

Hooray! It was another string of the Dow hitting 12K if anyone is still interested in tracking the record high. Opposite the unseasonably chilly weather outside, the markets are boiling hotter than ever on Wall Street. For the week, the **Dow** was up 0.7% at 12,090.26, the fifth straight winning week. The **S&P 500** increased 0.6% at 1377.34 and the **Nasdaq** added 0.35% at 2350.62. As widely expected by the markets, the Fed left interest rates unchanged at 5.25% for the third time. Compared to the hawkish speech earlier this month, the humdrum FOMC statement sparked a rally on the bond market. The 10-year Treasury note yield was 4.68%, a 10 basis points drop from last Friday. Oil prices remained below \$60 but could be a ticking bomb as the winter is just around the corner.

As of October 27, 2006

The investors and traders have been enjoying a reluctant rally since the beginning of October but for how much longer? With the red capes, strong earning reports and low energy prices waving in front of the bull, it has been running full throttle for the whole month. According to Thompson Financial, among 309 S&P 500 companies reporting so far, 74% have beaten estimates and only 15% have fallen short of expectations. Nevertheless, with many weaknesses underlined, it is an exhausted bull with many banderillas embedded in its flanks. The first big blow came from the weak 1.6% third-quarter GDP reading and then there were the mixed messages from the housing market. The disappointing growth reconfirmed the slowdown in the economy. To look deeper, the drags in this slowdown came from a 17.4% contraction in residential investment spending, which is the housing market. There has been a small increase in housing starts and housing prices have dropped 9%, the biggest drop in 35 years.

The markets are facing a crucial turning point this week. It is not only the year end for mutual fund and hedge fund companies, but also the week before the midterm elections. Like every quarter end, it is window dressing time for mutual fund managers who are obligated to report their performances. Early this week, mutual fund managers will join the rally to buy the popular stocks and then adjust their portfolios at the end of the week. Investors can still stay with the markets yet they should start locking in profits while they can. The technology sector continues to be a relatively bright area for the investors but this may only apply to the selective areas such as software, telecom, and networking. As for the crowd's favorite, **Google** (GOOG), the trend has subsided so investors should probably wait for the next wave. Investors can seek some buying opportunities during the intraday in **Apple** (APPL), **Genentech** (DNA), **CISCO** (CSCO) or even **Microsoft** (MSFT).

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The optimist side of this reluctant rally is that investors have been cautiously pulling in the money little by little. The markets will struggle this week with no clear up or down side. Investors should shorten the trading span and probably should not pull in anymore fresh money before any potential matador makes the last thrust at the bull.

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