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Uncertainty Likely To Keep Markets On Small Seesaws Analysts Don't See Thursday's Jump As Sign Of Things To Come

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Most investors probably rejoiced when the stock market spiked Thursday, posting its biggest one-day jump since 2003.

Dean Kent was not one of them.

"I was disappointed that stocks went up," said Kent, 54, an information technology manager in Denver. "When the market was down, I wish I would have bought more."

Kent said he saw buying opportunities in foreign and small-cap mutual funds as the market slumped during the second quarter, which ended Friday. If the market continues to act like a seesaw, Kent said he will buy during the dips.

"Now's the time to buy," he said.

But buy what?

In the near term, consumer staples, defense and energy companies are among those that will perform best, said Fred Taylor, a money manager with Northstar Investment Advisors in Denver.

He said consumer staples, which include companies that produce food, beverages or household goods, are safe plays because everyone needs those items. Defense companies have predictable sales because of the war in Iraq and existing government budgets. Energy companies will continue to reap profits as long as oil and gas prices stay high, he said.

On the down side, Taylor said homebuilder shares may fall as interest rates increase and Americans become less willing to take on expensive mortgages, which would slow new home sales.

Companies linked to discretionary purchases - such as jewelry, electronics and sporting goods - could see a decline in share price as rising inflation takes a bigger bite out of household budgets.

Utility companies, which investors often purchase for dividends, may look less attractive compared with rising rates for certificates of deposit and money-market funds, Taylor said.

Some investors have already moved money to the sidelines.

Inflows to money-market funds, which offer investors fixed returns, were \$45.5 billion in May, the biggest one-month increase since November 2002. Money-market fund assets are now at their highest level in 42 months, according to fund researcher Lipper Inc.

Inflows to U.S. diversified equity mutual funds shrank dramatically during May, to \$2.9 billion compared with \$13 billion added during April. Just \$10.5 billion was added in May to all equity funds, the smallest increase since December, according to Lipper.

The outflows are likely the result of a choppy market that saw big gains in the first quarter erode in the past six weeks.

The Dow Jones industrial average was up 0.4 percent for the second quarter and 4 percent year-to-date. The broader Standard & Poor's 500 index declined 1.9 percent for the quarter but is up 1.8 percent for the year. The technology-rich Nasdaq fell 7.2 percent during the quarter and is off 1.5 percent year-to-date.

The Colorado Bloomberg Index, a price-weighted average of the state's 111 publicly traded companies, declined 3.6 percent during the quarter. Still, the index is up 5.6 percent year-to-date.

The Federal Reserve last week lifted interest rates a 17th consecutive time, to 5.25 percent. The Fed's accompanying statements raised hopes for some investors that its two-year rate-raising campaign was near an end.

"Investors need to be careful not to assume too much," said Andre Ratkai of Praxis Advisory Group in Denver.

Ratkai said interest rates will march higher throughout the year and perhaps into 2007. He said the Fed has historically "overshot the tightening process."

"There's no reason to think they won't overshoot during this cycle," he said.

As a result, uncertainty will persist, said Ratkai. That will produce many one-day moves - both up and down - of between 1 percent and 2 percent for the major indexes.

Robert G. Bush, an economist with the Denver-based Capital Investment Council, predicted that the U.S. markets will oscillate during the summer before taking flight by year's end, lifted by strong corporate profits.

He said the impressive five-year run-up for small-cap companies could be nearing an end, as higher interest rates will make borrowing money for such companies more expensive.

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