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

	18-Nov-05	11-Nov-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,227.07	2,202.47	1.12%	2.37%	7.56%
S&P 500 Index	1,248.27	1,234.72	1.10%	3.00%	6.66%
Dow Jones Industrial Average	10,766.33	10,686.04	0.75%	-0.15%	2.96%
MSCI EAFE (Intl.)	1,599.68	1,590.65	0.57%	5.56%	11.14%
Wilshire 5000	12,495.11	12,362.86	1.07%	4.38%	8.84%
10 Year U. S. Treasury Yield	4.50%	4.57%	-1.53%	NA	NA
30 year U.S. Treasury Yield	4.69%	4.81%	-2.49%	NA	NA

The bulls continued their weeks' long rally last week, with all of the indices poised to take out their multi-year highs. The rally is broad and accompanied by good volume, indicating that it may last a bit longer. Even so, the markets are over bought, which could result in some sideways action for a while prior to moving higher. Regardless, we have been expecting this "leg" for most of the year and it is heartening to finally see it.

From a technical perspective, the S&P 500 breached the 1250 level this morning, which has been a ceiling on this index all year. We thought that the shorts would have a large number of stop loss orders above this level which, if that was the case, should have boosted the index much higher. Instead, we got a brief poke above and then a slow retreat back below. The NASDAQ also seems to be reluctant to make a powerful move above recent resistance levels. Overall, we are watching for breakouts above 2240 on the NASDAQ, 1250 on the S&P 500 and 10,800+ on the DJIA. If we can burst through these levels, the indices could easily tack on another 2%-3% over the coming weeks. We remain a bit cautious, however, since we have already seen a big move (from the October lows) and worry that the recent gains may peter out as we move into December.

Interestingly, gold blasted to new 18-year highs last week and we took the opportunity to "lighten up" on our position. The fact that gold has continued to move higher, despite the dollar's recent strength is something that most investors had not anticipated. Traditionally, gold is inversely correlated with the dollar, meaning that it should decline as the dollar rises. While that was the case for all of 2004 and part of 2005, investors' attitudes have obviously changed. We know that India and China have had a voracious appetite for gold over the past three years and the demand in these countries has experienced a spike over the past few months. Another factor may be the decline in the Euro, which recently experienced severe weakness as the rioting in France spread. Not to be ignored, there is a growing perception that inflation rates in the U.S. are much higher than those actually reported which also bodes well for gold. In any event, we think gold will have a difficult time breaching the $500 level at least on its first attempt. From a longer-term perspective, we continue to view gold as being in a secular bull market. As such, we will hold the current position in our portfolios and will add to it on significant declines.

The fixed income markets were a bit mixed last week, as Treasuries enjoyed price gains while the corporate markets were relatively flat. As such, the spread between corporates and Treasuries widened to over 100 basis points. This is a pretty wide spread and may indicate investors' unease regarding future economic growth rates. Indeed, with the recent downturn in the housing sector and the ongoing problems at GM and Ford, investors have a reason to be cautious. Regardless, most analysts expect the Fed to continue to raise rates into the New Year.

Economic Reports: Not surprisingly, it is a very quiet week for economic reports. As such, we will take this opportunity to wish you all –

HAPPY THANKSGIVING!!!!!!!!!!!!!!!!