



Harloff Capital Management
795 Sharon Drive, Suite 226, Westlake, OH 44145
440-871-7278

Monthly Update

2011, volume 1, Year 18, January 2011

Bull is alive

U.S. equity markets are off to a slow start in January. There was a brief down trend led by small cap stocks recently. This sell off appears to be over.

We like bank, large cap Europe, energy, Dow index, S&P500 index, and short bond funds. Our sector picks from best to worst are: oil, semiconductor, utilities, financial, and gold. Gold appears to be oversold at this time. London index, emerging markets, and the U.S. dollar are all weak. For the style box, large cap are good, while small caps are weak.

Our average return in 2010 of our three model portfolios was 11.87% (no management fees or expenses), while the S&P500 was up 12.78% and the NDX100 up 19.2%. Thus, 2010 was an up year, but not as positive as 2009. Then our average three-model portfolio return was 55.52%, the S&P500 was up 23.45%, and the NDX100 was up 53.54%. This reduced equity return in 2010 is likely due to a more mature business cycle environment. In 2010 and now, we appear to be in the linear investment return region, see figure on page 2.

We have new capability to predict the business cycle details, and early results of a summary nature are presented in the figure on page 2. The prediction is dependent on recent economic details. We are accepting serious business cycle prediction clients at this time. Our model is based on a system of nonlinear differential equations for cycle details. We think we are about halfway to the next GDP peak. The next stock market peak is perhaps 2 years away. With this new tool, we hope to improve investing results. We used business cycle concepts in correctly calling the end of the last bear in March of 2009.

**Because the markets can turn quickly, be ready. May the market be with you!
(January 21, 2011)**