



Market Commentary: Second Quarter 2007

1. Review of the Stock Market for the Quarter

It was a profitable quarter for investors and the best second quarter since 2003 in the stock market was no small achievement as stocks are not undervalued. Firming economic growth and declining core inflation rates are the reasons behind the stock market rallies in April and May. Even corporate earnings grew stronger than expected in the first quarter.

So far investors have been optimistic in believing that the Federal Reserve has successfully engineered a soft landing for the economy. As we start the third quarter, there are supports for both bulls and bears in the stock market. The economy is gaining steam again, although still at rate below its potential. The next move by the Fed is more likely to be cut than a raise in interest rates. However, problems remain. Energy prices are still high. The housing market has not seen bottom yet. International situations are anything but stable. Long-term interest rates are creeping up.

My quantitative model suggests that the stock market is properly priced. There will be ups and downs in the market for the rest of the year. Be prepared for volatility. Caution is needed. Some cash position is recommended for buying opportunities.

The following table is a summary of the stock market performance measured by the three major indexes (including price changes and dividends paid):

	April	May	June	2nd Quarter 2007
SP500 Index	4.43%	3.49%	-1.66%	6.28%
Dow Jones IA	5.86%	4.62%	-1.49%	9.10%
NASDAQ Index	4.27%	3.15%	-0.05%	7.50%