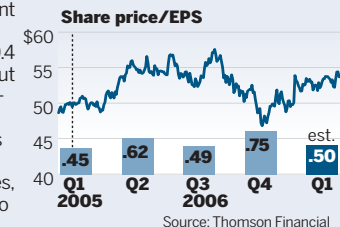


## Today

After a government report of stronger than expected retail sales, investors will watch closely as discount retailer Costco Wholesale Corp. (COST) releases earnings. The latest figures on unemployment claims might also affect trading.

## Retailers' earnings

Stocks surged and bonds slid Wednesday after the Commerce Department reported a 1 percent jump in retail sales for November, far better than the 0.1 percent gain expected. The gain comes after October's 0.4 percent drop in sales. But the report didn't give results of individual companies. Wal-Mart Stores Inc. (WMT) reported sluggish November sales, so Wall Street will look to Costco's earnings this morning to see whether Wal-Mart was an isolated case.



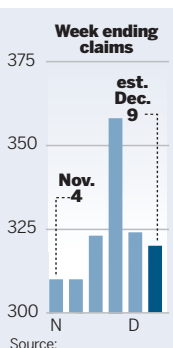
## Lehman Brothers earnings

Goldman Sachs Group Inc.'s (GS) record earnings Tuesday will be hard to imitate. Rival Wall Street investment bank Lehman Brothers Holdings Inc. (LEH) reports today. While analysts aren't expecting a record quarter, Lehman has trumped analysts' earnings estimates for the last eight quarters. Rising stock and bond markets, as well as higher merger and acquisition activity, should boost earnings yet again. Strong results are expected for rival Bear Stearns Cos. Inc. too (BSC, \$3.36 est./\$2.90 pvs.), when it reports this morning.



## Weekly jobless claims

Only on Wall Street can higher unemployment be seen as good news. Yet with the economy stronger than some have expected, a high number of first-time jobless claims in the weekly Labor Department report out today could calm investors. Slower growth due to higher unemployment means less inflation risk. That eventually could prompt the Federal Reserve to lower rates.



## Briefly

Also reporting earnings today: **Carnival Corp.** (CCL, \$0.47/\$0.43) and **Pier 1 Imports Inc.** (PIR, \$0.34/\$0.08). This morning, the Labor Department will release the latest data on import and export prices. Core import prices are expected to slide 0.6 percent, while core prices of exports are expected to fall 0.5 percent. Lower import prices would ease concerns about inflation. After the bell: Earnings are due from software maker **Adobe Systems Inc.** (ADBE, \$0.33/\$0.30).

## STORY STOCKS

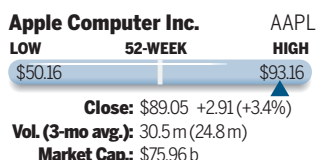
Stocks ended slightly higher in a volatile session. In morning trading, shares surged on better-than-expected retail sales, but climbing oil prices pared those gains. The Dow Jones industrial average rose 1.92, or 0.02 percent, to 12,317.50. The Standard & Poor's 500 index was also up slightly.



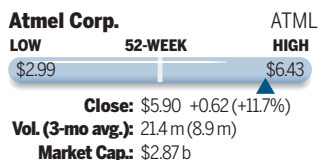
Shares surged to their highest level since before the Sept. 11, 2001 attacks on talk of a buy-out by United Airlines.



The maker of medical products blamed production and shipping delays for a quarterly profit that missed expectations.



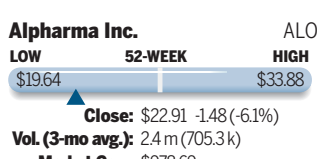
Morgan Stanley boosted its price target to \$110 on growing expectations of the launch of an Apple cell phone.



The microchip maker said it will sell two European plants and cut 10 percent of its non-manufacturing staff.



Airtran said it plans to pursue its \$11.25 per share bid for Midwest, even after the offer was rejected.



Rising costs led the pharmaceutical maker to project 2007 earnings that fall short of analyst expectations.

Source: SunGard

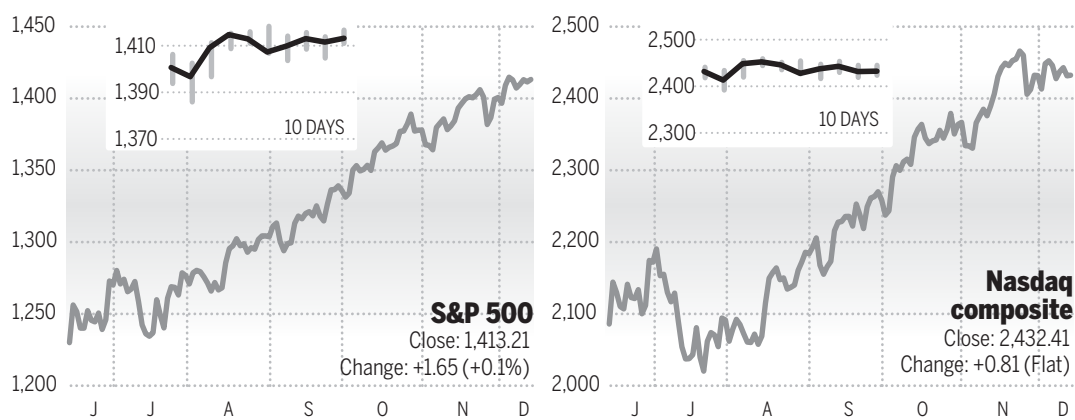
## QUOTABLE

**“Glenn Tilton has called everyone looking for a date. He doesn't want to run an airline, he wants to merge it.”**

**AIRLINE CONSULTANT MICHAEL BOYD**

On reports of the UAL Corp. CEO's efforts to combine United Airlines with Continental Airlines Inc.

## MARKET SUMMARY



## STOCKS RECAP

	NYSE	NASD
Vol. (in mil.)	2,588	1,831
Pvs. Volume	2,711	1,976
Advanced	1,751	1,513
Declined	1,574	1,536
New Highs	290	81
New Lows	15	31

	HIGH	LOW	CLOSE	CHG.	%CHG.	WK	MO	QTR	YTD
DOW	12368.61	12301.56	12317.50	+1.92	+0.02%	▲	▲	▲	+14.93%
DOW Trans.	4708.13	4646.30	4657.94	-24.18	-0.52%	▼	▼	▲	+11.01%
DOW Util.	461.13	458.78	460.65	+1.78	+0.39%	▲	▲	▲	+13.71%
NYSE Comp.	9091.94	9059.27	9082.13	+22.87	+0.25%	▲	▲	▲	+17.13%
NASDAQ	2444.12	2423.87	2432.41	+0.81	+0.03%	▲	▼	▼	+10.30%
S&P 500	1416.64	1411.05	1413.21	+1.65	+0.12%	▲	▲	▲	+13.21%
S&P 400	814.92	810.52	811.91	+1.11	+0.14%	▲	▲	▲	+10.01%
Russell 2000	792.88	785.94	788.75	+0.34	+0.04%	▼	▼	▼	+17.16%
Wilshire 5000	14275.59	14212.73	14234.87	+12.84	+0.09%	▼	▲	▲	+13.72%

## Shopping the stock market's bargain bin

Finding a bargain in late December is as close to a sure thing as a stock investor can get.

Typically, investors dump losing stocks in the latter half of the month. Individual investors do so to take tax losses. Professionals engage in "window dressing" to eliminate stocks perceived as "stinkers" from their portfolios before it's time for year-end client presentations.

"Basically, you sell because you don't want to explain yourself—you want to save yourself the embarrassment of having picked wrong," says Robert Millen, principal and portfolio manager at Jensen Investment Management,

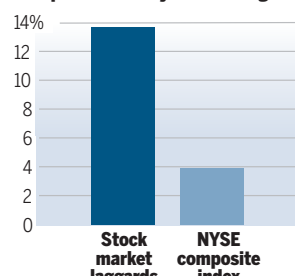
who says he does not engage in this practice.

But buying the "stinkers" in December can produce strong short-term gains. Since 1974, U.S. stocks that hit 52-week lows from Dec. 15 through year's end returned 9.8 percentage points more than the NYSE composite index over the subsequent six weeks (through Feb. 15), according to an analysis by Stock Trader's Almanac. One reason: bargain hunters swoop in at the beginning of the next year.

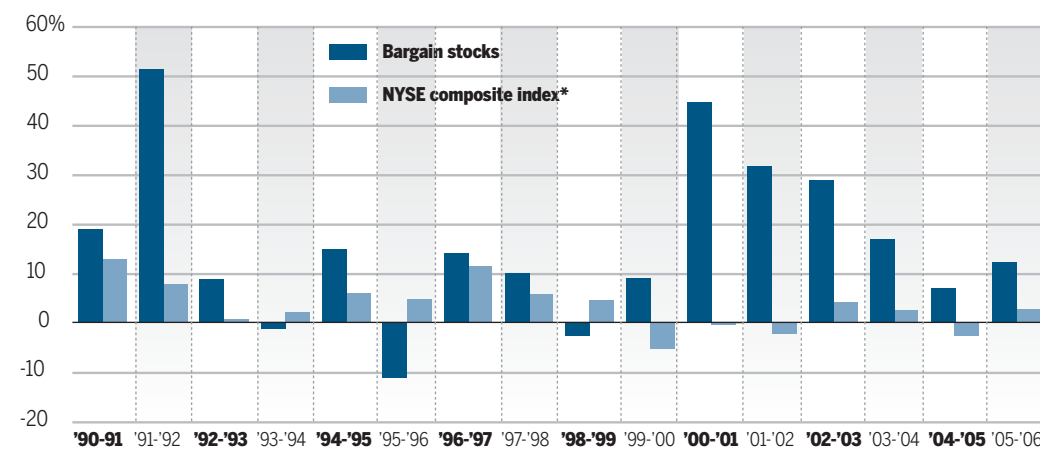
Of course, there are good reasons why stocks hit 52-week lows, from short-term earnings disappointments to long-standing profitability problems. Alma-

na editor-in-chief Jeffrey Hirsch warns this is a short-term play, and only appropriate for aggressive investors.

**On average since 1974, laggards in December outperform the NYSE Composite index by a wide margin.**



**Stocks that hit a 52-week low from Dec. 15-31 in a given year often outperform the market through Feb. 15 of the following year.**



Source: Thomson Financial

## MUTUAL FUND CATEGORIES

SPECIALTY FUNDS	PERCENT RETURN				MID-CAP	LARGE-CAP	SMALL-CAP
	YTD	1YR	3YR	5YR			
Conservative Allocation (CA)	8.36	8.26	6.29	5.94	YTD 24.5	LV 14.2	LG 6.5
Moderate Allocation (MA)	11.05	10.51	9.06	6.45	1YR 23.0	LB 13.3	3.7
Health (SH)	3.97	3.62	8.56	4.03	3YR 16.8	5.9	4.4
Natural Resources (SN)	15.00	11.64	28.30	23.12	5YR 11.0		-0.8
Real Estate (SR)	33.81	33.36	26.07	23.73	YTD 18.9	MV 15.3	MB 11.1
Technology (ST)	7.27	5.18	6.56	0.82	1YR 17.8	14.9	10.0
					3YR 19.8	15.8	15.1
					5YR 16.0	14.0	7.5
BALANCED					YTD 19.5	SV 21.4	SB 11.0
Target-Date 2000-2014 (TA)	8.82	8.72	6.85	5.73	1YR 17.6	18.7	8.5
Target-Date 2015-2029 (TB)	12.55	11.93	9.84	7.22	3YR 16.8	17.6	10.6
Target-Date 2030+ (TC)	13.90	13.02	11.85	8.00	5YR 17.4	15.5	5.7
INTERNATIONAL							
Divers. Emerging Mkt. (EM)	27.57	30.09	29.25	25.75			
Europe Stock (ES)	32.26	32.87	24.99	19.22			
Foreign Small/Mid Val (FA)	24.37	26.35	23.44	20.79			
Foreign Large Blend (FB)	23.22	24.06	20.19	13.48			
Foreign Large Growth (FG)	21.89	23.02	19.07	12.81			
Foreign Small/Mid Gr. (FR)	23.84	26.88	26.21	20.60			
Foreign Large Value (FV)	24.20	24.69	21.42	16.73			
World Allocation (IH)	15.88	15.92	14.36	12.55			
World Stock (WS)	18.40	18.35	16.50	11.02			
BOND FUNDS							
Interm-Term Bond (CI)	4.35	5.11	3.49	4.77			
Interm. Government (GI)	3.72	4.47	2.91	4.00			
High Yield Muni (HM)	7.05	8.05	6.75	6.60			
High Yield Bond (HY)	9.58	10.05	7.58	8.79			
Muni National Interm (MI)	3.85	4.54	3.06	4.31			
Muni National Long (ML)	4.67	5.54	4.10	5.00			
Muni National Short (MS)	2.86	3.14	1.80	2.58			

## Airline stocks fly high as consolidation continues

The airline industry took further steps toward consolidation this week, and that could help stabilize the long-suffering industry. United Airlines has begun exploring a merger with Continental Airlines, and Airtran Holdings plans to pursue its unsolicited bid for regional carrier Midwest Air. Both deals follow a hostile \$8.7 billion bid by US Airways for Delta. These airline combinations would drive down operating costs and cut down on fare wars, which are bad for travelers but good for investors, says Will Nasgowitz, a portfolio manager with Milwaukee-based Heartland Advisors. Consolidation could

also address overcapacity; the industry is frequently criticized for having too many carriers and flight routes. Another possible winner: Southwest Airlines. Nasgowitz says the low-cost carrier will pick up aircraft and airport gates on the cheap as consolidating carriers sell off assets. Airline stocks have been top performers over the past year, with the American Stock Exchange airline index up more than 20 percent. Still, many investors avoid the industry for its high operating costs. "Airlines barely make money," says Robert Millen, a portfolio manager for Jensen Investment Management.

## TOP U.S. AIRLINE MERGERS (June 2003-)

ACQUIROR	TARGET
Mesa Air '04	Atlantic Coast Airlines
America West '04	US Airways
Oaktree/Goldman '05	Spirit Airlines
Sky West '05	Atlantic Southeast
Yucaipa Cos. '06	Aloha Airlines
AirTran '06	Midwest Air*
US Airways	Delta Airlines*

Source: Dealogic, Thomson Financial

COMPANIES	3-MO	12-MO	3-YR
UAL Corp. (UAA)	63.4%	26.7%	NA
Continental Airlines (CAL)	52.3	143	189.9%
Airtran Holdings (AAI)	24.6	-8.9	8.9
Midwest Air Group (MEH)	35.1	110.2	140.0
Southwest Airlines (LUV)	-8.1	-4.3	1.6

## INTEREST RATES



Yields on Treasury securities climbed as strong economic data pushed down bond prices. Government data showed retail sales grew 1 percent in November, sharply ahead of expectations.

PRIME RATE	FED FUNDS
YEST 8.25	5.25
PREV 8.25	5.25
WK AGO 8.25	5.25

TREASURIES	YEST	PVS	NET CHG	WK	M	QTR	1YR AGO
3-month T-bill	4.81	4.81	...	▼	▼	▲	3.82
6-month T-bill	4.88	4.87	+0.01	▲	▼	▼	4.18
1-year T-note	4.90	4.81	+0.09	▲	▲	▼	4.40
2-year T-note	4.71	4.62	+0.09	▲	▲	▼	4.41
5-year T-note	4.55	4.45	+0.10	▲	▲	▼	4.43
10-year T-note	4.58	4.49	+0.09	▲	▲	▼	4.52
30-year T-bond	4.70	4.61	+0.09	▲	▲	▼	4.74

BONDS	YEST	PVS	NET CHG	WK	M	QTR	1YR AGO
Lehman Bros Bond Idx	4.72	4.64	+0.08	▲	▲	▼	4.78
Bond Buyer Muni Idx	4.58	4.55	+0.03	▲	▲	▼	4.88
Lehman US Inv Grade	5.14	5.36	-0.22	▼	▼	▼	5.19
Lehman US HY Bd	7.70	7.92	-0.22	▼	▼	▼	8.27
Moodys Bond Index	5.25	5.27	-0.02	▲	▲	▼	5.46
Bank Index	115.69	115.31	+0.38	▲	▲	▲	105.00
DJ Corp Bond	196.63	197.74	-1.11	▼	▲	▲	185.86

## GLOBAL MARKETS

INDEX	YEST	CHG	%CHG	WK	MO	QTR	YTD
S&P 500	1413.21	+1.65	+0.12%	▲	▲	▲	+13.21%
Frankfurt DAX	6520.77	+44.60	+0.69%	▲	▲	▲	+20.57%
London FTSE 100	6192.50	+36.10	+0.59%	▲	▼	▲	+10.21%
Hong Kong Hang Seng	18718.19	-188.98	-1.00%	▼	▲	▲	+25.82%
Paris CAC-40	5475.85	+49.03	+0.90%	▲	▲	▲	+16.13%
Tokyo Nikkei 225	16692.93	+55.15	+0.33%	▲	▲	▲	+3.61%

## SOUTH AMERICA / CANADA

Buenos Aires Merval	2032.74	+60.79	+3.08%	▲	▲	▲	+31.71%
Mexico City Bolsa	25690.39	-138.09	-0.53%	▲	▲	▲	+44.31%
Sao Paulo Bovespa	43284.52	+266.07	+0.62%	▲	▲	▲	+29.38%
Toronto S&P/TSX	12910.32	+51.84	+0.40%	▲	▲	▲	+14.53%

## ASIA

Seoul Composite	1383.28	+6.30	+0.46%	▼	▼	▲	+0.28%
Singapore Straits Times	2884.15	-9.66	-0.33%	▼	▲	▲	+22.87%
Sydney All Ordinaries	5471.40	+15.30	+0.28%	▲	▲	▲	+16.20%
Taipei Taiex	7450.30	-8.26	-0.11%	▼	▲	▲	+13.77%
Shanghai Shanghai B	121.20	-0.28	-0.23%	▼	▲	▲	+95.45%

## EUROPE / AFRICA

Amsterdam	488.79	+6.13	+1.27%	▲	▼	▲	+11.91%
Brussels	4305.50	+15.23	+0.35%	▲	▲	▲	+21.31%
Madrid	1571.42	+9.76	+0.63%	▲			