



DATE January 7, 2007

Hi, everybody. Welcome to the WALL STREET JOURNAL REPORT. I'm Maria Bartiromo. Happy new year to you. Today, we're going to make sure you get off to the right start in '07 with your money and your life.

Announcer: Hello, 2007. Will the bull run, now in its fifth year, continue on Wall Street? Today, power house strategist Byron Wien offers his surprises for the new year. Remember, he called the dot-com crash in January of 2000. Also with us, Barron's Santoli and Morningstar's Benz, with their take on what's hot and what's not for stock and fund investors this year.

BARTIROMO: All that plus life coaching for setting and achieving any goal you may have for 2007 in business, career, or anywhere in your world. It all starts now.

Announcer: This is America's number one financial news program, the WALL STREET JOURNAL REPORT. Now, Maria Bartiromo.

\* \* \* \* \*

Newscast: Fall in oil prices; retailers blaming lackluster December sales on warmer weather; Home Depot CEO Bob Nardelli resigns; unemployment figures remain steady  
MARIA BARTIROMO, host:

What's News as we head into a new week? A huge slide in the price of oil greets the new year. Over a two-day span this week, crude oil fell more than nine percent and it broke below \$55 a barrel.

Retailers are finding little to celebrate in their holiday shopping receipt so far. Stores are reporting lackluster December sales and blaming them partly on warmer weather. Wal-Mart's sales rose less than 2 percent last month, while The Gap reported a 9 percent drop-off.

Well, a stunning development at retailer developer Home Depot this past week as CEO Bob Nardelli resigned. It followed months of controversy over his unorthodox shareholder meeting last spring and his multimillion dollar pay package. You may remember, I grilled Nardelli about it in an exclusive interview last year.

(Excerpt from WALL STREET JOURNAL REPORT, July 6, 2006)

BARTIROMO: How do you address the fact that over five years, you have made a total of \$245 million, a total package worth \$245 million, while your shareholders have lost almost 30 percent of their money?

Mr. BOB NARDELLI (Chairman and CEO, Home Depot): Yeah.

BARTIROMO: You could understand why people are angry.

Mr. NARDELLI: Yeah. But it again, Maria, let me just say, on the \$240 million, 80 percent of that is in equity still retained by the company. Of that, 60 percent is in the form of stock options. And unless the stock does better than it is today, that money will not be distributed to me.

(End excerpt)

BARTIROMO: Nardelli will keep the more-than-\$240 million severance package.

And the labor market ended 2006 on a solid note. The economy created a greater-than-expected 167,000 jobs last month. The unemployment break held steady at 4 1/2 percent.

\* \* \* \* \*

Interview: Byron Wien of Pequot Capital Management with his 2007 predictions and surprises

MARIA BARTIROMO, host:

Well, we begin today with one of Wall Street's most distinguished market watchers. At the start of every year, Byron Wien shows off both his wit and wisdom, unveiling his top 10 surprises for the year ahead. As usual, he has some fascinating ones for us. Earlier this week, I sat down with Byron Wien, chief strategist at prominent hedge fund Pequot Capital Management. He's been bearish before. Like his famous Internet meets, it's Waterloo call back in January of 2000. But now he's more cautious. I began by asking him if he does expect some gains in stocks this year.

Mr. BYRON WIEN (Pequot Capital Management): As bullish as I was in 2003, this is the most bullish I've been in several years.

BARTIROMO: So how significant are you expecting the gains in stocks to be for '07?

Mr. WIEN: Well, the market--I expect the S&P 500 to climb above 1600, so that's--I expect about a 15 percent gain in the S&P 500.

BARTIROMO: That's pretty good. Now, before we get to some of your other surprises, let me ask you about last year. You were right on interest rates, you came close on oil--so close. You said crude oil would hit \$80 a barrel, and of course it maxed out at \$78 a barrel.

Mr. WIEN: Yeah.

BARTIROMO: You can't get that much better than that. What surprised you most about '06?

Mr. WIEN: Well, I think what surprised me most about last year was that the liquidity pouring into the financial markets drove the US market a lot higher than I thought. And earnings held up a lot better. I expected to see profit margins peak sometime during the year, and they didn't. Earnings kept on expanding better than the 10 percent rate quarter after quarter. So earnings were better, and the market did a lot better because of liquidity, so.

TEXT:

Wien: S&P 500 Will Exceed 1600  
In 2007, Up 12.8% From 2006

Wien Correctly Predicted  
Internet Bust in 2000

BARTIROMO: And all that liquidity partly came from private equity, right?

Mr. WIEN: Well, private equity was a part of it, but also the enormous trade surpluses that were built up in the Middle East and Asia.

BARTIROMO: Let's go through some of your other top surprises for '07, Byron. You say crude oil will again hit \$80 a barrel.

Mr. WIEN: Right. Doesn't look like that today or yesterday, but I expect crude oil to rise in price. People underestimate the escalating demand that's going to come from--is already coming from India and from China, and I think that's going to offset whatever diminished demand exists in the United States.

BARTIROMO: Now, you don't think that's going to be an issue for stock prices?

Mr. WIEN: Higher oil prices? Well, you know, when oil prices were higher in the first five months of last year, the stock market rose during that period.

BARTIROMO: Another surprise for you, China will revalue the yuan by 10 percent?

Mr. WIEN: Right. I've been on the other side of that for several years, but now I think this is the year where they're going to do it. I don't think it'll have a material change on China's competitive position, and I think it'll win a lot of favor abroad, and China is trying to become a better world citizen on the way to the Olympics.

BARTIROMO: What kind of impact does that have on all of us?

Mr. WIEN: Well, I--China will still be the low-cost producer of most of the manufacturing--manufactured goods we buy from them.

BARTIROMO: I see. OK, you're talking about the dollar. You say the dollar will stabilize against the euro. It certainly was down big against the euro in '06.

Mr. WIEN: Right. I think that, if I'm right, and growth in the United States is 3 percent or better and the market does better and interest rates rise, not--short term rates may stay where they are, but if long term rates rise, then I think the dollar can hold its own. It's suffered enough.

BARTIROMO: How about politics? You say none of the current front-runners for 2008 have staying power? Giuliani pulls ahead for Republicans and Barack Obama gains momentum for the Dems?

Mr. WIEN: Right. The leaders right now are McCain and Hillary Clinton. At this point in the race, very often the front-runners lose momentum. I think the American people are looking for something very different in their candidates for 2008, and I think, Giuli--if I'm right and the terrorist threat, not necessarily a terrorist event, but the threat heats up and the

disillusionment with politics continues, I think Giuliani and Obama will be the candidates.

BARTIROMO: What about technology, Byron? A couple of weeks ago we had on Roger McNamee and Larry Kudlow. About the only thing they agreed on was that technology would be a big theme for '07.

Mr. WIEN: Yeah, I think that the two big themes for '07--I didn't cover themes in this year's surprises, but I think two big themes are going to be health care and technology. I think both are behind, particularly health care is very much behind the market.

BARTIROMO: Let me ask you about hedge funds. After decades at Morgan Stanley, you're now at Pequot, one of the most powerful hedge funds on the street.

Mr. WIEN: Right.

BARTIROMO: Do you see any changes for your industry? A lot of people talking about the debate about whether or not hedge funds should be--see more stricter regulations.

Mr. WIEN: Yeah. I think that there's going to be more focus on hedge funds. Most of the big hedge funds are already regulated. I don't think that's going to change much. I think people have to understand that money management is evolving in this country, and alternative investments are at the forefront of that. And so maybe there'll be more scrutiny and possibly more regulation. But I think hedge funds are here to stay.

BARTIROMO: Byron, great to have you with us. Thanks so much.

Mr. WIEN: Great to be here. Thank you.

BARTIROMO: And happy new year to you.

Mr. WIEN: Happy new year to you, Maria.

BARTIROMO: Byron Wien of Pequot Capital Management.

We'll certainly be watching how those predictions pan out. And for the full list of Byron's surprises for '07, check out our fabulous Web site, [wsjr.cnbc.com](http://wsjr.cnbc.com).

Up next on the WALL STREET JOURNAL REPORT, more on where to invest in 2007 with Mike Santoli of Barron's magazine and Christine Benz of Morningstar, who has some fund picks. We'll delve further into the international question as well. Will overseas markets continue the hot streak, or will US stocks dominate? Plus, the mania for exchange-traded funds. All ahead. Stay with us.

(Announcements)

\* \* \* \* \*

Interview: Mike Santoli of Barron's and Christine Benz of Morningstar on international markets, ETFs and trends for 2007  
MARIA BARTIROMO, host:

Well, 2006 was quite a year for the markets. Somewhere between a surprising change in political power, continued geopolitical unrest and a fizzling housing market, the stock market sizzled to its best run in three years. Joining me now to talk more about that and what we might expect in '07, Mike Santoli, associate editor at Barron's magazine, and Christine Benz, director of funds analysis at Morningstar.

So great to have you both with us. Welcome.

Mr. MIKE SANTOLI (Associate Editor, Barron's): Thank you.

Ms. CHRISTINE BENZ (Morningstar): Yeah.

BARTIROMO: You know, oil was the big story, certainly, Mike, this week. But I want to get to that in a moment.

Mr. SANTOLI: Right.

(Graphic on screen)

Dow Industrials Gained 16% in 2006

S&P 500 Rose 14% in 2006

Nasdaq Gained 9.5% in 2006

BARTIROMO: Let's talk a little about '06. People were shocked; it was actually a really good year for the markets. What surprised you most?

Mr. SANTOLI: Definitely was. What surprised me most was actually how persistent this rally was from the low in the summer. And I think, you know, paradoxically, as markets work, because so many people didn't believe we could have tremendous upside after the first half of the year, that's kind of what fueled it. Basically, people piled on, we did not get this scary sell-off into the elections as people assumed. And I do think that, obviously, gasoline prices and interest rates remaining very tame over the back half of the year definitely helped out.

BARTIROMO: That's going to be really important this year.

Christine, where do you think people should be focusing this year? You know, I mean, so much money moving into international funds over '06. What's hot, what's not right now? You still like blue chips?

Ms. BENZ: I do. The main reason is that I'm talking to a lot of smart fund managers who say that they're finding more to buy in the megacap stocks these days. So I think for investors whose portfolios might've gotten a little heavy on the smaller company funds that they've appreciated so much over the past six or seven years, might be time to strip back there, add to the giant company stocks.

BARTIROMO: Well, what're you seeing in terms of money moving into mutual funds? Are you still seeing a lot of money moving into the big multinational companies, the blue chip companies, or are you looking at international markets, people looking to participate in some of the huge growth that we're seeing away from the United States?

Ms. BENZ: There has been an absolute stampede into the international funds. And I do think that that's a healthy phenomenon, Maria, because the typical US investor is quite underexposed to foreign markets. Most investors I talk to might have something like 10 percent overseas. So long term I think it's a good phenomenon, but I wouldn't be surprised to see US markets perhaps beat foreign next year, potentially.

BARTIROMO: Interesting.

Mike, you know what? The international story really was a good one last year.

Mr. SANTOLI: Sure.

BARTIROMO: International markets up big. I have the stats here. A hundred and forty-five billion dollars went into foreign mutual funds.

Mr. SANTOLI: Yes.

BARTIROMO: Up 35 percent from '05. What do you think about international vs. domestic?

Mr. SANTOLI: You know, in any--what that tells you is that people are really putting their bets too far in one direction, and I think if anything, it speaks well toward the prospects for the domestic market. Basically, even though we had this great rally, the average person has not gotten excited about the US stock market. That's definitely a net positive for the market going ahead, because obviously, you know, money will flow one way or the other.

Here's the thing: Even though we had a good year last year in the US, it was one of the worst performing major markets in the world, so as Byron Wien said earlier, it's just a flood of liquidity out there. The fuel remains there, but I can't help but believe, that especially when it comes to emerging markets, a lot of these things that've raised higher by an amazing degree, we have to have a little bit of a pullback. We have to have a comeuppance. We have to have a scare before we refresh the buying ability here.

BARTIROMO: Hm. Interesting, because Christine, a minute ago, said she wouldn't be surprised to see US stocks...

Mr. SANTOLI: That's right.

BARTIROMO: ...you know, overtake the international. But, Christine, give me a sense of where you are seeing interest in international markets. I mean, if you did want to put more money internationally, what international funds are you recommending right now?

Ms. BENZ: Well, I would focus on those funds that focus on the blue chip quality names, just as in the US. I'm seeing a potential rebound in those stocks. So one of my favorite international funds is Dodge & Cox International. This is kind of a no-nonsense international value-oriented fund, so these managers are looking for cheap stocks. It's also a very low-cost fund. Foreign funds tend to be more expensive than domestic, so you want to keep your costs down.

BARTIROMO: Uh-huh. Now, go onto your other favorites here. We've got

Fidelity Spartan International Index you have said you liked as well, right? That was up 24 percent in '06.

Ms. BENZ: Right. This is another no-nonsense choice. This is a fund that focuses almost exclusively on developed markets, so it doesn't invest in the developing markets which have done so well. The reason that I like it, Maria, is that it's just the cheapest international fund around. It charges just .1 percent in annual operating expenses.

(Graphic on screen)

International Funds  
2006 Performance

Dodge & Cox	(up arrow) 25%
Fidelity Spartan Intl. Index	(up arrow) 24%
Vanguard Intl. Growth	(up arrow) 14%
Amer. Funds Euro	
Pacific Growth	(up arrow) 13%

BARTIROMO: And of course one of the big themes of '06, Mike, was the M&A activity.

Mr. SANTOLI: Absolutely.

BARTIROMO: We had almost 4 trillion--it was \$3.8 trillion in deal-making around the world.

Mr. SANTOLI: Mm-hmm.

BARTIROMO: Do you think that is going to play into the investing scheme in '07?

Mr. SANTOLI: Absolutely. I mean, it has already in the sense that any potential targets have been kind of revalued higher because there's considered to be a likely buyer out there. I'm not one of those folks who thinks that the buyout craze has reached an extreme point, has reached a bubble. I think there's plenty more to go. So we're on the way to some kind of an extreme, but until we get there, it's a net positive for stocks. Until we have that one huge deal that the debt market says, 'Sorry, not going to finance this deal for you guys,' and that would cause, I think, a big problem for the market, a big gut check for the market. Until we get there, though, I think everybody is essentially an M&A banker trying to figure out who's next.

BARTIROMO: Yeah, no kidding. So what turns this around, Mike? I mean, you talk to a lot of people.

Mr. SANTOLI: Yeah.

BARTIROMO: I mean, there's a lot of people bullish right now. Is that something to worry about?

Mr. SANTOLI: There are. It certainly is, I think, on a short-term basis. As I mentioned, we're up 17 percent on the Dow since the middle of July. By any stretch, that's a long time without a break. We're also entering the fifth year of a bull market. We haven't had a 10 percent pull back. It's the longest stretch without one of those. So I do think there's going to be some

excuse to have a relatively severe pull back.

Here's what I think: Too many people think the soft landing is a shoo-in. It very well could be, but on the way to a soft landing in the economy, you have these scares where it's too hot or it's too cold on the way to a--at that point. And, you know, we had one in May. People thought we were overheating. We could have one where we have a growth scare or an inflation scare.

I also think a lot of this rhetoric here about CEO pay--if there was a really kind of draconian, kind of political solution to this, they tried to impose some kind of rules. I'm not sure that would be a great thing. This theme is going to continue here, but I think the market would prefer deals with itself.

BARTIROMO: And the theme of ETFs have also been so strong in '06.

Mr. SANTOLI: Sure.

BARTIROMO: There's a real mania going on.

Mr. SANTOLI: There are. I mean, tremendous amounts of money going into them. I mean, they're very useful entrants, they make a lot of sense. A lot of institutions, actually, use them now, too. I see why they've grown to this point. But it's made the entire market tradeable. It makes people view the market as a single kind of tradeable security, as opposed to picking stocks individually. So at some point, I also think the ETF trend gets a little bit overdone, and basically, good old stock picking's going to come back into favor.

BARTIROMO: Exchange trading funds. Your thoughts on that, Christine?

Ms. BENZ: Yeah, just to jump on that, I think ETFs are already a little bit overdone in certain circles. There's kind of this gold rush mentality out there, where funds are coming to market and really throwing anything that sticks or looking to throw something at the wall that will stick. So we see a lot of narrowly focused sector ETFs, a lot focusing on single regions. I think these are dangerous investments in the hands of the wrong people. So I'm a little nervous there. We've seen a lot of commodity ETFs come to market. I'm concerned that some of these companies are using the rear-view mirror in deciding what to roll out.

BARTIROMO: We'll leave it there. Nice to have you both with us. Thanks so much.

Mr. SANTOLI: Thank you, Maria.

BARTIROMO: Christine Benz and Mike Santoli.

Ms. BENZ: Thank you, Maria.

BARTIROMO: Up next on the WALL STREET JOURNAL REPORT, well, now that our portfolios are in order for the new year, what about those other resolutions, like changing jobs or losing weight? We'll have expert advice on setting and sticking to those goals for the new year. That's next.

And as we take a break, take a look at a mix of several domestic mutual funds recommended by Morningstar. You'll see most of them are growth funds. We're back in a minute.

(Graphic on screen)

Morningstar Recommended Funds  
2006 Performance

T. Rowe Price Equity Income	(up arrow)	15%
Oakmark Fund	(up arrow)	13%
Dreyfus Appreciation	(up arrow)	11%
Aston/Montag & Caldwell Growth	(up arrow)	7%
Harbor Capital Appreciation	(up arrow)	2%

(Announcements)

\* \* \* \* \*

Interview: Life coach Siobhan Murphy on keeping New Year's resolutions

MARIA BARTIROMO, host:

Welcome back, everybody. The beginning of the new year is a time to re-evaluate not only your portfolio, but also your career and life goals. Joining me now with her advice on starting '07 off on the right foot is life coach Siobhan Murphy. She has been coaching clients, including executives, for 10 years. And she teaches life coaching at New York University.

So nice to have you with us, Siobhan, welcome.

Ms. SIOBHAN MURPHY (Life Coach): Lovely to be here.

BARTIROMO: So here we are, a new time, a fresh start, let's wipe the slate clean. Tell me how it is that people have great goals at the beginning of a new year, but then unfortunately they find--fall off the bandwagon, and they fail to keep those going. How do you keep it going?

Ms. MURPHY: Well, one of the things we do is we have people focus on what they really want, not what on--what they don't want. So people sometimes say, 'I want to leave this crummy job' or 'I want to lose weight' or 'I want to get out of debt,' and the focus is all on what they don't want instead of what they do want. We get to people to really think about what they really want as an outcome.

BARTIROMO: Uh-huh. So you have some real good pointers to help people stick to the goals. So let's say, you know, I really want to lose weight or I really want a new job. How do I, you know, make sure to stick with that? What are the pointers?

Ms. MURPHY: OK. Well, one is to tap into the reason why you want, that--really drill down to why you want the goal. Is it something that you just think you should have, or do you have a good reason why? So, for example, in the losing weight example, you know, what's the reason why? What gives you the juice? And without the good reason why, you don't have the passion or the energy to go through the hurdles and the actions that you need to reach the goal.

BARTIROMO: So keep remembering why I want this.

Ms. MURPHY: Exactly. Exactly. And then the next part is to engage your imagination. And there's been a lot of studies in contemporary neuroscience that say that the brain can't tell the difference between the real and a vividly imagined event. So you get people to think about the end state--what would it be like at the end, you know, what would it be like, feel like, sound like, engaging all the senses and really imagining so you bring in that power of the imagination to help you reach your goal.

BARTIROMO: It's almost like playing games with your head.

Ms. MURPHY: Well, you're taking--it's using your brain the way it was designed to be used, and most of us haven't really been taught how to use the brain in a way that will help us get our results more easily.

BARTIROMO: Another thing you say is examine your beliefs. What does that mean?

Ms. MURPHY: Well, most of us have practiced the same kinds of thinking about certain goals over and over. So belief is just thoughts we've practiced over and over. And what coaches help people do is look at their belief system and see whether or not that belief system is actually supporting their goals. So people think beliefs are like skin, like they're really hard to change. But they're much more like clothes. You can outgrow beliefs, you can change beliefs, or the beliefs that you have might not actually serve you in getting where you want to go.

So, for example, a common belief around weight loss is that the older you get, the harder it is to lose weight. Well, as long as you're engaged in that belief system, you're going to actually reinforce that in your own mentality.

BARTIROMO: Mm.

Ms. MURPHY: It--some people believe that change is really hard, for example. And if you believe that change is really hard, well, we have to look at how can we make change easier. What can we do to support change so it's exciting for people.

BARTIROMO: That's really interesting. It's good advice.

So tell me, if someone wants to work with a life coach, I mean, how do you find a life coach? How do you know which person might be the best for you?

Ms. MURPHY: OK. Well, there's a couple of things I definitely encourage people to look for. The first is coach-specific training, like we have at NYU, that emphasizes coaching competencies that have been developed by the International Coach Federation, which is our governing body for the profession. So training in those core competencies and those ethical guidelines is important.

The second is a connection. Do you like the person? Can you open up to them? Do you feel like you can trust them and really work with them?

And the third is evidence of their success with other people, either through testimonials or referrals or that kind of thing.

BARTIROMO: All right. Great advice.

Ms. MURPHY: Yeah.

BARTIROMO: Siobhan, nice to have you with us. Thanks so much.

Ms. MURPHY: Yeah. Thanks.

BARTIROMO: We're going to be sticking to those goals. And we appreciate all your advice on that. Siobhan Murphy of New York University.

Coming up, we'll tell you what's coming up next week on the show.

\* \* \* \* \*

Newscast: Stock market report; headlines  
MARIA BARTIROMO, anchor:

But first, take a look at how the stock market ended the first week of the year and started '07. And some major headlines now. Back in a minute.

(Graphic on screen)

(Stock figures follow)

TEXT:

Stocks Fall Friday on Strong Employment Report

Motorola Cuts Outlook, Blames Weak Cellphone Sales

U.S. Factory Orders Rose 0.9% in November

\* \* \* \* \*

Sign-off: Wall Street Journal Report

TEXT:

Viewer Feedb@ck:  
maria@wsjreport.com

MARIA BARTIROMO, host:

That's the show for today. Thanks so much for being with me. Next week, will Steve Jobs deliver on his promise for an exciting new product year from Apple Computer? Get the latest from the very latest Macworld conference. We'll see you next week. Don't miss it. Each week, keep it here, where Wall Street meets Main Street. Have a great week, everybody. I'll see you again next weekend.