Market Brief

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Capital Allocation & MANAGEMENT, INC.

VISION DIRECTION LEADERSHIP

The views and opinions contained in this market brief are those of Capital Allocation & Management, Inc. and have been researched and analyzed by Robert Kennedy, CIO, Capital Allocation & Management.

	14-Oct-05	7-Oct-05	% Change	% Change	% Change
Nasdaq Composite	2,064.83	2,090.35	-1.22%	-5.06%	8.02%
S&P 500 Index	1,186.57	1,195.90	-0.78%	-2.09%	7.07%
Dow Jones Industrial Average	10,287.34	10,292.31	-0.05%	-4.60%	3.56%
MSCI EAFE (Intl.)	1,573.40	1,585.55	-0.77%	3.82%	18.30%
Wilshire 5000	11,835.61	11,953.84	-0.99%	-1.13%	9.20%
10 Year U. S. Treasury Yield	4.48%	4.37%	2.52%	NA	NA
30 year U.S. Treasury Yield	4.70%	4.57%	2.84%	NA	NA

"Was that it?" Investors and traders are wondering, as much as the equity markets seemed to have found a bottom from which equity prices quickly rallied late Thursday afternoon. Treasuries, on the other hand, continued their declines with the yield on the benchmark 10-Year Note bursting through the key 4.42% level and now seem destined to test 4.60%. Oil prices were pretty soft last week, but news of another potential hurricane headed into the Gulf of Mexico has given rise to a pop this morning. While the Gulf's energy infrastructure repairs are occurring at a rapid pace, the fact that the hurricane season still has a few weeks to go may be keeping energy prices a bit higher than they would be given the relative softening in consumer demand (which has led to a fairly substantial drop in gasoline prices over the past 2-3 weeks). In fact, worldwide oil demand has actually fallen .6% over the past twelve months.

We suspect that the REFCO news (a commodity futures clearing house where, its alleged, company directors purposely falsified company reports) has played a key role in the equity markets' recent turbulence. The news was released Friday before last and, not surprisingly, we noted extensive volatility in the futures market for most of last week. Friday's rally coincided with news that a white knight may seek to take over some of REFCO's operations and, coincidentally, futures seemed to act more normal as the day progressed. In any event, the REFCO news has renewed thoughts that the company scandals that erupted after the market crash in 2000-2002 may not have completely run their course. Indeed, we have now seen a handful of hedge funds experience severe financial distress over the past few months and the REFCO news simply raises the specter that another more severe problem event may be on the horizon. Unfortunately, the financial markets seem to sniff these things out prior to the media, so traders and investors may be on edge for some time to come.

The Treasury markets did not "buy" the latest inflation reports. While September's overall CPI posted a 1.2% gain, as the result of the surge in energy prices, the core CPI posted a much lower than expected gain of just 0.1%. We can not comment on the validity of the government's inflation reports, but the Treasury markets obviously did not care about the favorable core rate. With the rise in the 10-Year above the 4.42% rate, Treasury analysts are now discussing the possibility that the 10-Year will see a 5% rate over the coming months. While this would not be unwarranted, or particularly bad, the fact that mortgage rates will undoubtedly continue their recent surge may dampen the housing markets and, possibly, consumer spending. Once again, it is too early to tell, but it is something to watch. In any event, the corporate bond market continues to remain relatively calm, despite the rise in Treasuries and the renewed troubles at GM (i.e., the Delphi news of financial problems). We continue to view the corporate markets as the ultimate "tell" with regard to the health of the overall financial markets. As long as corporates remain calm, we will be cautiously optimistic that the equity markets can trudge higher.

Economic Reports: It is a slow week for economic data. The September PPI, out Tuesday, is expected to post a 1.1% overall increase while the core rate should rise 0.2%. This compares with August's reading of 0.6% and 0.0% respectively. On Thursday, the Conference Board's Index of Leading Indicators should show a 0.5% decline in September, which follows August's 0.2% decline.