



Yes, it is that time of year when the Wall Street pundits expel their annual list of forecasts and predictions for the upcoming year. Although Next Generation Wealth Management has never published “a list of predictions,” our team has been a participant in this type of activity for many years (and decades). That being said, we have chosen to provide you with the 9 categories that we are monitoring with great interest for 2006...

### THE ECONOMY

The current economic expansion is slightly over four years old, as measured by the National Bureau of Economic Research (NBER) data. As a comparison, this is nine months shy of the average length of economic expansions since WWII. That being said, the U.S. economy remains solid and GDP should grow near a 3% rate. Consumer spending is healthy albeit slowing and real estate returns should become more normalized without the doom and gloom attitude of the bears.

### INFLATION

Only a budding concern right now, it might emerge as a serious threat over the course of 2006. Inflation is not expected to rise at an explosive rate; however, a slight up tick to 4% by year end is reasonable. The current rising inflation is a combination of energy prices and the normal business cycle inflation. With a new Federal Reserve Chairman in 2006, this merits watching as it could be troublesome for policymakers.

### CORPORATE EARNINGS

Profit margins are currently at the highest levels in 50 years. The consensus on Wall Street anticipates revenue growth of 8%-10% for the S&P Industrials next year. This slowdown is helped as their balance sheets are in excellent shape - dividend increases, share-repurchase programs, and increased M&A activities.

### THE DOLLAR

Look for the 2005 strength in the dollar to continue into '06, especially against the euro. The U.S. economy continues to be stronger than the eurozone. Consider, our GDP is almost twice that of eurozone countries and interest rates are higher in the United States, which typically increases the relative attractiveness of the U.S. dollar.

### INTEREST RATES

The Federal Reserve Board holds the key to short term interest rates, whereas long term rates are a function of the free market. It is widely anticipated the Fed will raise interest rates one, perhaps two more times, before stopping. A range of 3.75% to 5.25% on the 10 year U.S. Government Note appears likely. Housing activity, the most interest rate sensitive part of the economy, will soften to “normalized” levels but should not collapse.

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### OIL PRICES

Expect the price of oil to remain high and fluctuate sharply throughout the course of 2006. Inventories rising and the threat of a mild winter are the wildcards, but this isn't enough to weaken oil prices dramatically. The potential of geopolitical shocks is too much risk to take the prop away from a premium price in the market. Price spikes are likely and should inflict only limited damage to the economy.

### GEOPOLITICAL ISSUES

Next year should be a major year for geopolitical developments. Right now, all eyes continue to focus on Iraq, but let us not forget about other countries - Iran, Syria, and North Korea. Criticism of the Bush administration over Iraq may become less intense despite the nuclear ambitions of Iran and North Korea. Maybe there is a regime change in one these countries?

### FEDERAL DEFICIT

With the data already available for the first two months of 2006, the initial deficit looks weak. However, the outlook is not as bad as the headlines indicate. New tax legislation allowed corporations to delay September tax payments (hurricane and flood claims were special factors). For 2006, the deficit might decrease slightly from the current \$319 billion. In addition, there might be a Congressional impasse for new spending initiatives.

### THE U.S. STOCK MARKET

It appears as though 2006 will be a year of transition for the U.S. stock market. The recovery we have witnessed over the past three years from trough to peak falls somewhat short of the typical bull market advances experienced since WWII (a level of 1400 on the S&P 500 would meet this requirement). A disciplined asset allocation strategy will prove critical, again, to overall portfolio performance.

Well, herein expresses our 9 most important categories to monitor in 2006. The real value of our work is in the portfolio adjustments made as next year's conditions warrant. After all, it is the markets themselves that always seem to provide both unexpected opportunities as well as unanticipated risks.

David A. Massart CWA  
Principal

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