

# Weekly Commentary

## October 3, 2005

### The Markets

The third quarter is now history and it was a respectable one as far as the stock market is concerned.

For the quarter, the Dow Jones Industrial Average rose 2.9%, the S&P 500 rose 3.1%, and the Nasdaq Composite rose 4.6%, according to the *Wall Street Journal*. That performance is even more impressive when you consider the “headwinds” the market faced. During the quarter, we endured two devastating hurricanes, an 80% increase in natural-gas futures prices according to Marketwatch.com, a 13% rise in crude oil prices according to Marketwatch.com, and two interest-rate hikes from the Federal Reserve. So what kept the market from falling apart? One key could be corporate earnings.

According to Thomson Financial, as reported by *Barron's* magazine, third quarter profits for the S&P 500 companies are expected to rise 17.8% over the year-earlier period. If that occurs, it would be the 14<sup>th</sup> consecutive quarter of double-digit percentage gains, according to *Barrons*. On the surface that is very impressive, but if you dig a little deeper it turns out one sector accounts for a nice chunk of that gain. Can you guess which sector? Not surprisingly, it is the energy sector. For the third quarter, the energy sector's profits are projected to soar 73%. However, if you exclude the energy sector's profits from the rest of the S&P 500 companies, the S&P 500's profits are projected to grow 11.0%, according to *Barrons*. Eleven percent is still impressive so we are not complaining.

The future looks bright too. Fourth quarter profits are projected to rise 16.5%, according to Thomson Financial. As long as corporate profits keep rising, the “headwinds” may be a nuisance for the market, but probably not a death knell.

Returns through 9/30/05	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	1.4%	-2.0%	3.7	10.0%	-0.2%	8.3%
Nasdaq Composite	1.7	-1.1	10.8	21.0	-9.6	7.7
Standard & Poor's 500	1.1	1.4	8.6	13.2	-3.1	7.8

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.

**WHICH ECONOMICALLY CRITICAL INDUSTRY HAS LOST MONEY** on a cumulative basis since records were kept dating back to 1938? Here is a hint: It is likely that almost every person reading this commentary has used this industry's service at least once, if not many times, over the course of his or her lifetime. Still stumped? How about this hint: Two brothers' activities about 100 years ago are credited with ushering in the

birth of this extremely critical industry. You have probably guessed by now that the answer is the airline industry.

According to a September 30 article on MSN Money, the U.S. airline industry has an estimated cumulative loss of about \$22 billion between 1938 and 2005. So how has the industry survived? If you have flown lately, you might answer, “not very well.” Actually, from 1938 through 2000, the industry had a cumulative profit of about \$18 billion. While not a huge profit relative to the size and history of the industry, it was enough to keep airlines in business and consumers reasonably comfortable in the air. After 2000, things changed. We had a recession, 9/11, and now, soaring energy prices. Between 2001 and 2005, the industry is projected to have lost \$40 billion, according to MSN Money.

As you have probably read elsewhere, several major airlines are presently in bankruptcy. Yet despite how poorly the industry is doing as a whole, there are some airlines, notably the “no frills” airlines, which are still eking out profits and keeping their customers reasonably happy.

This is an example of how capitalism can be cutthroat. The long-established major airlines are generally the ones who are hurting the most now. They have legacy issues to deal with, such as a high cost structure that makes it difficult for them to be competitive with newer, “no frills” airlines. The newer airlines popped up due to the consumer’s desire for low fares. The older airlines, desperate to compete, had to lower their fares too, but with their high cost structures they ended up with significant losses.

Capitalism can be very painful as an industry shifts from one generation to the next. In the end though, consumers benefit, as evidenced by our country’s continuing rise in its standard of living. Until somebody invents a better system, we can plan on capitalism—and its sometimes-painful ramifications—to be with us for a long time.

**THE RICH GOT RICHER OVER THE PAST YEAR** according to the latest release of The Forbes 400 list of the Wealthiest Americans. The collective wealth of the 400 grew to \$1.13 trillion, an increase of \$120 billion from last year. Only 26 millionaires made the list. The remaining 374 were billionaires led by Bill Gates at \$51 billion, Warren Buffet at \$40 billion, Paul Allen at \$22.5 billion, and Michael Dell at \$18 billion.

### **Weekly Focus – A Bright Side to Higher Energy Prices?**

Over the past 12 months, do you think more bicycles or more cars have been sold? According to the U.S. Chamber of Commerce, as reported by the AFP news service, more bicycles have been sold. The industry association, Bikes Belong, says 19 million bikes were sold in 2004 and that 87 million Americans hopped on a bike in the past 12 months. The number one reason cited for the increase in bike sales was the cost of gas. Benefits to the environment and health improvements were additional reasons cited. No matter what the reason, an increase in bike riding is a great trend. Let’s hope it continues.

Best regards,

Russ Story, CSA  
Chris Tuten

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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