

Thank God It's Friday!

December 15, 2006



It's the most wonderful time of the year. That's not just Andy Williams that you hear throughout the radio waves and shopping malls coast-to-coast. These words are ringing throughout Wall Street as stocks and bonds continue to get bid higher. Statistically, stocks have seen the best performance from November to April over the years, with the biggest bang coming up front with the so-called "Santa Rally" bringing joy to investors the world over.

Santa's sleigh has been turbo-charged for 2006 delivering record runs for the major indexes in both stocks and bonds. The backdrop for the rally has not changed; low interest rates, tame inflation, and an economy that just won't quit. Blue chips have led the charge as the mega multi-national corporations are en vogue with the coveted characteristics of strong cash flow generation, hefty dividends and foreign currency exposure. This is a theme that should continue well into '07.

With the first day of Chanukah, today marks the unofficial beginning of the end of the holiday season. You may recall that last year the first day of Chanukah coincided with Christmas Day, which made it easier for retailers to predict overall holiday sales. This year will prove to be more difficult. While the Festival of Lights will be celebrated over the next 8 nights, it is safe to assume that the majority of gifts have already been purchased.

Retailers still anticipate a high volume of last minute Christmas shoppers this weekend. According to a recent national poll, the average US consumer expects to spend a whopping \$764 this holiday season. The worries of a housing bubble and high oil prices do not appear to faze shoppers. Interestingly, most consumers admit to being lured by sales into spending as much as \$100 on themselves while shopping for their loved ones. The kicker could be gift cards this year, since these sales are not realized until actually redeemed, usually in January. All of this is good news for retail stores and investors alike.

Money is flowing from all over into the capital markets. Foreign investors, individual investors, private equity investors; there is an abundance of cash seeking returns. If you recall, one of the key events that we forecasted last December for 2006 was a pick-up in M&A (Mergers & Acquisitions). This has turned out to be significant source of upside for the Market as larger companies have put substantial cash positions to work by purchasing smaller companies to expedite growth. This has occurred across multiple industries, with a new wave of deals being announced with the airlines in recent weeks. These are smart and seasoned professionals that don't buy when they deem things expensive. Good indication for things to come.

So with this stellar run since July, the theme has been "Buy, Buy, Buy!" Stay tuned for the Winter Quarterly Letter where we'll discuss our outlook for 2007.

By Mike Frazier and Meredith Millet

	December 15, 2006	December 30, 2005	Percentage of Change
DOW JONES	12,445	10,717	+16.12%
S&P 500	1,427	1,248	+14.34%
NASDAQ	2,457	2,205	+11.43%
10-year Bond YIELD	4.59%	4.39%	+4.56%*

*When yield goes up, prices go down