



June '06 – Market Update

“During the raid on the whorehouse, they even took the piano player.” With the market correction that began on May 11th, as this old saying goes, virtually every sector of the equity markets fell between 5% and 10%. US stocks, international, emerging markets, oil, precious metals, REIT’s, big cap, small cap, technology, it didn’t matter, there was no place to hide if you were invested in equities. Just like the piano player, all the equity sectors took a significant hit and no one was spared during this correction.

The NASDAQ* went down eight straight days and ten of eleven - on heavy volume - a sign of institutional selling. If you read last months newsletter you know this is a bad sign. A historical look shows this to be among one of the worst consecutive day declines in NASDAQ history. Since 1974, the NASDAQ has only seen six losing streaks of longer than eight days in a row with the worst being 16 days in 1984.

The market sell-off began when data indicating rising inflation were reported. The market has turned extremely sensitive to any news inflation may be creeping higher...indicating the Fed may continue to raise interest rates. Higher interest rates are a headwind for companies.

In recent months, the stock markets have rallied on any news the Fed could be close to ending the rate hikes. This all changed in May as one of the Fed’s key inflation gauges, the core PCE Deflator, came in higher than expected. The April reading came in at 2.1%, a 13-month high and above the 1%-2% target range the Fed would like maintain. This means there is a better chance of more rate hikes in the future.

What should be done with our portfolios in this type of environment? No one knows which way the markets will go from here. They could go up or down. My personal assessment is the markets are due for more of a correction so a neutral position at this point would not be a bad position. Protection of capital is of utmost importance in investing and in uncertain times, such as these, it can be a good investment strategy.

Then there is the old Wall Street clichés, “Sell in May and Go Away”. Sounds like just a catchy phrase but it often is sage advice. Over history, the market’s biggest gains have come between October and April. From May to September, the market, on average, rises little and often hits bottom in September.

If you or someone you know needs money management help, give me a call.

Have a great day,

Dave

* The NASDAQ index is a measure of the combined value of roughly 5,000 stocks traded on the National Association of Securities Dealers Exchange. Past performance is not indicative of future results.

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