Market Brief

September 19, 2005

By: Robert Kennedy, CIO

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-Sep-05	9-Sep-05	Weekly % Change	YTD % Change	12 month % Change
Nasdaq Composite	2,160.35	2,175.51	-0.70%	-0.69%	13.10%
S&P 500 Index	1,237.91	1,241.48	-0.29%	2.14%	9.69%
Dow Jones Industrial Average	10,641.94	10,678.56	-0.34%	-1.31%	3.48%
MSCI EAFE (Intl.)	1,599.40	1,608.10	-0.54%	5.54%	NA
Wilshire 5000	12,356.01	12,418.05	-0.50%	3.21%	12.39%
10 Year U. S. Treasury Yield	4.27%	4.12%	3.64%	NA	NA
30 year U.S. Treasury Yield	4.57%	4.40%	3.86%	NA	NA

All eyes will be on the Fed this Tuesday, when they will announce their current economic "view." The Fed Funds Futures market is virtually certain that the Fed will hike interest rates another 25 basis points to 3.75%. Investors and traders are more interested in the language of the announcement, as to whether the Fed changes its "measured" philosophy. At the moment, most economists are mixed in this regard, with some arguing that Katrina's impact will not be known for several more weeks and consequently, it makes sense for the Fed to announce a pause after tomorrow's hike. Other economists argue that, given the economic stimulus that will occur as the government pumps approximately $200 billion into the region, continued rate hikes through the end of the year are warranted. From our perspective, we expect the Fed to raise rates another 25 bps but hope that they will indicate a pause is coming, as this is what the financial markets want to hear. In any event, this is a very important meeting and investors should expect extreme volatility as the financial markets attempt to discern the meaning of the Fed's action.

Interestingly, gold experienced a breakout last week, and continued to move higher this morning. While we own gold in virtually all of the portfolios (with the exception of the socially responsible ones), it is *rarely* a long-term positive for the financial markets when gold is charging higher. Typically, the rise in gold has inflationary implications, but it can also mean that investors expect a renewal of the dollar's multi-year decline. Indeed, with President Bush's plan to spend so much money in the Gulf region, fiscal discipline may well have been discarded. The Treasury markets, consequently, will be a key tell as we move towards the end of the year. If yields begin to climb across the yield curve, inflationary concerns are back in the markets. On the other hand, if yields continue to be range bound with a flat to negatively sloping yield curve, the stagflation phase may become much more popular. In short, we'll be keeping a close eye on the yield curve over the coming weeks as we think it holds the key for how the overall financial markets play out through the end of the year.

Tropical Storm Rita, which will slowly enter the Gulf of Mexico this week, appears to be the catalyst for significantly higher oil prices Monday morning. As of this writing, oil is almost $4 higher than Friday's close. Stock prices, not surprisingly, are significantly lower. At the moment, it appears that Rita will strengthen as it heads for the Texas coastline which, once again, places the nation's oil production capabilities are risk. With the storm moving so slow, and its path so hard to anticipate, we suspect oil prices will remain pretty volatile for the rest of the week. Obviously, we hope and pray that Mother Nature decides to downgrade Rita before she can do any harm.

Economic Reports: Other than the Fed meeting, there really does not seem to be much of anything of importance regarding this week's economic releases. The August LEI, which is out Thursday, is expected to drop 0.3% after a 1% climb in July.

"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."

5445 DTC Parkway, Suite 1000 ? Greenwood Village, CO 80111 ? 800.738.4042 ? marketing@CapitalAllocation.com