NG Wealth Market Commentary
1st Quarter, 2006

Stocks continued to move higher in the first quarter, with many of the broad market indices finishing at or near their cyclical highs. Small companies led the charge, which was contrary to many Wall Street analysts as we entered 2006. The U.S. bond market was spooked that the Federal Reserve will continue to increase interest rates - reflecting a strong global economy, wage inflation, and higher energy prices. The benchmark 10 Year Treasury Note closed at a 4.85% yield.

The Dow Jones Industrial Average (DJIA) and the Standard & Poor (S&P) 500 gained 4.2% in the quarter while the NASDAQ returned 6.4%. The Russell 2500 Index had a very strong showing, increasing 11.1% during the first quarter.

Despite this strong performance, the volatility and cash inflows are indicating that mutual fund investors are indeed wary of the U.S. stock market. Typically, the period from January 1st to mid-April has strong seasonal inflows due to the funding of IRA's and 401(k) s. Year-to-date a modest $22 billion has flowed in, not the kind of euphoric levels that are seen at market peaks. However, NG Wealth is monitoring a potentially "euphoric" situation in the record levels of cash inflows to foreign funds. YTD cash flows into foreign funds and ETF's are outpacing investments into U.S. funds at an unprecedented rate of 3 to 1.

Are We Due For A Correction in the Equity Markets?

Since the bear market ended in October 2002, we have experienced only one single correction of 10% in this bull market cycle. This occurred during the period of March 2003, which approached a 15% decline. Generally speaking, a "market correction" can be defined as a 7-10% decline within a bull market phase. Before drawing any immediate conclusions or making an emotional decision, let us consider:

1. All sixteen bull market cycles of the past 75 years have had between 1-3 corrections of 10% or more before transitioning into a bear market mode.

2. Through the end of March, it has been 768 trading days without a correction, however, this is not the longest stretch in history (1990-1997 had 1781 days prior to a 10% correction happening).

A Look at the Fixed Income Market

The first quarter of 2006 was difficult, especially the month of March. Hopes the new Federal Reserve Chairman, Ben Bernanke, might signal an end to the long tightening process were dashed when no such indication came. Much to no one’s surprise, interest rates jumped across the yield curve in both tax-exempt and taxable bonds.

It continues to be our belief that periods of rising rates and weak investor sentiment are often when opportunities are most evident. This is consistent with the strategy employed by BelleHaven Investment, a sub-advisor to NG Wealth. “These market inefficiencies can create tremendous value to our portfolios, whether it is in the form of a structural, tactical or new issue inefficiency,” says co-portfolio manager Duane McAllister.

Conclusion

The economic recovery is expected to moderate after an upbeat Q1, therefore, it is our belief the Federal Reserve is nearly finished tightening. History has taught us that the direction of the U.S. stock market after the last interest rate hike has much more to do with the prevailing economic and market conditions than "when" and "how" the Fed's restrictive interest rates end.

At the present time, NG Wealth does not anticipate making any changes to our asset allocation between stocks and bonds. You will continue to hear from us and we will publish our second quarter update in July. Dave Braaten and I would like to say “thank you” for your trust and confidence in NG Wealth. If you have any questions, please contact us at (262) 242-4433.

Sincerely,

David A. Massart, CWA
Principal