

LEADER CAPITAL NEWS

Leader Capital Corp.

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As we stated in our newsletter of December 2005 and reiterate at this point, the Fed will not lower interest rates at this time. It is highly likely that they will continue to raise rates, not lower them. The basic reason is the same as it was in 2005 and in fact this is an even more urgent matter now than it was then due to the continued weakness of the Dollar.

The confusion comes from the fact that the fed has raised rates 18 times. The rate is up to 5.25%. Historically, when interest rates are raised that many times, the Fed will cease and desist because their mission to preserve employment and fight inflation has been accomplished. Unfortunately, neither one of those issues has been addressed to the Fed's satisfaction, regardless of the number of raises or the current interest rate. The other headwind is the raises other countries have initiated like Australia and Europe.

Inflation is well above 3% despite what the CPI says. To make matters worse, the GDP is dwindling at an alarming rate. (The Actual GDP is 1.8 % as of 6/30/07.) The dollar is the major contributor to inflation as well as the dwindling GDP. *We continue to pay more for imports and manufacturing continues to go overseas, hence a weak GDP and higher inflation.*

The weak GDP is precluding the Fed from getting the desired results they want from raising interest rates. For example, Australia and Europe have been raising interest rates and their currency has been rising accordingly. The US has been raising interest rates and their currency is falling.

Rates are not going down anytime this year. Rates will subside when we have a trade surplus, GDP growth of 3% or better or unemployment goes above 8%.

How the Fed Sees It?

More rate increases are necessary to buoy the currency and hence take the pressure off rising import prices. Specifically, all oil is traded in US Dollars. The rising dollar will taper the price of oil.



Chart of US Dollar Composite (DXY)

Speculation in housing and US equity markets is all financed from the short end, i.e., the current margin accounts for US equity investors is over \$340 billion, the highest since 2000. The housing bubble came from excessive short-term borrowing through adjustable rate mortgages - as the Fed raises on the short end, speculation subsides. Ten and thirty-year interest rates will go lower, giving speculators in the housing market a place to go. The GDP is a lost cause until such time as our overall costs of doing business are lowered. Ultimately, this means that the yield curve inverts and we have a recession.

Recommendations

- Buy short-term bonds as rates are going higher.
- Allocate some risk dollars to the long end of the curve.
- Look for 30 year mortgages to be at 4.75% by year end (2007).
- The dollar should rally but eventually will reach a new low this year.
- Sell high beta equity positions.
- Oil will touch 58.00 this year (2007).
- Sell commodity positions

Summary

This has been one of the longest and strongest bull markets on record in the last forty years. Slow down/recession is simply part of the cycle. We would be selling equities and going to cash.

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