



Markets This Week

February 25, 2006

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Investment Idea

Q: How can I invest in the green energy that supports sustainable development?

A: The green sector includes firms involved in solar, wind, water, fuel cells, micro turbines, battery storage, etc. These following two indexes consist of companies that support sustainable environment: WilderHill Clean Energy Index (symbol ECO) and WilderHill New Energy Global Innovation Index (symbol NEX). More information about them can be found by entering the symbols on the American Stock Exchange website www.amex.com

It appears that investing in green energy could not only be altruistic but also profitable. Last year, the heavy-weight Goldman Sachs, one of the biggest investment banks in the world, decided it was going green with \$1 billion investment in renewable and energy efficiency.

Quiz

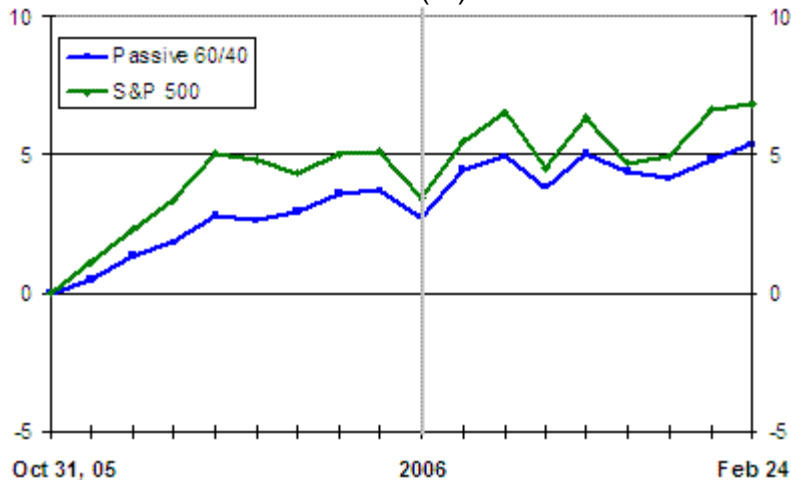
Socially Responsible Investing (SRI) would most likely exclude which of the following sectors?

- A) Semiconductors
- B) Green energy
- C) Tobacco
- D) Natural resources

Answer at the bottom of this newsletter

Our Portfolio

Chart 1. Cumulative Returns (%)



Since inception on October 31, 2005, S&P 500 has outperformed our passive 60/40 portfolio by 1.48%. Still, our portfolio realized a lower volatility and a respectable 5.35% return over four months.

The 60% equities and 40% bonds portfolio is typical for a conservative investor. The diversified portfolio (i.e. equities and bonds) will produce the optimal combination of high return and a lower volatility but it will lag behind a pure equity index when the stock market moves strongly up.

Market Highlights

Feb 18 – Feb 24, 2006

- The equity markets attempted to pass the resistance level set on January 11, 2006. Thus far, the barrier holds and we continue to believe that it will. However, investing is not about being right so if we are wrong, we will admit it swiftly and move on.
- French and Italian confidence indexes climbed suggesting European economic growth is accelerating from the recent slowdown. Signs of faster growth underscore expectations that European Central Bank will raise its benchmark 2.25 percent interest rate next week.
- The US inflation in January jumped by 0.7% as energy prices soared.
- The Chicago Board of Options Exchange (CBOE) has just started trading the first of its kind index of investor sentiment. The volatility index (symbol VIX) is a good gauge of volatility and fear (i.e. greater volatility equals more fear).

Worth Watching

- Next week, as is typical for the beginning of a month, will be full of interesting economic data as well as GDP and real estate numbers.
- During the recent economic forum in Davos, an economist noted surprised lack of support for globalization. According to the data, globalization adds \$9,000 per year to an average American family. Conversely, Mr. Frank, a Democratic member of Congress observed that America has become a country of excessive inequality. Hence, despite the economic gains from globalization, real wages have been declining while corporate profits and pay for the top 2% of the population have soared. Your \$9,000 check may just be “in the mail”.

S&P 500 Charts

Charts 2 – 3. 10 Years and Last 10 Days



Charts courtesy of [StockCharts.com](https://www.stockcharts.com)

TSX Canada Charts

Charts 4 – 5. 10 Years and Last 10 Days



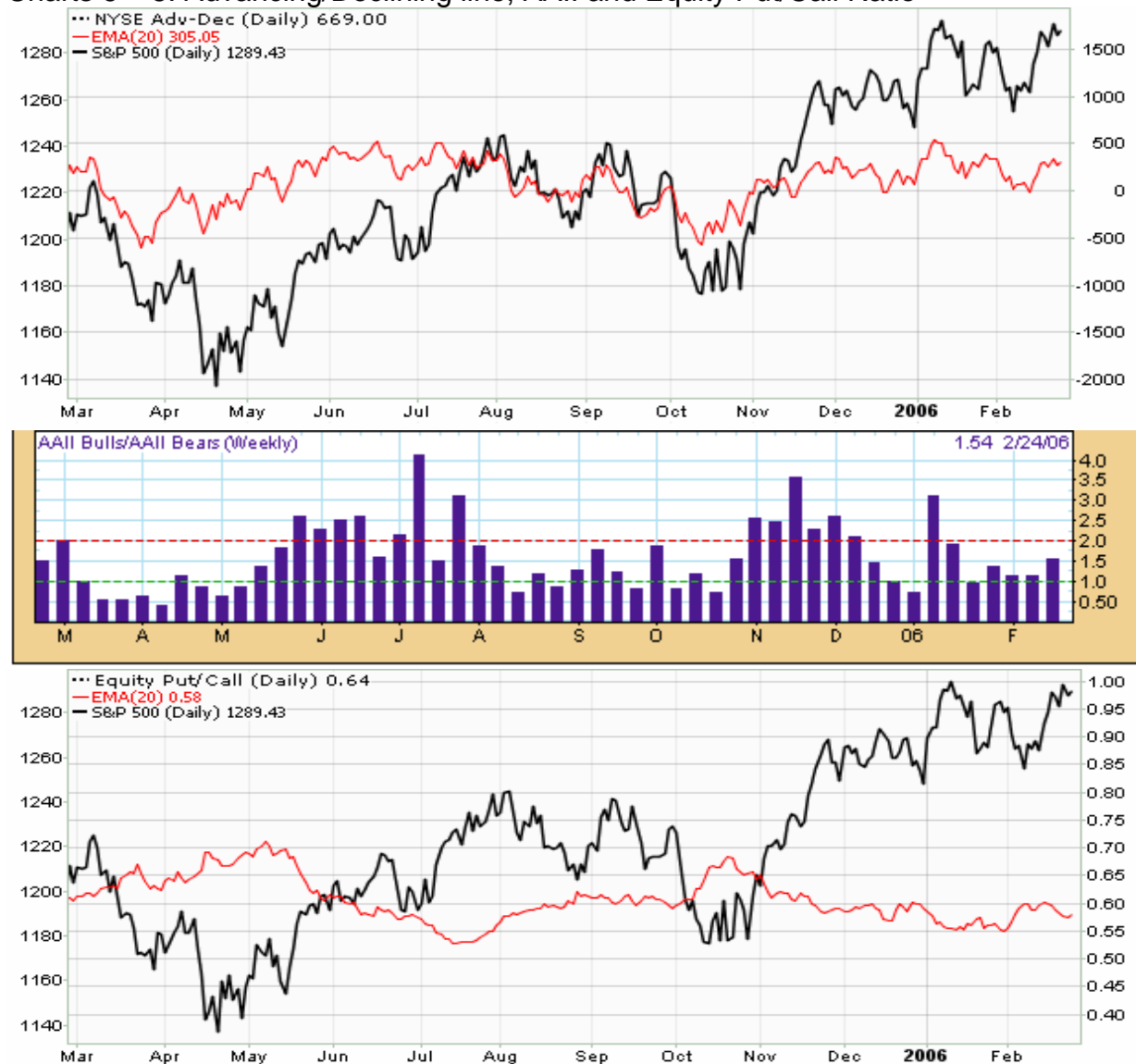
Charts courtesy of [StockCharts.com](https://www.stockcharts.com)

Behavioral Finance Indicators

The equities are attempting to break the resistance set in the middle of January 2006. Based on our indicators, there is a high probability that even if the stock market breaks through the resistance level, it will not be able to hold the gains. The situation resembles August 2005 in three respects:

- Chart 6 - divergence between prices (went up) and advancing/declining line (flat)
- Chart 7 - high degree of optimism by small investors as represented by AAll
- Chart 8 - confidence exhibited by equity option buyers who tend to reliably wrong at important market junctures

Charts 6 – 8. Advancing/Declining line, AAll and Equity Put/Call Ratio



Charts courtesy of StockCharts.com and DecisionPoint.com

Answer to the Quiz:

C is correct.

Socially responsible investing (SRI) has its roots in 1960s activism. Currently, there are funds for Christian Scientists (which don't invest in pharmaceuticals), for Muslims (no banks, due to Islamic principles prohibiting the charging of interest), and funds that screen for companies that deal with tobacco, alcohol, weapons, and gambling.

The research indicates that SRI funds tend to slightly lag the market returns. However, people investing in SRI funds believe it is important to invest in companies that share their values and beliefs.

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