



## June Newsletter – Stock Market Update

Welcome to my monthly newsletter. My continued goal is to provide you with useful information concerning topics of interest in the investment arena and other items of personal interest.

### Stock Indices

According to Investors Business Daily, the market is in a confirmed rally. May was a positive month for the markets helping recover some of the losses from a rather dismal 1<sup>st</sup> four months of 2005. Year-to-date the S&P 500 is down 1.1% and the NASDAQ 4.5%. The good news is, 18 of the last 23 days have been positive for the tech heavy index, recouping some of the losses from the low point of 2005 when the NASDAQ was down as much as 13.8%.

Even better news, the up days the past month have been on higher volume than the down days – a key sign of institutional support. Institutional investors (Mutual Funds, Pension Plans, Insurance Companies) account for as much as 80% of the markets direction. Down and flat days on lower volume and up days on heavy volume is exactly the type of action you want to see for stocks. This in contrast to what happened in January and April where there was heavy volume on the down days and anemic volume on up days. A clear sign of distribution from the big money managers. I'm sure your portfolios "felt that pain."

1<sup>st</sup> quarter corporate profits came in higher than expected. S&P 500 companies exceeded Wall Street's expectations by 64%.

### Inflation

Inflation fears have been in the news the past few months. Inflation was only 2.3% in 2004 compared to the last 15 year average of 3.1%. To help curtail inflation-by slowing economic growth-the Fed has been raising the Fed Funds rate (the rate banks charge other banks to borrow money) from 1% to 3% - a negative environment for stocks. Many leading money managers believe the Fed is getting close to the end of the rate hikes stopping somewhere between 3.0% and 3.75%. This combined with better than expected corporate profits should bode well for the markets in the coming months.

Have you recently reviewed your investment strategy? It is an excellent time to be invested in a well diversified portfolio with top money managers.

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