

## Conundrum?

Whew! What a year it was for investors. On the one hand we saw the GDP rise about 4% despite the shocks from record hurricanes, sharply higher energy prices, and a string of eight interest rate increases by the Federal Reserve. Despite these negative events, corporate profits rose in the double digits for the third consecutive year. The housing market also continued to grow, although as the year progressed, persistent rate increases took their toll.

One of the biggest bugaboos to stocks this past year was the never-ending worry over inflation. One would have expected inflation to skyrocket as it did in the 1970's, considering the press it received. However, inflation remained relatively tame reflecting the Fed's vigilance, and a less emphasized but very important factor, improved productivity. The stock markets overseas in Europe, Asia, Latin America and even Iraq made solid gains.

Now the conundrum: the US stock market for all practical purposes was relatively flat (Dow Jones) to up a measly 3% (S&P 500). Why? Two words come to mind - Federal Reserve. There is an old chestnut; "Don't fight the Fed." Regardless of the excuses, these words are as true today as ever. The proof is in the results, or lack there of, by the U.S. stock market. In 2006, the GDP will most likely slow from 4% to what level no one knows. However, we believe the Fed will take their collective foot off the brake and ease this year. When? Time will tell, but all indications show that it is on the horizon.

In anticipation of this, stocks tend to respond favorably particularly with valuations so compressed. When corporate earnings rise as robustly as they did in 2005, and equity prices stay essentially flat, those stocks offer great value. We will continue to emphasize those "on-sale" stocks because they offer above average growth and income and are indeed on the bargain counter.

We are including a copy of our privacy policy per SEC requirements. If you would like a copy of our ADV, please let us know.

### **Scoreboard 2005**

Dow Jones	-0.60%
NASDAQ	+1.37%
S&P 500	+3.00%

Bill Novelline

Andrew Novelline

Bob McLemore

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