

End of Year 2004 Market Update

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I wanted to send a brief end of the year update on the stock market's performance in 2004. Since my e mail, dated 8/17/04, advising everyone on the upside potential of the stock market in the coming months, the markets are up:

- Nasdaq: +18.3% YTD: 8.7%
- S&P 500: +13.8% YTD: 9.0%

Hopefully many of you reallocated your portfolios and are seeing some nice gains.

My reasoning for upside gain opportunities then and now continue to be based on the following factors:

- Under valuations of stocks based on the earnings yield of the S&P 500 vs. the 10 Year Treasury yield.
- The baby boomers are in their peak spending years.
- Continuing low long-term interest rates (even though short term rates are rising).
- November-April tends to be the best time for the stock market or just half the annual cycle. Source: H.S. Dent Publishing
- Crude Oil was up 30+% and the market absorbed this – showing it's strength.

In addition to the above, my research has uncovered: looking from 1900-2004, virtually all of the gains in the stock market come, on average, in the second half of every decade...the "5 through 9" years (for example 1995 to 1999). And the best year of each decade tends to be the 5th: 1905, 1915, 1925, etc. With the average annualized return of the 5th year being 33.9%.

It is my assessment, with the favorable conditions above and 2005 only a few days away, it is an excellent time to be allocating portfolio's towards equities.

Let me know if you need help designing a portfolio of sound investments to take advantage of the current economic conditions.

Happy Holidays,

Dave

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