

Who let the bull out? The Dow's all-time high record has fallen faster than the time it took to finish the bottle of champagne from the previous high. This October's dramatic move continues to wow investors despite many underlying concerns. While we are getting tired of hearing "all-time high," media anchors already started another frenzy, rooting for the Dow to exceed 12,000. For the week, the **Dow** added 0.93%, and yes again, achieved an all-time high of 11,960.51. The **S&P 500** increased 1.19% at 2357.29 and the **Nasdaq** gained 2.5% to close at 2357.29. Oil prices fluctuated throughout the week and closed slightly higher at \$58.57 per barrel. It was still 1.99% below the closing prices from last Friday even though OPEC is threatening to cut supply.

As of October 13, 2006

A somewhat peaceful geopolitical environment, a quiet hurricane season with only 25% left, and a strong earning kick off, extended the sweet spot to the fourth quarter. The markets are currently a bit overbought in the short term and a list of concerns and uncertainties keep adding up everyday. Nevertheless, investors and traders continue to climb the wall of worry and reach about a 30 points increase each time. The rally started with dumb money from individual investors. It was too good to be true for institutional investors who do not want to risk their year-end bonus. Yet, with all the right ingredients on the plate, institutional investors also started to chip in. On top of this, the Fed's hawkish comments on the inflationary concern instead of slowing economy during Wednesday's FOMC minutes caused bond traders to rein in the horse before betting on interest rate cut. A sudden wave of sell off pushed all the bond yields up. The 10-year Treasury note jumped 11 basis points to 4.8% this week.

The markets are likely to remain positive until next week. It is probably wiser to stay with the markets and commit more money instead of waiting for pull back. Investors may find chances to get in during the intraday swings. However, since this September and October have performed completely the opposite from the past, the Dow's high might not truly reflect the market or matter that much. Investors can go for a safer path with quality stocks from the blue chips. In addition, the first time turn around on mutual fund, more money flow into US equity (\$761 million) than foreign equity (\$637 million), showed investors' confidence on domestic stocks.

Overshadowed by the concern of inflation, "housing market has hit the bottom or not" was only a small portion covered by the media. Home builders might claim that the housing market has reached the bottom but it remains on the top of our stay-away or be-very-cautious list. Housing can only be short but not commit.

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

Chiung Chiu
Financial Analyst
646.313.3331
cchiu@beyondbond.com

Examples would be **Toll Brothers** (TOL) which investors can short only when it's above \$30. The area that is still looking good would be REIT, especially in Asia, Central and Eastern Europe.

Another sector for investors to enter rather than the familiar names from blue chips would be Technology. It has the most room to grow during this wave of rally since it had been pretty dull after the dot com bubble burst. **Cisco Systems** (CSCO) has aggressively spent abundant resources on network management in the past several years. It will be a killer application, which will enable all forms of communications and information technology (especially e-conference). The video conferencing will not only increase the productivity but also reduce travel expenses for the corporations. With the demand from the markets and a sweet acquisition deal of Scientific-Atlanta, a leading supplier of transmission networks for broadband access, Cisco is standing at the right time and place. Even though the stock price has been up almost 40%, it still has a lot of potential to grow. Furthermore, **Google** (GOOG) is currently at war with the media cartel over the acquisition of YouTube, an online video phenomenon with more than 100 million video streams. As Google makes most of its money from advertising, it will be a great revenue generator for Google to put video ads next to YouTube's mega video streams. This important news would be interesting for investors to follow.

Also what should be on the top of monitor list are areas in banks and financial services. An inverted yield curve and interest rate hike are the two typical tumors for financial sector. Since we all know the state of yield curve, if the Fed raises the interest rate even one more time, it will substantially impact banks and financial services.

Copyright © 2006 by Beyondbond, LLC

The information contained herein is based on sources which we believe to be reliable but we do not represent that it is accurate or complete. It is not to be considered as an offer to sell or solicitation of an offer to buy the securities discussed herein. All prices, yields and opinions expressed are subject to change without notice. Beyondbond, LLC and its affiliates may have a position in the securities discussed herein and may make purchases from and/or sales to customers on a principal basis, or as agent for another person. Additional information is available upon request.