All is Calm, All is Bright

As of December 15, 2006

Soft readings on inflation at the consumer level extended the timing for the markets to stand at their current sweet spots. In response to the new M&A deals, sidelined money continued to pull in last week and pushed the trading to more than 3.21 billion shares changing hands on the New York Stock Exchange. Also playing a role in the increasing volume was the simultaneous expiration of four different derivatives. For the week, the **Dow** was up 1.1% at 12,445.52, another record high. The **S&P 500** added 1.2% to 1427.09 and the **Nasdaq** was higher by 0.8% to 2457.20. The 10-year Treasury note changed a little to yield 4.59%.

In the past several weeks, traders and investors might have observed a pattern from the stock market. With deals coming out over the weekend, the market tends to open high on Monday, fluctuate a lot in the middle, and then gradually inch up at the end of every week. By majority, the stock market shows a relentlessly upward bias with much skepticism of how much short-term upside remains. This pattern is likely to persist at least through the end of the year. Investors can keep on riding with the markets and take profits slowly but surely one at a time. On the other hand, investors should probably stay away from shorting stocks especially when buyout deals mushroom every week.

The year of 2006 has undoubtedly done much better than any prediction on Wall Street. However, the much expected correction in the stock market may occur after the New Year as investors will be free from tax concerns and start taking real profits. Before getting too comfortable at this all-is-calm, all-is-bright spot, some numbers from the option market are signaling possible coming storms in the near future. According to the Barrion's article, *The Festivities Rage On…For Now*, by Kopin Tan, option investors were paying roughly 60 cents for puts for every dollar paid for calls. This was well off of anxious highs near $1.12 in July, and perilously near the 53-cent level seen just before the May sell off. Investors should carefully watch out this development. Don't chase the market and don't panic.

In terms of potential good buys, the insurance sector perhaps would be relatively more attractive than the others, especially the markets that had a storm-free year. Examples would be **American International Group** (AIG), which possibly still has room to grow. Other than the insurance side, investors could weight in more **Apple Computer (AAPL)** when the price drops below $80.

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