Peaking Up?

As of November 24, 2006

After the Turkey feast and black Friday, traders and investors are holding their breath and waiting for the retailers to unveil their sales reports. **Wal-Mart** (WMT), the retail giant, reported a 0.1% drop in November's same-store sales, the first decline in nine years. Although there will be more readings coming out this week, the sales forecast for this holiday season remains lukewarm. The **Dow** was down 0.35% to 12,283.37 and the **S&P 500** was flat throughout the week and closed at 1401.27. The **Nasdaq** rose 0.6% to 2460.26. The bombing in Iraq once pushed oil prices above $61 per barrel but then it closed at below $60 on Friday. All the treasuries rallied on Friday. The 10-year treasury note added 4/32 to yield 4.55%.

The stock market has been over extended since the Dow's record high competition. Traders and investors' sanguine view of the market created one rally after another. The CBOE Volatility Index (VIX), the market volatility index that signals investors' fear or euphoria factor, has dropped to 9.7, the lowest in a decade (normally at 15). Combined with other factors, some people use this number as a contrarian indicator. When most of the people are very complacent, the market will have the tendency to pull back. Currently, the market is in the process of peaking up. We might see some corrections this week. Investors could short carefully and slowly take profits off the table. It is probably better to short index or ETFs instead of individual stocks as smaller companies may be on the verge of getting bought by larger ones. Hence this M&A would add premium to the stock prices of the companies getting purchased. Thus, it may not be a good time to short individual stocks.

Besides the unenthusiastic sentiment toward the retail sector, the real drama happened on the currency trading floor. The Dollar continued to depreciate against the euro and the yen last week. As if it is not bad enough for US Currency, comments by Wu Xiaoling, a deputy governor of the People's Bank of China regarding the dangers of holding excessive US-dollar reserves last Friday, pushed the dollar to a 19-month low against euro. The **Finex** spot index slid below the resistance level of 85 to 83.66. There are many other reasons that are responsible for the weakening dollar. Trades and investors are watching every move of the biggest dollar holders such as China and Japan. It is a dangerous and volatile time for investors to short dollar. Investors should probably wait and see for something to happen when the index hits 81 or 82.

On individual stocks, investors should avoid **Google** (GOOG), **Texas Instruments** (TXN), or **AU Optronics** (AUO). **Apple Computer** (AAPL) can be a better choice for the investors as the phenomenon sales on i-Pods continues to shoot up. Apple's share probably has the room to grow up to $120 as it is currently at $91.55. There are also other good buys such **Akamai Technologies**

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(AKAM) and **CISCO** (CSCO). In addition, investors can also weigh in some stocks from **Phelps Dodge** (PD) as the company is getting more bidding offers than its current $26 billion buyout offer.