Bouncing Along, Trading Up

Beyondbond

As of November 17, 2006

Taking a big break from the inflationary pressure, the markets extended another strong week with additional catalysts such as low oil prices and sweet M&A deals. For the week, the **Dow** boosted 1.9% to 12,342.56, another all-time high. The **S&P 500,** the first close above 1400 since November 2000 gained 1.47% to 1401.20. The **Nasdaq** was up 2.4% to 2445.86. Oil prices drop to their 17-month low last Friday at $55.81 per barrel. Little gained (16/32) on the 10-year Treasury note, the yield was 4.6%.

Both Producer Price Index and Consumer Price Index dropped below the consensus expectations for October. The Fed was certainly pleased to hear these soft readings from the Labor Department and to concentrate more on the slowdown economy. In response to the benign inflation data, Wall Street put together another rally despite the alarm of a short term over extended market. As much as the stock market has been hoping for a decent pull back instead of a major snapback, the coming year-end shopping season will provide some signs of direction for the year of 2007.

Although all eyes are on the upcoming Black Friday, the day after Thanksgiving's shopping frenzy, Wall Street's retail forecast is lukewarm. One major concern is due to the slide on housing prices, which means homeowners no longer can treat their houses as ATM machines. Insolvent consumers may not be able to discharge liabilities or cash out more for the holiday season. Another concern is coming from the retail sector itself. **Wal-Mart's** (WMT) decision to cut down prices on all the electronic products will result in an unwilling price drop from other competitors, which will lead to a tighter profit margin for the retails. Other ripple effects might occur as well and make retail not an ideal sector to put your money.

Also the hot topic on the street is the trend of the US dollar. The majority currently bet against the dollar as it has weakened in recent days, partially due to the change at the Congress. **Finex Spot Index** (the Dollar Index) has dropped from 120 to around 85. However, it is a dangerous game to short the dollar. The dollar remains the most liquid currency in the world. As China and Japan hold so many US treasuries, they won't have numb responses to the depreciating dollar. On top of this, being two of the major importing countries with US, China and Japan will not be happy to see their products become more expensive relative to the US products. Both Central Banks are likely to buy dollar when it is down. The US dollar will inch up instead of going down. When it's around 85, it will back up to 90 but it won't go above because of the continuing war in Iraq.

Even though the markets peaked up last year after Thanksgiving, with a stack

Eric Chen, Ph. D.
610.565.6891
echen@beyondbond.com

Chiung Chiu
Financial Analyst
646.313.3331
cchiu@beyondbond.com

of sidelined cash waiting to jump in during the intraday, the market's undertone stays positive. 386 companies out of S&P 500 are trading at above 200 days moving average. This indicates the trend and the profit are high with low inflation. The markets will bounce along this week and then slowly inch up. Investors should go along with the markets and carefully take profits when the timing is right. The Technology sector is still relatively doing better than the others. Investors may weigh in more on **NASDAQ 100 Trust Shares** (QQQQ) or **Semiconductor Holdrs** (SMH) when there is a small pull back.