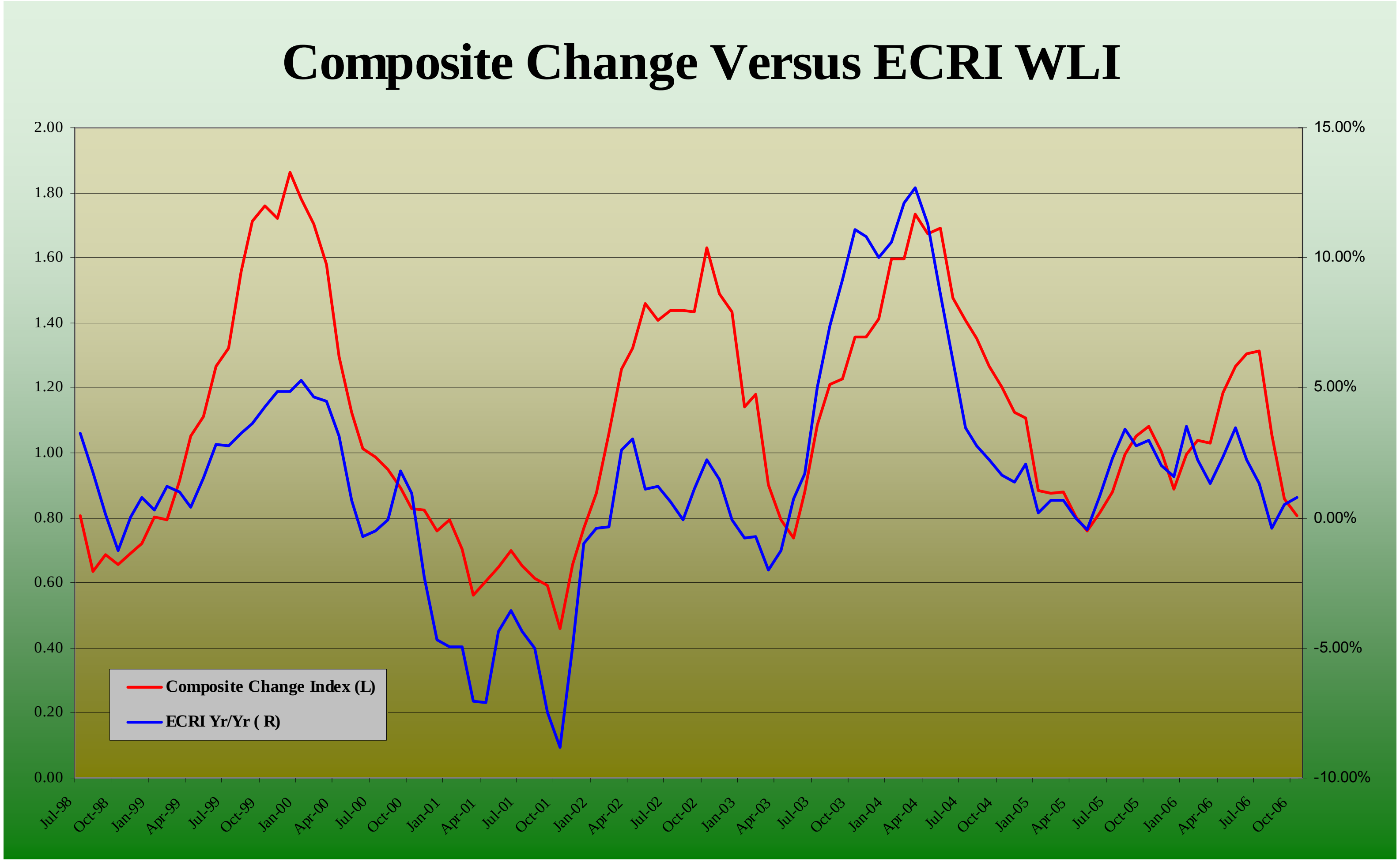
Monthly Chartbook

November 2006

Betting on the Fat man to win the footrace?

Current conditions vs. the stock market bulls

Macro-economic research



The soft landing crowd has no room for error….then again, maybe the US consumer really does have a 'S' on their chest and a wallet full of untapped credit cards….

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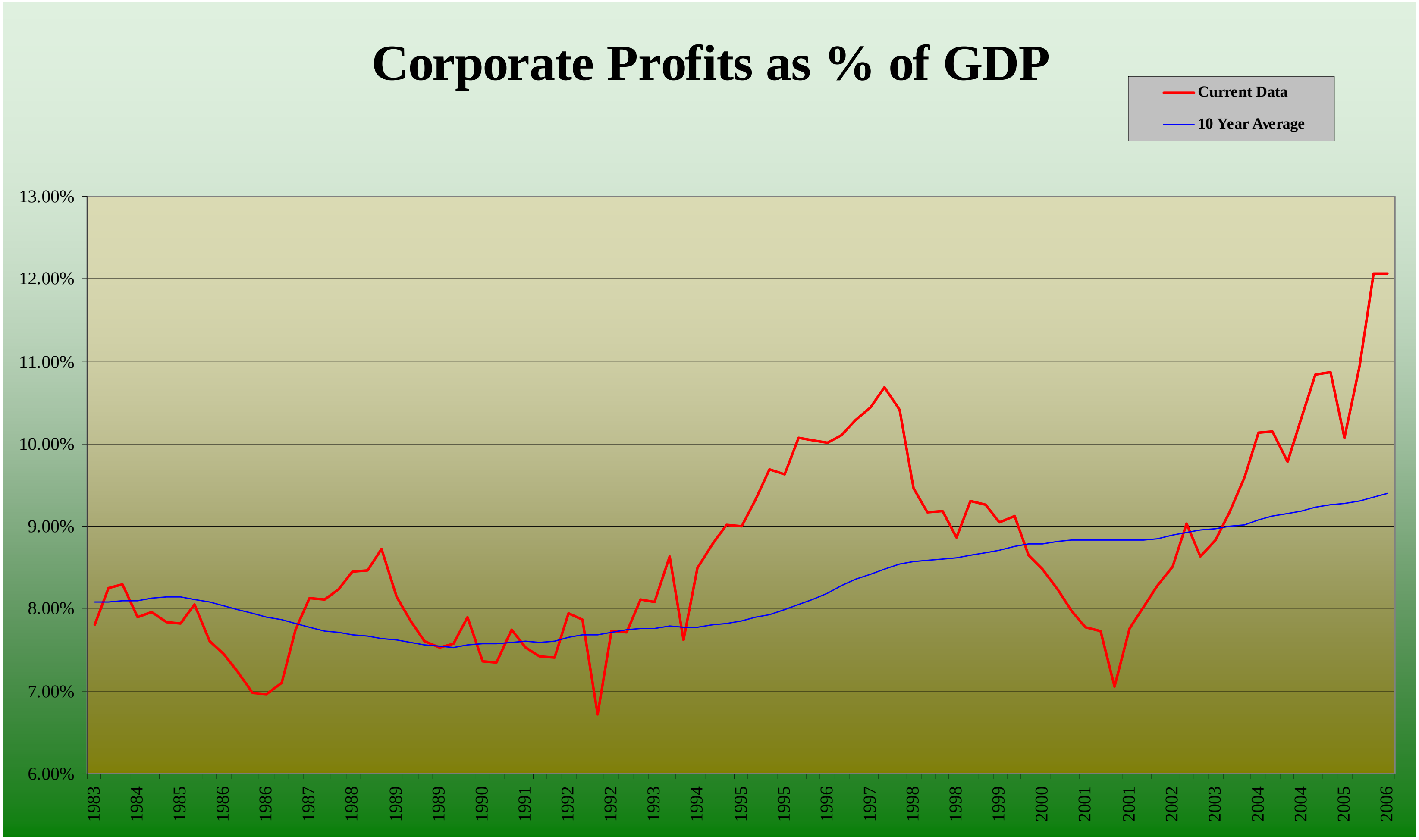
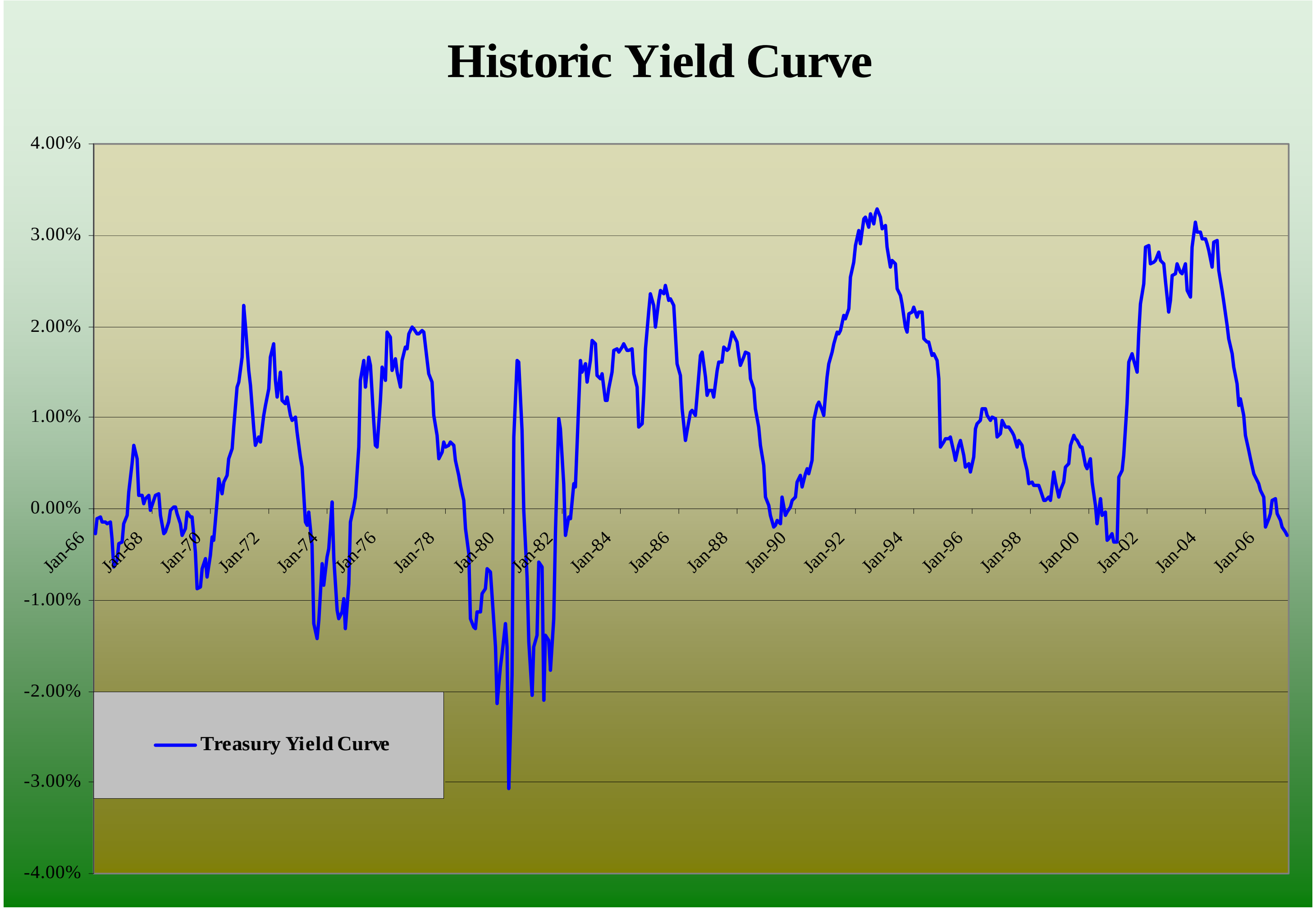
Macro-economic research



With corporate profits at all time highs, methinks that labor is going to be looking for its share.

Macro-economic research



The last two business cycles were preceded by an inversion of the yield curve. Here we measure the 1 to 10 year US treasury.

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Macro-economic research

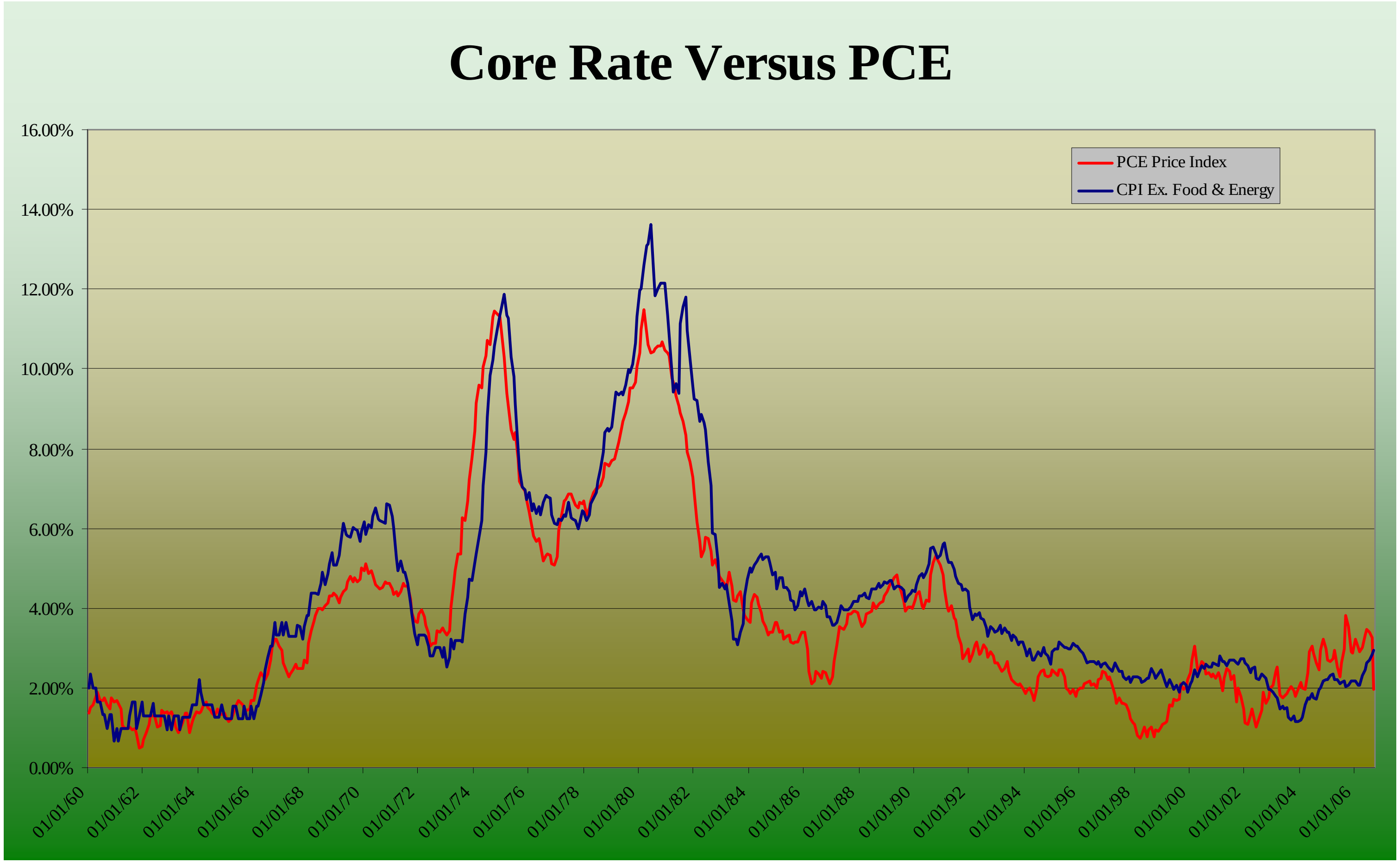
Robust labor conditions are incompatible with recessionary conditions.

Inflation expectations

Falling energy prices may mask the underlying trend. Comps were easy 12 months after the Katrina bump in energy.

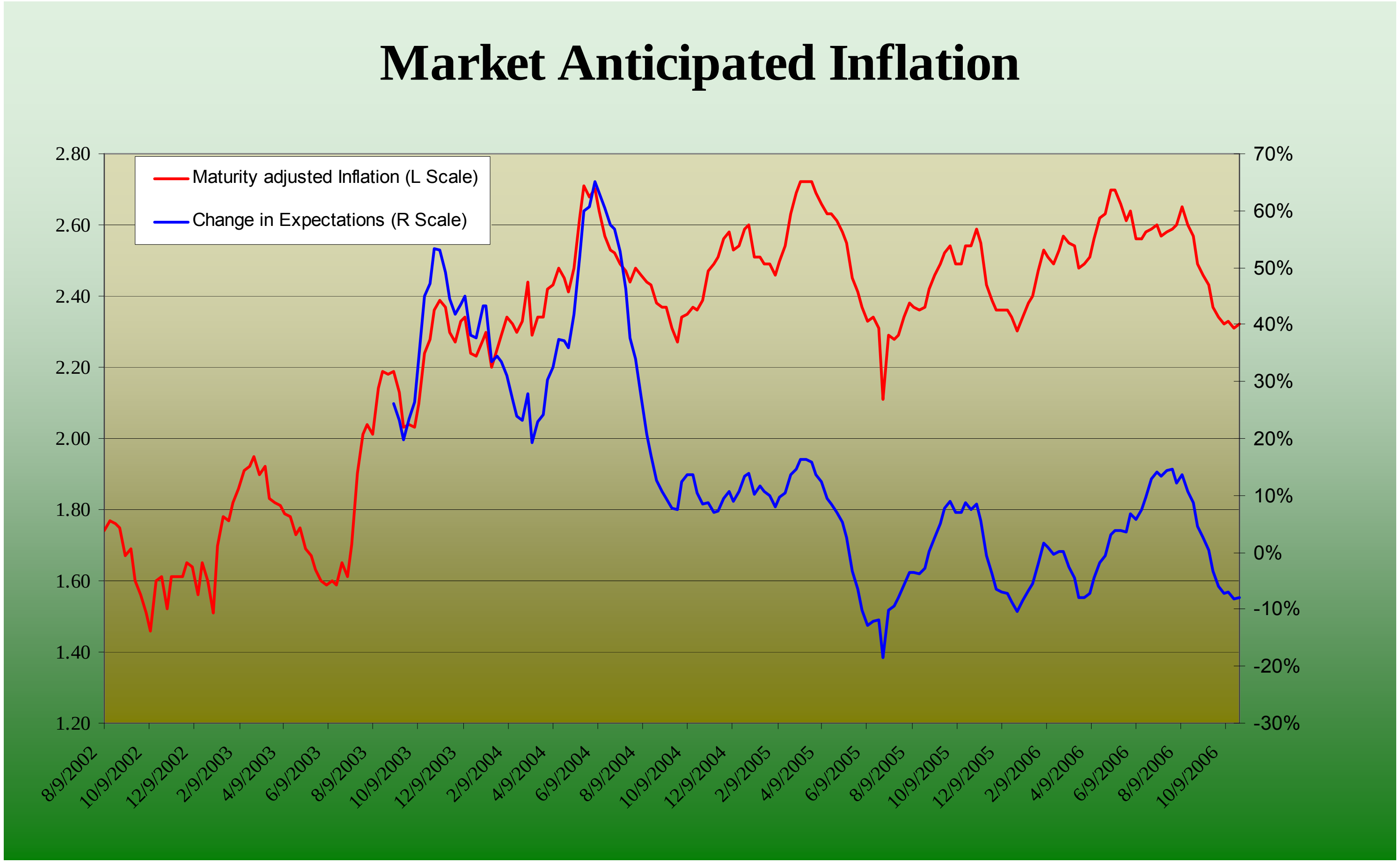
The anticodal evidence of a tight labor market for skilled is out there…

Inflation expectations



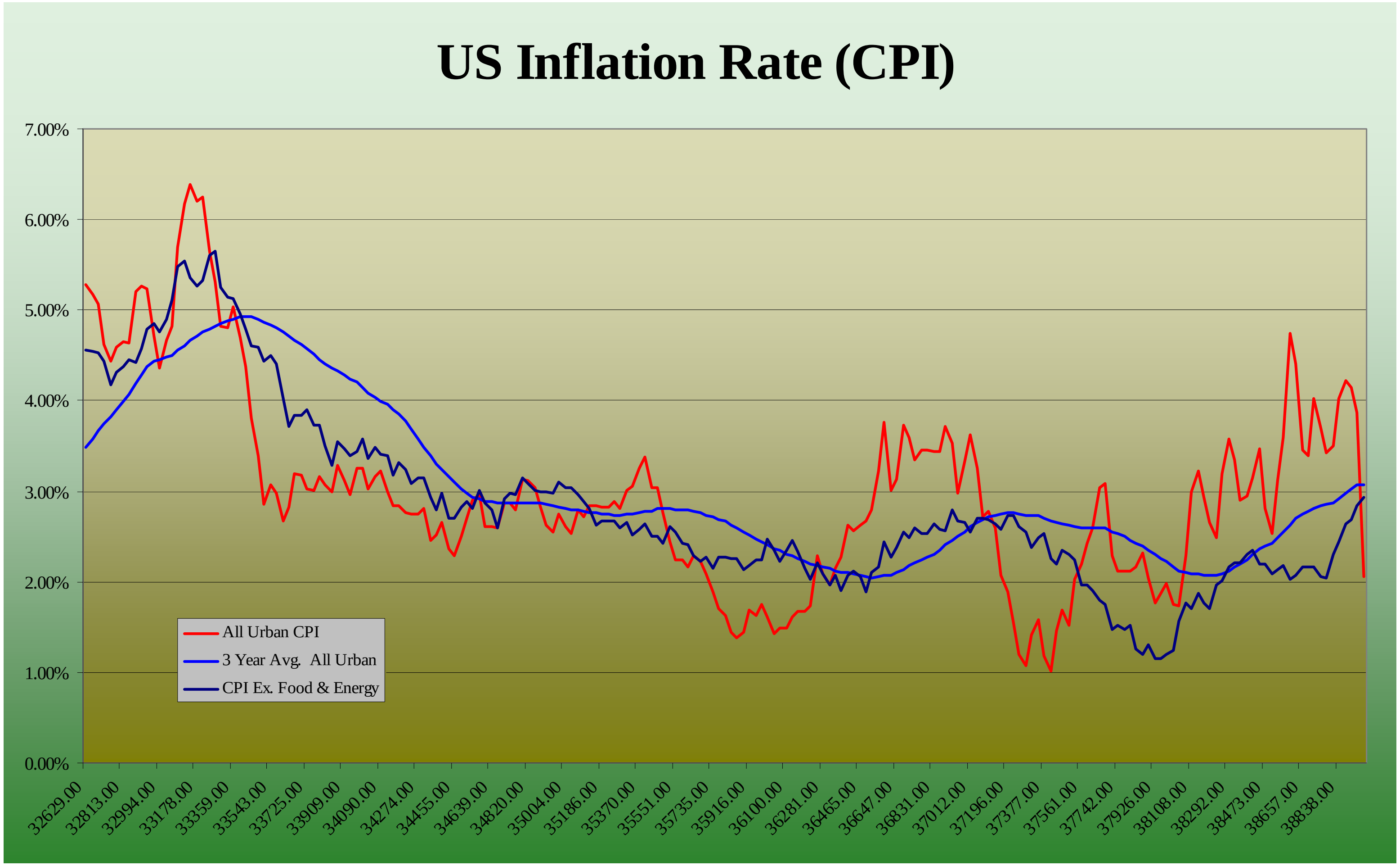
I often feel like Alice in wonderland when reviewing these numbers… "drink this one and inflation will be little".

Inflation expectations



The saving grace has been the modest inflation expectations of the bond market.

Inflation expectations



All urban looks funny, doesn't it? Y/Y includes an easy comp because of the bump up in gasoline prices from Katrina one year ago.

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Federal Reserve Watch

We are not willing to bet on a rate cut. After the longest stretch of negative real fed funds in modern financial history, the Fed has been working steadfastly to reel in the huge amount of liquidity created in the last five years. Bottom line, this Fed has refused to monetize rising commodity prices by printing more money.

The real risk to market participants who are expecting a cut in the Federal Funds near term is that low real rates are not the new normal and the Fed will be slow to cut rates even with falling inflation.

If/when inflation falls, at least the Fed has a few bullets in their gun to cut rates to fight off the next downturn.

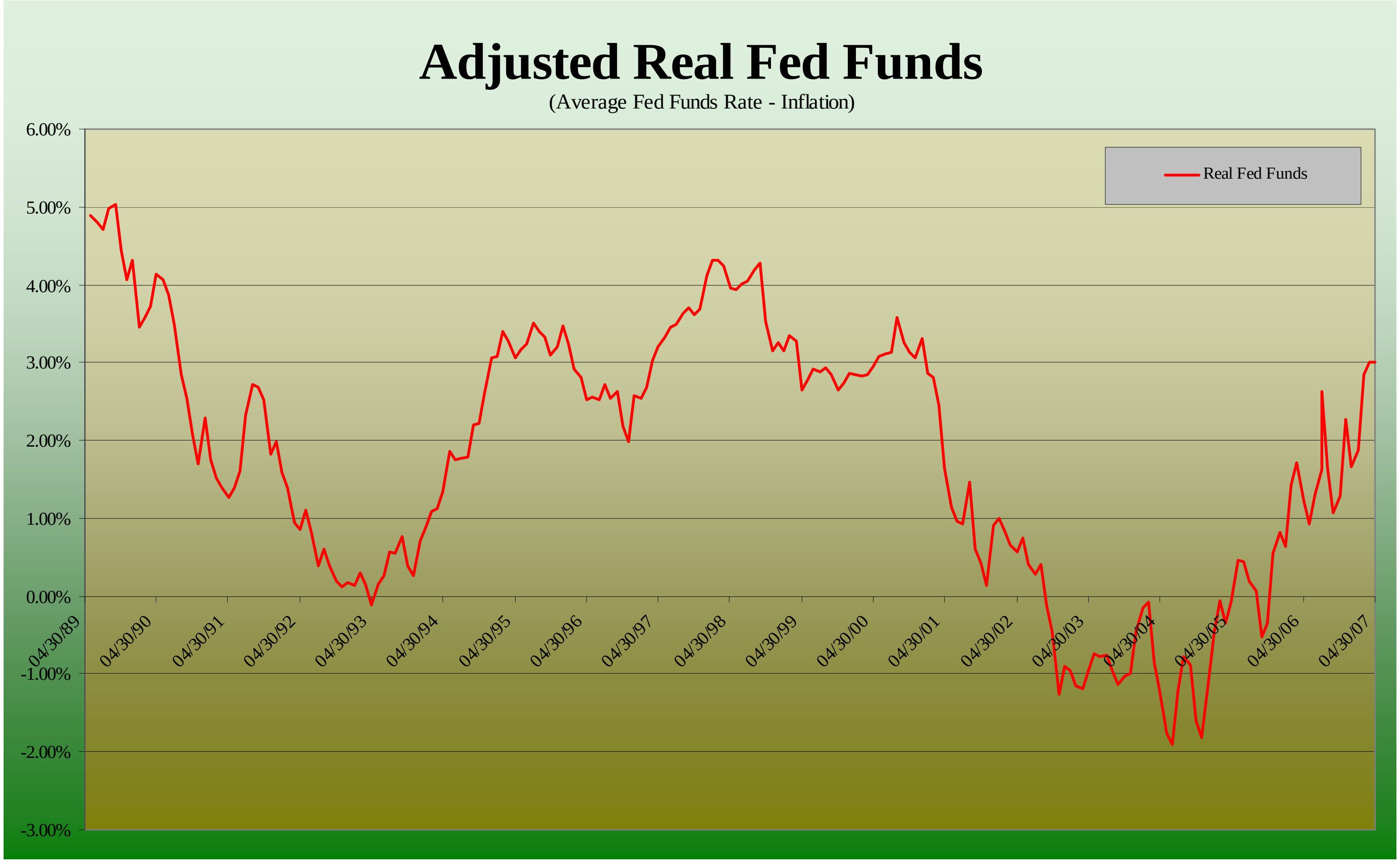
Federal Reserve Watch

Consider that from 1/1/1974 to 9/30/2006:

	1/1/1974	**9/30/2006**	**% change**
CPI	46.9	207.4	77.39%
Gold	129.51	598.06	78.34%
US$	105.84	81.75	-29.47%
S&P 500 EPS	7.68	74.91	89.75%
Monetary Base	85.27	834.268	89.78%
M2 NSA	861.5	6882.4	87.48%
Nominal GDP	1447	13197.3	89.04%

While the value of the dollar has fallen 78% versus Gold and the governments basket of goods (CPI), it has only fallen 30% versus other fiat money. In a controlled monetization, you want to own assets with pricing and earnings power. Has the Fed really done a good job since we abandoned the gold standard in 1971?

Federal Reserve Watch

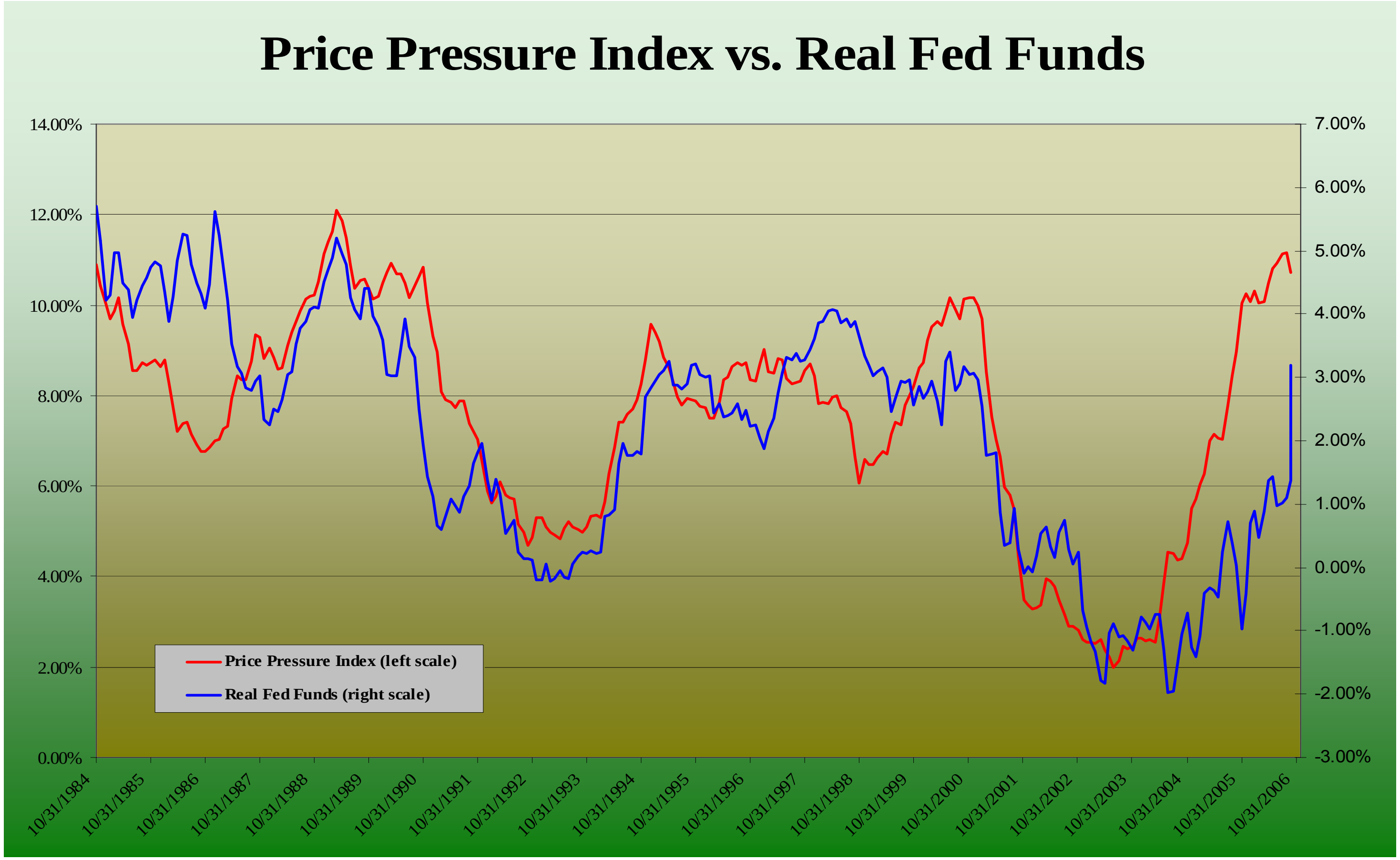


If the Fed leaves the Federal Funds Rate unchanged in the next six months, the Real Fed Funds rate will continue to climb as easing energy prices flow through the CPI. The data presented is based on oil prices static at $70 a barrel for West Texas Intermediate.

Federal Reserve Watch

In a world awash in Fiat money, the only real value of the US dollar is the spread it earns on short term US treasury bills above inflation. The Fed's interest rate cuts to avoid a deflationary spiral held rates at negative real returns for an unprecedented amount of time. Negative real rates contributed to sharply higher gold. Only since December 2005 has the spread been positive.

Federal Reserve Watch



You might be thinking, what is the Fed waiting on? Weakness doesn't scare them as much as persistent inflation.

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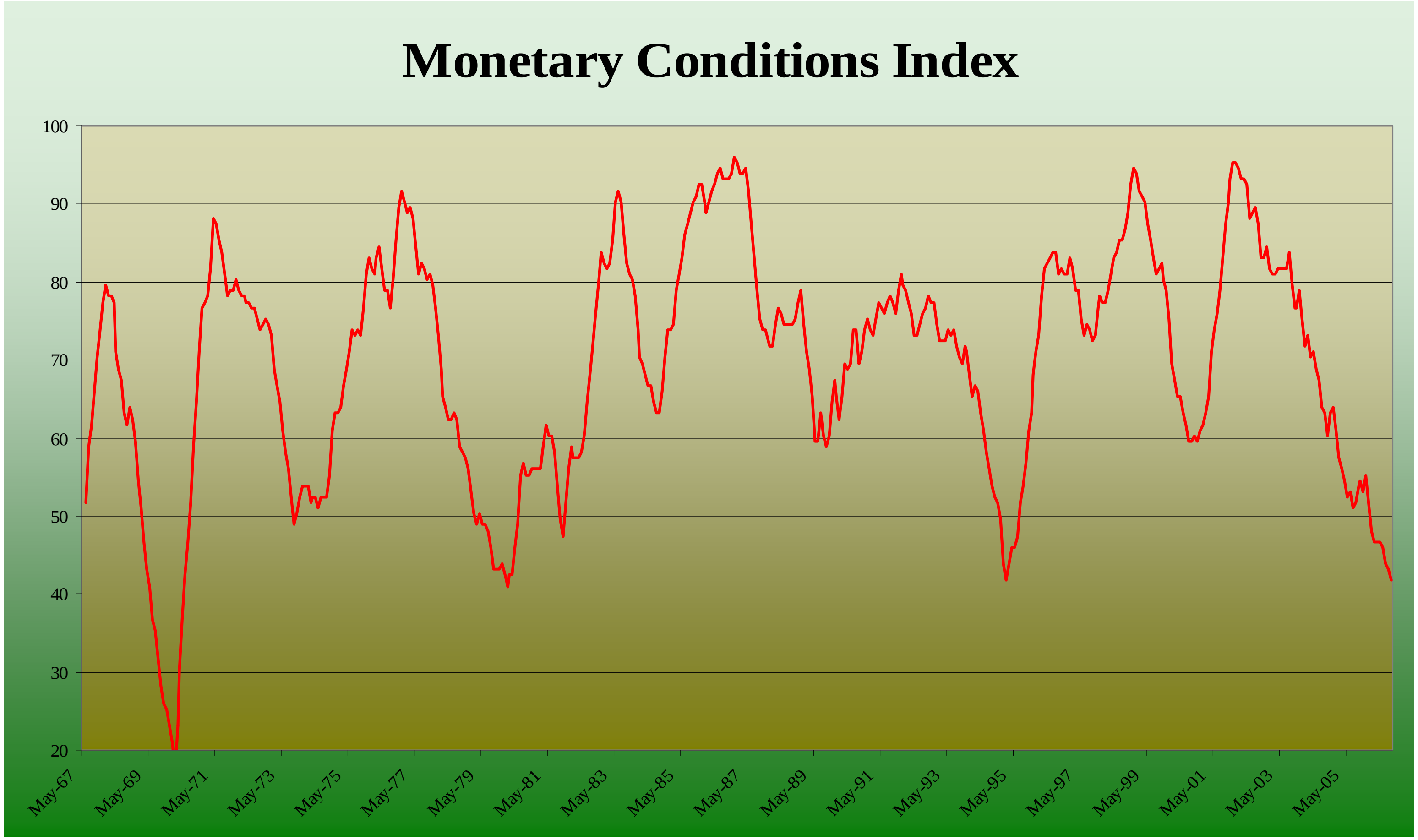
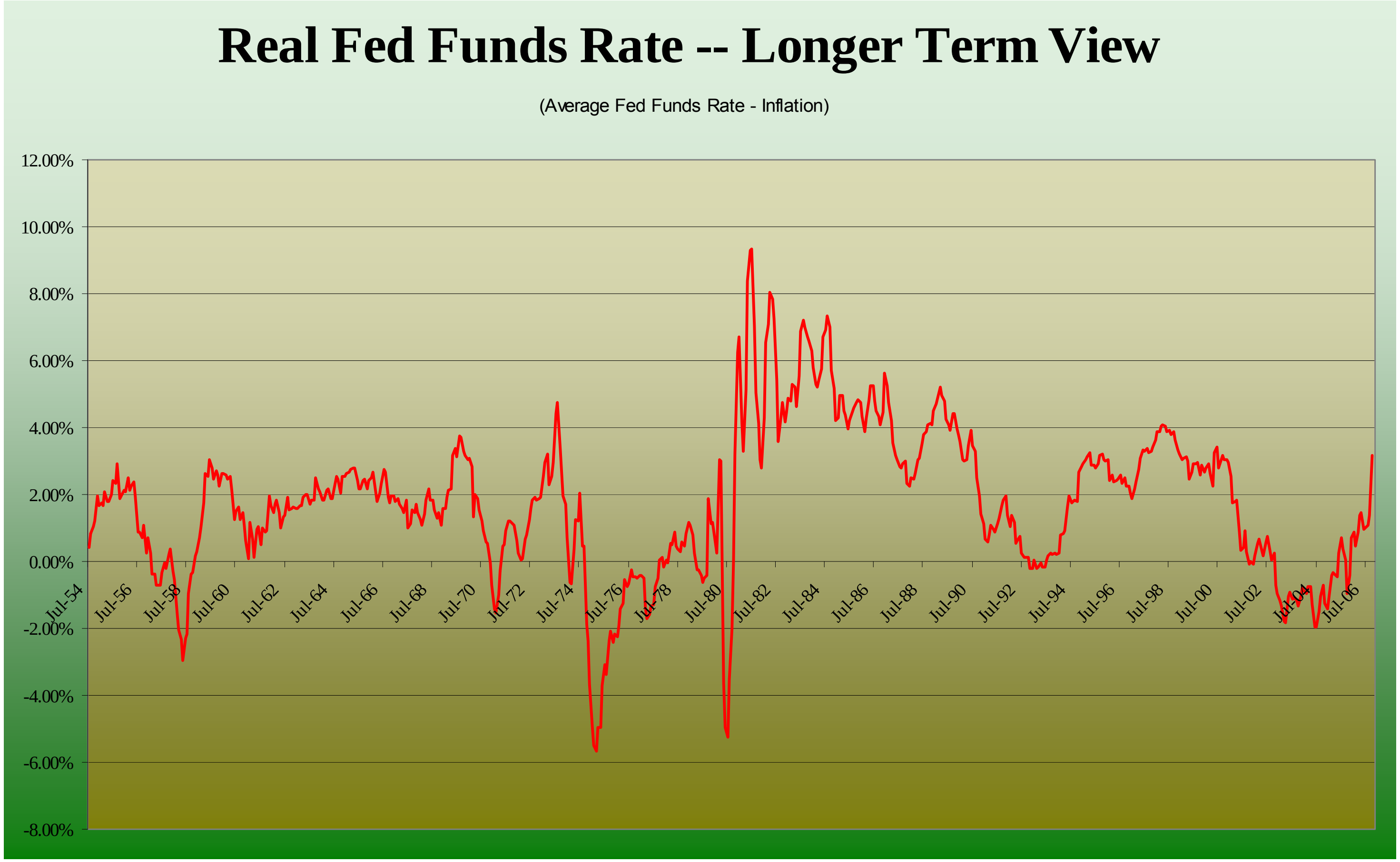
Federal Reserve Watch



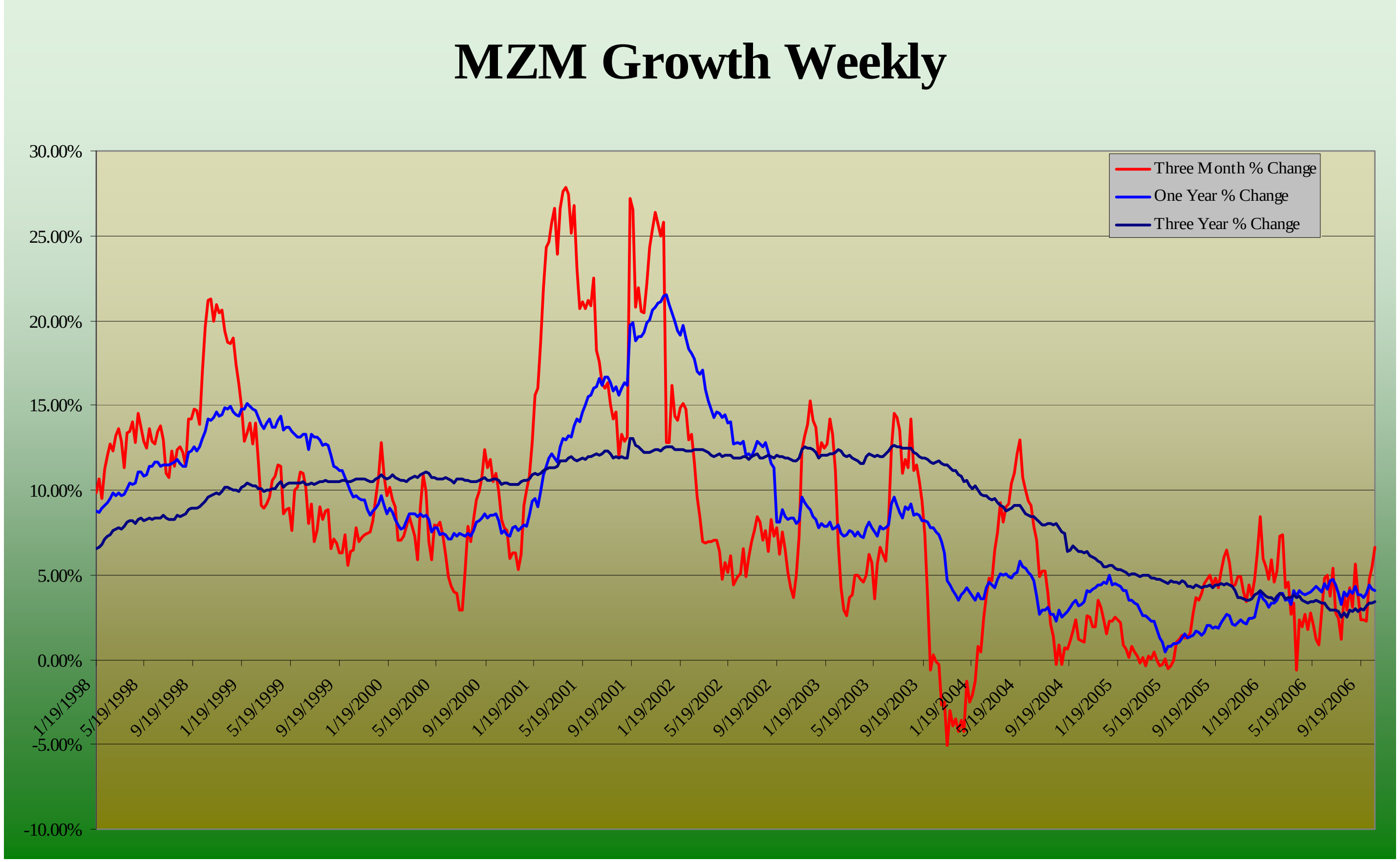
The smoothed Monetary Conditions index continues to slide. Perhaps it will put in a bottom, and it will be off to the races again. Then again, maybe not.

Federal Reserve Watch



Again, if Energy prices continue to abate and the Fed does nothing, real Fed Funds will rise as inflation falls. Real Fed funds are only now at the levels of the 95 tightening cycle.

Federal Reserve Watch



Signs of life...

Outlook and Forecast

Capital Markets Expectations

Index	Current	Forecast		Range	Time Frame
S&P 500	**1335.85**	**Trading range**	↔	**1225 - 1350**	**End of 2006**
Ten Year Treasury	**4.63%**	**4.90%**	↓	**4.75%-5.25%**	**6 months**
Inflation (all Urban)	**3.88%**	**3.38%**	↑	**3.25%-3.88%**	**6 months**
Fed Funds	**5.25%**	**5.25%**	↓	**5.00%-5. 50%**	**6-9 months**
S&P 500 Earnings	**$73.34**	**$75.00**	↑	**$74 - $77.50**	**1q2007**
	Legend:	↑ "Good"	↓"Bad"	↔"Indifferent"	