

## There is Some Life in the Market

The US stock market finally got in gear during the past few months and posted its best third quarter gain since 1997. Moderating energy prices and at least the perception of a cooling off of mid-east tensions contributed to investor optimism, this despite the significant slow down that appears to be underway in the housing sector. Corporate profits remain strong and companies are continuing to reward stockholders by buying back stock and increasing dividends.

After a long string of interest rate hikes, recent economic data suggests that the overall economy just may be slowing to a pace that would keep the Federal Reserve Board on the sidelines. By not raising rates in the last two meetings, The FED established that they would like to engineer a “soft landing” as the economy cools. Past experience shows that this is not an easy task. Historically, interest rates were brought to levels that brought on a recession, something this FED would like to avoid. You can be sure they will examine every piece of economic data available in the weeks and months ahead when determining the next course of action on the interest rate front.

In the past few days, you have seen a lot of headlines about the Dow Jones Industrial Average hitting an all-time high. While this is a positive and confirms that we are heading in the right direction, it should be noted that we have a long way to go in the other broader averages. The S&P 500, which really is a more comprehensive look at the overall US stock market as it contains 500 companies as opposed to the Dow’s 30, is still about 15% away from its all-time high. And let’s not even discuss the NASDAQ Composite Index, which if it *doubled* from today’s level would still be over 10% below the all-time high set in the spring of 2000. The outperformance of the Dow Industrials and the S&P 500 versus the more speculative NASDAQ Composite Index clearly and convincingly underscores the wisdom of owning quality stocks over the long term.

As we enter the 4<sup>th</sup> quarter, tax planning for 2006 begins. At AFM, we endeavor to work with clients to minimize their tax burden as much as possible. It is important that clients with taxable accounts (that is essentially all non-retirement accounts) let us know whether or not they have any taxable gains or losses from non-Abbot managed accounts. Also, let us know if you have any carry-forward losses from 2005 that can be used to offset 2006 gains. This information is of vital importance in tax planning and could result in significant tax savings. If you have any questions on this, please contact us to discuss.

### Scoreboard - 3<sup>rd</sup> Quarter 2006

|            |        |
|------------|--------|
| Dow Jones: | +8.97% |
| NASDAQ:    | +2.41% |
| S&P 500:   | +7.01% |

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October 5, 2006

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