Market Brief

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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

	11-Nov-05	4-Nov-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,202.47	2,169.43	1.52%	1.24%	5.62%
S&P 500 Index	1,234.72	1,220.14	1.19%	1.88%	4.27%
Dow Jones Industrial Average	10,686.04	10,530.76	1.47%	-0.90%	1.40%
MSCI EAFE (Intl.)	1,590.65	1,583.55	0.45%	4.96%	11.19%
Wilshire 5000	12,362.86	12,219.60	1.17%	3.27%	6.49%
10 Year U. S. Treasury Yield	4.57%	4.66%	-1.93%	NA	NA
30 Year U.S. Treasury Yield	4.81%	4.86%	-1.03%	NA	NA

With last week's advance, the major indices virtually erased the painful declines that occurred in early-to-mid October. The week's long advance has increased bullish sentiment and may entice side-lined money into the markets. The key is if the major indices can take out earlier year highs. If they do, we suspect we will see an increase in upside momentum into December. If not, we could easily see this rally peter out, and the year long sideways pattern continue.

The third quarter earnings season ended, for all intents and purposes, last week with middling results from former market leaders Dell and Cisco. Overall, however, S&P 500 earnings enjoyed an approximate 15% advance which marks the 12th consecutive quarter of double digit gains. We are currently seeing market leadership from financials and technology which, typically, is indicative of a bull market. The financials have been led by the brokerage stocks, which have enjoyed a 15% advance since the October lows. Furthermore, the transports continue to eke out new highs. All in all, it is hard to see anything overtly bearish to remark upon; which is the first time we have been able to write that in a long while. Even so, this is option expiration week and given the strong advance over the past few weeks, we would not be surprised to see some downside volatility at some point as market makers may try to shake some "weak hands."

Not to be ignored, the bond markets also enjoyed a positive week. The Treasury's $44 billion quarterly refunding (10-Year Notes were sold) was met with strong demand from foreign investors. This was important, as foreigners had shunned the earlier week's sale of three and five year notes. This week's *Barron's* has an interesting article regarding corporate issues which, if accurate, may impact the corporate markets next year (if not sooner). Apparently, companies have begun to lose focus on repairing their balance sheets and are now looking to increase shareholder value. With this in mind, Standard and Poor's has told investors to expect a significant increase in M&A activity and stock buybacks in 2006. Regardless, the corporate sector was very buoyant last week with new issues experiencing heavy demand. In fact, last week reminded some investors of the heady days in late 1999.

Finally, the Federal Reserve announced that it would no longer publish information on M3, which is a broad indicator of the changes in the money supply. This change will take place on March 23, 2006. The Fed announced this after the markets closed on Thursday. This is an interesting development, as Mr. Bernanke has made it known that he thinks the Fed should be more transparent, but a move such as this will decrease the markets' ability to "see" what the Fed is actually doing with the overall money supply. We cannot offer our thoughts on this, but it is something of note.

Economic Reports: It is a pretty heavy week for economic reports. On Tuesday, October retail sales should post an overall decline of 0.7% after September's rise of 0.2%. The core rate is expected to post a 0.3% gain, after a 1.1% pop in September. Also on Tuesday, the October PPI should show an overall increase of 0.0% after September's 1.9% gain. The core rate should rise 0.2% after the previous month's rise of 0.3%. On Wednesday, the October CPI should see a 0.0% overall gain with a 0.2% rise in the core rate. This compares to September's reports of 1.2% and 0.2% respectively.

All Indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The NASDAQ Composite Index measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S & P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Dow Jones is computed by summing the prices of the stocks of 30 large companies. The Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Index is a broad-based index composed of non U.S. stocks traded on the major exchanges around the globe. The Wilshire 5000 Total Market Index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. headquartered equity securities with readily available price data.

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