

Stocks were jittery before several heavy triggers hit the markets earlier this week. On Wednesday, after the Fed's interest-rate-paused announcement and the strong earning reports from Tech giant **Oracle** (ORCL) and **Morgan Stanley** (MS), Wall Street rallied and boosted all three major averages. The Dow Jones Industrial Average was 109 points away from its all-time high and the S&P 500 closed less than 15 points below a 5-1/2-year high. Nevertheless, investors' faith in a soft landing economy expired after 24 hours as the Philly Fed reported a jaw-dropping decline on manufacturing index from 18.4 last month to -0.4 in September. For the week, the **Dow** gave back 0.45%, to 11,508.10, the **S&P 500** fell 0.37%, to 1314.78, and the **Nasdaq** lost 0.74%, to 2218.93. In the mist of sudden sentiment changes, the 10-year Treasury note was more popular than ever and yielded 4.59%. On the other hand, oil remains bearish and finished at \$60.55 per barrel, a 20% fall from the August's peak.

Besides the economic news from the Fed and the Philly Fed, a wave of data reported by the Census Bureau sent housing downhill in August. A 6% decline and weaker-than-expected 1.65 million housing starts marked a 19.8% year-over-year drop. According to the National Association of Home Builders, the Housing Market Index (HMI) declined for an eighth consecutive month to a level of 30 in September and is at the lowest level since 1991. The overall slow down in the housing market might still have a long way to go. Investors should always keep housing impact to the markets in the back of their minds along the way. As opposed to the weak readings in the housing market, a benign piece of inflation datum, the producer price index rose 0.1% and core PPI fell 0.4%, which brought some relief to the economy and the markets. While the inflation has been moderate, slowing economy and slow down by how much, have caused investors to pay much more attentions.

So far this month, Wall Street has stood quite firmly regardless of the ups and downs within a day. The September curse may not leave a mark as deep as it has in the past. As the third quarter is approaching a close, fund managers are set to present clients and shareholders their performance reports and a list of the holdings in a mutual fund. Window dressing is a strategy for fund managers to sell the dogs in their portfolios and weigh in more in-the-trend stocks before disclosure. As a result, the stocks that have been doing well will become stronger and the stocks with weak performances will go down even further. Once the prospectus gets published, traders and investors tend to dance along with the top ten holdings. The markets, therefore, are likely to have big moves in the same directions, especially when people might rely too much on program trading.

As of September 22, 2006

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

Chiung Chiu
Financial Analyst
646.313.3331
cchiu@beyondbond.com

Investors should also be cautious in early October when fund managers unload some high flying stocks they bought for window dressing purposes.

The other big bombshell of the week would be **Wal-Mart's** (WMT) plan to flatten the 30-day prescription rate on hundreds of generic drugs to \$4. With no powerhouse bigger than Wal-Mart, the ripple effects from a bold cut like this are beyond measurements. Wal-Mart's decision is music to consumers' ears but more of a funeral dirge for drugstores and distributors. **CVS** (CVS) sank 9%, **Walgreen** (WAG) fell 6%, and **Rite Aid** (RAD) lost 5%. Management services such as **Medco** (MHS), **Caremark** (CMX), and **Express Scripts** (ESRX) dropped 3% each after the announcement.

Altria (MO) was also at the center of the attention while tobacco firms are facing a new \$200 billion claim on the so-called "light-cigarettes." Its stock price has dropped more than \$5 yet it can be a good buying opportunity for investors.

Not only **Yahoo** (YHOO) suffering from the decline on online advertisements, **Google** (GOOG) was feeling the heat as well. Even though Google's shares dropped below \$400 during the week, it is a trading opportunity for active traders in the short run. If investors prefer to hold it for the longer term, the price at \$360 probably would be a better time to get in since a support level at that range is observed.