

Perspectives
Third Quarter – 2005
October 1, 2005

Market Snapshot

	Close on 09/30/05	Quarterly Performance	Year to Date
Dow Jones Industrial Average	10,568.70	+3.44%	-0.34%
S&P 500 Index	1,228.81	+3.15%	+1.39%
NASDAQ Index	2151.69	+4.60%	-1.09%
Lehman Bros. Aggregate Bond		-.068%	+1.83%
Crude Oil (WTI)	\$66.24	+2.00%	+29.0%
T-Bill Rate	3.48%		

Market Summary and Opinion

Market activity in the third quarter of 2005 was dominated by three interrelated events. The Fed continued to raise interest rate, the Gulf Coast was slammed by two hurricanes, and crude prices broke \$60 per barrel. This mix of factors has managed to keep the indexes earth-bound, and a year end rally has failed to materialize.

What gains there have been this year has been focused in a narrow group of companies: energy-related, utilities and some health-care stocks.. Last year a broad based fourth quarter rally rescued the stock market, leaving major indexes with moderate gains. Whether or not this happens again in '05 remains to be seen.

One headwind to a firmer market is the Fed, which seems to have taken a more hawkish stance on inflation. They have now raised 11 times and the Fed Funds rate is now 3.75%. Commentary from Chairman Greenspan and other Fed Governors indicate that they have no plans of stopping soon. More evidence of this stance is the fact that they raised rates in the face of the negative economic impact of two Hurricanes and \$60+ oil. The fear is that the Fed, in its efforts to stabilize prices, could raise short term rates too far, slowing the economy or even pushing it into a recession.

One of the things the Fed seems to be focusing on is higher commodity prices beyond Oil. Zinc is at an eight-year high, copper is near an all time high, and lumber is up 10% since Katrina hit. Each of these is being boosted in part by the massive rebuilding effort in New Orleans and will eventually translate into higher producer prices and higher prices for consumers.

In the next few weeks, companies will start to report their third-quarter results the full impact of higher interest rate, high crude prices and the hurricanes on earnings. So far this year companies have outpaced analysts expectations. One key factor in this is has been the resiliency of the consumer. The concern here is that higher interest rates and high gasoline prices will slow consumer spending and this will erode company earnings. Higher heating costs this winter is another factor to consider. Natural gas is up 42% since Katrina and inventories are low heading into winter. A situation which could create significantly higher heating bills for winter.

If the Fed can stop raising rates before causing a blow up, if oil prices can cool, and if the consumer can keep spending enough to push profits higher, stocks could show strong performance heading into the end of the year. If not, it could be a bumpy road.

Our team of investment professionals will continue to work diligently to position your portfolio to maximize your return while minimizing risk and are available to answer any questions you have. Thank you for your business and the trust you have placed in our management of your assets.

Buddie C. Ballard, Jr., CFA
Principal

Michael T. Turner, CFA
Principal