TALKING POINTS

A Recap of October 2007

The Economy

GDP growth in the third quarter was better than expected. The economy grew at an annualized rate of 3.9%, well above the consensus estimate of 3.1% , according to Bloomberg. The U.S. dollar, however, did decline 6.11% against a basket of major currencies over the past two months. It wasn't the only thing that reacted negatively to the two recent federal funds rate cuts (9/18 & 10/31). The price of oil surged 27.7% to $94.53 from the start of September through October. The price of gold bullion, one of the best gauges of inflation, spiked 17.7% to $795.30 an ounce. On the housing front, foreclosure filings rose 30% from Q2 to Q3, according to RealtyTrac. More than 635,000 foreclosure filings were reported nationwide, which translates into one for every 196 households.

Consumer Confidence
95.6 (Oct)
99.8 (Sep)

Crude Oil (Mo.-End)
$94.53 (Oct)
$81.66 (Sep)

Personal Spending
0.3% (Sep)
0.6% (Aug)

ISM Manufacturing
50.9 (Oct)
52.0 (Sep)

ISM Non-Manufacturing
55.8 (Oct)
54.8 (Sep)

Gold (Mo.-End)
$795.30 (Oct)
$742.80 (Sep)

Natural Gas (Mo.-End)
$8.33 (Oct)
$6.87 (Sep)

Construction Spending
0.3% (Sep)
0.2% (Aug)

New Home Sales
770,000 (Sep)
735,000 (Aug)

Existing Home Sales
5.04M (Sep)
5.48M (Aug)

The Stock Market

The major indices performed as follows (**Oct** & Y-T-D): *S&P 500* (**1.59%** & 10.86%); *DJIA* (**0.38%** & 13.73%); *Nasdaq Composite* (**5.88%** & 19.09%); *Russell 2000* (**2.87%** & 6.12%); *MSCI Emerging Markets in USD* (**11.16%** & 49.25%); and *MSCI World ex-USA in USD* (**4.36%** & 19.80%). Some of the top performing S&P 500 industry groups in October were as follows: Coal & Consumable Fuels (+18.4%); Internet Software & Services (+16.2%); Construction & Engineering (+14.6%); Footwear (+13.0%); Gold (+13.7%); and Oil & Gas Exploration & Production (+12.6%). The top performing S&P sector was Information Technology (+7.1%). In October, the dividend-payers (390) in the S&P 500 (equal weight) posted a total return of 0.98%, vs. 2.77% for the non-payers (110), according to Standard & Poor's. Year-to-date, the payers gained 7.04%, vs. 10.09% for the non-payers. For the 12-month period ended October 2007, payers gained 10.66%, vs. 13.92% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 239. That lagged the 244 increases over the same period in 2006 and the 252 increases registered in 2005. The dividend yield on the index was 1.83% at the close of October. The current bull market turned five years old on October 10. While it ranks as the fifth-longest since World War II, its 99.9% gain is well below the average bull market gain of 139%, according to InvesTech Research. Here are the four bull markets longer than this one (S&P 500): *10/11/90-3/24/00* (+417.0%); *6/13/49-8/2/56* (+267.1%); *10/3/74-11/28/80* (+126.5%); and *8/12/82-8/25/87* (+228.4%). In Q3'07, 40 IPOs were priced in the U.S., up from 31 in the third quarter of 2006, according to data from Renaissance Capital's IPOHome.com. Total volume was $11.3 billion, up from $6.3 billion a year ago.

U.S. Dollar
(U.S. Trade- Weighted Basket)
-2.35% (Oct)
-10.79% (Y-T-D)
$ was down 5.25% in '06

CBOE Total Equity Options
(# of contracts in millions)
51.8 (10/31)
34.4 (9/28)
October's 51.8 million is the record

Short Interest (NYSE)
Oct: **11.65B** (-1.6%)
Sep: 11.84B (-5.2%)
Short Interest Record 7/07: 12.95B

S&P 500 P-E Ratio
(Trailing 12-mo. earnings)
18.08 (10/31)
17.94 (9/28)
Avg. P-E is 20 over past 25 years

The Bond Market

Index (Source: Lehman)	**Oct**	**Y-T-D**	**12-Mo.**
U.S. Treasury: Intermediate	0.63%	5.77%	6.11%
GNMA 30 Year	1.10%	4.78%	5.66%
Municipal Bond (22+)	0.55%	0.59%	1.41%
U.S. Aggregate	0.90%	4.78%	5.38%
Intermediate Corporate	0.95%	4.05%	4.75%
U.S. Corporate High Yield	0.60%	3.83%	6.74%
Global Aggregate	1.63%	7.75%	8.91%
Global Emerging Markets	2.24%	6.01%	8.62%

The yield on the 10-Yr. T-Note fell 12 basis points in October closing at 4.47% – 13 basis points lower than a year ago. As the numbers in the chart (Oct) indicate, all of the major debt groups responded favorably to the September 18th easing (50 basis points) by the Fed as well as the anticipated cut on October 31 (25 basis points). The cloud hanging over the stock and bond markets is the uncertainty surrounding large write-downs of subprime mortgage-related losses by Wall Street banks. Some of the most reputable financial firms have recently disclosed to the public that they greatly underestimated losses stemming from non-performing CDOs and Structured Products. In total, Wall Street has already written-down $35 billion worth of losses, according to *BusinessWeek*. Losses could reach $100 billion, according to the Fed.

Key Rates as of October 31st

Fed Funds	4.50%
2-Yr. T-Note	3.95%
10-Yr. T-Note	4.47%
30-Yr. Mortgage	6.11%
Bond Buyer 40	4.82%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 429 basis points on 10/31/07. It was 408 on 9/28/07 and 358 on 10/31/06.

2007 Debt Issuance through September
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '06
Corporate	$880.1 Billion	+14.7%
Convertible	$57.9 Billion	+41.9%
Asset-Backed	$759.6 Billion	-17.2%
Municipal	$324.4 Billion	+22.0%

The Investment Climate

Net cash inflows to equity funds totaled $7.5 billion in September, vs. outflows totaling $15.5 billion in August, according to the Investment Company Institute. Bond funds reported inflows totaling $7.4 billion, vs. outflows totaling $4.0 billion in August. Money funds reported inflows totaling $58.3 billion, down from $153.8 billion in September. Y-T-D through September, inflows to equity funds totaled $92.0 billion, vs. $94.7 billion for bond funds.