

## In this issue:

1. [In the markets – the last and upcoming week](#)
2. [S&P 500 Charts](#)
3. [Investment tip](#)
4. [Investment question of the week](#)

## Canada

1. [In the markets – the last and upcoming week](#)
2. [TSX Charts](#)

## [Answer to the investment question](#)

## In the markets – the last and upcoming week

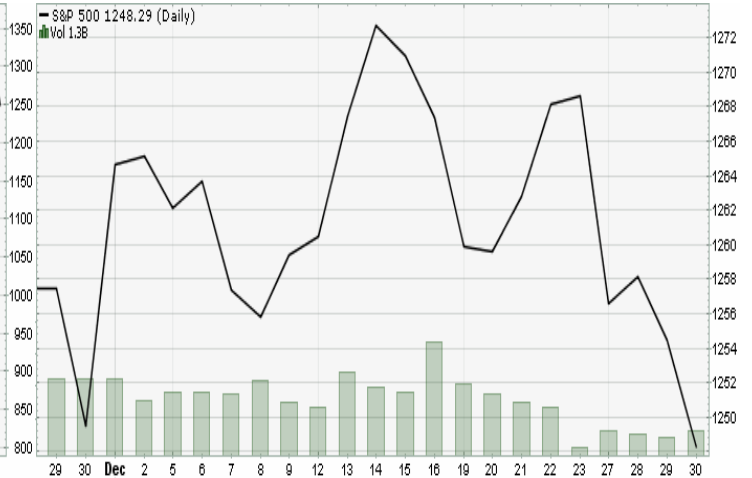
- There is usually limited market activity between Christmas and New Year's Day. This year was no exception with a slight downturn in prices and half of the usual volume (see **Chart 1 and 2** with volume showing as bars at the bottom of **chart 2**).
- In 2005, the Dow average fell 0.6%, the S&P 500 lost 0.5% and Nasdaq declined 0.6%. On the other hand, a number of Asian and European equity markets have reached their 4-year highs. This is another reminder of importance of international diversification.
- The market reacted negatively as the yield curve inverted briefly this week. Actually, it became humped as the yield on 2-year Treasuries rose above 10-year Treasuries. Usually, the inverted yield curve signals a recession and is closely watched as an indicator. At the end of the week, the yield curve became slightly positive again (see **Chart 3**).
- Retailers reported gains in holiday spending while the on-line shopping continues to gain wider acceptance.
- The market activity is expected to pick up next week as many investors and traders return from their holidays. During the first week of January, bargain hunters try to purchase shares of companies which were sold at the end of December for tax purposes.
- In January, the prices of value and small cap stocks tend to increase more than the overall market.
- The next week, the important data releases (e.g. ISM manufacturing and employment) may have an impact on the market performance.

## S&P 500 Charts

**Chart 1: 5 years**

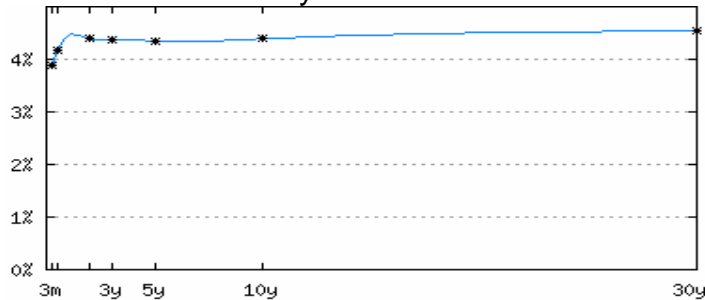


**Chart 2: 1 Month**



Charts courtesy of Stockcharts.com

**Chart 3: US Treasury Yield Curve**

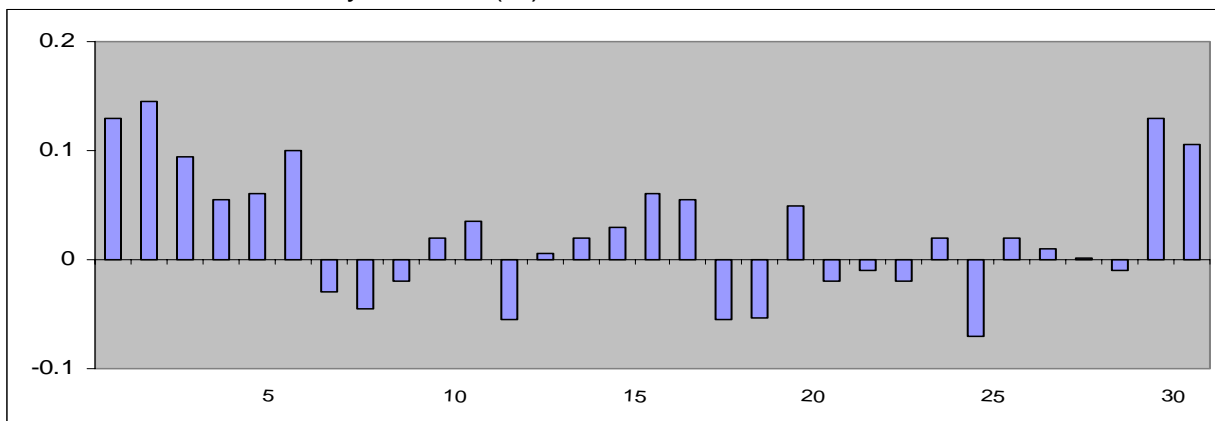


Charts courtesy of YahooFinance.com

### Investment tip - did you know?

The equity markets have the tendency to rise at the turn of a month and fall in the middle of a month. This tendency is mostly related to periodic new money flows directed to mutual funds at the beginning of every month (see **Chart 4**).

**Chart 4: Dow Jones Daily Returns (%), 1885 – 2001**



Source: Jeremy J. Siegel

### How can you benefit?

This is a powerful effect that is easy to use. If you have a monthly plan, you should consider making regular contributions in the middle of the month rather than at the beginning.

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## Investment question of the week

Which month has had the highest return in equity markets?

- A) January
- B) June
- C) September
- D) December

Click here to go the answer on page 4.

## Canada

### In the markets – the last and upcoming week

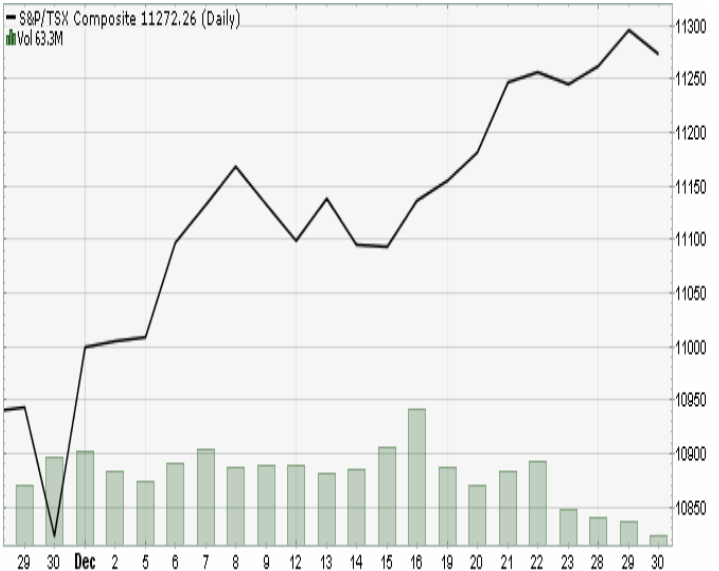
- In the last week, the TSX Index was slightly up on a very light holiday volume (see **Chart 4 and 5** with volume showing as bars at the bottom of chart 5).
- In 2005, the TSX rose over 22%, following 12.5% and 24% increase in the previous year. The strength of TSX was concentrated in energy and financials. It is quite unlikely that TSE can repeat this performance in 2006.
- Similar to other markets, the next week will likely be affected by a seasonal pattern of higher market activity, as many players return to the markets following their holiday vacations.

### TSX Charts

Chart 5: 5 years



Chart 6: 1 Month

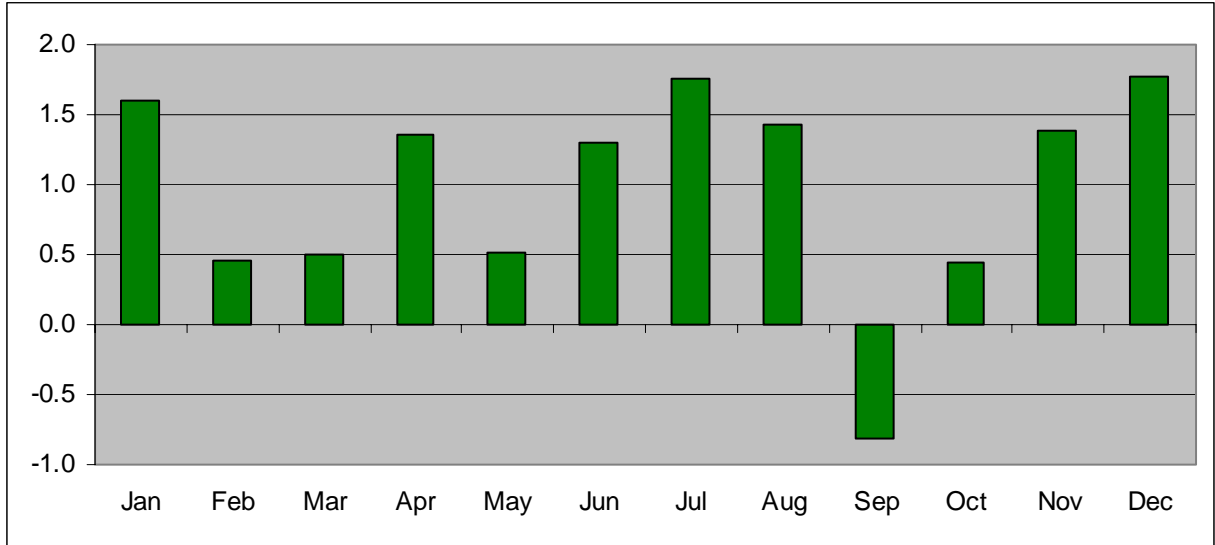


Charts courtesy of Stockcharts.com

**Answer to the question of the week.**

The correct answer is D – December has traditionally been the strongest month while September has been the weakest (see **Chart 7**).

**Chart 7: S&P 500 Average Monthly Returns (%), 1926 - 2004**



Source: Ibbotson

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