



DON'T PANIC...BUT SEE-SAW CONTINUES

Suggestion: Don't let yourself be bullied by the bearish slant that "the sky is falling"... "Chicken Little" and "Henny Penny" may be initially misguided and wrong, but don't listen to sly "Foxy Loxy" who'd tell you we're engulfed in a recession already. The current economic slowdown in the U.S. is being caused by stagflation.

So, in short, don't let the emotional panic and quick, irrational thinking lead to wrong conclusions, overreaction and mistakes when making investment decisions. The sky is not falling, but there have been some storms (and some fog), and the "tug of war" behavior of the stock market is proof. As you will recall, I talked about Volatility in the last Newsletter as a sign of our times and as a condition we must learn to accept and respect...CAM deliberately avoids the risky and out of favor and sidesteps the trouble while emphasizing the best of the best in favored sectors with their earnings momentum and logical themes. Volatility will remain the name of this game and 5-15% adjustments will be more commonplace going forward and occur in more compressed periods of time; and although the spiky downturns are indeed emotional and unsettling, sell-offs are part of the economic continuum and part of its overall karma. The good companies will bounce back and show resiliency.

Why a recession (or depression) is not that likely? Here are a few bullets:

- The S&P 600 has about 90 companies or a 15% weighting in the depressed Financial and Housing sectors, and of those 90 about half will have a profit and half will not. The "hurt" companies are taking steps to rebound later in '08 or early '09 and some others will be bought out and acquired, a.k.a. Darwin's Theory of survival of the fittest. The remaining 85% of the companies in the index will receive a B+ grade as 86-88% of them will meet or exceed earnings expectations in this last Quarter of 2007 (EPS growth will average 11-14% and that is not tepid). So, in conclusion, when you factor in the ailing sectors, you still end up with 80% of the companies turning a profit. In the last 8 recessions

- experienced, the S&P's report card ranged from a 30-46% grade, not an 80% grade.
- Re: valuation gauges...the P/E ratios for the DJIA, S&P 500 and NASDAQ (median average) represent a story of being undervalued and oversold...the current 14.4 measure is well below the 25-year average of 19.4 and this is a fair cross section of large, medium and small cap equities...a true mosaic that underscores a 20% discount to fair value.
 - Interest Rates are dropping and the bond futures indicate that this trend will continue...conservative forecasts project rates to drop by $\frac{3}{4}$ to 1% between now and June. In 9 out of the last 10 economic slowdowns, the stock market rallied by an average of 17.7% (after 6 months) when experiencing comparable rate cuts. The only exception was March 2000, when P/E's were 27.6 (now 14.4) and the rate cuts came behind the curve and the country was hit by the 9/11 terrorist attacks. Fast forward: Bernanke has already cut rates 3 times and is expected to cut again in January, while infusing even more liquidity into the monetary system (to re-stimulate). As I have noted in a past Newsletter, Bernanke's post-doctoral expertise was the Great Depression and he knows the importance of liquidity. The Fed also well knows that financial institutions cannot be left crippled because they represent the lifeblood of our entire economy. Remember, rate cuts are a stimulus, not a deterrent to stock market performance and the overwhelming history post-World War II bears this out.
 - GDP (Gross Domestic Product) is +2.8% and not negative. Economic growth has slowed and moderated, but with two sectors pulling down the economy within the context of rising inflation, you end up with what we have, namely stagflation. To combat this, CAM earmarks concentrations in sector-specific areas (more on this later). The "official" definition of a recession is a decline in GDP for two or more consecutive quarters. We are not mired in a recession, and -5 to -7% numbers are not predicted.
 - During 5 years of President Bill Clinton's 8-year administration (spanning '92-'00), the U.S. unemployment rate was over 5.6%, and in none of those years was our country embroiled in a recession. No one should be too shocked that unemployment (currently at 5%) inched up recently as year-end layoffs, retirements and cutbacks at banks, brokerages and lenders have occurred. Couple this with the slowdown in housing/construction and real estate, which also started about 7 months ago, and it is easy to understand the data. The ADP payroll statistics also don't include all those people who are here illegally, self-employed, working from home or independent contractors/consultants working online, so the 5.0% number is even a tad overstated...but this context when compared to the

Clinton administration underscores why 5% unemployment (or even 5.5%) does not constitute a recession, as some would have you believe.

- The U.S. export trade data was up about 13% while imports declined 12%...indicating a degree of justification for our weakened U.S. dollar as it retreated, on average, about 15% vs. the Big-5 foreign currencies in '07. Despite all this, the U.S. manufacturing index turned in a +2.4 year in its bottom line, so the real result was even better given the anchor from currency translation. Not too surprising to comprehend the imbalance and understand why the global theme is key to picking stock winners in the year ahead.

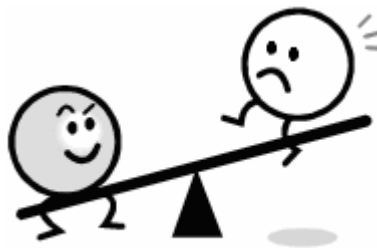
Let me wind down on the economics pulse stories and focus more on what is likely to happen in the coming year.

First off, the U.S. economy “bottoms” here in the first half of the year and will probably need the 1st Quarter or so to sort things out. During this “sort-out” phase, we actually achieve a bottom to the “U” (not a “V” turn) and we may test this bottom two or three times before we begin a sustainable turnaround. The timing on this is not at all precise, as it will depend on sentiment and perception (subjective factors) as well as some technical signs of improvement, which will need reinforcement. CAM will be monitoring these developments as they unfold very closely. The “beat-up and bruised” financial and housing sectors could offer tremendous opportunity and turnaround potential, but selectivity is key here because not all will do well. Some of the strongest and most financially solid right now include favorites: Bank of America (BAC is rescuing Countrywide), American Express (global presence and depth), Berkshire Hathaway (highly regarded and value-added in banking/insurance), Wells Fargo (WFC), U.S. Bancorp (USB), and Raymond James (RJF (no CAM conflict inferred)). There will be some smaller regional banks ripe for acquisition too. In the housing sector, Home Depot, Lowes and “green pick” STP stand out.

In short, the U.S. avoids a broad-based recession (and depression) but in flirting with them has a “soft bounce”. In never saying never, I must add that Greenspan’s self-fulfilling prophecy could happen if terrible events or a world calamity occurs. Some critics, citing his fairly obvious conflict of interest affiliations with hedge funds that have “shorted” mortgages since his pronouncement last Feb. (Paulson’s Fund) are disturbing and could warrant investigation. The financial and housing sectors are already in their own recessions, but these ruts will not spread and cripple the whole country, as the direct and indirect fallout represents about 13-15% of GNP. The fix and repair will take several years and should not be minimized, especially in the hardest hit areas like California, Florida, Texas, Michigan, Louisiana and New Jersey. It is a healthy and constructive sign though to see the banks and financial institutions confront the problems, assess them and stabilize and go forward with solutions...early examples include Bank of America’s

rescue of Countrywide, JP Morgan’s acquisition of Washington Mutual, and capital infusions for Bear Stearns, UBS, Citi and Merrill Lynch. Most of the write-downs and write-offs have occurred and the “kitchen sink” syndrome has caused reserves to be raised. The Fed’s role, as mentioned earlier, will prevent the country’s money supply from freezing up. Obviously, the companies with the strongest balance sheets and cash reserves will have a leg-up advantage; this is, of course, key to CAM’s selection process.

When we get the wide microscope out, we can look at today’s mortgage troubles and credit crunch in an overview perspective. The U.S. economy is \$13.4 trillion. At present (as of 1/15/08 when I’m writing this), the known mortgage/credit mess is \$200 billion. If we double this number (i.e., to \$400 billion due to poor due diligence/failure to disclose) and the consumer reacts by spending less (say \$300 billion), the dip to our economy is felt, but it is about 5% of our \$13.4 trillion economy...not a crusher.



Let me sidestep to examine what just happened in 2007 and then, with this as our backdrop, predict some winners for the next 12-18 months.

The Best and Worst Stock Sectors of 2007 and a Look Forward:

Category	'07 (Actual)	'08 Opinion
Energy	+39%	+; repeat performance
Materials	+27.3%	+; theme continues to play out
Natural Resources (ex. Energy)	+20.6%	+; inflation-adjusted winners
Specialty Consumer	+13.8%	~ neutral; selected +
Tech/Info	+12.6%	~ neutral; favorites
Consumer Staples	+9.2%	+; watch margins
Telecom	+7.9%	~; selected +
Industries	+7.0%	+ (esp. large cap.)
Health Care (incl. Pharm.)	+2.8%	~; favorites stick out
Utilities	+2.7%	+; stick with A+ quality & good PEG's

Category	'07 (Actual)	'08 Opinion
S&P 500 (no divid.)	+2.5%	off to a slow start; fundamentals will improve
Leisure/Entert.	+0.1%	~; mixed
Financial	-33.5%	avoid short-term/turnaround expected
Transportation	-19.6%	~; shipping best (foreign trade)
Cons. Discret.	-17.3%	- / improves 2 nd half
Automotive	-18.8%	- / hybrid wins
Housing/Bldg.	-25.6%	- short-term/watch for turn

Here are some familiar names:

Equities 1-Year 2007 Return

	<u>2006 Close</u>	<u>2007 Close</u>	<u>1 Year Change</u>	<u>Avg. % Div.Yld</u>	<u>Total Return</u>
ACAS	\$46	\$33	-29%	10%	-19%
AAPL	\$83	\$198	135%	N/A	135%
BA	\$89	\$87	-2.0%	2.0%	even
BPT	\$76	\$80	+5.2%	11.0%	16.2%
COP	\$68	\$88	+29.4%	1.9%	31.3%
CVS	\$30	\$40	+28.4%	0.6%	29.0%
CVX	\$70	\$93	+32%	2.5%	34.5%
FRO	\$31	\$48	+51%	23.2%	74.2%
GE	\$37	\$37	-2.4%	3.3%	0.9%
GOOG	\$467	\$691	+47.8%	N/A	47.8%
MON	\$52	\$111	+114.2%	1.0%	115.2%
PCP	\$81	\$139	+70.4%	1.1%	71.5%
PCU	\$53	\$105	+98.4%	8.2%	106.6%
QQQQ	\$43	\$51	+18.4%	0.5%	18.9%
RIMM	\$43	\$113	+163.2%	N/A	163.2%
TNH	\$34	\$149	+333.1%	7.5%	340.6%
XOM	\$74	\$93	+26.4%	1.6%	28.0%
Wilshire Financial Index					-35.5%
S&P 500					+3.5%
DJIA					+5.2%
Hedge Funds (US) – limited liquidations, esp. offshore					-49.8%
Hedge Funds (REIT's)					-51.6%
Best (A) Morningstar Stock Fund (US)					+21.8%

**Best Fund outperformed 96% of all funds worldwide*

Note: All prices reflect split adjustments

<u>Commodities 1-Year 2007 Return</u>			
	<u>2006 Close</u>	<u>2007 Close</u>	<u>2007 Change</u>
Copper	\$2.80	3.03	8.2%
Gold	\$627.20	\$839.90	33.1%
Silver	\$12.80	\$14.80	15.6%
Platinum	\$1,139.30	\$1,528.40	34.2%
Oil	\$61.05	\$95.98	57.2%

Although nothing is absolute, wise strategies always cater to being flexible, smartly diversified and overweighted, and dynamic in their fiduciary orientation. This orientation must reflect a game plan congruent with your objectives and the changing economic landscape we will encounter. Based on assumptions and predictions believed to be sound, CAM will follow prudent approaches with safety and above average performance in mind. Here's what else we see in store for 2008.

Interest rates will move lower and level off in the second half of '08. The rate cuts should stimulate our dulled economy, encourage lending and free up capital for the slowly recovering financial and housing industries. At some point in the near future, "opportunity will knock" for both sectors and CAM will be there.

Yields on Treasuries will remain low as the 2-yr. (2.75%), 5-yr. (3.1%) and the 10-yr. (3.82%) continue to flatten the curve, while providing returns below the inflation rate. It is expected that rates for "fed funds" and "prime" will likely be 1% lower at the mid-year point.

The outcome of our Presidential Election will surely have many ramifications and future write-ups will zoom in on these concerns, pitfalls and opportunities that will be hurdling our way this Fall. The sheer uncertainty will add an extra dimension of anxiety to the markets.

Already off to a lustrous start in '08, metals like gold, silver, platinum, copper, nickel and steel will continue to shine. Expect volatility, but an upward trendline. Commodities such as corn, grains and soybeans will also increase as food and fuel-alternative demands create shortage... moves of 15-25% are possible. Fertilizers and natural resources will continue to demonstrate positive price fundamentals. On the 'A' list are Southern Copper (PCU), Precision Castparts (PCP), Air Products & Chemicals (APD), Rio Tinto (RIO), BHP Billiton (BHP), Watts Water Tech (WTS), Impala Platinum (IMPUY), Textron (TXT), Monsanto (MON), Potash Fertilizer (POT), Terra Nitrogen (TNH), and a few special gold and food stocks. Lockheed Martin and Raytheon were also given the nod in our research.

CAM continues to envision turbulence, including geopolitical tensions as well as inflation to be major themes to contend with in '08. The global theme is still very relevant, so it is believed that large-cap, A+ rated stocks with intact global business models will be especially attractive. The large-cappers with the least debt and deeper “cash” pockets will weather the choppy waters better than their competitors. CAM’s matrix evaluates financial strength accordingly.

Oil prices will experience a wide range in 2008, underscoring its volatility as it fluctuates between \$75 and \$120 per barrel with the underlying slope being upward. Remember, oil prices are in a disconnect with U.S. demand; we are in a world economy. Since many on Wall street still doubt that the uptrend in oil prices is sustainable (and have for the last 2-3 years), P/E levels for most oil and gas companies remain extremely low relative to record earnings and supply/demand prospects. CAM has emphasized this sector in the past and Energy remains a favorite choice for the year ahead as many are quite undervalued. Stand-out favorites include: Conoco Phillips (COP), Chevron Texaco (CVX), Exxon Mobil (XOM), Diamond Offshore (DO), Schlumberger (SLB), Transocean (RIG), Kinder Morgan (KMP), and National Oilwell Varco (NOV). For those especially yield-conscious, BPT (12%) and Frontline (16%) head the list. Also recommended are these A+ rated utility companies: Duke Power (DUK), Florida P&L (FPL), Excelon (EXC), Dominion Resources (D), and Huaneng Power (HNP).

So, as a quick summary...avoid retailers, airlines, automotive (except hybrids), basic tech, housing, REITs and banks (for now!)...also stay clear of consumer “heavy durables (i.e. appliances, furniture)...Emphasize quality food (WFMI, YUM) and beverage (KO, PEP), energy and natural resources (again!), utilities (cash-rich and interest-rate-sensitive), select Pharma (AMLN, DNA (expect buyout by Roche), SYK, JNJ), select tech (NVDA, RIMM, AAPL), and think “green” (Suntech Power-STP is an example), Transportation (esp. shipping with global routes) and Industrials (metals and assets leveraged to rising inflation scenario)...don’t overlook high-yielding stocks because big dividends will outpace the slumping CD and fixed income yields (ACAS and ALD are destined to rebound as part of the financial sector’s comeback – dividends might even be able to hold). Industrials in favorable light include Boeing (BA), Caterpillar (CAT) and Deere (DE).

It is expected that the DJIA could finish the year in the 14,000-14,400 band on earnings growth that reflects a slowdown to 9-11%. We foresee the U.S. economy to be weaker in the 1st half of 2008 with GDP growth under 2%, but with the percolating effect of the rate cuts (6-mo. delay), we should witness stronger relief and results in the 2nd half of the year. The key signal will be tied to the perceived turnaround developments in the housing and financial sectors, which should provide a welcome catalyst and increase consumer confidence.

CAM remains positive on the outlook for selected sectors and equities in 2008, and is looking forward to meeting your investment goals by using a measured degree of caution in the process. CAM, in the spirit of Ducky Lucky, will advise keeping your eye on the donut and not the hole.



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