

Weekly Commentary

August 1, 2005

The Markets

As the weather heated up in July here in Douglas, so did the stock market.

For the month of July, the Dow Jones Industrial Average rose a very respectable 3.6% according to data from Yahoo! Finance. That may not sound like a big rise for one month but if the market continued to grow at that compounded rate for the next 12 months, the Dow Jones Industrial Average would end July 2006 at an all-time record high of 16,267. That compares to its July 29, 2005 close of 10,641. Of course, we are not predicting that the Dow will rise to 16,267 by the end of next July; we are just illustrating the point that July was a solid month for the market.

So what helped support the good showing in July? For starters, corporate earnings are still looking good. According to Thomson Financial, 74% of companies in the S&P 500 have reported second quarter results. The average year-over-year earnings growth of these companies is 11.1%. Should this double-digit growth rate hold it would be the eighth consecutive quarter of double-digit earnings growth according to Thomson Financial.

With corporate earnings growing nicely, you might expect the economy to be doing well too and that was confirmed by the Commerce Department last week when it reported second quarter GDP grew at an estimated annual rate of 3.4%. That comes on top of 3.8% growth in the first quarter. In pure dollar terms, the second quarter GDP translates into a projected annualized \$12.38 trillion of economic activity in the United States according to the Commerce Department. By contrast, the corresponding GDP figure for the first quarter of 2000 (near the stock market's all-time high) is \$9.63 trillion. Therefore, even though the overall stock market has not grown since early 2000, the economy has.

Returns through 7/29/05	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-0.1%	-1.3%	4.9	6.9%	0.2%	8.5%
Nasdaq Composite	0.2	0.4	15.8	18.0	-10.4	8.1
Standard & Poor's 500	0.0	1.8	12.0	11.1	-2.9	8.2

Source: Yahoo! Finance, Barrons

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

3, 5 and 10-year returns are annualized. Assumes dividends are not reinvested.

THE RISING PRICE OF GASOLINE GRABS BIG HEADLINES but upon closer inspection, it may not be that big of a deal to the typical American. For example, let's assume the typical family drives 20,000 miles per year and their car(s) gets an average of 20 miles per gallon. That is a total of 1,000 gallons of gas a year (and countless trips to

the gas station.) According to the Energy Information Administration, the nationwide average price of a gallon of gas in mid-July 2005 was \$2.33. According to the same source, gasoline prices averaged \$1.60 per gallon in 2003. So over the course of two years, gas prices rose an average of \$0.73 per gallon.

To see how much extra we are paying for gas this year compared to two years ago, all we have to do is multiply 1,000 gallons by the \$0.73 per gallon increase and we get an annual fuel bill increase of \$730. Now do not get me wrong, I would much rather have the \$730 in my pocket than to shell it out for gas but in the big scheme of things, it is not that big of an increase. While gas prices have been going up, so have home prices for many people. If rising gas prices get you down, ask yourself how much your home may have increased in value since 2003. You may find your home has appreciated much more than \$730 a year so what we pay out of one pocket may be more than offset by what we receive in another pocket. That is how diversification is supposed to work.

THERE ARE HUNDREDS, (PERHAPS THOUSANDS) of financial markets newsletter writers who are happy to take your money for their advice. To help separate the wheat from the chaff, Mark Hulbert started a service to track the performance of the recommendations from market newsletter writers. He started in 1980 by tracking the results of 36 newsletters. Out of those 36, today there are 13 still publishing. Can you guess how many of these 13 newsletters outperformed the performance of the Wilshire 5000 stock index (a broad-based index generally considered representative of the U.S. stock market) between June 30, 1980 and June 30, 2005? As a hint, the Wilshire 5000 returned an annualized 12.8% during that period according to a July 27, 2005 MarketWatch article.

Hulbert said of the 13 newsletters still published, three outperformed the Wilshire 5000. The annualized returns of these three were 19.0%, 15.1% and 14.9%. Does it strike you as surprising that going back to 1980, only three of the 36 newsletters that Hulbert began to track actually lasted 25 years AND outperformed a broad stock market index?

Viewed another way, one out of every 12 of the original newsletter writers beat the market. From this data, we can make several observations. First, it is not easy to beat the market. Second, a small percentage of investors seem to be able to beat the market on a long-term basis—the trick is to figure out who they are before they do it! Third, if your portfolio performs as well as the market, you are probably doing better than the average investor is. While we may not always beat the market, our objective is to develop portfolios that perform as well as possible given the level of risk you are willing to accept and given the timeframe you have for your investments.

Weekly Focus – More Light at Night

“Spring forward, fall back” may take on a new meaning starting in 2007. Last week, Congress passed an energy bill that President Bush is expected to sign. Buried in the bill’s 1,700 pages is a provision that will extend daylight saving time by one month starting in 2007. To accomplish this, we will move the “spring forward” up by three

weeks to the second Sunday in March and move the “fall back” back by one week to the first Sunday in November.

Recreational enthusiasts should like the change, as it will keep the evenings lighter longer. In addition, depending on what study you read, it may result in some reduction in energy use. So who is the loser in this move? Would you believe the international air traveler? Currently, most of Europe starts daylight saving time one week earlier than the U.S and they end at the same time as the U.S. Starting in 2007, instead of U.S. to Europe air schedules being out of sync for just one week each year, they will now be out of sync for four weeks each year. This makes connections less convenient by one hour. So on top of the increased security for flying, we now can add the inconvenience of daylight saving time for the harried international traveler. Just can't catch a break can they?

Best regards,

Russ Story, CSA & Chris Tuten, FA

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The Nasdaq Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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