Market Review and Outlook—June 13, 2005

A dismal Winter and Spring yielded to a late Spring rally in the markets. This gives us **hope** that for the remainder of the year stocks will match the recent weather - HOT. For the past three months (thru 5/31), US stocks fell 0.4% while non-US stocks fell 4.9% and bond funds rose 1.9%. The stocks' declines hide their May strength, as US rose 3.8% and non-US managed a slight 0.1% gain.

As was the case in the first quarter of the year, two factors stunted equity return growth for March thru May. Volatile oil prices added enough uncertainty to manufacturing costs to keep the inflation forecast hazy. Increased raw material costs are beginning to trickle into consumer prices. These increases have not made it onto the public's radar screen as they are viewed relative to the low levels of inflation in recent years.

Alan Greenspan has not hesitated to suggest that a real estate bubble exists in several markets where rising home prices were rampant lately. In addition, he has expressed concern for the impact historically high crude oil prices have on the economy and inflation. But if you look at the numbers below, stagflation is not the current situation—we appear to be taking a breather on the road of expansion. Nevertheless, the Fed continues its money tightening policy, more to get back to "normal" than to head off inflationary pressures. This summer we expect a breather in the rate hikes, too.

So who suffered the most in the past three months? Surprisingly, Natural Resource stocks (dominated by the oil industry) and International stocks took a beating. Feeling a bit of the sting were small caps, and growth ***and*** value! Bonds were the place to be, along with Real Estate and Technology. Apparently the Real Estate market does not listen to the Fed Chairman. It ignored the bubble talk and posted the largest gain of any category due to continued strong demand.

Best Approach

Look for an article on the Mallard approach to investing in stocks in the next newsletter. A recent client question raised the profile of the topic, and since we have not shared our approach with our clients in a few years, now is a good time to review it with you. Looking ahead through our contrarian glasses we see more growth opportunities for growth and non-US stocks (since they were beaten down recently), and technology stocks. Latin America appears particularly interesting. We feel the see-sawing of the bond yield curve is a temporary aberration and that inflation-linked, and short term bonds should outperform. The following figures come from Morningstar, through May 31st .

Category	3 mos	Past Year	3-Yr Avg	5-Yr Avg	10-Yr Avg
Money Market—Taxable	+0.46%	+1.16%	+0.83%	+1.49%	+2.26%
Intermediate Term Bond	+1.40%	+6.00%	+5.31%	+6.99%	+6.05%
Intermediate Muni Bond	+1.10%	+5.27%	+4.45%	+5.88%	+4.99%
Large-Cap Core Stock	-0.95%	+7.80%	+4.61%	-1.44%	+8.76%
Mid-Cap Core	-1.01%	+12.35%	+9.17%	+6.70%	+11.68%
Small-Cap Core	-2.49%	+12.00%	+9.60%	+10.39%	+12.07%
International Stock	-4.89%	+13.19%	+7.47%	-1.93%	+5.63%
Real Estate	+6.26%	+29.74%	+19.80%	+19.47%	+14.98%
Natural Resources	-5.38%	+30.68%	+16.34%	+12.09%	+12.39%
Science/Technology	+1.32%	-0.04%	+4.84%	-16.44%	+7.21%
Multi-Cap Growth	-1.00%	+6.17%	+5.27%	-3.65%	+8.57%
Multi-Cap Value	-1.55%	+13.23%	+9.03%	+9.81%	+11.89%
Balanced	+0.10%	+5.60%	+4.88%	+3.71%	+6.87%