



NG Wealth Market Commentary 3rd Quarter, 2006

Most investors who experienced the technology bubble of 2000 more than likely shed a tear of joy as the Dow Jones Industrial Average (DJIA) approached a record high in late-September and early October. However, at Next Generation Wealth Management, the frenzy of the DJIA's ascent into historic territory reminded us of what the media is ignoring - that it is a big stock market out there - and we're not quite ready for a champagne celebration. Why? Simply put, the current sentiment in the financial markets has improved and too many investors are pessimistic or "non-believers" in this rally.

Performance in the third quarter clearly favored the large company indexes such as the Dow Jones Industrial Average (DJIA) and the Standard & Poor 500 (S&P 500), while returns for small company stocks was minuscule, as evidenced by the Russell 2000. This performance actually served as an equalizer in the year-to-date returns, considering that through the end of September, the Russell 2000 out performance has narrowed to less than 1% over the S&P 500. Rest assured we will be closely monitoring the fourth quarter sprint to the finish line...

For the 3rd quarter 2006, here are the returns for the major indices (% change):

Dow Jones Industrial Average	4.70
Standard & Poor 500	5.20
NASDAQ	4.00
Russell 2000	0.10
MSCI EAFE	3.42

SO, WHAT IS NEXT?

Perhaps the most significant story behind the recovery in the financial markets is that it has failed to create "euphoria" amongst investors. As stated earlier, there still exists a fair degree of distrust which we believe can be viewed as a positive force, from a contrary point of view. Specifically, we're watching these data points:

1. Individual Investors Are Still "Non-Believers" In This Rally - Despite the media fixating on the Dow's approach to a new high, small investors appear suspicious. In particular, September marked the fifth consecutive month of outflows from U.S. focus equity mutual funds. This behavior is out of context with a market reaching new highs.



2. Institutional Sentiment is Cautious - A recent survey by the Yale School of Management indicates that institutional investors are complacent, with fear of a sharp, 1987 like drop. These low levels of expectations are not typical at market peaks.

3. Short Interest Remains High - This suggests that many of the hedge fund managers are nervous. Historically, it is very unusual to see a large increase in short interest when the financial market(s) are advancing. When the market declines, investors become more negative; when it rises, they turn positive.

It is possible for the financial markets to remain particularly strong for the remainder of 2006, especially the six or seven weeks after the election uncertainties have passed. Consistent with our previous report “Are Republicans or Democrats Better for the Financial Markets,” we do not think there will be significant negative market impact, other than perhaps increased volatility.

INSIDE THE FIXED INCOME MARKET

Interestingly, the bond market outperformed the equity market over the previous five months, providing a total return of 5.30% on the 10 Year Treasury Note versus the S&P 500 Index at 2.80%. Despite the equity markets recent rally, interest rates will continue to be in the headlines and at the forefront of our discussions with many of you.

After raising the federal funds target 25 basis points at seventeen consecutive meetings to 5.25% on June 29, the Federal Reserve paused at their August and September meetings, respectively. Chairman Bernanke indicated the Committee would resume tightening if either inflation continued its upward trend or if economic growth reaccelerates. However, while this policy statement remains slightly “hawkish” - emphasizing the upside risk to inflation - the incoming data makes further tightening unlikely. It is our belief the Fed will not reduce interest rates prematurely and continues to remain “data dependent” with regard to their next policy decision.



If you would like additional information or would like to discuss our investment strategies, please contact Next Generation Wealth Management, Inc. at (262) 242-4433. Or, if you prefer, you may visit our website at www.ngwealth.com.

Thank you,

David A. Massart, CWA

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