



OUTLOOK 2007

Inside this Issue: A recap of U.S. Financial Markets...a top-down overview of what to expect...how to make your money grow in the year ahead...sector favorites and some of the best blue chip picks in growth, value, and total return under the sun.

The U.S. stock market's 2-year run has weathered many economic storms which are often regarded as performance deterrents: higher interest rates (17 hikes) and higher inflation, several gripping natural disasters, "rough and tough" partisan politics at the national and state levels with power changing hands in both the House and Senate, some scary geopolitical tensions, and a controversial war in the Mideast.

Despite it all, the financial markets have been resilient and are "on the improve".

While the DJIA is setting new record highs (up 16% in 2006 while down 1% in '05, providing a welcome 7.5% average annual return over the past 2 years), the broader S&P 500 Index is flirting with its high set back in early 2000. The tech-heavy NASDAQ Composite is a long way off from achieving a retest of its March 2000 peak (it's selling at half of the pinnacle number).

Nonetheless, the S&P 500 jumped a healthy 14% in 2006 (for a 2-year average annual return of 8%) and the lagging NASDAQ rose about 9% for 2006 (or about 5% per year over the last 24 months).

As if looking in a mirror dating back to the mid-1970's, 2006 shared many in-common parallels and reflections...a far-off war (Vietnam) going badly, an somewhat unpopular President (Nixon), a booming housing market that topped out, higher oil and commodity prices (the spook of inflation that affects many things), and a period of stagflation as the national economy slowed from robust 5/6% GDP growth to essentially none at all (hopefully stagflation doesn't set in).

Of late, there was another "ROCKY" film and the recent passing of 2 formidable figures from that '70's decade (former President Ford and Nobel prize-winning economist Friedman) which only adds to the sense of deja'vu. We don't look for 2007 to be a rerun, at least as far as the economy goes. What do we expect to unfold?

For starters, the American economy (**unlike in China and India**) **is clearly slowing, but we continue to think that the nation will sidestep a recession.** For the 3rd quarter-2006,

the U.S. GDP growth number was a mere 2.0% (recently revised down). Best guesses put 4th quarter GDP growth at about 3.0%-3.2%, buoyed by consumer holiday spending and pre-year end transactions. The prognosis for the first half of '07 GDP growth rate is being plotted at a sluggish 1.0% to 2.5% rate with an accelerated pick-up seen after mid-year, coincident with (2) ¼-point rate cuts.

About 1/3rd of the time, GDP peckedness (growth of 0%-2 %) will lead to a recession (using data since 1929). Slowing economic growth almost always portends smaller earnings increases in the year ahead too. However, the jobless data has been bullish and the drop in energy prices is a positive for consumer spending because it simply frees up money for other purchases. The labor market will deal with some inflationary pressures attributed to the minimum wage hikes (and its domino effect) and is experiencing specific industry weakness in construction, housing, and auto manufacturing.

Current price-earnings ratios (P/E's) for the "blue chippy" S&P 500 Index, when capitalization-weighted, comes in at 18.8 times and although not excessive (19.5 times is the 50-year moving average), it suggests little notable undervaluation...hence, the stock selection process is still the key to out performance.

Most pundits and analysts foresee 7%-11% EPS growth for the 500 large-cap companies comprising the S&P. Furthermore, median projections say the S&P 500 index should rise about 10%-12% (in to the mid-to high-1500's) over the next 12 months (comparable to EPS expansion).

Like many championship sports teams, the rising DJIA is now getting contributions from more than just its "star" stocks and if a broad-based move can continue, momentum could carry the Dow to 14,000+ in '07 (providing a 12%+ gain). The sheer enthusiastic buying surge could vault the Dow much higher as we all are familiar with the pendulum theory. In fact, analysts predict that 27 of the 30 component companies will post higher earnings year-over-year (on average, 9% improvement in EPS). Dividend growth, not to be overlooked, should rise by 7% over '06 yields (this information is from a survey of CEO's and is cash-flow positive). **For those of you looking out a little further, the 2009-2010 forecast for the Dow is decidedly more bullish (using P/E correlative math) the index could easily touch 18,000 and trade in a range of 15,500 to 18,300 by mid-2010. This seems like a wide trading band, but the range is just 12%-15% from top to bottom. This prognostication assumes that a slow/modest growth economy can endure in an upward pattern over the next 4 years...in the context of low interest rates and contained inflation.**

The NASDAQ could be the "positive surprise" story of '07 and '08. The NASDAQ has a wide positive spread in PEG (actual verses forecast) and the current P/E valuations are significantly below their 30-year moving averages at 27.5 times vs. 38.8 times (historic), underscoring the "opportunity" challenge for these high beta companies. Analysts vary the most on predicting NASDAQ's appreciation prospects for '07, gapping from 6% on the

low end to a whopping 28% on the high end...I suppose this prudently underscores the intrinsic volatility of this index and CAM has always benefited by respecting this phenomenon.

On interest rates and bond returns...

The Federal Reserve is probably finished raising interest rates for this cycle and could (80/20 chance) reduce borrowing costs by mid-2007...a Bernanke move to cut rates slightly would be designed to spur on growth (which could be slowing in the first half), assist the housing market and lending institutions, and ease credit concerns while improving money liquidity and access to funds overall. The Federal funds and Treasury future contracts for August/September do, interestingly enough, build in a 40 bpt. decline to the yield curve... quite often I have found this '8' ball "tell" to be correct.

Bond returns in 2006 were 'OK' (verses inflation), but net results, paled in comparison to stock returns. Depending on maturity and hampered by several rate hikes earlier in '06, total returns were 0 to 4.2% for the bond market. Fixed Income and Bonds did provide a sure comfort zone for those investors wanting a steady flow of income while avoiding the volatility associated with stocks. The 4/5/6% income returns were depreciated by 2%-4% bond value "paper" declines (vs. PAR) as rates rose, creating this normal inverse effect.

CD's and A+ rated corporate paper are beginning to price in the anticipated rate cuts that could be in the cards later in 2007...even money markets yields have witnessed a 20 bpt. pullback since mid-December. The relative flatness in the yield curve remains as the chart below attests to:

U.S. Treasury Securities

3 month	4.91%	Prime = 8.25% (7.25% 1 yr. ago)
6 month	4.94%	
1-year	4.95%	Overnight Fed Funds = 5.25% (4.25% 1yr.ago)
5-year	4.68%	
10-year	4.77%	
30-year	4.85%	

U.S. Corporate Bonds (A+ rated) are about 5.75% for 10 year maturities. If interested in T-E Muni Paper...CAM likes to use no-load A+ rated mutual funds for safety, diversification, and high yield (4.3% to 4.6% at present).

The rate cuts (perhaps only 2) are not a given either because the situation in Iraq, the federal deficit, and strength (or lack thereof) of the U.S. dollar are other factors governing the decision on rates. If rates are perceived to go too low vs. foreign currencies, our dollar becomes more vulnerable so Bernanke has a thin tightrope to walk.

Making money and outperforming the benchmarks requires knowing “where to be” and “where not to be” in terms of asset allocation, while asserting patience, or “pulling the trigger” if necessary. The themes for 2007 are still unfolding but the main focus areas appear to be blue chip companies in the following industry sectors: global industrialization and manufacturing, capital equipment, selected technology and bio-tech, financial, specialty health care and niche consumer. Oil service companies are expected to show strong results, but the integrated energy companies fall back to a market weight, even though results and P/E’s will remain attractive on a relative basis. This presumes that crude oil trades in a \$50.00-\$65.00 range with higher spot prices naturally favoring the profit margins of big name oil companies. There should be significant downside resistance at the \$48.00/\$50.00 level.

The Tech Sector is seeing the sun rise again, but not across the whole horizon. Again, selectivity will be important. Techies could begin to ride the upgrade cycle (i.e. as users (corporate and individual) buy new hardware and software) and those companies with new products and software are seen leading the way and creating the “buzz”.

Since the Internet party ended in 2000, tech stocks have anchored the indices, making for a down cycle lasting so long that it alone would suggest an “up” cycle is overdue...but not so fast...don’t fall in to that quicksand trap... the valuations and earnings must be there...hype doesn’t count...new products that reignite customer enthusiasm is a start...Apple (APPL), Cisco (CSCO), Time Warner (TWTC), VeriFone (PAY), Harris Corp (HRS), Inv Tech Group (ITG) and bio-techies like Stem Cell (STEM), Amgen (AMGN), Genentech (DNA), are examples of companies that are making a big turn and have improving bottom-lines to prove it.

The QQQQ Index is another smart way to participate in the top 100 companies comprising the NASDAQ...this index fund basket adds instant diversification and spreads risk around as a result. Berkshire Hathaway (BRKA/or B) and NYMEX also offer blue chip value stocks in their cornucopias.

The Energy Sector faces a tougher drill...As mentioned in recent months, Energy stocks have been losing some of their pizzazz and earnings drive potential and CAM has recommended going from an overweight to market weight given the changing scenario. The warmest Winter on record in the North East, (where 2/3rds of the nation’s heating fuels are used) has added a seasonal blow to spot prices as many built up inventories have hardly been tapped.

The global demand remains stable (in China and India for example), however the tone favors a “lighten up” approach. Rock solid companies that still deserve a place in your portfolio include Chevron Texaco (CVX), Conoco Phil (COP), British Petro-Royalty Trust

(BPT-10% yld.), and Exxon Mobil (XOM). The recent card hands have played out (no Fall Hurricanes, mild weather, lower thermal usage)...plus a Wall Street theme that lower prices for crude hurts IRAN and the Cartel and many undertows are playing out, including how we can tax “Big Oil”.

The oil service opportunities like Schlumberger, Halliburton, and KBR are especially attractive at current levels too...The Canadian income trusts, although fundamentally sound, and offering attractive dividend yields, remain a “political football” given the ambivalence of the Canadian Parliament and Finance Minister to change the tax laws governing such entities. Not knowing the exact outcome of the various lobbying efforts creates a degree of uncertainty for these holdings like PWI, ERF, etc, but a store of value does exist.

This Newsletter is designed to share technical opinions, economic viewpoints and investment recommendations using a brief format that, on the whole, will lack the real depth associated with the considerable research and analysis that has been quantitatively and qualitatively conducted. Consequently, I remind the readers that this is a “general” piece and the summary represents sound economic intelligence. Be assured that your specific objectives and goals will be adhered to by CAM in managing your investment portfolio as well.

Stock Investment suggestions are divided into 3 main categories:



1) Recognized Blue Chip (Large Cap) Growth Stocks which are slated to enjoy above peer-average results with appreciation potential in the 12-22% range. These large-cap companies possess stellar balance sheets (A+) and can deliver an expanding earnings base.

Name	Symbol	Price	EPS (\$/shr.)	EPS Growth Rate
Abbott Labs	ABT	\$51	2	13
Allstate	ALL	\$64	7.4	15
American Express	AXP	\$59	2.8	17
Apple Inc.	AAPL	\$91	2.2	22
AT&T	T	\$34	1.85	13

Name	Symbol	Price	EPS (\$/shr.)	EPS Growth Rate
Boeing	BA	\$87	2.15	16
Caterpillar	CAT	\$60	5	14
Chevron	CVX	\$70	7.9	11
Citigroup	C	\$54	4.6	16
Colgate-Palmolive	CL	\$66	2.3	14
ConocoPhillips	COP	\$62	10.3	10
Exxon Mobil	XOM	\$71	6.5	12
General Electric	GE	\$37	1.6	13
Harley-Davidson	HOG	\$70	3.7	14
Johnson & Johnson	JNJ	\$66	3.7	13
KBR Inc.	KBR	\$23	1.3	16
McDonald's Corp.	MCD	\$44	2.3	14
MetLife Inc.	MET	\$61	3.9	15
Pepsi	PEP	\$63	2.9	13
Pfizer	PFE	\$28	1.7	15
Procter & Gamble	PG	\$65	2.6	15
Schlumberger Ltd.	SLB	\$58	2.6	15
Toyota Motors	TM	\$131	8.2	17
Wachovia Corp.	WB	\$56	4.5	13
Wells Fargo	WFC	\$36	2.4	13

2) Pure Growth – improving fundamentals and impressive revenue growth point to these companies for 15-30% EPS growth and appreciation potential.

Gilead Sciences (GILD) – Drugs/Immunology

Amgen (AMGN) or **Genentech (DNA)** – Biotechnology/Cancer

Paychex (PAYX) – Computer Services/Payroll

Precision Castparts (PCP) – Aerospace/Defense

Republic Services (RSG) – Waste Management

Cisco Systems (CSCO) – Software/Integrated Computer Systems

Whole Foods (WFMI) – Natural and Organic Foods

Stericycle (SRCL) – Medical Waste Management
Stryker (SYK) – Medical Supplies
CVS (CVS) or Walgreen (WAG) – Pharmacy/Consumer Services
Starbucks (SBUX) – Specialty Restaurant
Williams Sonoma (WSM) – Retail (Special Home Lines)
Zimmer Holdings (ZMH) – Medical Devices/Instruments
Dick’s Sporting Goods (DKS) – Specialty Consumer
Wellpoint Health (WLP) – Health Care Plans

(Please see the Tech. section of this Newsletter for other picks.)

3) Value and Income stocks reflect companies of solid intrinsic value (offer low P/Es) that pay out very handsome dividends and returns that are above average...often viewed as total return opportunities.

Name	Symbol	% Yield	X-Date	Sector
Allied Capital	ALD	7.9	3/20/2007	Specialty Financial
Amer. Cap. Strategies	ACAS	7.7	3/4/2007	Specialty Financial
Amer. Mortgage Acceptance Co.	AMC	10	3/27/2007	Mortgage Services
Apollo Investments	AINV	9	3/19/2007	Financial
Ares Capital	ARCC	8.3	3/13/2007	Financial
Arlington Tankers	ATB	10.6	2/1/2007	Trans./Tankers
Boulder Growth	BIF	11.8	4/22/2007	Financial
BP Prudhoe Trust	BPT	9	4/16/2007	Oil (Alaska)
Deerfield Triarc Cap.	DFR	10	3/27/2007	Financial
Eagle Bulk Ship.	EGLE	11.5	1/26/2007	Trans./Tankers
Enbridge Energy	EEP	7.5	2/2/2007	Energy
* Enerplus Res. Fund	ERF	10.5	3/27/2007	Energy (Can.)
Fairpoint Comm.	FRP	8.6	3/27/2007	Communication Svcs.
FelCor Lodging	FCH	4.5	3/27/2007	Hotel Properties
* Fording Coal	FDG	16.3	3/27/2007	Energy-Coal (Can.)

Name	Symbol	% Yield	X-Date	Sector
Frontline Ltd.	FRO	18	3/5/2007	Shipping
Genco Shipping	GSTL	7.7	2/14/2007	Trans./Tankers
Gramercy Capital	GKK	7.2	3/27/2007	Mortgage Services
Mesabi Trust	MSB	8.1	1/26/2007	Financial
MFS Special Value	MFV	9.1	4/10/2007	Value Fund
Novastar Financial	NFI	21	3/15/2007	Mortgage Services
* Primewest Energy	PWI	14	3/20/2007	Energy (Can.)
Ship Finance Intl.	SFL	8.8	3/5/2007	Shipping
Southern Copper	PCU	10	2/14/2007	Basic Materials
Valero Holdings	VEH	5.3	2/3/2007	Energy-Oil (sub-VLO)

**Canadian income trusts*

We believe that a scenario of slowing (but enduring) economic growth, flat and gradually declining rates, and reliable corporate profits in favored sectors will lead your stock portfolio to new highs over 2007. A blend of blue chip, large cap globally diverse stocks, mixed smartly with growth and value/income issues will constitute the winning combination in terms of best asset allocations. Bonds and Fixed income equivalents will be used in those portfolios desiring less volatility and a more conservative stance with solid income generation.

Cheers to you and your investments as we ring in 2007. As always, please don't hesitate to call me with any questions you may have.

Disclosure Information

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