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Presents

Weekly Economic Update for the Week of August 20, 2007

Quote of the week. “When you innovate, you’ve got to be prepared for everyone telling you you’re nuts.” – Larry Ellison

How many more weeks of this? Tuesday: Dow up 115, closes down 208. Wednesday: Dow down 167. Thursday: Dow down 340, gains 300+ back in two hours. Friday: Dow up more than 300 in the first ten minutes of trading, then down 140, then closing up 233. The Federal Reserve helped to write a positive ending to a wild week by unexpectedly cutting its key discount rate .5%. The Fed’s surprise move fueled a welcome rally, for at mid-Thursday the major indexes had lost 10% of their July highs, falling to correction levels. In the words of RBC Dain Rauscher managing director Phillip Dow, “The playground monitor finally showed up, and it showed someone cares and someone is bringing rationality into the market.” In the wake of Friday’s discount rate cut, market watchers are hoping the central bank will lower the federal funds rate at its September 18th meeting.

New home construction at 10-year low.

Last week, the Commerce Department announced that construction of new homes and apartments had dipped 6.1% in July to an adjusted annual rate of 1.38 million units -- the slowest pace since January 1997, and 21% below the pace of a year ago. Additionally, according to the National Association of Realtors, sales of existing homes fell in 41 states during 2Q 2007, and one-third of metropolitan areas surveyed saw price declines.

Countrywide borrows \$11.5 billion. On Thursday, America’s top mortgage lender revealed it was borrowing cash to fund loans. Countrywide Financial Corp. accessed funds from a syndicate of 40 banks last week, sending jitters through Wall Street. Moody’s Investors Service warned that Countrywide’s debt ratings could be cut to junk, and those ratings remain under scrutiny. However, Countrywide CEO David Sambol has pledged to tighten the company’s lending criteria, and its stock gained 10% in value after the Fed’s discount rate cut Friday.

A losing week. Credit the Fed: the S&P 500 had its best one-day gain in four years on Friday, rising 2.5%. But it was still a tough week for the big indexes.

% Change	1-Week	4-Week	Y-T-D
DJIA	-1.23	-5.90	+4.62
NASDAQ	-1.59	-7.29	+3.27
S&P 500	-0.53	-6.10	+2.03

(Source: CNNMoney.com, 8/17/07)

Riddle of the week. What relation would your father’s sister’s sister-in-law be to you?

(Read the answer here next week.)

Answer to last week’s riddle. Six. The fox killed all BUT SIX of the chickens.

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