Steeplechase Investments

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Good horses make good trainers. It is an old adage in the horse business that applies across a broad spectrum of industries. Good markets make good traders/investors. The stock market this first week of 2006 has a very good predictive effect for the coming year. The first day of January was an up day on large volume and the shortened 4 day week on the whole was a very positive week with a nice ascent on extremely good volume. Remember that volume precedes price. This is the best start of the year since the year 2000. I know that year ended on a down note but we, at Steeplechase, had a helluva year with an 18% return with the market being down dramatically. Stock Market 2006 looks like it is going to be a real "keeper". The NASDAQ has finally taken over a leadership role. Any meaningful bullish move has to have the NASDAQ as its leader. And that is part of the recipe that has been missing the last 4 -5 years. Technically speaking, we are approaching the 11,000 area on the Dow. This level has to be surpassed if we are going higher. This area of resistance has repelled previous moves before. My guess is the first time up this year, it will do the same, but the 2nd or 3rd test will propel the market through this "barricade".

The positives of last year are pretty outstanding. Why that is when we lost a little money and the major indices squeaked out tiny gains that it was so positive? Simply put, the market took just about everything that could be thrown at it, and still held its ground. Sure, it was a range bound situation but it did not break out on the downside. Crude oil reached the high 60's , the Fed raised rates 8 times , the proliferation of the hot money into the housing stock sector , and gold rallying to 25 year highs are just a few of the negatives. And we can't forget George W's ill timed ill planned, ill conceived war. This was the backdrop for the equities market in 2005. The market shoulda, woulda, coulda plummeted and it didn't!

Where are we today? The housing stocks got hammered , the Fed is just about done raising rates (how do we know this?) after all the rate rises, the 10 year treasury note's yield is sitting at 4.37%.Whereas a year earlier before all the rate manipulation ,the yield sat at 4.29%. Oil is still hovering in the 60's, however, my guess is exploration and production will be ramped up in a major way to satisfy "demand" not unlike the silver market in the late 70's, early 80's. The prices for silver got so out of whack that industries found new ways in which to cope with the rising prices and found alternative sources. The thing that is so baffling concerning this oil move is that the Bush administration has not once put any pressure on OPEC to ramp up production, whereas the Clinton administration was always putting some kind of pressure to keep the prices from gyrating like they have recently. Gee, I wonder if it has anything to do with George's daddy and friends having so much of their wealth tied up in the oil industry. The dollar has also begun to weaken, which also portends that the Fed is just about done raising rates. This will have a positive effect on all the big multinationals that earn a lot of their money overseas and points beyond.

The growth of the economy has been fueled by the consumer thus far. They have done all the heavy lifting with the help of their ATM's and using their homes as a surrogate credit card. The next phase should be moved along with the help of a large business spending cycle. Many, many companies are awash with cash. Some are using this cache to increase dividends (a good thing) others are beginning to upgrade their operations by disbursing funds to revamp or overhaul their technology needs (a great thing). That is one of the key reasons, I believe, that technology will lead going forward. And if you give a cursory glance at your portfolio holdings, you will see that is where we are placing a good deal of our bets. Yes, technology stocks, big growth stocks have been down for over 5 years now. Their time in the spotlight is upon us.

The Dow is 5% from all time highs (11,722) the S&P 500 is 15% from all time highs (1,527) and the NASDAQ is 51% (5,048) from their highs. It doesn't take a college scholar (in this day and age, maybe an MBA) to figure that the NASDAQ has some catching up to do. Consequently, I can say for the first time in a long, long time (too long, I might add) that I am excited about the market prospects going forward. Out with the old year, in with the new. Out with the turbo prop type stocks, in with F-15 type stocks. Let's look forward to a healthy, happy, PROSPEROUS new year. That's all folks.

Ed

The worst bankrupt in the world is the person who has lost his enthusiasm.
–H.W. Arnold