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.

	23-Sep-05	16-Sep-05	% Change	% Change	% Change
Nasdaq Composite	2116.84	2,160.35	-2.01%	-2.69%	12.63%
S&P 500 Index	1215.29	1,237.91	-1.83%	0.28%	9.47%
Dow Jones Industrial Average	10419.59	10,641.94	-2.09%	-3.37%	3.71%
MSCI EAFE (Intl.)	1584.26	1,599.40	-0.95%	4.54%	20.77%
Wilshire 5000	12126.92	12,356.01	-1.85%	1.30%	11.89%
10 Year U. S. Treasury Yield	0.04	4.27%	-0.47%	NA	NA
30 year U.S. Treasury Yield	0.05	4.57%	-0.88%	NA	NA

Hurricane Rita's move into southern Louisiana, as opposed to the heart of Texas' oil refinery areas, has caused a relief rally this morning. Portfolio managers who hedged against the possibility of extensive damage to those oil refineries have unwound those positions leading to this morning's nice rally. Nevertheless, the damage in Louisiana is extensive and, once again, we find ourselves sending our thoughts and prayers to those people who have been displaced by another storm. We can only hope that Mother Nature decides that two major hurricanes hitting approximately the same area within a month of each other are enough.

As Monday morning, Rita's effect on the oil industry appears to be relatively benign. Early reports suggest that two and perhaps three refineries have been damaged enough to cause significant down time. This compares with the fifteen refineries that were damaged by Hurricane Katrina. Any further curtailment in refinery output is obviously not good. However, the impact of Rita does not seem severe. In fact, during a special Sunday trading session, the price of oil fell $1.54 to $62.65 a barrel and the price of unleaded gasoline fell 14.56 cents to $1.840 a gallon. Prices have rebounded this morning, but oil is now trading below the levels from before Katrina and Rita and is down this morning from Friday. Energy traders seem to expect a continuation of a decline in energy demand which began after Hurricane Katrina, when American drivers seriously curtailed gasoline demand. It seems that $3+ per gallon gasoline is a point where demand will weaken. Obviously, however, a few weeks are not a long enough time period to be definitive about that.

The Federal Reserve raised the Fed Funds Rate another 25 basis points to 3.75%, last week, despite growing concerns about the potential negative effects the two recent hurricanes will have on the U.S. economy. The Fed's release was worded slightly differently than previous ones, but it essentially maintains that the tightening cycle will continue. The Fed believes that the hurricanes' effect will be short-term in nature and that rising inflationary pressures must be offset with higher short-term interest rates. Investors seem to be in a "wait and see" mode, as the equity markets continue to tread water, seemingly rising/falling with little conviction either way. Treasury investors remain in the same boat as yields continue to trade in a very narrow range. We remain concerned about the yield curve, as the potential for an inversion seems to have grown since the economic stimulus baton has seemingly passed from the Fed to the government. This idea arises from the expectation that approximately $200 billion will be spent rebuilding the areas recently battered by the hurricanes. As such, the Fed may decide that it needs to raise rates much higher than expected in order to combat the speculation in the financial and housing markets. These areas, of course, could benefit from the liquidity effects government's rebuilding packages.

Economic Reports: On Tuesday, September consumer confidence is expected to post a reading of 94.3, after August's reading of 105.6. On Wednesday, August durable goods should show a 0.8% gain, after July's 4.9% decline. On Friday, August personal income should show a gain of 0.3%, with a decline in consumption of 0.2%, this compares with gains of 0.3% and 1% respectively.

"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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