



1ST QUARTER 2007

Signs, signs, everywhere there are signs that the U.S. economy is slowing. Whether you look at the downturn in housing, corporate capital spending, core durable-goods shipments; the signs are clear that slow growth is the catch phrase for 2007.

It's been a headline filled first quarter with a stock market melt-down that lasted only a few days, numerous sub-prime lenders filing for bankruptcy, new home sales falling off a cliff, home owners who are and will be facing foreclosures because their adjustable rate loans (issued between 2004 and 2006) will make payments impossible. It all seems like we are watching a slow motion train wreck.

The numbers are staggering. Approximately \$700 billion of adjustable teaser rate mortgages will reset this year. As day follows night, families who purchased homes with little or nothing down will be foreclosed on.

This is a vicious cycle of foreclosures, loan defaults, excessive home inventories, slow down in the sales of furnishings and appliances. Lenders will whale with pain and then respond with tighter new lending standards. All this forebodes poorly for economic growth.

We bond investors are happiest when the economy slows and the Federal Reserve reduces interest rates. I believe we are one or two quarters away from exactly that; the Federal Reserve (after seventeen rate hikes) will lower interest rates. Don't pay attention to the Fed's inflation verbiage; they will lower rates.

If you are waiting for the "but", there isn't one. The Fed will need to reignite economic growth through lower rates.

All of this isn't exactly as rosey news

for stocks as it is for good quality corporate and municipal bonds.

We are already reading headlines about reductions in state revenues due to the housing slump, with states like Florida getting hit extremely hard.

In order for the Federal Reserve to keep the economy out of recession, since the consumer represents such a huge percentage of GDP growth, they will have to lower rates in order to salvage the train wreck they are closely monitoring.

We'll be right in the engine room with the Fed when the landscape changes and the debris from the wreckage gets cleaned up.

In other words, I'm thinking there will be many bond opportunities. So prepare yourself for an economic slow down and a more accommodative Federal Reserve.

We invite you to read my current *Forbes* columns on our website. Simply go to www.envisioncap.com, click on "Articles" and violá. A new column will be posted around April 20th. In the meantime you can read an interesting "*Bottom Line Personal*" article posted under the "Articles" in which I discuss surviving in this tricky bond market.

We would also appreciate you sending us your email address so when interesting columns are posted on our site, we can advise you. Just email us at envision@envisioncap.com and we will take care of the rest.

With warmest Springtime regards,

Marilyn