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Presents

Weekly Economic Update for the Week of August 6, 2007

Quote of the week. “If you attack the establishment long enough and hard enough, they will make you a member of it.” – Art Buchwald

More subprime shocks. The week did not end well for investors. Standard and Poor’s put an asterisk on the A+ credit rating of Bear Stearns Cos., changing its outlook from “stable” to “negative”. When Bear Stearns Cos. CFO Sam Molinaro said in a conference call that the credit market was “as bad as I’ve ever seen” and likened the recent Wall Street drop to the dot-com bust of 2000 and the fallout of Black Friday, investors were further shaken. Throw in Thursday’s news that American Home Mortgage would lay off 90% of its employees, and you had all the ingredients for another down day on the Street. “There is not going to be one sort of clear signal that suggests everything is okay,” commented Cowen & Co. trading analyst Mike Malone. “I think it’s going to take time, and the equity markets are going to experience heightened volatility.” Will the Federal Reserve tinker with interest rates this week in response? Stay tuned.

Job data disappoints. On Friday, the Labor Department revealed that U.S. employers added 92,000 jobs in July, the lowest monthly total since February. The jobless rate edged up to 4.6% in July; average hourly wages went up 0.3% to \$17.45 an hour.

Oil prices set record. Crude oil futures sank more than \$1 Friday after hitting a record high of \$78.77 per barrel Wednesday on the New York Mercantile Exchange in the wake of an inventory drawdown. Climatologists helped Friday’s descent in

value: Colorado State University weather researchers forecast only eight hurricanes for this year’s Atlantic storm season. But oil industry analysts are worried about comments from OPEC ministers who see no reason to increase production this fall. Politicians share their concern, fearing record oil prices will result. Energy Secretary Sam Bodman publicly called for OPEC to boost production, claiming that \$75+ crude oil prices have placed the U.S. economy in a “danger zone”.

Dow still struggles. After gaining back some ground earlier in the week, the DJIA plunged 281.42 Friday, largely on worries over subprime mortgages and credit. All three major indexes posted losing weeks.

% Change	1-Week	4-Week	Y-T-D
DJIA	-0.63	-3.26	+5.37
NASDAQ	-2.03	-6.18	+3.51
S&P 500	-1.81	-6.80	+1.15

(Source: CNNMoney.com, 8/3/07)

Riddle of the week. What is so fragile that when you say its name, you break it?

Read the answer here next week.

Answer to last week’s riddle. Earrings.

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