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THE RAY REPORT

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Where Is The Money Coming From?

For those of you who read our market commentary on geraldray.com (and I hope at least some of you do on occasion), it's been difficult to write consistently because it is hard to say something new. Stocks are up. Overseas markets have been huge and money seems everywhere. Large companies are seeing large moves and it is not unusual for there to be transactions for cash of multi-billion dollar companies every few days.

Where is the fuel for this market? The answer lies with overseas companies, oil producing governments and domestic companies with fat coffers who are looking for returns. There also continues to be extraordinary pressure on hedge and investment funds to put large sums of money to work. Each of these situations would be a catalyst for merger and acquisition activity on their own. Collectively, they have created an environment that has led to unprecedented investment activity.

The weak dollar has afforded the overseas companies to buy US entities at a discount. These foreign entities have concentrated on hard goods companies and commodities. Countries like China and the developing oil powers have plenty of capital but lack ways internally to spend their money. In many cases, these countries are behind in their construction of basic build-out. By purchasing metals and other commodities, they can secure a steady supply. Remember, in these cases, it is not the capital that they lack but the resource. For example, China had an effect as a steel exporter, however as demand grew China's need for steel made them a

steel importer, vastly raising prices worldwide. Now, China looks to make captive steel supply and grow capacity so they can sell it at home and abroad.

Domestic companies also have been provided tremendous fuel for the stock market especially in the area of stock buybacks. Companies buying their own stocks are doing so in record amounts and there are currently 12 companies in the S&P500 set to go private which include large deals like Clear Channel and Bausch and Lomb which total in the billions. However, one negative to keep an eye on, is the increasing amount of new issues that have appeared in recent weeks.

While naysayers can say this can dry up at anytime, and higher bond yields have resulted in some slowing over the last few weeks, our thought is that these conditions can last for a while longer and will provide a nice safety net for stocks this summer. So enjoy... for now.

Market Performance For The

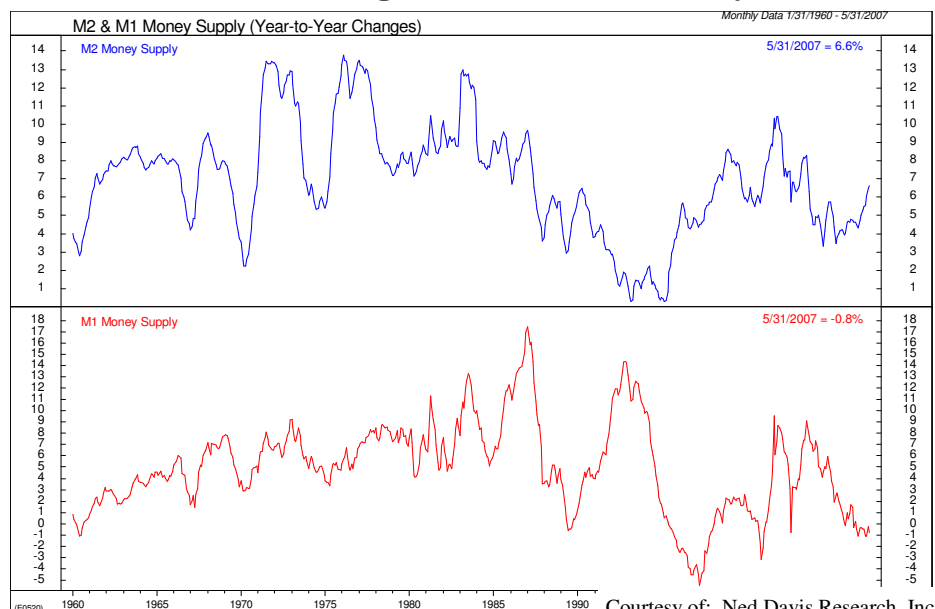
<i>Dow Jones Industrials</i>	11.64%
<i>Standard & Poor's 500</i>	9.42%
<i>Russell 1000 Growth</i>	8.75%

We remain convinced that the biggest risk remains economic weakness in the United States especially as it relates to housing and the consumer. Despite a recent increase in bond yields, inflation seems confined to raw materials and remains outside of the Fed's control, given it is driven primarily by foreign demand. It remains imperative that the Federal Reserve acknowledge the weakness in certain areas of the US economy by the end of summer and signal the potential for lower rates in the months ahead. Failure to do so may create a difficult investment environment should earnings falter.

Regards,

Joseph H. Ray,

Fed Providing Fuel To The Economy



Courtesy of: Ned Davis Research, Inc.

Fly In The Ointment?

A couple of weeks ago in our market commentary, I suggested that biotech needed to be revalued upward after MedImmune received a very generous bid. MedImmune, while a profitable biotech with a decent pipeline, was no standout and the fact that Carl Icahn and the MedImmune management extracted a 50% premium from Astra-Zeneca was outstanding. I expected a quick upward valuation of most smaller bios especially after Dendreon was to receive May 15 approval for the first novel cancer vaccine which kept late stage prostate cancer patients alive an additional 4 months without Chemotherapy. Wrong.

Despite a 17-0 vote on safety and a 13-4 panel vote on substantial efficacy, the Food and Drug Administration ("FDA") issued an approvable letter for Provenge, Dendreon's vaccine asking for more data on efficacy and pointing out that the trial missed an endpoint called time to disease progression by less than 1% despite the irrefutable evidence that patients lived longer. There were no safety issues and every patient would die within 18-24 months regardless.

It is rare that panel votes are ignored but there are politics involved. Andrew Von Eschenbach, is the new FDA head. He has spoke of the FDA "building bridges not barriers" and work with companies to speed up drug development. Nice rhetoric. Unfortunately, he is dealing with the same old FDA bureaucracy. ODAC (the Oncology Dug Advisory Committee) is run by a guy named Richard Padzur. ODAC is in charge of reviewing oncology or cancer drugs. He is a bureaucrat in the worst sense of the word. Since Provenge was a vaccine, the preliminary hearing was not heard

by Padzur's committee, but by a panel of experts in vaccines (the CTGTAC). It was responsible for hearing Provenge data. It was clear that Padzur was upset that ODAC was not allowed to review Provenge. Did Panzur step in and delay/kill Provenge and Von Eschenbach let it happen? If so, why? Hard to say. Even Dendreon is uncertain what's next.

Given Provenge was to be an entirely new frontier, it is hard to make a general assessment about bios in general until you look at how ODAC treated Amgen/JNJ and their multi-billion dollar drugs, Aranesp and Procrit. Holding a hearing on safety, Padzur's ODAC severely restricted use on this drug based on trials that showed some cardiac incidents. The issue, however, was that these trials overdosed the patients. Rather than making Amgen run new trials, they restricted use of these drugs by justifying the denial of Procrit and Aranesp to cancer patients by saying essentially that "transfusions are not that bad". Amgen now has a real road to hoe and the stock will likely be moribund in the near future. Fortunately, the American Society of Clinical Oncologists have responded that they believe that the concerns of the FDA and the restrictions that Medicare drafted days after the ODAC hearing are premature and that both drugs are safe when given on-label.

Bios clearly now will face some difficulty getting new drugs approved given the "new FDA". The axiom of "Do no harm." fails to consider the lives lost in the morass that is the FDA approval process. It remains amazing that one of the few industries where America is a leader will soon move overseas should this bureaucratic mess continue.

Summer Catalysts

Summer is generally the slowest time of the year for the capital markets and stocks in general. The mythical "summer rally" is often elusive. Instead, the summer is often characterized by slower trading and a slow drift in equity prices. Given the uncertainty in the economy and the refusal of the Fed to be more aggressive as it relates to lowering rates, the prospects of a quiet summer have increased. There are however a number of events that bear watching as the days get warmer.

iPhone (Apple Computer)-The iPhone introduction is scheduled for late June. While it is clearly important for Apple it is also important for AT&T, the carrier for iPhone. It will also be important for a number of component makers like Sandisk whose NAND memory could benefit from tighter supply.

The FDA and Drug Approvals-Celgene's drug, Revlimid could be marketed in Europe as soon as the third quarter. Amgen and JNJ will appeal attempts by the FDA and Medicare to limit use of their biggest drugs-Aranesp and Procrit.

Citigroup management-Chuck Prince is under the gun at Citi. Will he survive the summer? Likely. Next annual meeting? Uncertain.

Also keep an eye on energy as deals are likely there as it may be cheaper for Big Oil to buy than drill.

The Ray Report is published monthly and mailed to each client on a quarterly basis.

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