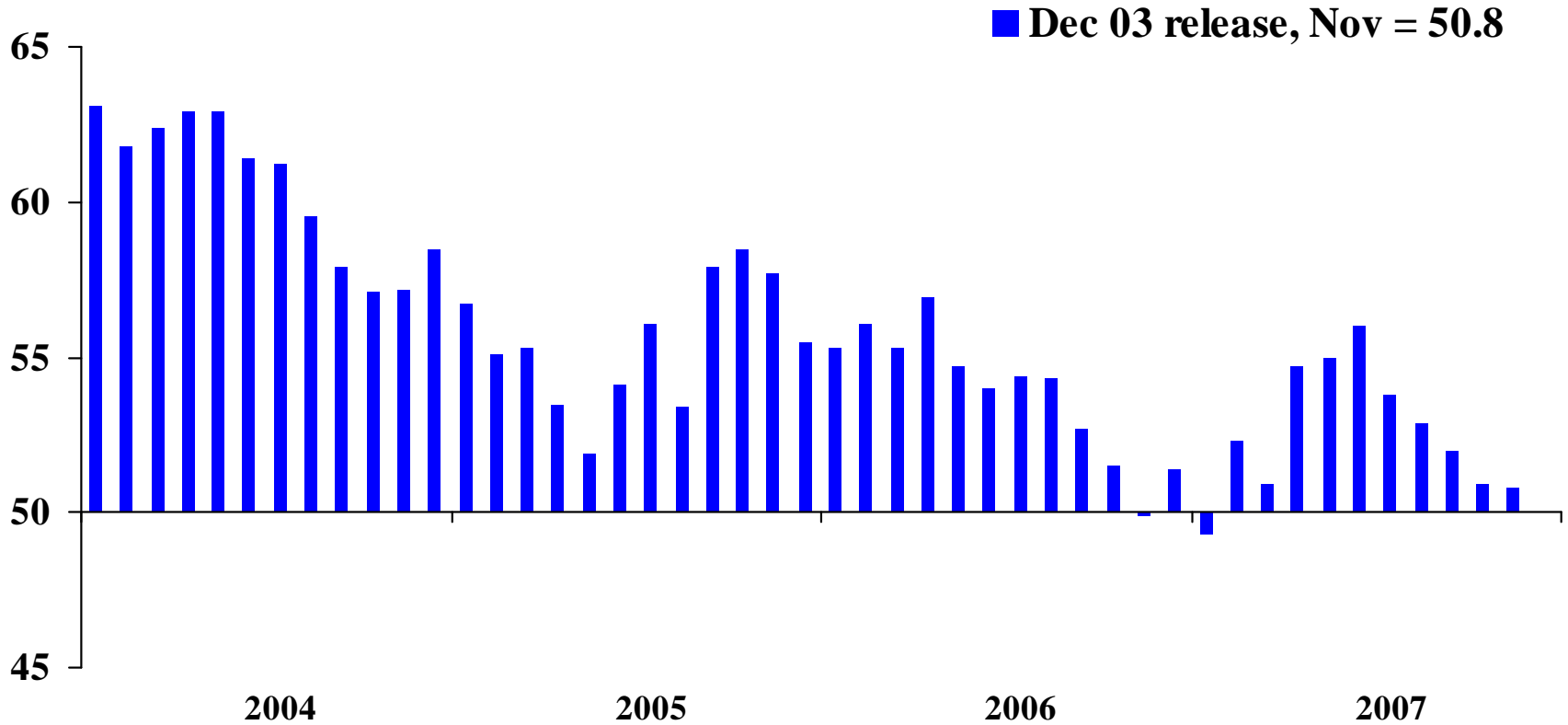
Source : Institute for Supply Management TM

<http://www.dallasfed.org>



Purchasing Managers' Index

Index



Source: Institute for Supply Management™

<http://www.dallasfed.org>



WAGES AND PRICES

<http://www.dallasfed.org>

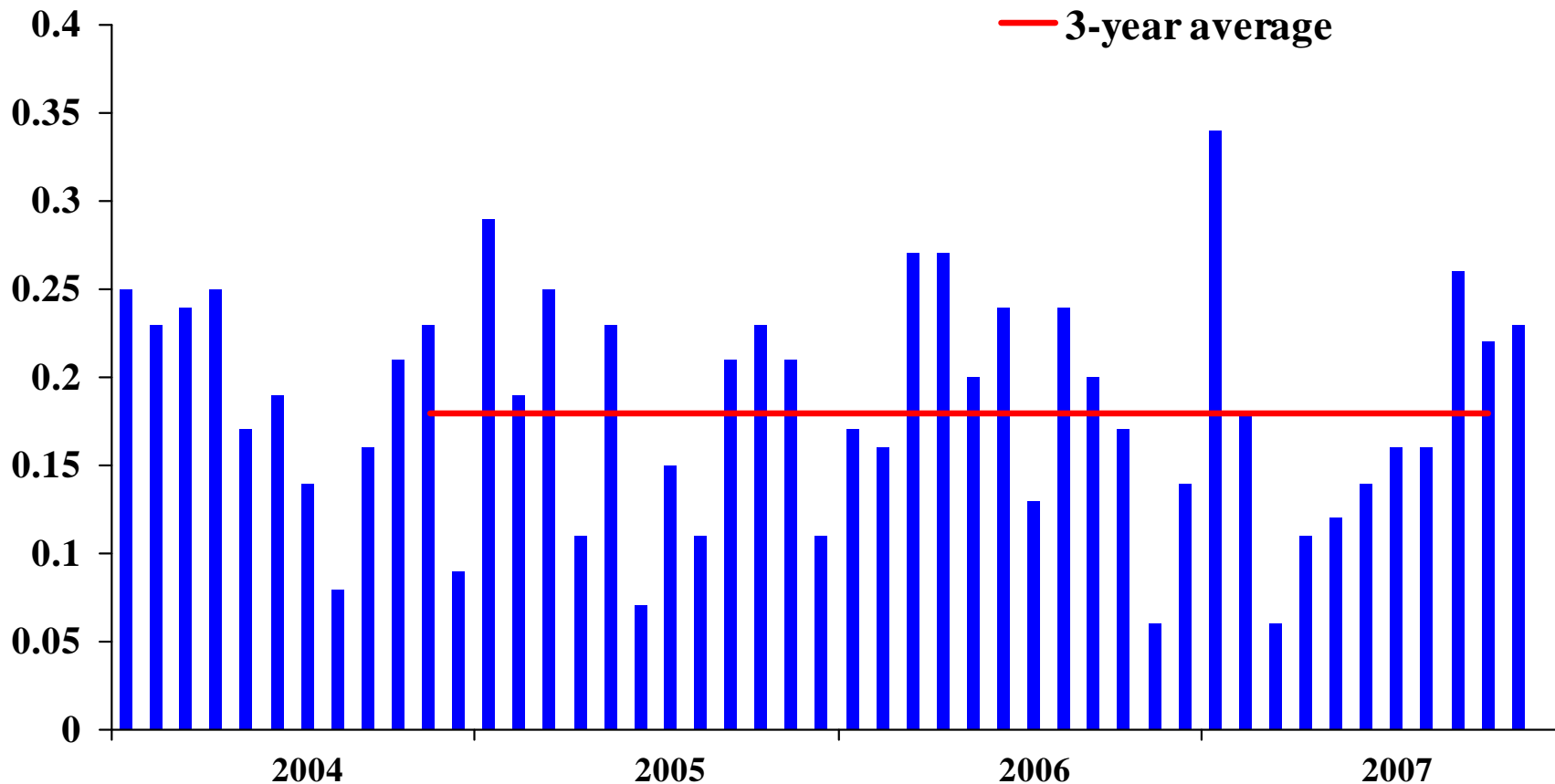


Core PCE Price Index

1-month % change

■ Dec 21 release, Nov = 0.23

— 3-year average



Source: Bureau of Economic Analysis

<http://www.dallasfed.org>

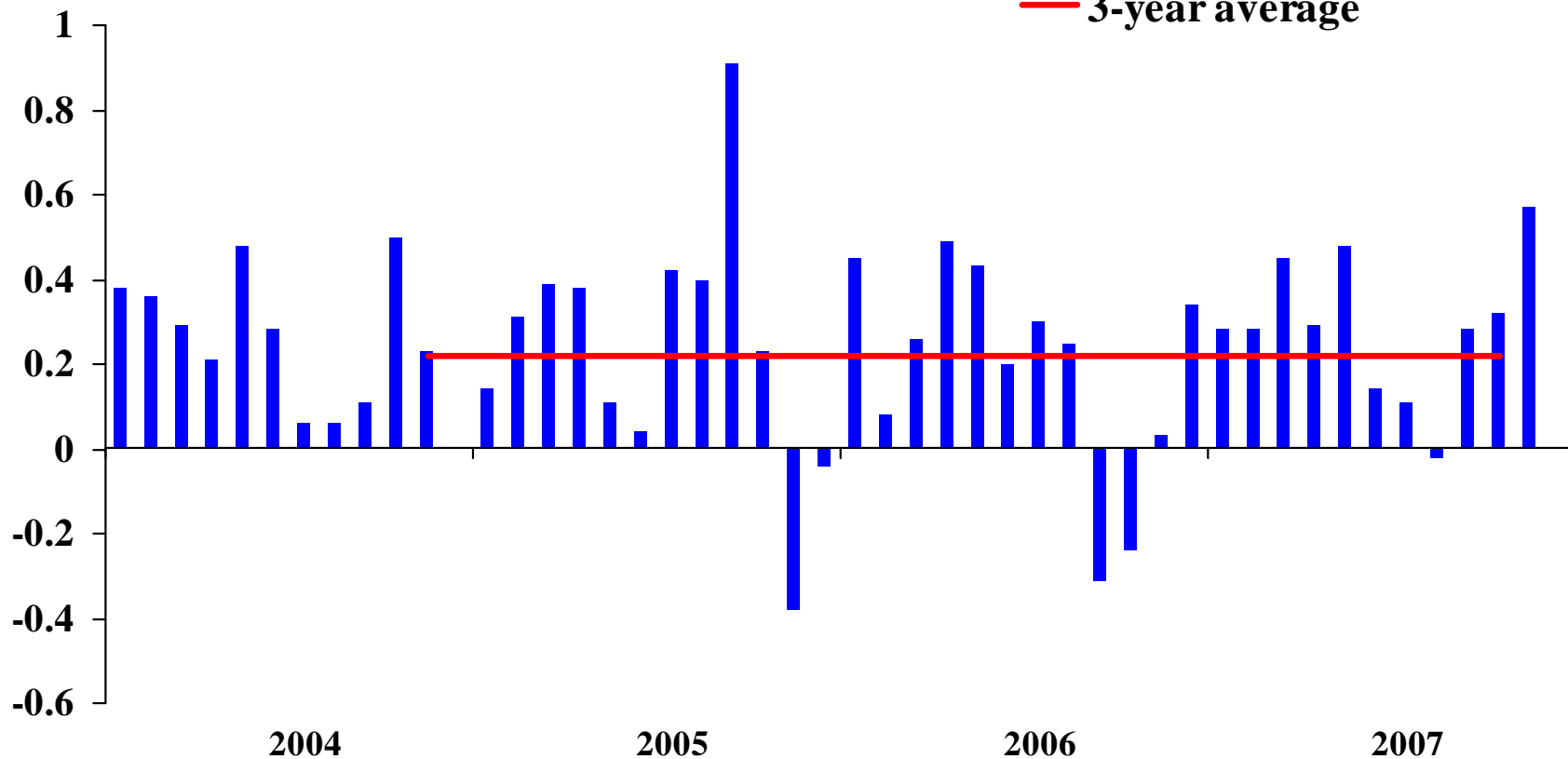


PCE Price Index

1-month % change

■ Dec 21 release, Nov = 0.57

— 3-year average



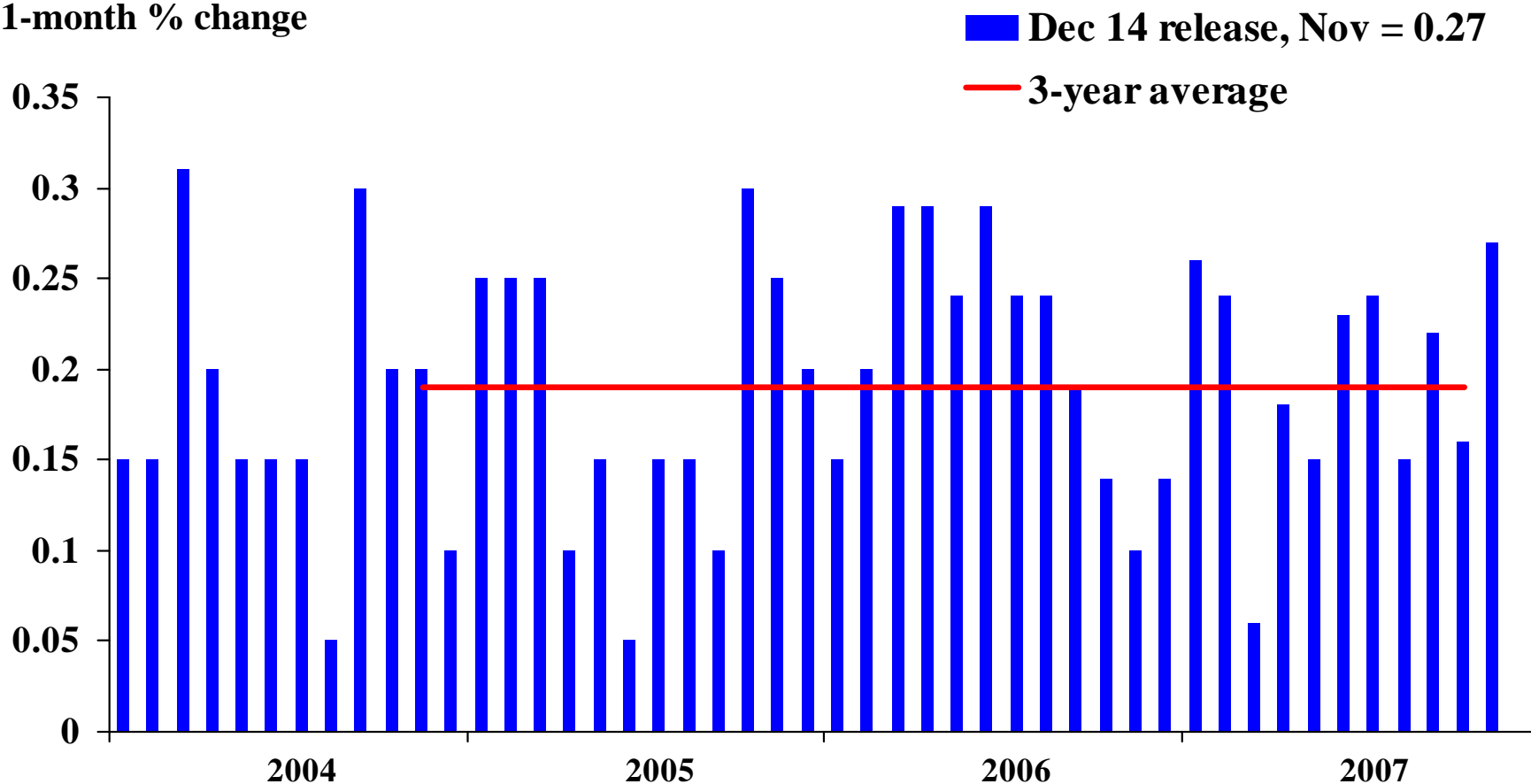
Source: Bureau of Economic Analysis

<http://www.dallasfed.org>



Core Consumer Price Index

1-month % change



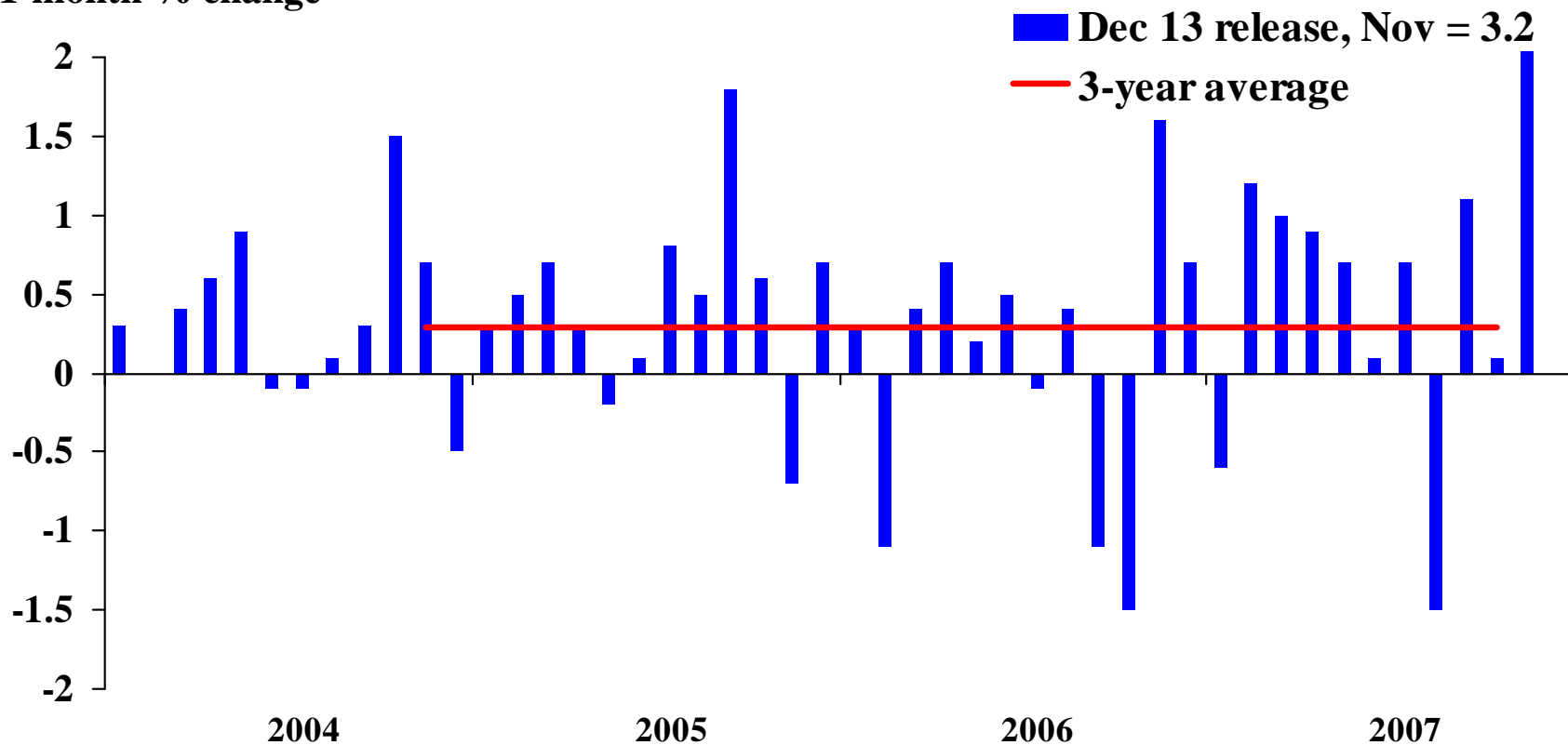
Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



Producer Price Index

1-month % change



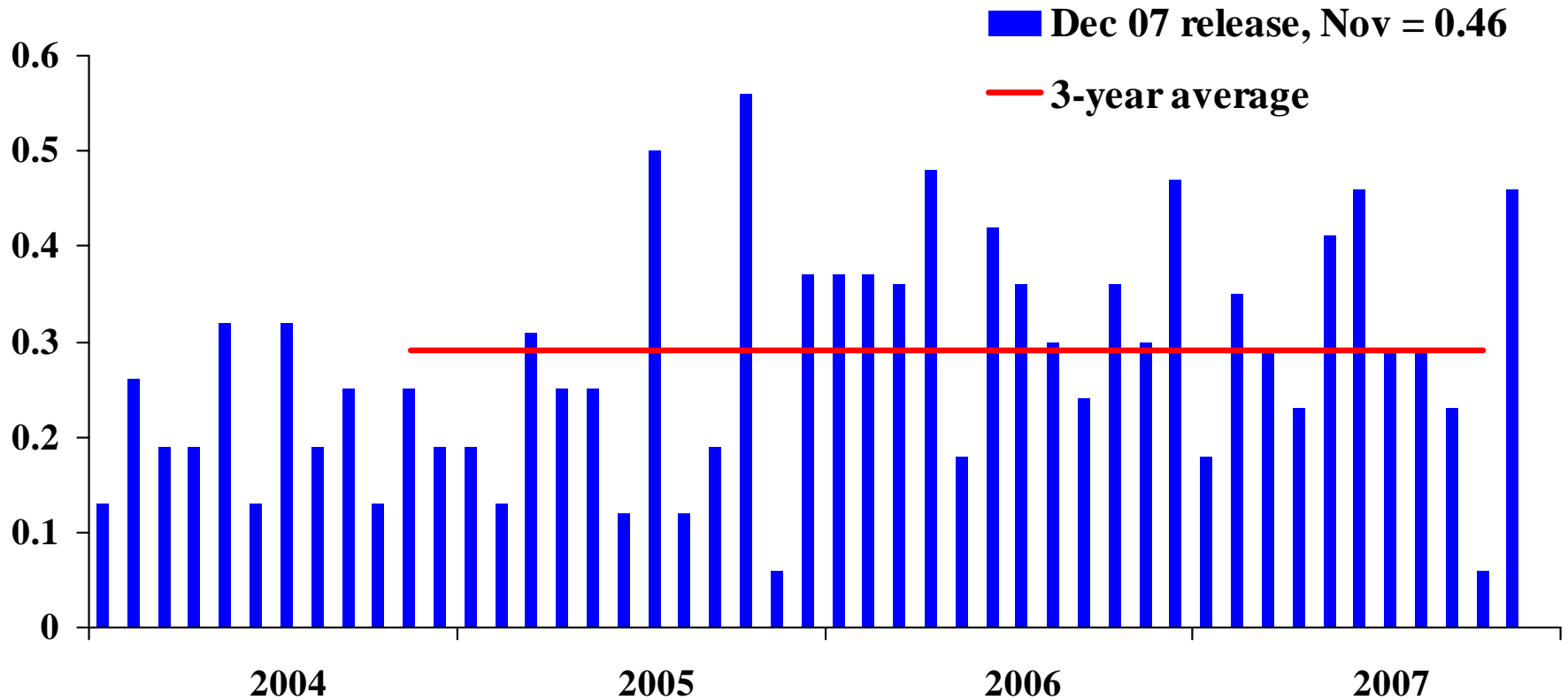
Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



Average Hourly Earnings

1-month % change



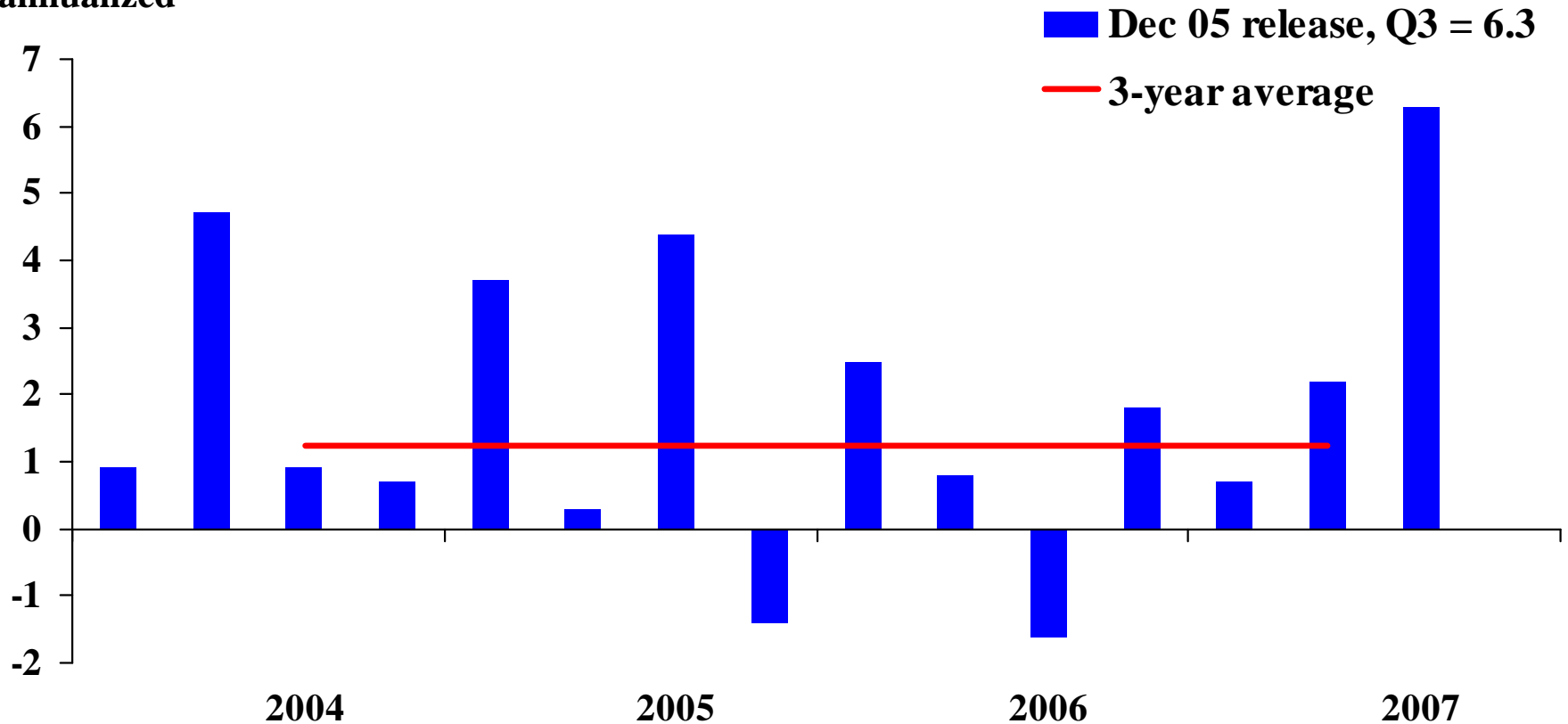
Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



Nonfarm Business Productivity

1-quarter % change,
annualized



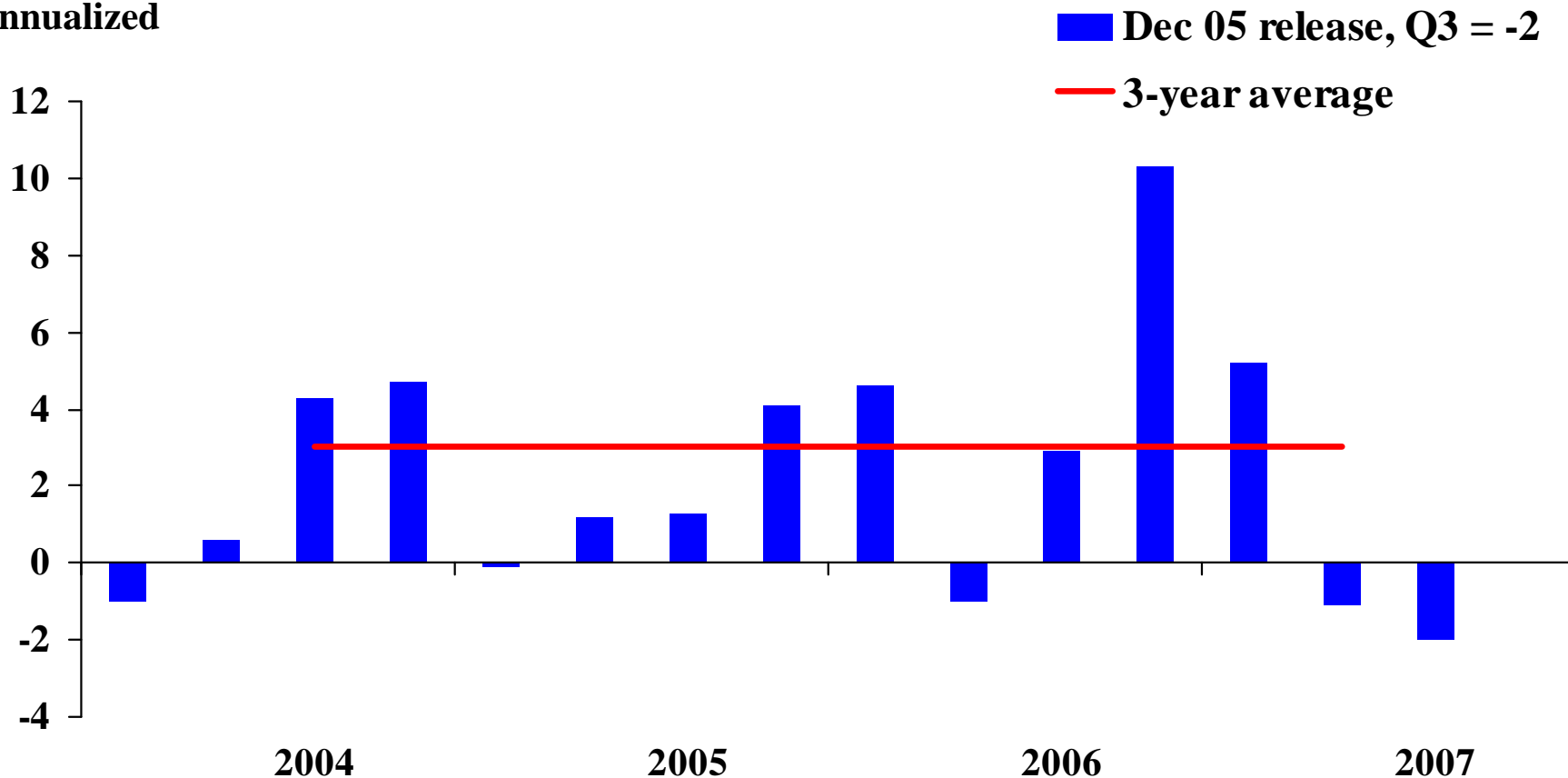
Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



Nonfarm Business Unit Labor Cost

1-quarter % change,
annualized



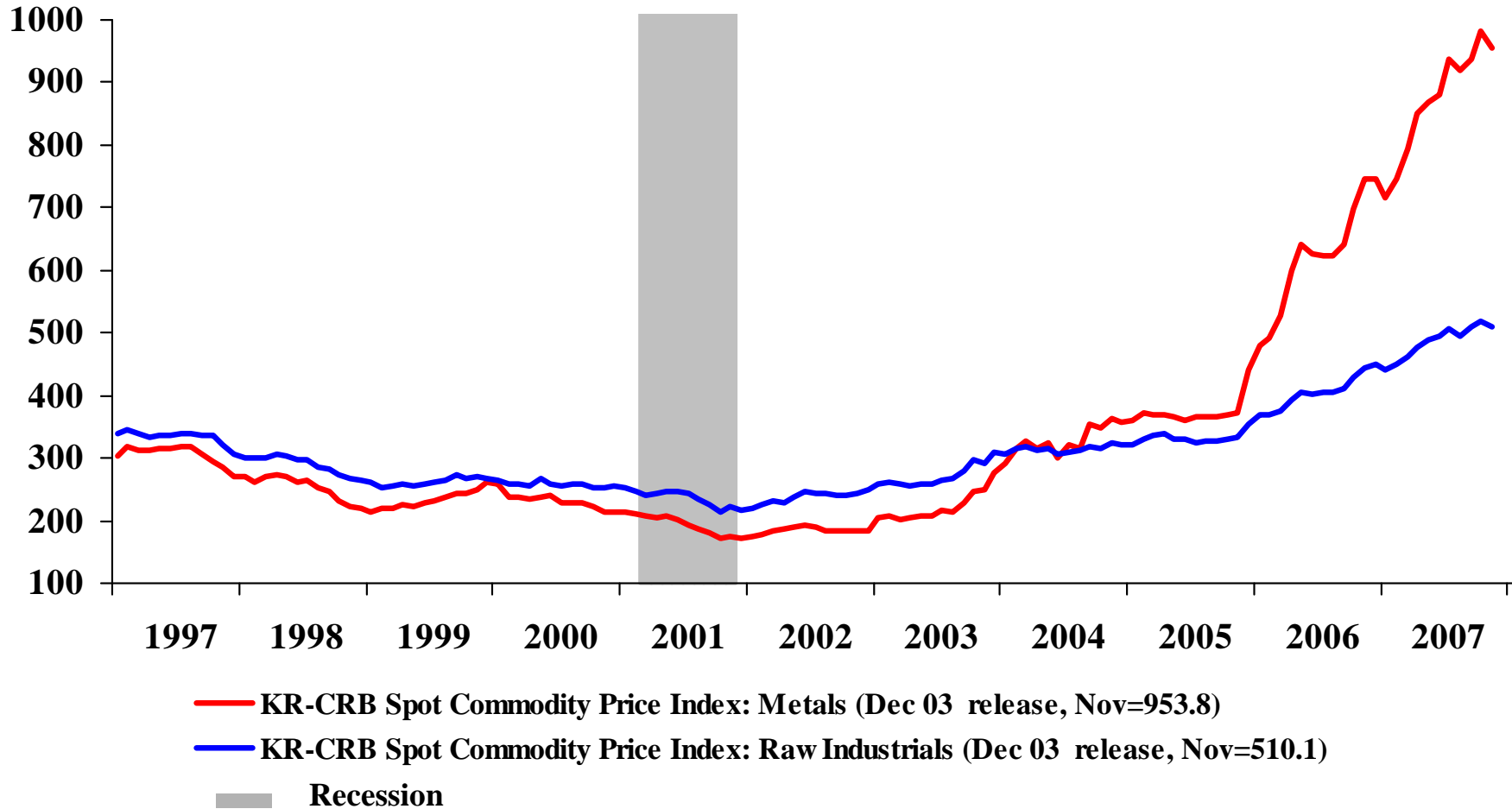
Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



Commodity Prices

1967=100, EOP

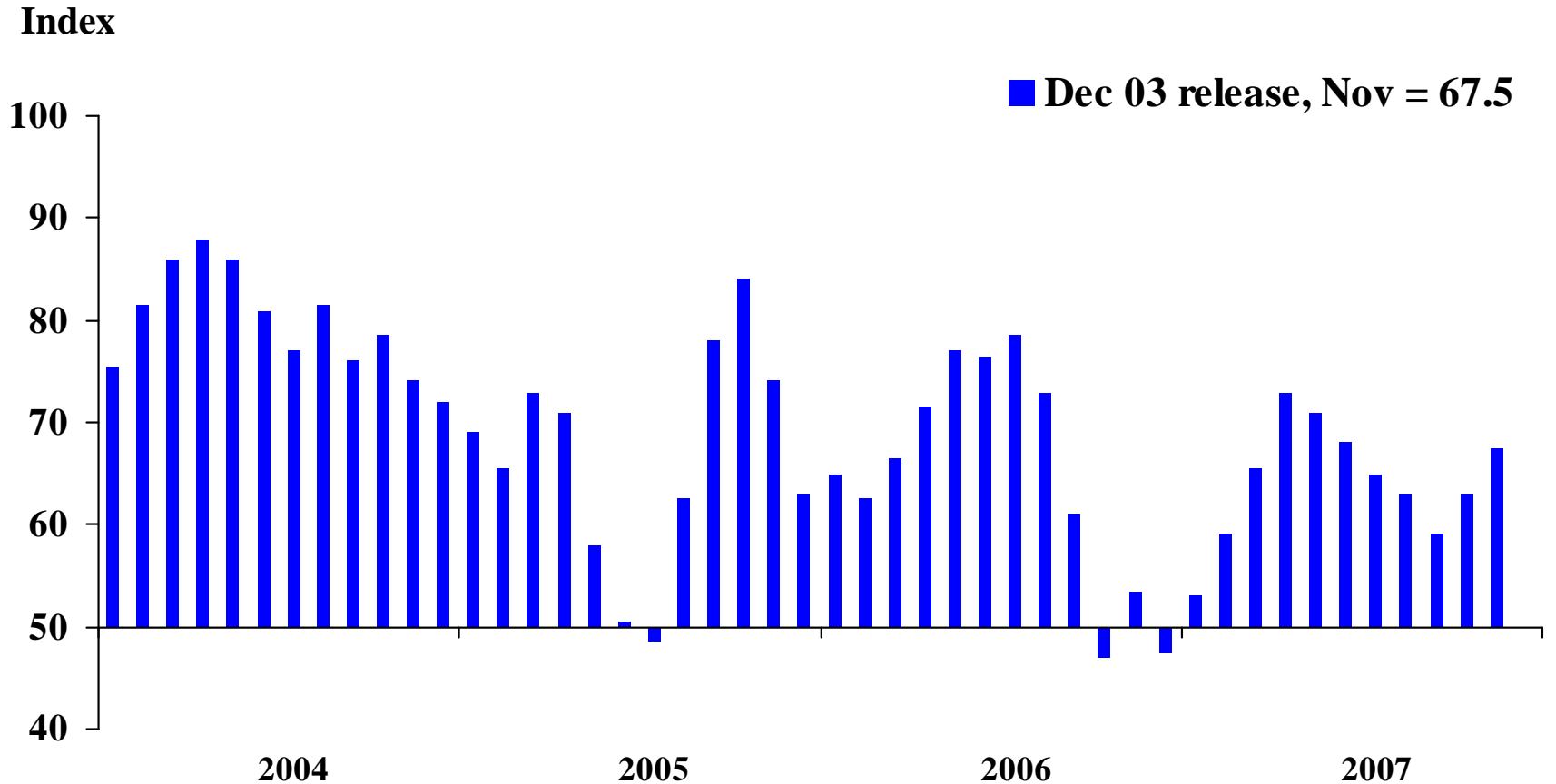


Source: Commodity Research Bureau

<http://www.dallasfed.org>



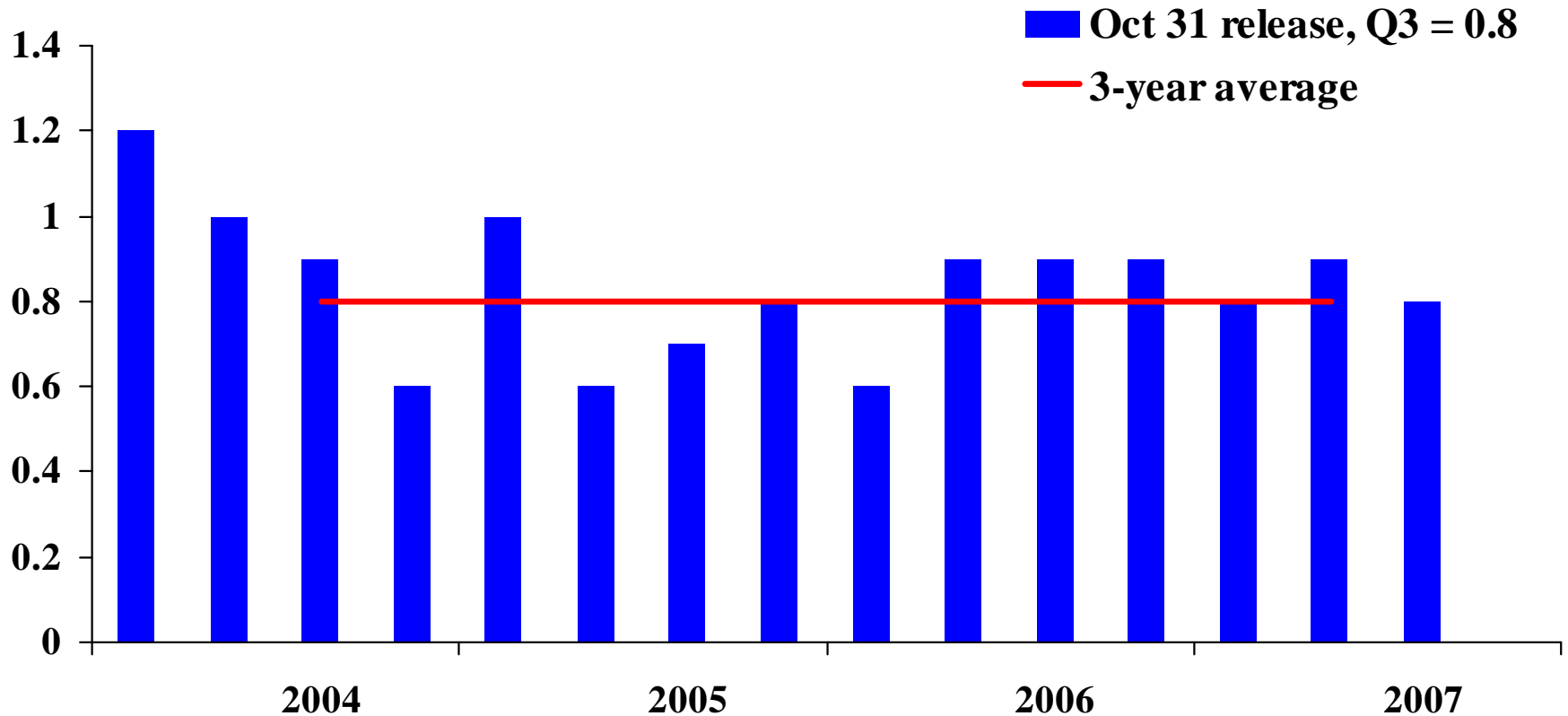
ISM Manufacturing Prices Index





Employment Cost Index

1-quarter % change



Source: Bureau of Labor Statistics

<http://www.dallasfed.org>



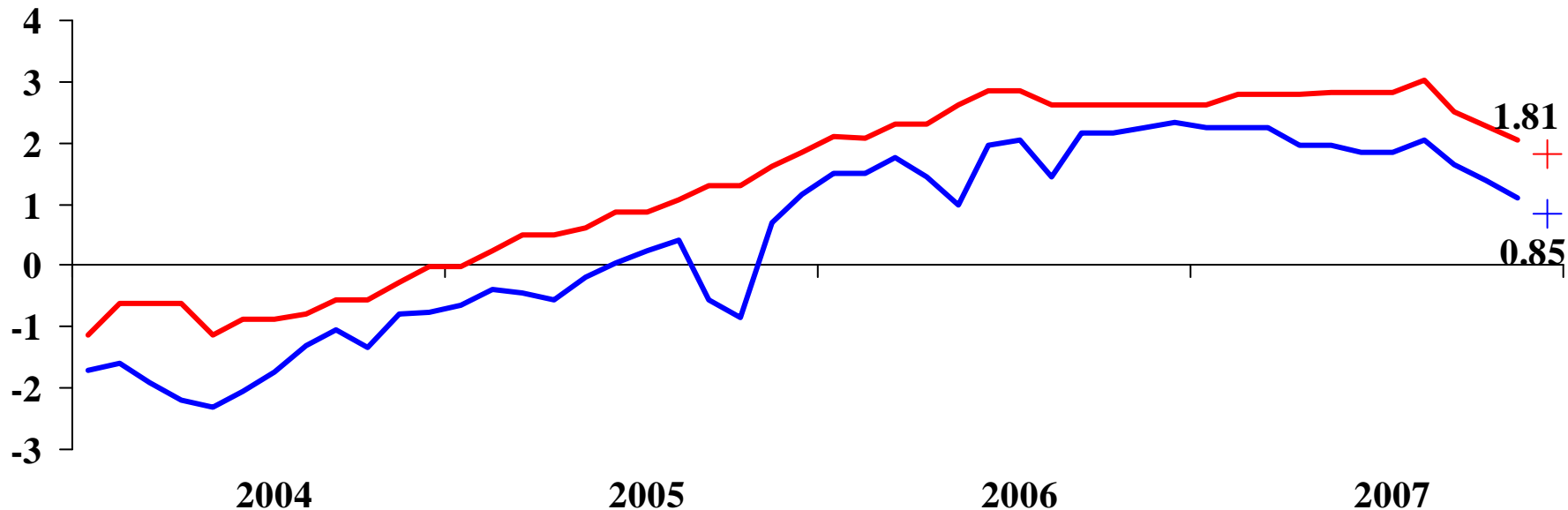
FINANCIAL-SECTOR DEVELOPMENTS

<http://www.dallasfed.org>



Real Federal Funds Rate

Percent



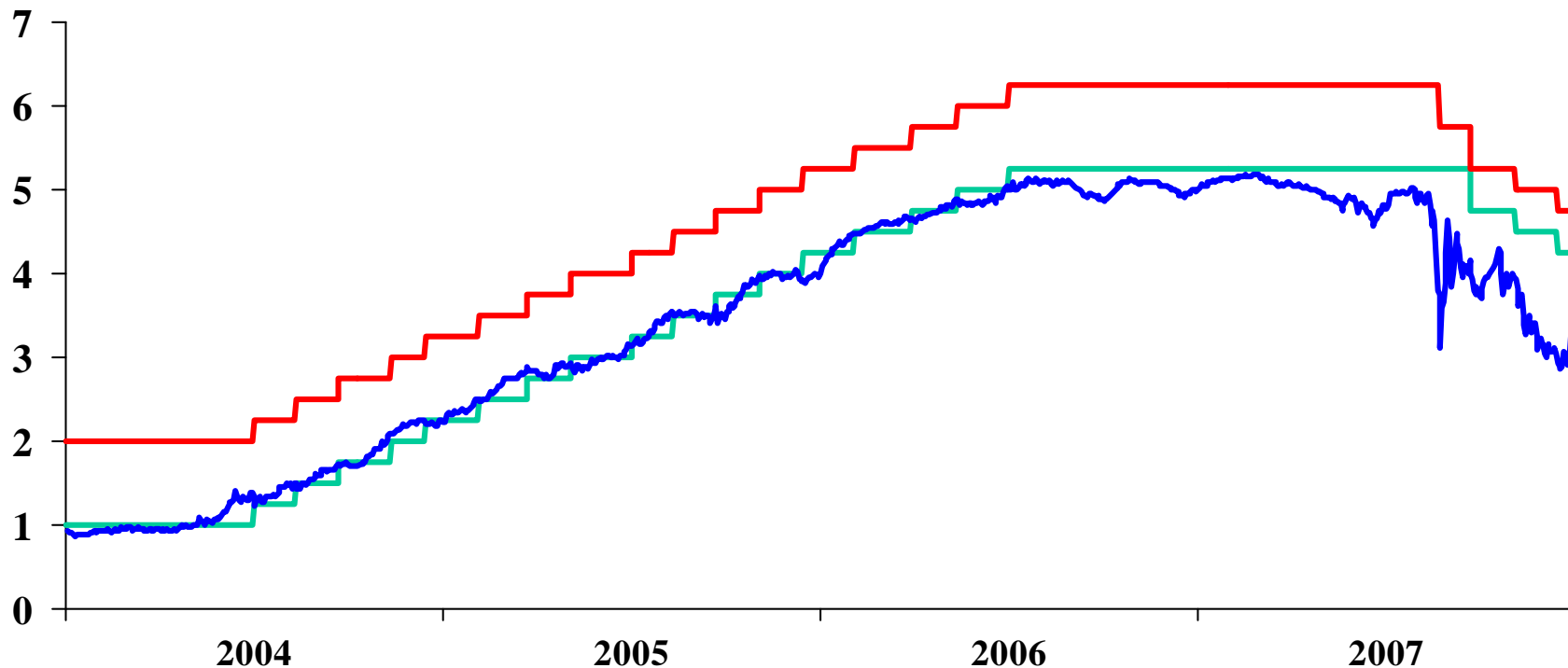
- End-of-Month Target Fed Funds Rate less SPF Expected Inflation
- + Target Fed Funds Rate (Dec 28) less SPF Expected Inflation (Nov 13)
- End-of-Month Target Fed Funds Rate less U. of Michigan Expected Inflation
- + Target Fed Funds Rate (Dec 28) less U. of Michigan Expected Inflation (Dec 21)

Sources: Target Fed Funds Rate: Federal Reserve Board; SPF Expected Inflation: FRB Philadelphia; U. of Michigan Expected Inflation: Survey of Consumers, Survey Research Center, U. of Michigan
<http://www.dallasfed.org>



Short-Term Interest Rates

Percent



— Target Fed Fund Rate (Dec 28 = 4.25)

— 3-Month T-Bill Rate (Dec 27 = 3.17)

— Discount Window Primary Credit Rate (Dec 27 = 4.75)

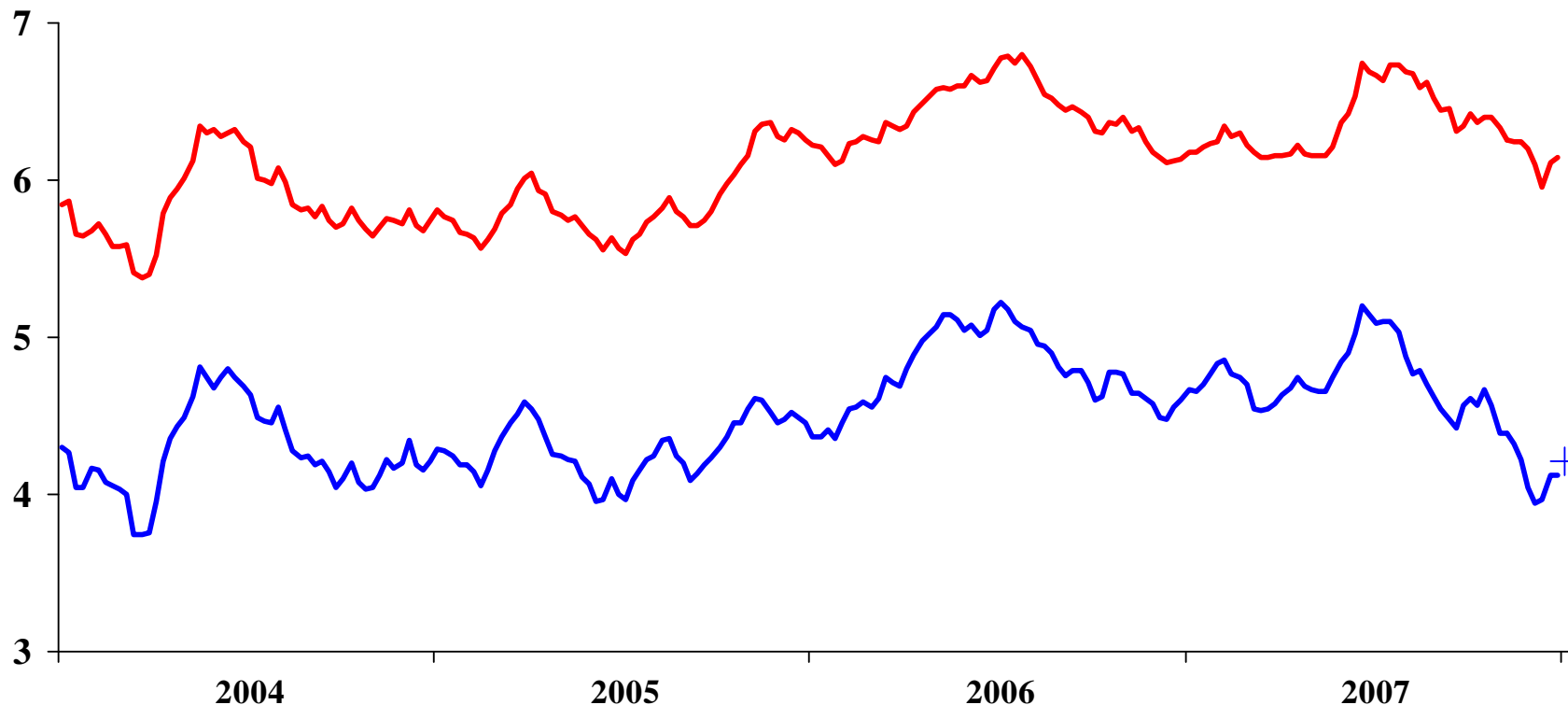
Source: Federal Reserve Board

<http://www.dallasfed.org>



Long-Term Interest Rates

Percent



- Mortgage Rate (week of Dec 21= 6.14)
- 10-year T-Bond (week of Dec 21= 4.12)
- + 10-year T-Bond (Dec 27 = 4.21)

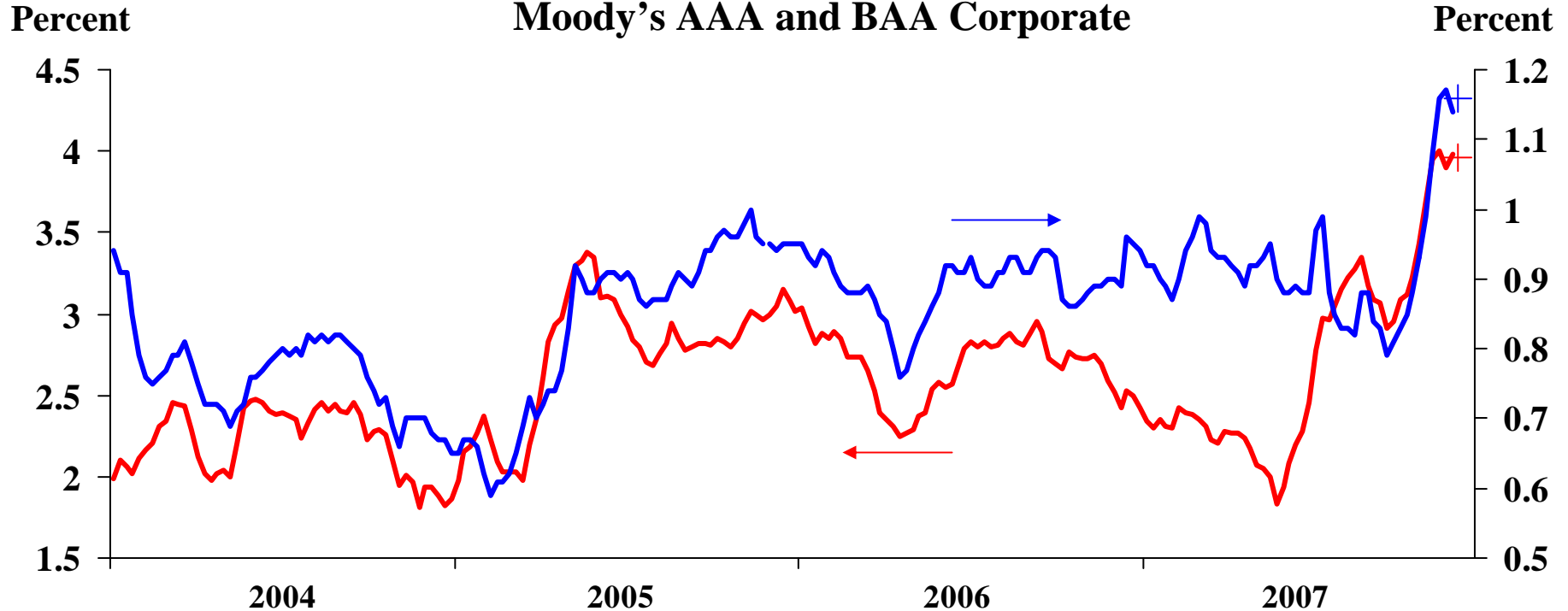
Source: Federal Reserve Board

<http://www.dallasfed.org>



Bond Spreads

Merrill Lynch's Yield on Low-Grade Corporate Bonds,
Moody's AAA and BAA Corporate



- Low-Grade Corporate less AAA Corporate (week of Dec 21 = 3.98)
- + Daily (Dec 27 = 3.96)
- BAA Corporate less AAA Corporate (week of Dec 21 = 1.14)
- + Daily (Dec 27 = 1.16)

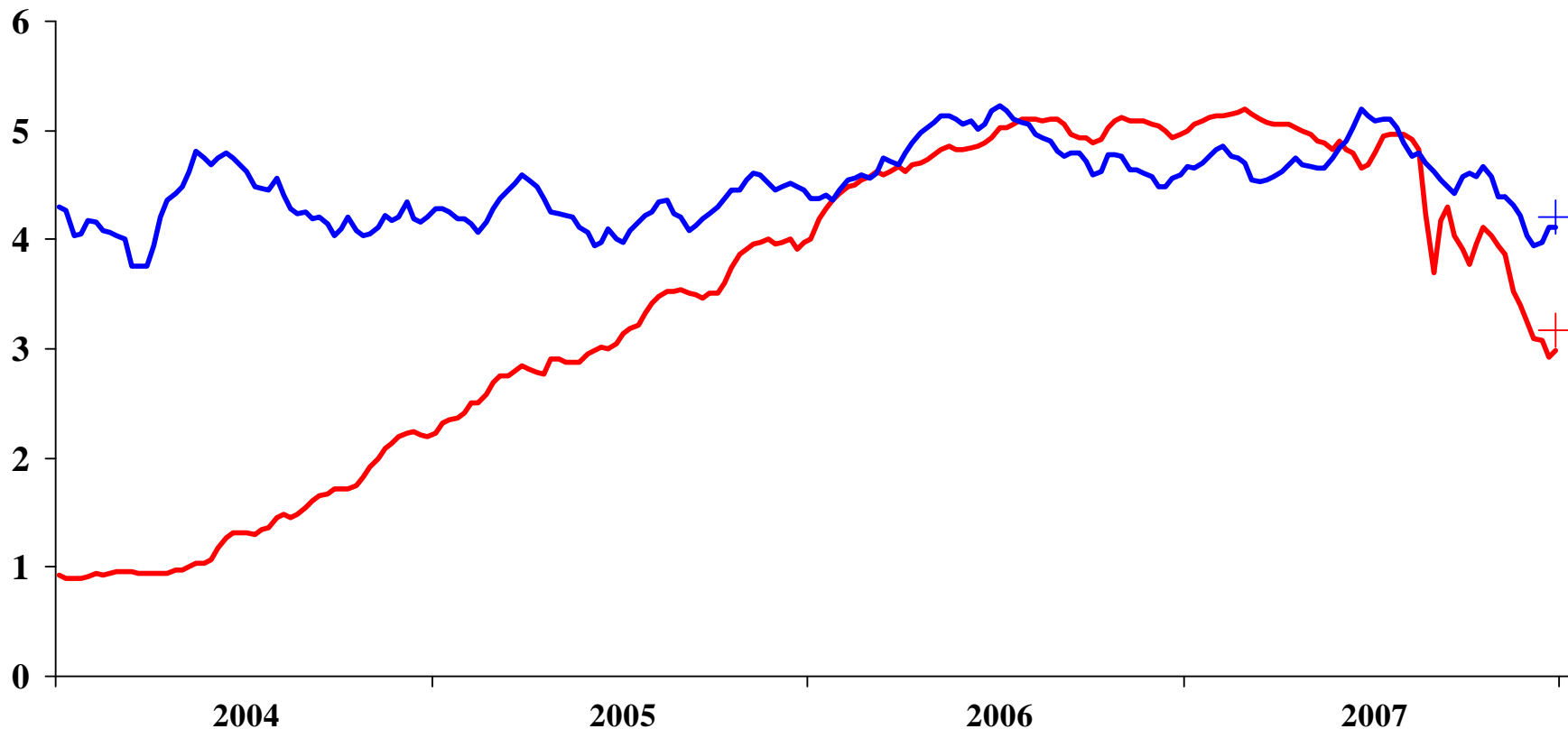
Source: Moody's Investors Service, Merrill Lynch

<http://www.dallasfed.org>



Yield Curve

Percent



— 3-Month T-Bill Rate (week of Dec 21)

— 10-year T-Bond Rate (week of Dec 21)

+ 3-Month T-Bill Rate (Dec-27 = 3.17)

+ 10-year T-Bond Rate (Dec-27 = 4.21)

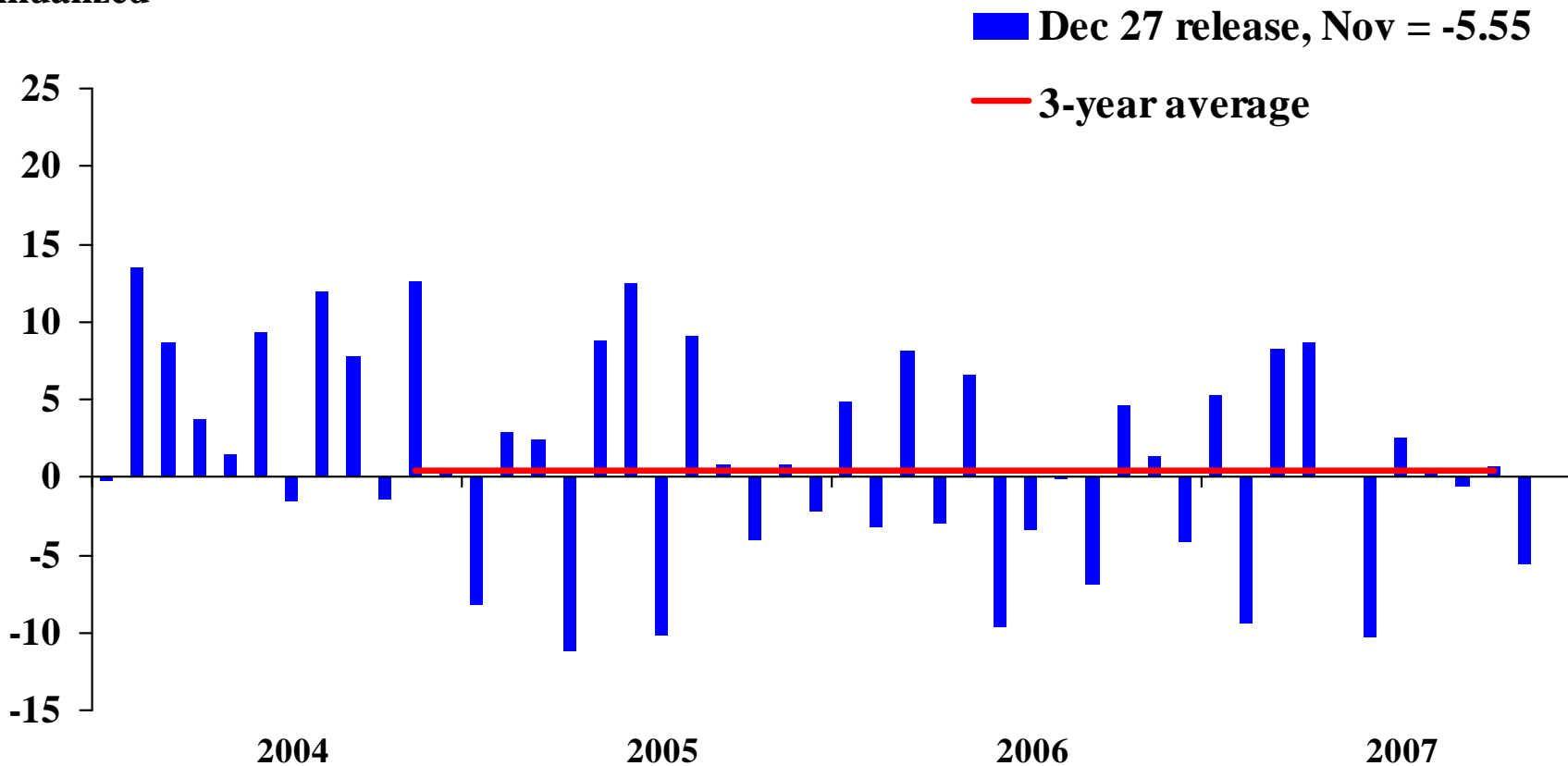
Source: Federal Reserve Board

<http://www.dallasfed.org>



Money Supply: M1

1-month % change,
annualized



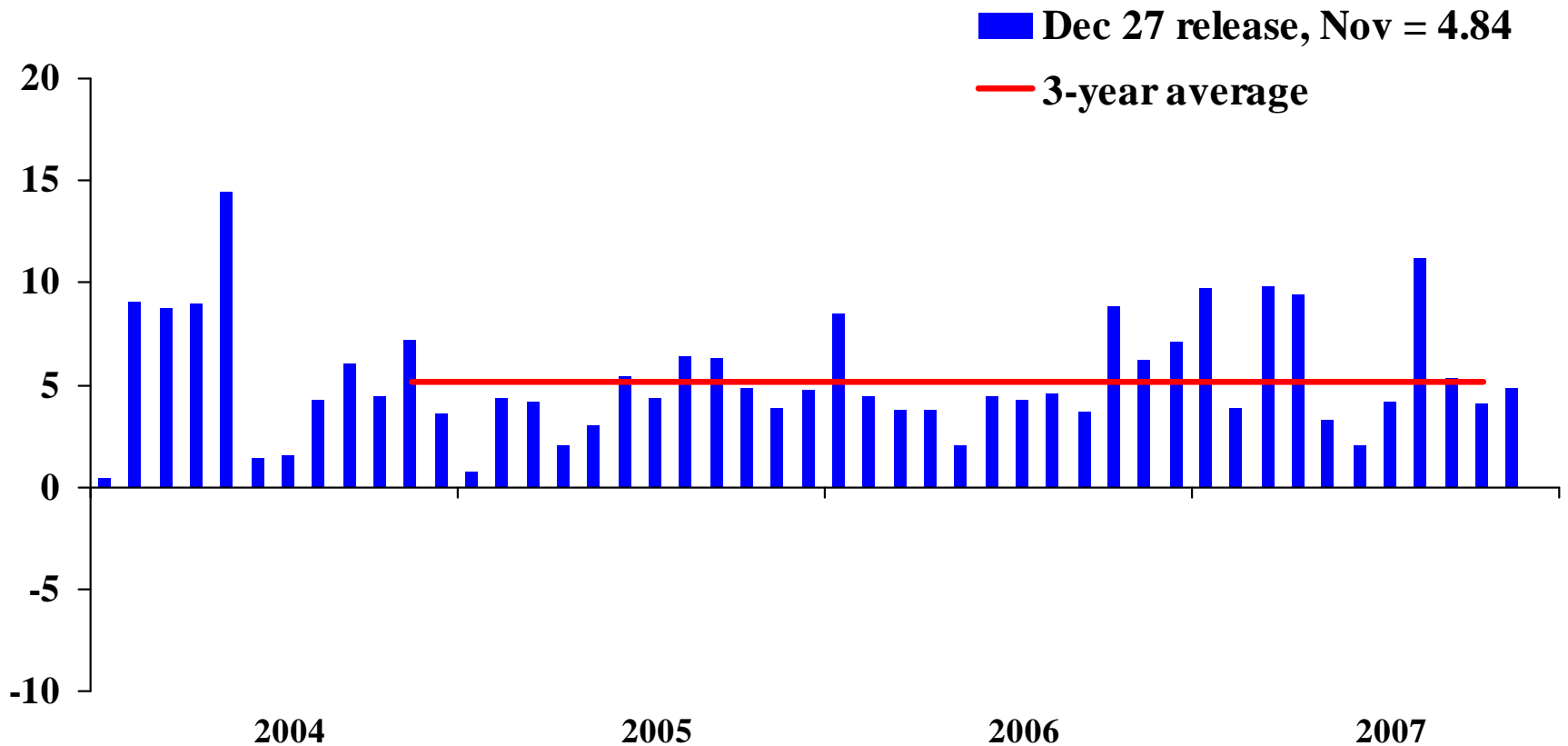
Source: Federal Reserve Board

<http://www.dallasfed.org>



Money Supply: M2

1-month % change,
annualized



Source: Federal Reserve Board

<http://www.dallasfed.org>