Market Review and Outlook—September 13, 2005

The summer has been a hot one in ways that cannot be measured with a thermometer. The markets this year have been trending upwards in spite of some key issues that loom larger with the aftermath of Hurricane Katrina. The key issues are nothing new: oil prices, the growing economies of China and India, and inflation. For the past three months (through August 31st), bond funds rose 1.2%, US stocks gained 2.9%, and non-US stocks gained 7.95%. Not bad!!!

As if China and India bidding up prices on commodities (especially oil) wasn't challenging enough for the economy, a real storm came to the Gulf of Mexico and destroyed New Orleans. The loss of life in the affected areas is expected to be unprecedented for a hurricane. Those who are displaced talk of starting over elsewhere. New Orleans is a key port for imports from South America and exports of grain, in addition to being a huge center for the petrochemical industry. The storm damage has put a substantial dent in supplies of gasoline, natural gas, and fuel oil. Gas prices spiked immediately. But calmer heads prevailed and a realistic assessment of the damage to the supply chain led to price pullback. What were record fuel prices earlier this summer may become the cheaper prices we all hope for in the future.

The Congressional Office of Management and Budget has predicted Katrina will cost the US economy 1% of real growth in the second half of 2005. Like proverbial storm clouds, there is a silver lining. The reconstruction effort on the Gulf will likely create an economic boom, as the Federal Government and insurance companies shell out tens and hundreds of billions of dollars. While we would all have preferred that Katrina didn't enter the Gulf, strengthen, and strike, this is why we pay taxes and insurance premiums, to gain protection from FEMA and the insurance companies when natural disasters remind us that you don't mess with Mother Nature.

At this time we don't expect that Katrina will lead the US into a recession, but rather provides yet another lesson in the size and resiliency of the US and global economy, and in the wisdom of a well-diversified, globally balanced approach to investing.

In the past three months stocks jumped upward, led, not surprisingly, by energy stocks (natural resources). International, small-cap, and real-estate did quite well, too. Bonds did OK, while money market yields rose above 2%.

The data in the following table comes from Morningstar Principia Pro.

Category	**3 Months**	**Past Year**	**3-Yr Avg**	**5-Yr Avg**	**10-Yr Avg**
Money Market—Taxable	+0.63%	+1.85%	+1.06%	+1.93%	+3.48%
Intermediate Term Bond	+0.93%	+3.74%	+4.79%	+6.32%	+6.00%
Intermediate Muni Bond	+0.72%	+2.90%	+3.59%	+5.04%	+4.94%
Large-Cap Core Stock	+3.60%	+13.61%	+11.31%	-2.21%	+8.48%
Mid-Cap Core	+6.73%	+22.50%	+17.94%	+5.88%	+11.23%
Small-Cap Core	+8.16%	+24.08%	+19.94%	+9.60%	+11.75%
International Stock	+8.51%	+23.75%	+16.04%	-0.74%	+6.06%
Real Estate	+7.65%	+26.00%	+24.19%	+19.29%	+15.26%
Natural Resources	+22.80%	+53.63%	+32.23%	+15.70%	+14.29%
Science/Technology	+4.36%	+21.17%	+17.26%	-19.63%	+5.26%
Multi-Cap Growth	+6.26%	+20.73%	+14.88%	-5.44%	+7.91%
Multi-Cap Value	+5.88%	+19.72%	+17.19%	+9.74%	+11.64%
Balanced	+2.88%	+10.38%	+9.27%	+2.13%	+7.60%