What Investors Can Expect From the New Year
by **Thomas Gütermann - Kössler**

Monday, January 2, 2006
We all know the future is unknowable, but as 2005 draws to a close I succumb to the pressure to forecast what will happen in 2006, realizing full well that this activity invites getting your head chopped off when someone revisits your predictions next December.

Bullish on Stocks

I believe U.S. stocks will have a good year in 2006, with expected total returns (dividends plus capital gains) of 8 percent to 10 percent.

The bullish story: Earnings growth rates have maintained double-digit increases for a record 13 consecutive quarters, yet stock prices have crept up much more slowly. This has compressed the price/earnings ratios of stocks, that all important measure of stock valuation.

As of December 20, estimated operating earnings for the S&P 500 stocks are $85.50. At the mid-December level of 1250 for the index, this yields a price/earnings ratio (P/E ratio) of 14.6, a very reasonable level of valuation. Even if you believe these operating earnings are overestimated by say 10 percent that still leaves stocks selling at a 16 P/E ratio.

The earnings yield -- the inverse of the P/E ratio and a good estimate of forward-looking real returns on stocks -- therefore stands between 6 percent and 7 percent. Compare this to the real yield in the bond market, which is a smidgen above 2 percent, and it's clear that stocks are "cheap" compared to bonds.

Keeping a Lid on Interest Rates

Aside from a disastrous terrorist strike, sharply higher interest rates are the only thing that could really tank the stock market.

Although long-term interest rates will creep up in 2006, the Fed is nearly done raising short-term rates. Greenspan may put forth one more rate increase in January, but Bernanke will likely hold the line at his first meeting on March 28.

Productivity gains and cheap imports will continue to restrain inflation, thereby keeping a lid on interest rate spikes. All in all, this climate allows stocks to thrive.

Finding Value in International Stocks

In my book, "The Future for Investors," I recommend that investors put up to 40 percent of their total stock portfolio into non-U.S. stocks.

Today, more than half the world's capital resides outside the United States, a fraction that is destined to rise significantly as Asia, Latin America, and other emerging markets continue to grow. While 2005 witnessed heavy inflows into foreign markets, this trend has more room to run.

In addition to the diversification benefits of investing in foreign markets, most foreign stock markets are more attractively priced than the U.S. market, with P/E ratios in Europe averaging around 13.

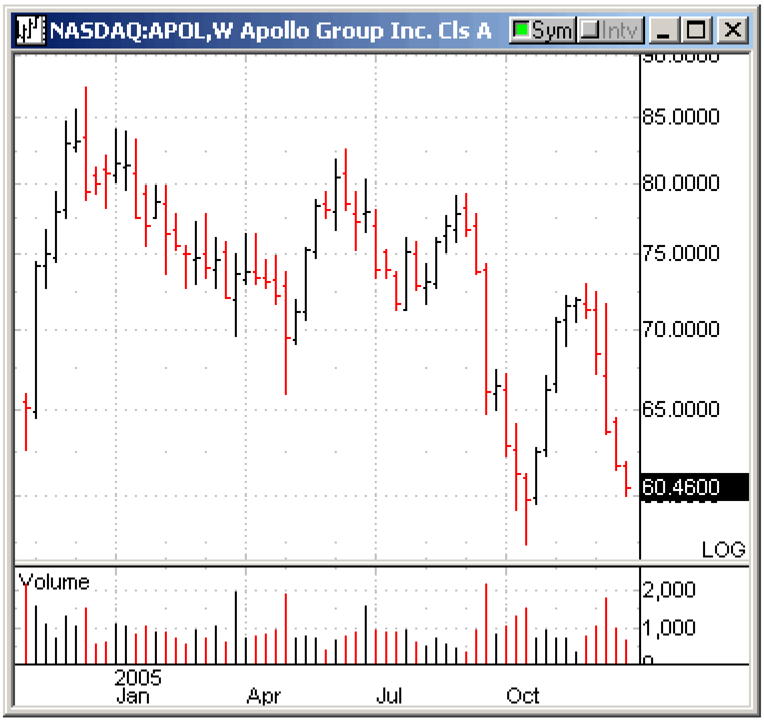
Foreign markets have done very well this past year, and they will continue to thrive in 2006. European stocks are up 15 percent to 20 percent in 2005, but the dollar's rise against the Euro offset about half the gain for U.S. investors. The Japanese market has surged on the hopes that the country's long, slow period is finally over. Still, I find Japanese stocks expensive. On the other hand, stocks in developing countries are on fire -- up 20 percent to 40 percent and more in dollar terms.

TradingMarkets **7 Stocks you need to know 2006**
Friday December 30, 6:51 pm ET
By **Thomas Gütermann - Kössler**

Well, 2005 is a wrap folks, and smart traders will use the holidays to relax and recharge--and possibly even spend a little time tweaking their trading plan for next year. For your longer-term funds (long term to some folks is end of day, haha) it's nice to have some good trading ideas at the beginning of each year. With that in mind, TradingMarkets has done a little homework for you.

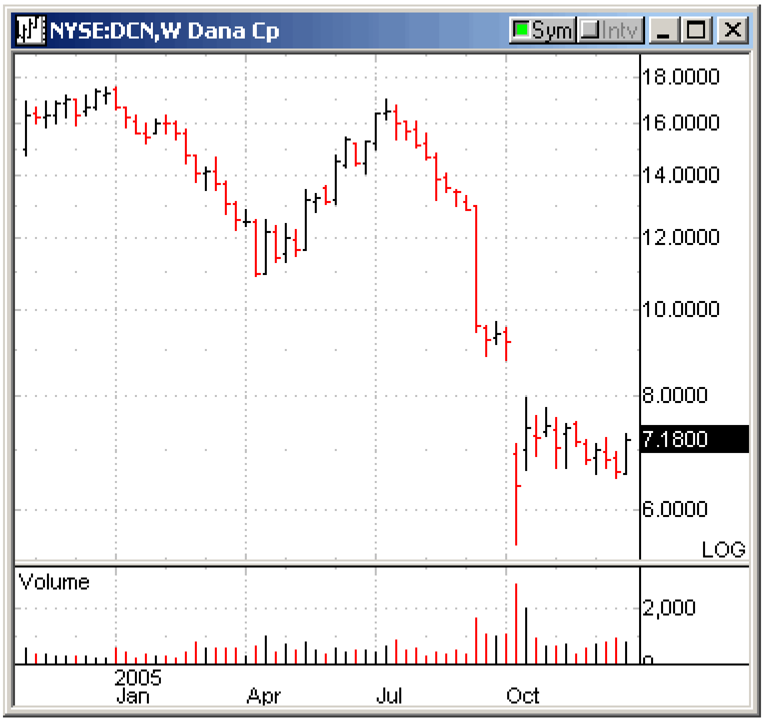
Our research has shown that stocks that have underperformed the market over multiple periods of time the previous year have tended to outperform the market for the upcoming year. Many of the stocks you will find here are pure value plays. A couple are growth plays that have had big pullbacks.

Obviously there are no guarantees here, but if you are looking for some plays for 2006, here are seven stocks for you:



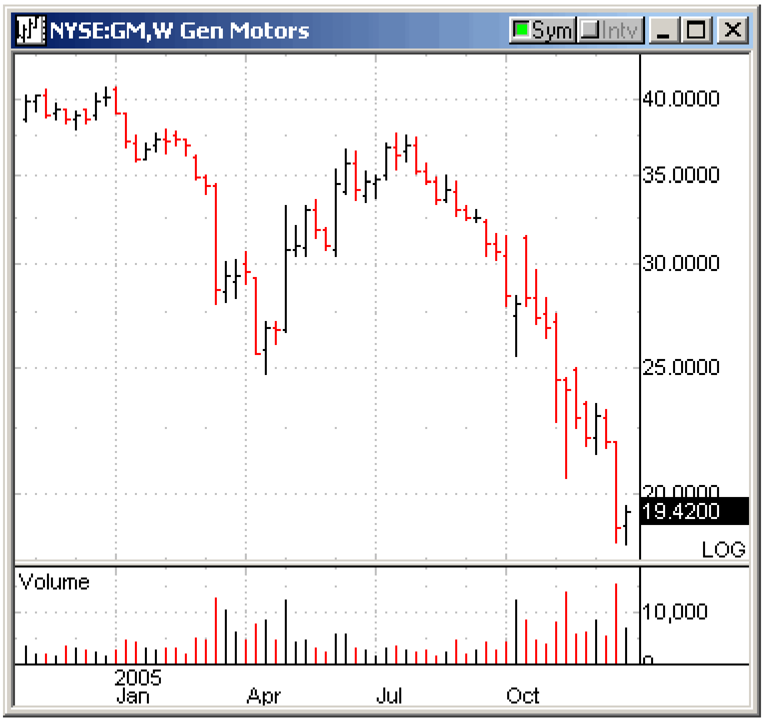
Apollo Group (NasdaqNM:APOL - News) is a leading provider of higher education for working adults, offering associate degrees in many fields, including business, criminal justice, general studies, health administration, and information technology.

Buy at 59-60 USD, Stopp at 57,50 USD



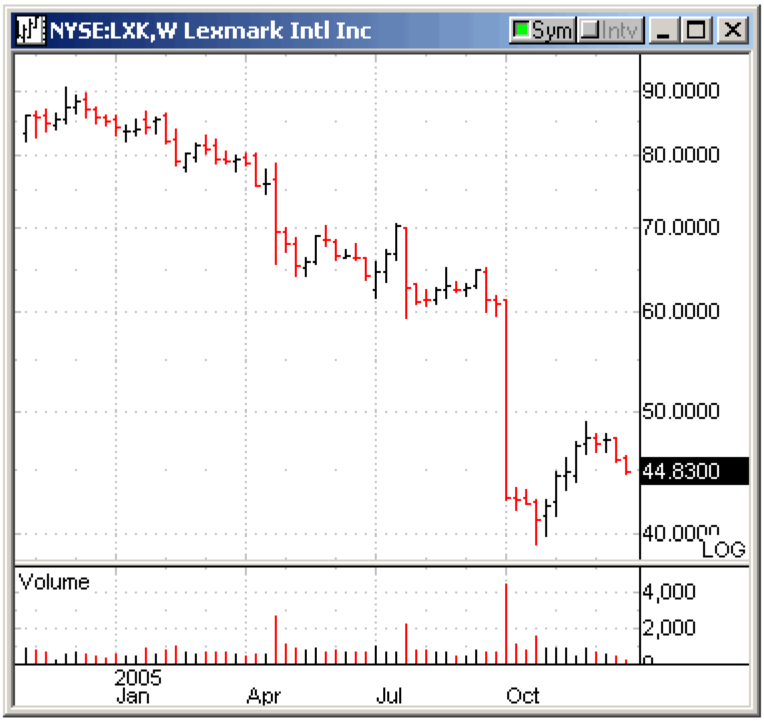
Dana Corp (NYSE:[DCN](#) - [News](#)) is a leading supplier of axle, driveshaft, engine, frame, chassis, and transmission technologies.

Buy at 6,80 - 7,10 USD, Stopp at 5,50 USD



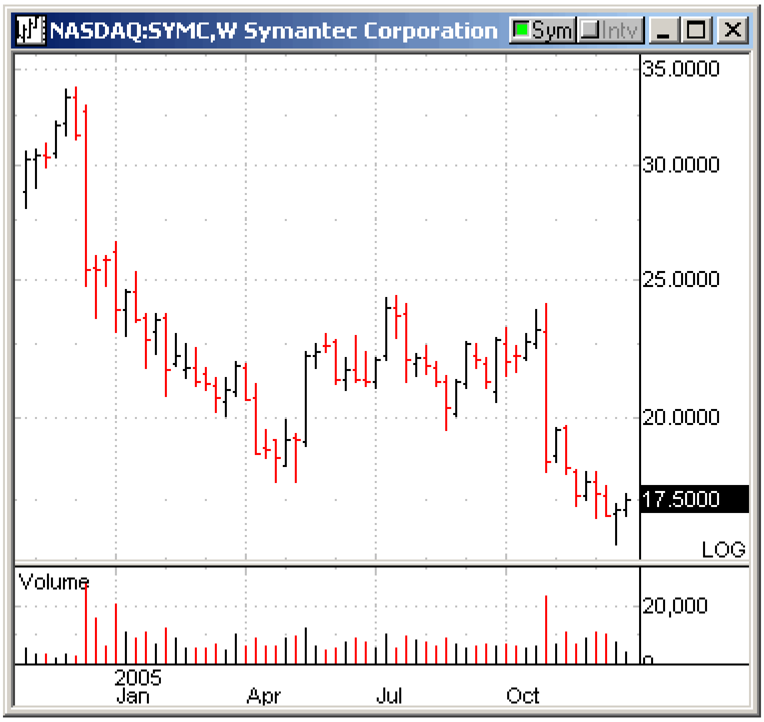
General Motors (NYSE:[GM](#) - [News](#)) produces vehicles under the brands Chevrolet, Pontiac, GMC, Oldsmobile, Buick, Cadillac, Saturn, and HUMMER. Recently the stock made 20-year lows and was rumored to be near bankruptcy.

High speculative: Buy at 19-20 USD, Stopp at 16 USD



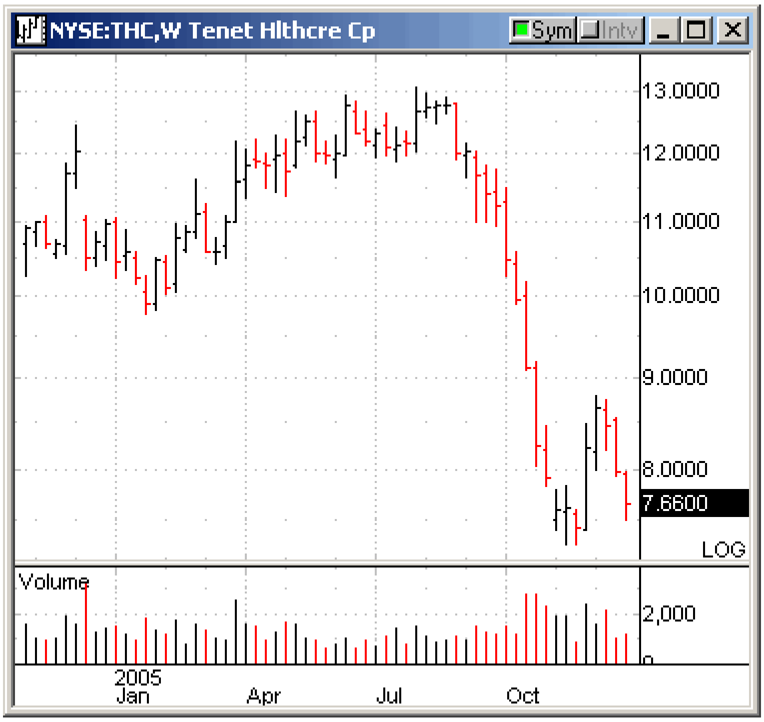
Lexmark (NYSE:[LXK](#) - [News](#)) is a leading developer, manufacturer and supplier of printing and imaging solutions.

Buy at 43-45 USD, Stopp at 40 USD



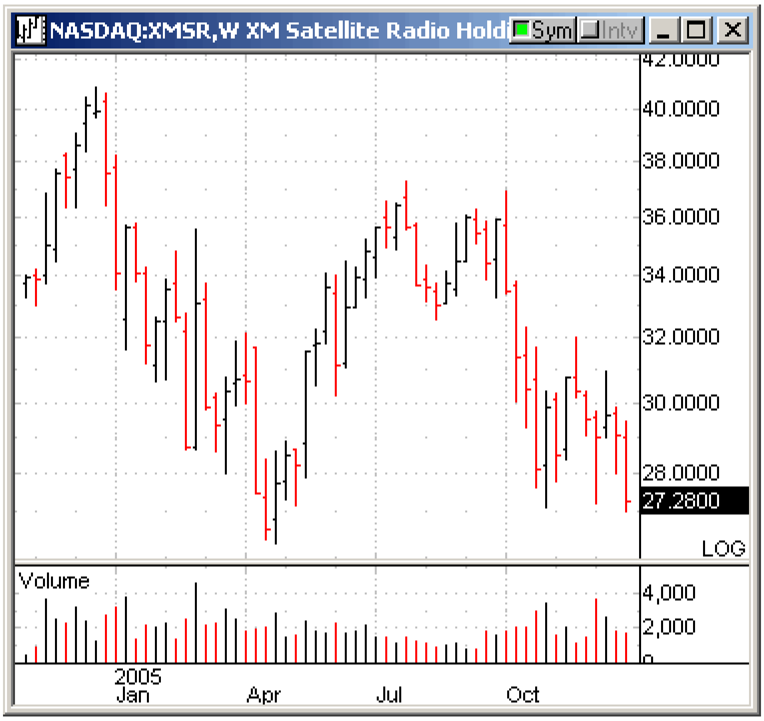
Symantec (NasdaqNM:[SYMC](#) - [News](#)) is a leader in providing solutions to help assure the security, availability, and integrity of digital assets.

Buy at 17-18 USD, Stopp at 16 USD



Tenet Healthcare (NYSE:THC - News) owns and operates acute care hospitals and related health care services in the U.S.

Buy at 7-8 USD, Stopp at 6 USD



XM Satellite Radio (NasdaqNM:XMSR - News) is a leader in satellite-delivered music and entertainment and information programming for the car, home and Internet.

Buy at 26,50 - 27,50 USD, Stopp at 25 USD

Happy New Year and good trading in 2006!