

## Garrett Van Wagoner

August 31, 2007

*The following commentary provided is for informational purposes only and is not intended as a recommendation to buy or sell any security.*

### **How confident is the market with the Federal Reserve at this point?**

Well, since the crisis began in early August, we've had the Federal Reserve make a number of statements. We believe their intentions are quite clear in that the banking system has the funds and liquidity it needs to operate on a daily basis and the Federal Reserve has been fairly accommodative in making sure there is enough liquidity in the system so that transactions can continue and settle and trade efficiently. Overall, I think the Federal Reserve has done exactly what it should do to make sure the markets are open and the markets are functioning.

### **Do you see them changing interest rates anytime soon?**

I do. I don't think it's necessarily because of the current troubles. We believe it is more likely because the economy is going to slow quite a bit this fall. The housing industry, in general, has been such a large part of the last few years' of growth and is obviously going to tail off substantially. Housing was the big growth driver of the economy from an employment standpoint as well as the contribution to GDP. With a slowing economy, we would expect to see the Federal Reserve reduce interest rates several times this fall.

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**Strong economic figures were released today and the market reacted well. How long do you think the sub-prime issues will affect housing and consumer spending?**

If you are a qualified buyer and can put down 25% or 40% to buy a home, you will be able to get a loan at a fairly decent rate. The problem is that is not where the marginal cost of money has been for home borrowing. It has been in a lock up with aggressive and, frankly cheaper, rates. That is going to cause an overhang on housing for quite a while. We expect that to have an effect on consumer spending and on anything someone would buy for a new home. Whether the slowdown affects companies that make textiles, like towels and sheets, to ones that make dishes and glasses, to companies, like Home Depot, that offer gardening supplies. All of those types of firms will be affected and is all part of the Federal Reserve's thought process. So we do expect the consumer to slow although we don't think we're in for a major recession. We believe we'll have a slow fall and winter and think the Federal Reserve is very aware of the situation and that's why we think they are going to cut rates dramatically this fall.

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