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

	9-Dec-05	2-Dec-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,246.73	2,273.37	-1.17%	3.74%	6.05%
S&P 500 Index	1,259.37	1,265.08	-0.45%	3.92%	6.01%
Dow Jones Industrial Average	10,778.58	10,877.51	-0.91%	-0.04%	2.23%
MSCI EAFE (Intl.)	1,648.64	1,632.90	0.96%	8.79%	14.50%
Wilshire 5000	12,640.82	12,692.76	-0.41%	5.59%	8.12%
10 Year U. S. Treasury Yield	4.53%	4.51%	0.44%	NA	NA
30 year U.S. Treasury Yield	4.73%	4.72%	0.21%	NA	NA

This is the week where the rubber meets the road. Meetings by the FOMC and OPEC, as well as reports on the November CPI and retail sales, will keep investors on their toes. Not to be ignored, this week also brings us "triple witching" for option expirations. In short, we think investors will decide whether or not we have already seen this year's highs in the major equity indices. At this point, the equity markets are positioned to move either way, as they seem to have settled right in the middle of their newly defined (and tight) trading ranges. We remain optimistic that equities will move higher into 2006. Be that as it may, equities have enjoyed a very nice rally over the past two months and they may require more time to "base" prior to launching the next leg up.

Of all the events, the FOMC meeting will probably supply the greatest potential for a lasting move. Most Fed watchers expect the Fed to raise the Fed Funds Rate another 25 basis points to 4.25%. As usual, the most important aspect of the Fed's meeting will be the statement that is released after the meeting. If the Fed removes the word "accommodative" from its statement (meaning that it no longer thinks its interest rate policy is accommodative to economic growth), many investors will see that as a signal that the Fed is *very close* to the end of its interest rate tightening cycle. Indeed, it could mean that the Fed may pause after its next meeting which should be very positive for the equity markets. Conversely, if the Fed fails to remove "accommodative" from the statement, investors may take this as a signal that the Fed will continue to push rates higher well into next year. Obviously, this is not something that investors would welcome. As such, we suspect we will see a very strong market response either way after Tuesday's meeting. Adding our two cents, we think the Fed will remove "accommodative" from the statement language, but remain somewhat skeptical that this will mean that the Fed's last rate hike will occur in January.

Energy prices seem to have rebounded from their recent sell-offs. In particular, we have seen a surge in natural gas prices to well above $14 per cubic foot. It is hard to believe that just a scant four years ago, natural gas was pricing at $2. In any event, the combination of the recent bout of cold weather, along with continued supply constraints from Hurricane Katrina, has made natural gas a scarce commodity. Not to be ignored, oil prices have once gain popped above the $60 per barrel mark. This may be a reaction to OPEC's announcement (released today) that, while it will retain its current production target of 28 million barrels per day, it will remove an extra 2 million barrels that it was producing in reaction to Hurricane Katrina. In short, they are reducing supply. We need to keep an eye, consequently, on the $62 per barrel price level since it represents a "resistance zone" that, if breached, will probably lead to a test of the $70 per barrel yearly high.

Finally, we feel the need to mention the amazing rise in the price of gold. Quite frankly, it is shocking to see gold move the way it has over the past month (essentially a 15%+ move). Obviously, we are pleased that we are holding it in the portfolios, but we can not help but be concerned about the message it may be sending. We know that Russia recently announced that it would, essentially, keep all of its gold production for itself for the foreseeable future (thereby decreasing worldwide supplies). We also know that physical gold demand in India and China has been exceptionally strong all year. Nevertheless, the fact that gold has experienced such a strong rise traditionally signals a lack in faith in paper currencies. Indeed, it typically means that investors believe worldwide inflation is on a dramatic upswing and monetary policies remain exceptionally lax. It is too early to tell if gold's move is simply a momentum play that is destined to be reversed (probably early next year) or if inflation is actually destined to rise significantly higher in 2006. We hope it is the former, as a continued rise in inflationary pressures will not be good for the U.S. financial markets.

Economic Reports: The Fed meeting occurs Tuesday. Also on Tuesday, November retail sales should post a 0.4% overall rise, but no change in the core rate. On Thursday, the November CPI should show an overall decline of 0.4% with a 0.2% rise in the core rate. This compares to October's rise of 0.2% in both the overall and core rates.

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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