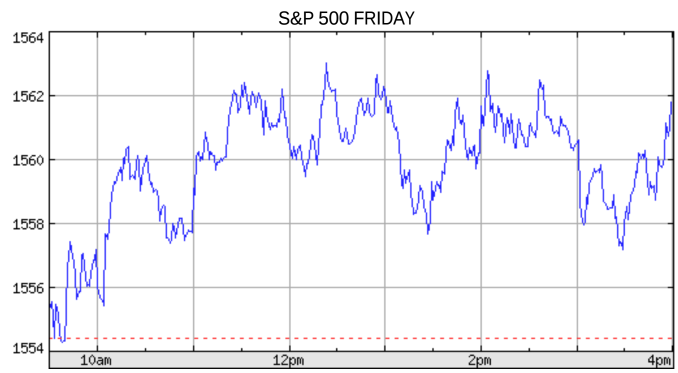
TRADING RECAP

Friday October 12, 2007

INDEX	PRICE	CHANGE	VOLUME	UP/D RATIO	UP/D VOLUME
Dow*:	14,093.08	+77.96	2.7	20/12	17/10
Nasdaq:	2,805.68	+33.48	1.9	18/11	15/4
S&P 500:	1,561.80	+7.39			
10 yr note:	4.68%	+3bp			
Euro /$:	1.4178	-.01			
Crude:	$83.69	-.61			

*NYSE volume

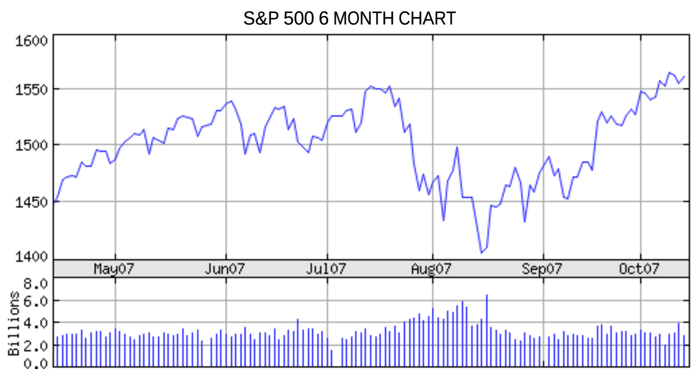


DOW:	**+.19**%	(WEEK)	**13.08**%	(YTD)
NASDAQ:	**+.91**%	(WEEK)	**16.16**%	(YTD)
S&P 500:	**+.27**%	(WEEK)	**10.12**%	(YTD)
RUSSELL 2000:	**-.44**%	(WEEK)	**6.8**%	(YTD)

MARKET SUMMARY:

Markets rebound from Thursday's losses, closing the week slightly higher. Strong economic data seemed to relieve investors ahead of a shaky 3rd quarter earnings season. The rebound was on lighter volume, leaving the Dow and S&P relatively unchanged for the week. The Nasdaq continued to outperform, a good sign of investor risk aversion, however signs of sellers also grew, with distribution days occurring twice on the Dow and once on the Nasdaq this week. If more distribution days creep up it will indicate this rally is nearing a top.

Incredible newfound optimism has swept global investors as markets across the world jump to record highs. This incredible investor optimism amid building economic uncertainty gives the contrarian a good case to start shorting equities. Debt markets have already dislocated themselves from equities, showing increasing risk aversion. The buyout option that has propelled equity prices throughout the year has dried up, so what is left to push stocks higher? If equity markets wake up to this economic reality, stock prices could easily erase their 17% year-to-date gains.



Oil also showed an incredible run up, mirroring equity markets for the past 6 months. This week, fears over Turkey invading Northern Iraq to crush PKK rebels sent the commodity as high as $84. Demand has also been continually stoked as inventories decline ahead of winter. The IEA confirmed these fears, warning that supplies would get tighter this winter as countries' inventories fell below their 5 year average to 53.5 days of forward consumption.

The dollar gains some ground against the Euro on positive economic news, and a meeting of the G7 finance ministers next week. European politicians have voiced concern over the Euro's strength, however with Euro-zone growth coming in higher than expected today, there is little they can do to stem their currency's ascent. Conversely, the dollar has remained weak throughout the year, with the Fed's September rate cut accelerating the decline.

With the release of strong economic data, the certainty over a Fed rate cut at its next meeting has been questionable. Next week's beige book (Thursday) and Bernanke's lectures (Monday & Friday) might just provide some indication of where the Fed plans to go. The CPI and September housing starts released on Wednesday are the only other major reports to look out for.

ECONOMIC NEWS:

September Retail Sales: Contrary to the weakness forecasted by the weekly Redbook and ICSC reports, retail sales increased a strong .6%, twice as much as expected for September. This gain was primarily credited to higher auto sales (confusing given the weak motor vehicle sales- see 10/2/07) as well as higher gasoline costs, boosting sales at service stations (also strange as higher gas prices have never been credited for helping retail sales). This report, without the strong influenced by increases in auto and service station sales, would have shown questionable sales strength. This is apparent as sales at department and clothing stores fell during the month (predicted by the weekly figures) as warmer weather influenced consumer's interest in seasonal apparel. Despite this month's questionable strength, consumers have remains surprisingly resilient with retail sales increasing 5% since last year. Nevertheless this strength is expected to ebb (as it has been all summer), as employment weakness, home price declines, and higher gas prices increase their grasp over consumer spending.

August Business Inventories: After a strong reading last month, this report shows businesses softening demand amid increasing economic uncertainty. Inventories increased .1%, less than expected, while sales declines .4%. Within the report, retailers saw the most strength with sales and inventory levels increasing, while both measures fell for manufacturers. The inventory to sales ratio edged slightly higher to 1.27 months. Year over year, both sales and inventories are higher by 3%.

This is the largest decline in sales for this index since the 1Q inventory glut dropped sales by .4% in January. This decrease, after last month's strong reading, indicates the degree in which this credit storm's cloud of uncertainty shrouds businesses effectiveness in forecasting future demand. With consumer confidence dropping and oil rocketing to new highs, business may be more inclined to scale back production ahead of any declines in consumption. Any drop is not yet certain, however with negative economic influences adding up, the future looks anywhere from bright.

September Producer Price Index: Energy prices stole the show, pushing the overall index higher by 1.1% last month. Gasoline prices jumped 8.4%, the biggest gain since March, while oil prices rose 4.1%. Despite these huge energy gains, core inflation remained contained rising .1%, and 2% since last year. The overall index is higher by 4.4% year over year. While the overall index blew past estimates, the core figure was much less than expected, indicating that persistently higher energy prices have been unable to work through into core inflation. This inability is critical given that the Fed reduced their inflation forecast and lowered rates despite high foreign price pressures. Expectations are for inflation to diminish though the year as oil prices decline from recent all-time highs.

October U of Mich. Consumer Sentiment: Most measurements of consumer confidence fell for this preliminary October reading, a very bad sign for future consumption. Current consumer conditions, the only index to rise, gained .3 points to 98.2, however this index remains 10 points below last year's level. Similarly, one in three households indicated that their financial condition had worsened, remaining largely unchanged over the past 6 months. Consumer expectations fell to 71.6, a bad sign heading into the retail intensive holiday season. In a small piece of good news, consumer inflation expectations also fell, matching the Fed diminished inflation forecasts. This report's data indicated a 2% PCE growth rate over the next year with this winter being the weakest period.