

# Rocky Mountain News

## Unexpected gains

### Analysts, at odds over rally, agree Fed holds cards

By Darrell Proctor, Rocky Mountain News

Saturday, September 30, 2006

The Dow Jones flirted with its all-time high daily close this week as the quarter ended, a three-month stretch in which the index posted its biggest third-quarter advance since 1995.

The Standard & Poor's 500 had its best third quarter in nine years.

There's disagreement among financial analysts about whether the rally will continue, but they agree it likely depends on the Federal Reserve.

Stocks dipped Friday after St. Louis Federal Reserve President William Poole made comments interpreted as calling for additional rate increases if inflation warrants. Traders, buoyed by two months without a hike after 17 consecutive raises, had hoped increases were over.

Friday's 39.38-point loss for the Dow ended a week in which the index on both Thursday and Friday topped its all-time high daily close of 11,722.98 before retreating by day's end. It closed Friday at 11,679.07, a nearly 529-point increase - and a 4.7 percent gain - since the close of trading on June 30. It had touched 11,741.99 earlier in the day.

The Dow's all-time trading high of 11,750.28 and its all-time high close both occurred Jan. 14, 2000.

The S&P 500 dropped 3.30 on Friday to 1,335.85, still trading near a 5 1/2-year high and up 5.2 percent for the quarter. The Nasdaq was down 11.59 on Friday, to 2,258.43, but up 4 percent for the quarter.

The markets also had a strong September. The Dow gained 2.62 percent, the S&P 500 rose 2.46 percent, and the Nasdaq advanced 3.42 percent.

For the year, the Dow is up 961.57 (nearly 9 percent), the S&P is up 87.56 (7 percent), and the Nasdaq has advanced 53.11 (2.4 percent).

"The driving force behind higher stocks has been expectations that the Fed is going to ease," said Brett Gallagher, co-head of global equities at Julius Baer Investment Management in New York.

So what do the last three months of 2006 hold in store for investors? The experts are split.

"Unfortunately, I believe the best is behind us for this year. I believe stocks will be flat-to- down in the fourth quarter," Dennis Clark, a principal with Denver's Capital Asset Management, told the *Rocky Mountain News* this week. "Not significantly down but off nonetheless.

"We have had a robust third quarter, and we could still move ahead if we see earnings (which will be announced over the next four weeks) come in stronger than expected. Most importantly, if we see guidance on earnings remaining quite positive, we could move higher. With a slowing economy, I see that as unlikely."

Gregory Anderson of GRAnderson Wealth Management Group in Denver said this week he expects the rally to continue for a while.

"Based on the Federal Reserve's apparent halting of interest rate increases, I see stocks moving higher beyond the fourth quarter of this year through at least the second quarter of 2007," Anderson said. "Stable or possibly lower rates allow businesses to plan more predictably for expansion."

Citigroup Inc., the largest U.S. bank by assets, said in a report Friday the Fed's benchmark rate - at 5.25 percent - will be cut to 5 percent by March. It cited a slowing economy that would head off inflation and likely ignite stocks.

Poole, though, said Friday it would take a rapid economic slowdown for the central bank to cut interest rates.

There are ominous economic signs. On Friday, a Commerce Department report said that consumer spending dropped in August by the largest amount in nearly a year. Also, core inflation for August, which excludes food and energy prices, was up 2.5 percent compared with a year ago.

*The Associated Press and Bloomberg News contributed to this report.*

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