Markets This Week

January 7 – 13, 2006

In this issue:

In the Markets

(Jan 1 – 7, 2006)

- The US equity **markets continue their climb** (see **Chart 1 and 2**) with S&P 500 gradually reaching its 4 ½ year high but still 15% below its all time high set in 2000. The technology index Nasdaq is also rallying but remain over 50% below its all time high set during the high tech bubble (see **Chart 3**)
- **The economic boom gathers global momentum** as European confidence and manufacturing activity improve and German unemployment drops
- **The US employment outlook improves** as the unemployment rate declines to 4.9%, and a number of applications for unemployment benefits fall to its lowest since September 2000

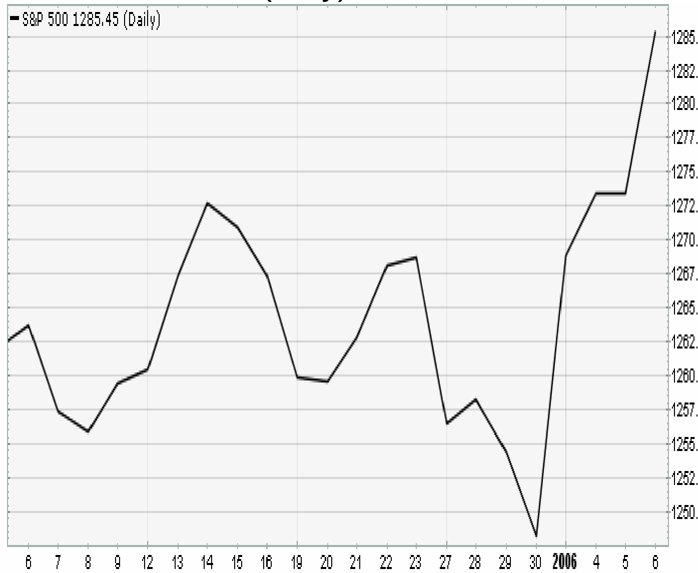
Worth Watching

- **China's moves to diversify its foreign exchange reserves** (effectively selling US dollars) may have a huge negative impact on the US currency, given the US current account deficit and a high probability that other countries may follow China's example
- Following the recent gains, the equity markets will likely attempt to test its new resistance levels on higher volume

S&P 500 Charts

Chart 1: 5 years (weekly)

Chart 2: 1 Month (daily)



Charts courtesy of Stockcharts.com

Chart 3: Nasdaq – 10 year (weekly)

Chart courtesy of Stockcharts.com

What's New

a) Investment Tip – Is Fixed Better than a Variable Mortgage?

Answer: The short answer is that it depends. For the most part, **interest rates are unpredictable** (even the Chairman Alan Greenspan is known for taking out a mortgage himself and lowering the interest rates a couple of months later). Hence we believe the following 3 factors should be considered in the mortgage decision:

1. **Over long periods of time, homeowners with variable mortgages save money**. But, individuals with unstable income and low net worth should consider mortgages with fixed payments, since the payments are known in advance and rising mortgage rates will not put a significant strain on individuals' finances
2. Fixed mortgage payments may buy new homeowners a certain comfort level as they are building equity in something that is new to them
3. People who are afraid of taking risks may sleep better at night if their mortgage payments are fixed

b) Investment question of the week

According to the four-year Presidential cycle theory, which year is the worse for the US equity markets?

A) First (the year of the election)
B) Second
C) Third
D) Fourth

Answer on page 4.

Canada

(Jan 1 – 7, 2006)

- **The TSX Index reached its all time high** (see **Chart 4, 5 and 6)** on strength of resources and financial stocks. The previous high was set in 2000 when market capitalization of Nortel was 10 times higher than the 2nd largest company i.e. Royal Bank
- January 23rd is the Election Day in Canada this year. The polls indicate that the Conservative Party has moved ahead of the Liberals in terms of popular support, as **voters seem to favor change**, despite the economic boom

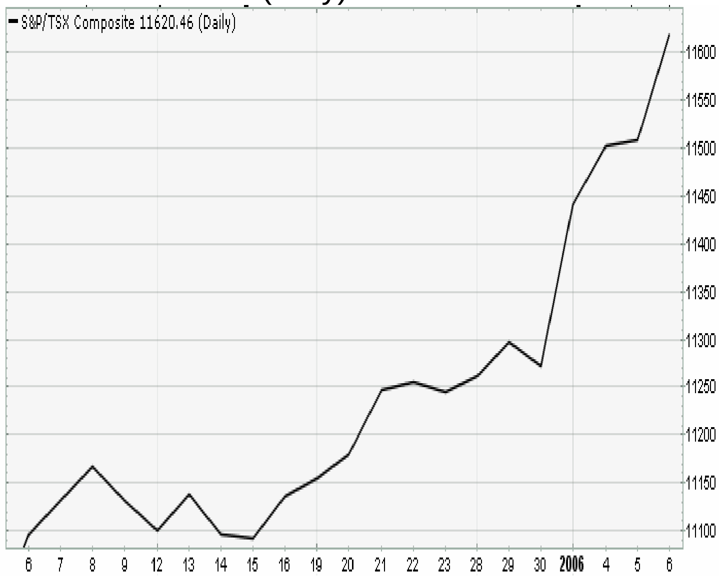
Worth Watching

- The final debates between partly leaders will take place on January 9th and 10th. Unless people vote strategically again (such as potential NDP voters casting their votes for the Liberals, in fear of the Conservatives), **we are predicting a minority win for the Tories**

TSX Charts

Chart 4: 5 years (weekly)

Chart 5: 1 Month (daily)



Charts courtesy of Stockcharts.com

Chart 6: TSX – 10 year (weekly)

Chart courtesy of Stockcharts.com

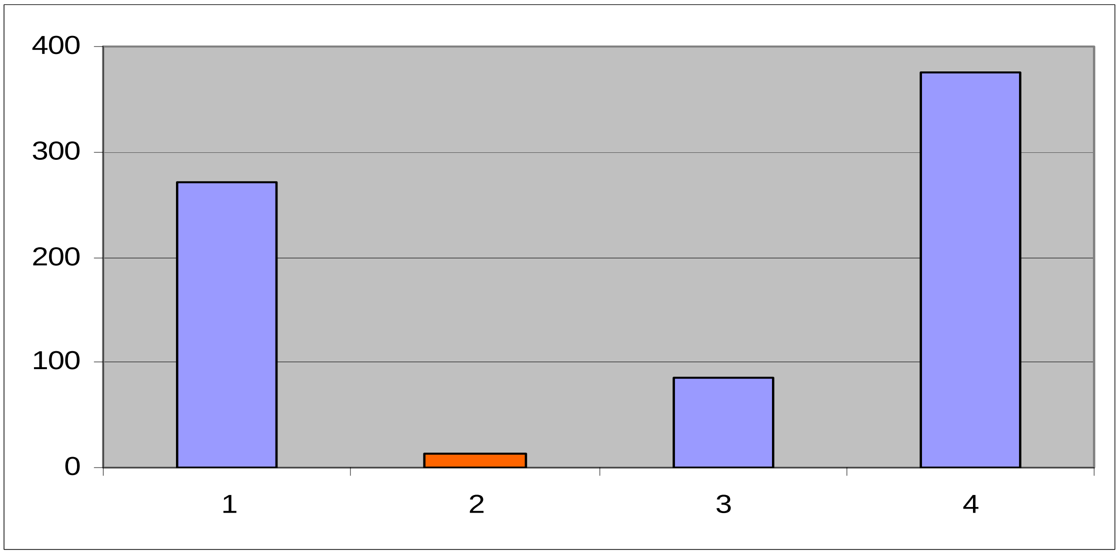
Answer to the question of the week

B) Second. As shown by researched evidence going back as far as 1832 (see **Chart 7**).

It is believed that during the two years before US elections (i.e. year 4 and 1), the current administration tries to stimulate economy (and equity markets) so that voters going to polls will feel good about the economic situation.

In 2006, we are in the 3rd year of the Presidential Cycle.

Chart 7: Cumulative S&P 500 returns during 4-year Presidential Cycle (%), 1832 - 2003



Source: S&P 500 and Yale Hirsch

Disclaimer:
InvestWELL Financial, as a provider of independent and unbiased financial information, prioritizes the importance of educating our clients. Not only do we provide practical information about securities, but we also coach our clients to become successful independent investors. Given these purposes, InvestWELL Financial does not take any responsibility whatsoever for use of any information from the website or related publications. Although all sources of information are vetted and the information is believed to be reliable, it is not provided as investment advice by itself. Past performance is not an indicator of future performance in securities. Each portfolio must be balanced upon personal circumstances and high-risk investment decisions should be made in consultation with a professional. InvestWELL receives no commission or benefit of any kind from the companies whose securities InvestWELL Financial showcases. We do not necessarily own shares in the showcased securities, but if we do, these shares are only held in the case of widely-held and publicly distributed companies. There is no intention whatsoever of profiting in a manner where price-impact of trading or holding of a security might arise. The website and related publications of InvestWELL Financial are intended to only be used for educational purposes.