Reactive

Beyondbond

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As February is approaching to the end, this rare wave of stretch on Wall Street has lasted for more than eight months, the first time in the stock market history. The markets are continuously driven by rich liquidities and also backed by various mellow economic readings. Yet, how much longer will this Goldilocks moment linger? For the week, the **Dow** shed 120 points, or 0.9%, to 12,647.48 and the **S&P 500** finished 0.3% lower at 1451.19. The **Nasdaq Composite** added 19 points, or 0.8%, to 2515.10. Roughly 2.61 billion shares changed hands on the New York Stock Exchange. Oil future closed above $60 per barrel due to the drop in the inventory. On the bond side, the 10-year Treasury note gained 13/32 in price to yield 4.68%.

Fed Chairman Ben Bernanke's congressional testimony, backed by the soft inflation data the next day, comforted the investors' restless spirits and boosted the market to another record high. Bernanke's remarks were taken to mean that rate hikes are off the table and equities benefited as the result. On the following day, the Labor Department's producer price index for January was down 0.6%, which was in line with expectations. The core, index, which excludes food and energy prices, has increased 0.2%, also matching forecasts. This catalyst has finally caused some good signs in the market while many common market triggers failed to do so in the past several weeks.

Despite the market's belief of an ongoing bull market, the concerns on the housing and emerging markets have become more than just a tip of the iceberg. The most surprising report came from the Census Bureau, which mentioned that housing started plummeting 14.3% last month to 1.408 million in annualized units, far below estimates. January's figure is the lowest since August 1997. The housing market is likely to continue to drag the market along with it. On the emerging market side, investors should probably stay away or watch cautiously especially China. The Chinese government's talk on raising the reserve rate could have a major impact to the global market.

Another highlight of the week was the interest rate hike decision from the Bank of Japan. Japan's interest rates stood at 0.25%, the lowest among major economies in the world for a long time. It has been creating the liquidity that has been driving these markets. The ripple effect of this rate hike would be significant on the overall market.

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While investors were celebrating the possible diminishment of the inflationary pressure, Wall Street's mood took a turn for the worse early Wednesday morning after the consumer price index for January was released. According the Labor Department, the CPI was up 0.2%, compared with an expected increase of 0.1%. The core index, which excludes food and energy prices, rose 0.3%, also higher than the expectations. Since the CPI is considered the more important of the two when it comes to influencing Fed's decision on interest rates. The market has gone chill right after the reading was out. When there is lack of a major driving force in the market but the stock prices remain high, most of investors wait for the opportunity to jump in. Volatile swings occur during the intraday trading after the economic reports. Some fidgeting investors would grab any small corrections to enter the market and push the prices back up. This kind of cycle has repeated almost everyday on Wall Street since the end of last year. The market tends to be more reactive than proactive.

Stocks with reasonable dividends would probably be a better choice for the investors who do not trade or watch the market actively. Indeed, brokerage sector could be a good potential area to enter such as **Goldman Sachs** (GS), **Bear Stearns Companies** (BSC), and **Leman Brothers** (LEH). **Toyota Motor**(TM) has a relative low P/E and it is a fundamentally good company with many actions to gain more market shares. For professionals, oil stocks might be a good trading vehicle. However, after President Bush's decision to cut down the budget on HMO Medicare, investors should probably put hospital and nursing facility areas aside for a while.