

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

	4-Nov-05	28-Oct-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,169.43	2,089.88	3.81%	-0.28%	6.40%
S&P 500 Index	1,220.14	1,198.41	1.81%	0.68%	4.63%
Dow Jones Industrial Average	10,530.76	10,402.77	1.23%	-2.34%	1.38%
MSCI EAFE (Intl.)	1,583.55	1,552.13	2.02%	4.49%	13.09%
Wilshire 5000	12,219.60	11,947.36	2.28%	2.08%	7.10%
10 Year U. S. Treasury Yield	4.66%	4.57%	1.97%	NA	NA
30 year U.S. Treasury Yield	4.86%	4.80%	1.25%	NA	NA

Right on cue, the widely expected seasonal rally seems to have materialized. The major indices are once again toying with positive year-to-date returns and, with the advent of the holiday season; bulls seemingly expect a replay of last year's fourth quarter when the major indices experienced 8%+ gains. Last year, of course, investors had the Presidential election as a catalyst. At this point, we do not really see anything similar, other than the fact that overall earnings reports have been pretty good and guidance for the fourth quarter has been, generally speaking, in line with estimates. We have noticed that the transports moved to all-time highs last week which could indicate that investors are anticipating a re-acceleration of economic activity over the coming months. If so, overall gains in the equity markets should be in the offing. Overall, this action is encouraging but we have been disappointed many times this year so we are not ready to pound the sustained rally drum yet.

The Treasury market has experienced a pretty severe sell-off over the past two weeks, with the benchmark ten year note approaching the psychologically important 4.75% level. There are many opinions as to the reasons for the declines, ranging from the Fed's continuing comments regarding inflation to the repatriation of money, by foreign investors, back into its "home" market. In any event, the Fed is finally getting what it wanted as the higher rates are depressing the housing markets. Indeed, refinancing activity has experienced a significant slump and we are seeing an actual decline in housing prices in several markets. Furthermore, building inventories have seen a surge over the past several months. If these trends continue, we could see the Fed pause in its tightening bias early next year, but we remain worried that Mr. Bernanke may want to establish his reputation as an inflation fighter by pushing the Fed Funds Rate higher than many expect. In any event, the high quality corporate sector remains calm, which, as many of you know, is a key "tell" for us regarding the overall health of the financial markets.

Of note, the U.S. dollar has experienced a significant rally over the past few weeks. We suspect the primary reason is the repatriation of funds by US corporations. Last year, Congress announced a temporary "tax pass" for corporations with substantial overseas cash holdings which must be taken advantage of this year (in a nutshell, the tax rate falls to 5.25% versus the normal 35% tax rate). As such, there appears to be a "flood" of money coming home. Another factor may be the recent rioting in France. The rioting has gone on for ten days now, and it could be that European investors are not exactly convinced that the rioting will be contained any time soon. In any event, the dollar's rise may be a factor in the recent softening of energy prices, as oil is priced in dollars.

Economic Reports: It is a very quiet week for apparently significant economic reports. In fact, we are hard pressed to find anything worth mentioning. On Thursday, the Conference Board releases its November estimate of consumer confidence, which is expected to show a 76.5 reading after October's 74.2. September's international trade deficit, also out Thursday, should post a \$61 billion reading after August's \$59 billion shortfall.

"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."