Market Review and Outlook—January 11, 2006

Happy New Year! With the way the markets have performed since the new year began — happy is an appropriate word. Ahh, but we know that the good times are finite too, and some experts in economics and investments already see storms on the horizon. Let's address the future later. What can we learn from 2005 to help us down the road?

First of all, if you do not live in New Orleans or on the Mississippi Gulf Coast, you are enjoying an economy of stable growth. The Katrina disaster was very costly, but the impact has been absorbed and many of those most effected have moved on with their lives. Aside from the issue of whether to just rebuild or improve the levee system, the remaining costs in capital and human effort are now regionalized. The rest of us have moved on too—resiliency not insensitivity.

Federal deficit spending has reached record highs due to the war on terror, the war in Iraq, and general spending. This spending is made possible by China, Japan, and other foreign central banks who buy US debt. Their high demand for US debt keeps rates low and supports the US economy. A growing US economy keeps demand high for manufactured goods from these countries, which supports their economies. It is a codependent relationship that can end badly given any number of realistic scenarios. **As long as trade relationships improve and US debt remains in high demand, stability reigns.**

Employment is increasing, unemployment decreasing, inflation remains relatively low (ignoring oil effects), consumer spending is trending upward, the Fed may soon finish raising inter-bank rates, and home prices are cooling and not bursting. Consumer confidence has recovered from the hit it took with Katrina and the skyrocketing of energy costs. Corporate criminals who have harmed investors are receiving justice. **When political issues are top of mind with the public, the economy has to be good.**

In 2005, as investors we learned that some did not learn anything from 2000. Google today trades at a P/E over 100. I am not saying that Google is not a solid company, nor that its prospects don't warrant a high multiple. But, its P/E spent (maybe) a week below 80 since the August '04 IPO! **That reminds me of the late nineties**.

Last year, **Growth finally trumped Value**, bonds cooled, CDs made a comeback, mid caps soared (mainly oil and real estate), and international stocks excelled. The investor who was well diversified once again profited. *-MSS*

Category	3 Months	Past Year	3-Yr Avg	5-Yr Avg	10-Yr Avg
Money Market—Taxable	+0.77%	+2.50%	+1.29%	+1.74%	+3.43%
Intermediate Term Bond	+0.39%	+1.77%	+3.49%	+5.26%	+5.35%
Intermediate Muni Bond	+0.43%	+1.49%	+2.59%	+4.10%	+4.34%
Large-Cap Core Stock	+2.22%	+4.85%	+12.55%	-0.94%	+7.60%
Mid-Cap Core	+2.47%	+10.26%	+20.08%	+6.52%	+11.02%
Small-Cap Core	+1.22%	+6.42%	+21.66%	+9.15%	+10.68%
International Stock	+4.45%	+14.55%	+21.30%	+2.93%	+6.47%
Real Estate	+2.72%	+11.75%	+26.65%	+18.57%	+14.90%
Natural Resources	-0.54%	+41.11%	+34.17%	+15.93%	+15.22%
Science/Technology	+3.59%	+5.28%	+20.01%	-8.56%	+7.12%
Multi-Cap Growth	+3.03%	+9.79%	+18.78%	-0.48%	+8.05%
Multi-Cap Value	+1.83%	+9.18%	+21.90%	+11.33%	+12.25%
Balanced	+1.57%	+4.69%	+10.43%	+2.67%	+7.17%

The data in this table comes from the Barron's Mutual Fund Quarterly Review.
Information herein should not be construed by any consumer and/or prospective client as a solicitation to effect, or attempt to effect transactions in securities, or the rendering of personalized investment advice for compensation.