Market Brief

December 19, 2005

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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.

	16-Dec-05	9-Dec-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,252.48	2,246.73	**0.26%**	**3.54%**	**5.49%**
S&P 500 Index	1,267.32	1,259.37	**0.63%**	**4.57%**	**6.12%**
Dow Jones Industrial Average	10,875.59	10,778.58	**0.90%**	**0.86%**	**2.12%**
MSCI EAFE (Intl.)	1,680.59	1,648.64	**1.94%**	**10.90%**	**14.57%**
Wilshire 5000	12,688.71	12,640.82	**0.38%**	**5.99%**	**7.68%**
10 Year U. S. Treasury Yield	4.44%	4.53%	**-1.99%**	NA	NA
30 year U.S. Treasury Yield	4.65%	4.73%	**-1.69%**	NA	NA

The Fed gave both bulls and bears enough material to hold the financial markets in check. As expected, the Fed raised the Fed Funds rate another 25 basis points to 4.25% and indicated that it plans to raise rates again at the late January meeting. On the other hand, it removed the "accommodative" phrase from its statement, meaning that it no longer believes that its monetary policy is economically stimulating. As such, this could indicate that January's rate hike may be the last one prior to a pause. Upcoming economic reports, consequently, will play an even more important role in how the financial markets behave over the coming weeks. If economic growth continues to indicate expanding economic strength, the markets may begin to sell-off in anticipation of a few more rate hikes in 2006. Conversely, if we begin to see signs that the economy is gradually slowing, then the markets may well rally as the Fed should finally move to the sidelines (obviously, the markets should behave in the exact opposite manner, but in the late stages of an economic growth cycle the interest rate environment tends to dominate investment thinking).

Speaking of economic news, last week's continued a trend which shows an economy continuing to fire on all cylinders. The overall CPI fell 0.6% while the core rate advanced by a relatively meager 0.2%. November retail sales were up 0.3% and Wal-Mart reiterated that its sales trend remained "on track" through the holiday shopping season. Finally, November industrial production jumped 0.7%. All of this is pretty amazing, when you consider the effects of Hurricanes Katrina and Rita just two months ago. Indeed, we wonder how strong the economy would be if the hurricanes had not occurred.

Technically, the markets continue to consolidate just above their breakout levels. What is interesting is that we are seeing a rotation into larger caps, with the Russell 2000 and the NASDAQ experiencing a negative bias (with regard to selling volumes) over the past two weeks. This activity tends to occur in the final stages of a cyclical bull market and, so far, it is following the script. If this action continues into 2006, we should see the major indices trace out new multi-year highs, while the smaller cap indices more or less tread "water." In short, the markets' "generals" (i.e., larger caps) should continue the advance while the troops begin falling behind. Market breadth, consequently, may deteriorate over the coming weeks/months. A scenario such as this can continue for a long while but, if it occurs, we will become increasingly cautious.

Treasuries continued their year-end rallies, despite the Fed's recent move. In fact, another 25 basis point rise in the Fed Funds rate (to 4.5%) will create a virtually flat yield curve (assuming Treasury interest rates remain at relatively current levels through the end of January). A flat yield curve typically indicates expectations for a slowdown in economic growth rates. On the other hand, the corporate sector continues to indicate expectations for a solid economy. At some point, one of these groups will be shown accurate with regards to the economic growth outlook but it is too early to make an educated guess.

Economic Reports: On Tuesday, the November PPI should show a 0.5% overall decline with a 0.2% rise in the core rate. On Thursday, November personal income should see a gain of 0.3%, while consumption should have risen 0.4%. On Friday, November Durable Goods Orders should experience a 1% gain, after October's rise of 3.4%. Finally, we would like to wish each and every one of you a very ……

MERRY CHRISTMAS!!!!!!!!!!!!!!!!!!!

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